



# The Southern Africa Institute for Management Scientists (SAIMS) 1987-2012

## CONFERENCE PROCEEDINGS OF THE 24<sup>TH</sup> ANNUAL CONFERENCE OF SAIMS - 2012

**HOST:**  
**The Department of Business Management  
Stellenbosch University**

**CONFERENCE THEME:**  
“Managing in turbulent times”

**CONFERENCE DATE:**  
9 -11 September 2012

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**EDITOR: Mr JMM van den Berg**

**department of  
business management**

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## MESSAGE FROM THE CHAIRPERSON OF THE SAIMS BOARD OF DIRECTORS

Dear delegates

It is that time of the year again that we as management scholars, students and practitioners from across South Africa and abroad, have the opportunity to interact and share best practices and knowledge in order to grow the body of management knowledge.

This year the Annual Conference of the Southern Africa Institute for Management Scientists (SAIMS) will take place from the 9<sup>th</sup> till 11<sup>th</sup> of September 2012 at the Stellenbosch University.

Our proud hosts, the Department of Business Management from the Stellenbosch University has chosen as theme for the conference: *“Managing in turbulent times.”*

Truly a thought provoking topic if one takes into account the current problems in the global financial markets and economic landscape. We will need to reflect on what the implications are for management theory, research and practice in an ever-changing global environment.

On behalf of the Board I want to seize this opportunity to thank the organising committee and particularly Mr Mauritz van den Berg, for arranging this, our prestige event. An event of this nature would off course not be possible without our valued sponsors. We thank you for your generosity and participation.

As Chairperson of the Board of Directors, I would like to personally welcome you all to the SAIMS 2012 Conference. It is my vision that the membership of SAIMS will grow to be representative of all race, age and gender demographics of management scientists and academics. I hope you will experience this diversity while having an intellectually stimulating and enjoyable time.

Prof Elmarie Venter  
Chairperson of the Board of Directors 2012



## **THE REVIEW PROCESS**

SAIMS 2012 CONFERENCE  
9 – 11 SEPTEMBER  
UNIVERSITY OF STELLENBOSCH

### **CONFERENCE PROCEEDINGS**

**ISBN 978-0-620-54287-6**

The SAIMS invited scientists concerned with research and teaching in the Management Sciences, as well as all other persons with an interest in the Management Sciences, to the 24<sup>th</sup> Annual Conference to be held from 9 - 11 September 2012 in the CGW Schumann Building at Stellenbosch University.

All competitive (full) papers received were sent anonymously to two reviewers (specialists in the field) with the following request: *“Attached please find a competitive paper that was entered for the SAIMS 2012 CONFERENCE as well as the evaluation form that need to be completed during the review. To receive a subsidy from the DHET (Department of Higher Education and Training) every competitive paper must be double blind reviewed. During this review it is important that the reviewer do not only make X’s in the appropriate spaces on the evaluation form. The DHET expect reviewers to motivate their decision and provide feedback to the author in the spaces provided for commentary. This will provide the author(s) with an opportunity to improve the paper to be presented”*.

Of the 79 competitive papers sent to reviewers, 60 were accepted; leading to a 76% success rate. After acceptance of a full paper a LETTER OF ACCEPTANCE was sent to the main author clearly indicating that the paper was accepted (*Based on two independent, very thorough and "blind" reviews, we are pleased to inform you that your paper has been **accepted** for presentation at this conference*). The two review forms (without the names of the reviewers) were also attached to the acceptance letter and a final date for handing in the corrected papers was provided. 7 authors decided to only publish an abstract of their full paper and this has been placed separately in this conference proceedings (please see the indexes).

A full list of all reviewers for the competitive papers as well as the works-in-progress appear below.

Mr JMM van den Berg, Editor, Stellenbosch University.

**LIST OF REVIEWERS:**

<b>Title</b>	<b>Initials</b>	<b>Surname</b>	<b>Academic Institution</b>
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Mr	S	Zindiye	RU

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# **RATIONAL CHOICE AND ACADEMIC DISHONESTY AMONGST SOUTH AFRICAN BUSINESS STUDENTS**

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## **ABSTRACT**

This study investigated the incidence of academic dishonesty and the effects of rational choice decision making on undergraduate business students' ( $N = 485$ ) intention to cheat. Data was collected using a self-administered, cross-sectional survey. Self-reported academic dishonesty varied across type of behaviour, with plagiarism the most common and cheating in an examination the least common such behaviour. Fewer than 50% of the respondents indicated that they were "unlikely" to commit an act of academic dishonesty. Rational choice explained a significant proportion of the variance in cheating intention over and above that of anti-intellectualism and demographic characteristics. The most significant predictor of cheating intention was the perceived benefit of cheating. The likelihood of feeling shame, a potential cost of cheating, was a significant restraint on cheating intentions. Logistic regression was used to examine the relationship between cheating intention and different types of self-reported cheating behaviour.

**Keywords:** management education, rational choice, academic dishonesty

## **INTRODUCTION**

Academic dishonesty (or "cheating") by students is a serious issue in higher education institutions (O'Rourke, Barnes, Deaton, Fulks, Ryan and Rettinger, 2010; Cochran, Chamlin, Wood and Sellers, 1999; Michaels and Miethe, 1989) including those in South Africa (De Jager and Brown, 2010). Academic dishonesty amongst business students is of particular concern because such cheating at university has been found to correlate with the propensity to commit unethical business practices in the future (Elias, 2009; Atmeh and Al-Khadash, 2008; Lucas and Friedrich, 2005; Sims, 1993). Past research on the incidence of cheating behaviour provides alarming statistics with over 75% of students reporting that they have engaged in cheating behaviour (e.g., Rettinger and Kramer, 2009; Hutton, 2006) and over 99% of



students reporting that they have been in a situation that could lead to cheating (Tibbetts and Myers, 1999). Various factors have been applied to help explain cheating behaviour such as growing levels of anti-intellectualism (Elias, 2009), especially in youth culture, and demographic factors such as age and gender. This study focuses on rational choice decision making as an explanation of cheating behaviour but will control for age, gender and anti-intellectualism in the statistical analyses to ensure that these identified factors do not confound the results.

Rational choice theory is a cognitive model of human decision-making which posits that individuals make decisions by weighing perceived costs and benefits in a given situation (Kronenberg, Hentze and Mehlkop, 2010; Ogilvie and Stewart, 2010). So, the decision to cheat is predicated on the perceived benefits outweighing the perceived costs. The theory is rooted in the assumption of instrumental rationality; that individuals will choose to perform a certain act if its expected utility exceeds its expected cost regardless of its moral import (Kronenberg, Heintze, and Mehlkop 2010). Context affects the calculation of expected utility (Ellis, 2008), for students context may include instructor vigilance and institutional policies. Rational choice theory has deep roots in philosophy and has been applied extensively in understanding microeconomic decision-making. Contra Kant, empirical rational choice theory adopts a Humean utilitarian belief that individuals are reasoning actors who weigh up costs and benefits in making rational choices about their behaviour and that this process is divorced from moral imperatives (Sugden, 1991).

The perceived benefits of cheating include personal and social gains from receiving better grades, spending less time on academic tasks, and experiencing less stress (Hutton, 2006; Ogilvie and Stewart, 2010). The perceived risks of cheating differ across situations but typically include formal sanctions for misconduct (e.g. arrest) or informal sanctions (e.g. social disapproval). Cochran et al. (1999) argued that informal sanction from peers was most salient for young adults. Informal sanctions may also be self-imposed, such as experiencing shame and embarrassment (Wright, Caspi, Moffiti and Patternoster, 2004). The overall perceived cost of cheating depends on both the certainty that sanctions will be imposed and the perceived severity of the sanctions (Hutton, 2006 but c.f. Ogilvie and Stewart, 2010). If students “get away” with cheating (i.e., low certainty of sanction) then it more easily becomes a norm (Hutton, 2006). Research on academic dishonesty therefore needs to consider both the severity of the punishment (cost) and the certainty of receiving punishment.

The above assumes that if the sanctions are enforced and are sufficiently severe then students will be disinclined to cheat (Ogilvie and Stewart, 2010). Note that sanctions do not in themselves deter students from cheating; rather it is a student's subjective perceptions about the costs and benefits associated with the action that informs their decision about cheating (Tibbetts, 1997). With increasingly sophisticated ways to cheat and the limited value of interventions (See list of interventions in Atmeh and Al-Khadash, 2008) to discourage cheating (Michaels and Miethe, 1989), it has become necessary to consider factors other than formal sanctions and honour codes, which do not seem to deter cheating (Cochran et al. 1999), especially when there is a low certainty of sanction (Hutton, 2006).

The above gives rise to the following research propositions that were investigated in this study:

1. Rational choice variables explain significant variance in cheating intention amongst business students over and above that explained by anti-intellectualism, age and gender.
2. Cheating intentions helps explain significant variance in cheating behaviour.

## **METHOD**

A descriptive research design (Hair, Babin, Money and Samouel, 2003) was used to investigate rational choice as an explanation of cheating behaviour. A self-administered, cross-sectional survey was used to gather data.

### **Participants**

Participants were undergraduate business students between the ages of 17 to 49 from three universities in South Africa. Of the 589 students that started to complete the questionnaire, only 485 (82.34%) students completed and returned it. Of these 53.60% were male. The median year of studies was the third year but the range was from less than one year to six years studying at university. Two of the three participating universities granted ethical clearance on condition that the research not identify participating institutions or differentiate between university cohorts in any way, including any information regarding group sizes. It is therefore not possible to report on response rates.

## Measures

**Intention to cheat.** Participants were asked to self-report on a five-point likelihood scale the chances of them engaging in cheating behaviour in the future.

**Rational choice.** Two components of rational choice were considered across five cheating situations. To measure the benefits of cheating Passow, Mayhew, Finelli, Harding and Carpenter's (2006) scale was used. The participants were asked to indicate to which degree they approved of cheating if it (1) helped them retain financial assistance, (2) avoided them letting their family down, (3) avoided poor or failing grades, (4) if it seemed that everyone else was cheating, and (5) if there was no way to get caught. Responses ranged on a five-point agree-disagree scale. To measure *perceived costs (shame, embarrassment and formal sanctions)* when involved in academic cheating, participants were asked questions pertaining to five different forms of cheating (as per Cochran et al., 1999). Participants were also asked to indicate the certainty of receiving formal sanction. The final *formal sanctions* scale was a cross product of the cost and certainty subscales. All responses were made on a 7-point scale.

**Self-reported cheating behaviour.** Items from O'Rourke et al. (2010) were adapted for this study to obtain data on past cheating behaviours. Participants had to answer "yes" or "no" to a set of specific questions relating to past cheating behaviour.

**Control variables.** *Anti-intellectualism*, an individual's disrespect for intellectual pursuits (Elias, 2009), was measured using a modified scale developed by Eigenberger and Sealander (2001). Actual *age* and *gender* information was also collected.

## RESULTS

### Psychometric properties of the scales

Exploratory factor analysis (using principle axis factoring and varimax normalised rotation) was used to identify the underlying latent variables of all the scales used in this study. The items from the *cheating intention*, *anti-intellectualism*, and *rational choice* scales each loaded on a single factor. The rational choice items loaded on five factors with Eigenvalues greater than 1: *Embarrassment*, *Benefits of cheating*, *Formal sanction (cost)*, *Shame*, and *Formal sanction (certainty)*. These explained 31.04%, 12.72%, 9.62%, 5.51% and 4.17% of the total variance respectively and collectively explained 63.6% of the total variance. Table 2 shows the Cronbach alpha reliability coefficients for all the scales, all of which exceeded the acceptable level of .7 and all inter-item correlations exceeded .3 within each scale (Hair, et al., 2003).

## Descriptive Statistics

All distributions were acceptable and a skewed distribution of *age* was expected given the sample frame.

The descriptive statistics are reported in Table 1. The mean response on *cheating intention* was 1.64 on a 5-point Likert Scale ( $N = 485$ ,  $SD = 0.66$ ), with the median response of 1.50. Of the participants 48.90% indicated that it is “very unlikely” or “unlikely” for them to engage in cheating behaviour. Only 3 participants (less than 1% of the participants) reported a “likely” to “very likely” intention to cheat in the future, with 50% of the participants being unsure if they would engage in future cheating behaviour.

Regarding past behaviour, only 3.26% of the respondents reported copying from someone in an exam with 5.67% reporting to have copied from someone in a test. The highest self-report on cheating was *plagiarising an assignment* (covering a variety of activities detailed in Table 1) with 61.90% respondents reported that they have plagiarised an assignment in the past. The most frequent plagiarism behaviour was copying from a fellow student’s work, 44.43% of participants admitted to this.

**Table 1**

*Frequency of self-reported cheating behaviour*

Cheating behaviour	Yes%	No%
<b>1. Plagiarism</b>		
a. Turning in an assignment/hand-in tutorial written by someone else	<b>14.07</b>	79.59
b. Turning in <i>an</i> assignment/ hand-in tutorial that was submitted for another course	<b>4.46</b>	89.19
c. Using exact words or ideas from internet without acknowledging the source	<b>17.67</b>	75.99
d. Using exact words or ideas from a publication without acknowledgment	<b>15.95</b>	77.70
e. Copying all or part of someone’s assignment or hand-in tutorial	<b>44.43</b>	49.22
f. Getting someone else to do the assignment or hand-in tutorial	<b>9.78</b>	83.88
<b>2. Copying from someone during a test</b>	<b>5.56</b>	88.00
<b>3. Copying from someone during an exam</b>	<b>3.26</b>	90.40

Note.  $N = 485$ . 6.35% of the sample did not indicate “yes” or “no” to the questions and indicated “n/a”

The certainty of the cost of cheating (*formal sanctions, shame and embarrassment*) was high with copying in an exam ( $M = 5.33, SD = 1.06$ ) and plagiarising an assignment ( $M = 5.42, SD = 1.13$ ). The mean response on *anti-intellectualism* was a moderate 3.53 on a 7-point scale ( $N = 485, SD = 1.01$ ). The mean response on the *benefits of cheating* was a low 2.21 out of 5 ( $N = 485, SD = 1.02$ ). Out of all the respondents 48.82% reported that the set of benefits presented in the survey would not cause them to cheat, with 5.88% admitting that they would cheat based on the presented set of benefits. Interestingly 45.3% of the participants were neutral in their response regarding the benefits of cheating.

Reported levels on the *cost of cheating* were high with mean scores 5.21 out of 7 ( $N = 485, SD = 0.94$ ), with the median 5.30. Cost of cheating included three distinct scales, *formal sanction* ( $M = 4.91, SD = 0.99$ ), *shame* ( $M = 5.88, SD = 1.28$ ) and *embarrassment* ( $M = 5.15, SD = 1.50$ ).

### **Correlation Analysis**

Table 2 represents the correlations matrix of all the variables highlighting values at the significance level  $*p < .05$ ;  $**p < .01$ ; and  $***p < .001$ . The variable most strongly associated with the dependent variable, *cheating intention*, was *benefits of cheating* ( $r = .51, p \leq 0.001$ ). This positive correlation indicates that high self-reported intentions to cheat are associated with positive perceptions regarding the benefits of cheating.

There was also a significant negative correlation between the participants' *cheating intention* and the perceived *cost of cheating* ( $r = -.33, n = 449, p \leq 0.001$ ). There is an association that the intention to cheat will decrease as the costs of cheating increase. There was also a significant negative correlation between age and the participants' *cheating intention* ( $r = -.11, n = 449, p = 0.02$ ). The positive correlation between *anti-intellectualism* and the *benefits of cheating* was significant ( $r = .16, n = 449, p = 0.01$ ). There was no significant correlation between *anti-intellectualism* and *cheating intention* ( $r = .06, n = 449, p = .18$ ).

**Table 2***Means, standard deviations, reliability, and inter-correlations among study variables*

<i>Variable</i>	<i>M</i>	<i>SD</i>	<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>	<i>5</i>
<i>1. Age</i>	21.51	3.48					
<i>2. Anti-intellectualism</i>	3.53	1.01	-0.07	(0.78)			
<i>3. Benefits of cheating</i>	2.21	1.02	<b>-0.13**</b>	<b>0.16**</b>	(0.89)		
<i>4. Cost of cheating</i>	5.21	0.94	-0.03	-0.01	<b>-0.21***</b>	(0.91)	
<i>5. Cheating Intention</i>	1.64	0.67	<b>-0.11*</b>	0.06	<b>0.51***</b>	<b>-0.33***</b>	(0.70)

Note. *N* = 466 (after casewise deletion of missing data) \**p* < 0.05, \*\**p* < 0.01, \*\*\**p* < 0.001; Cronbach's Alpha reflected on the diagonal, *M* = mean; *SD* = standard deviation.

### **Hierarchical multiple regression**

Table 3 presents a summary of the hierarchical regression analysis used to test Proposition 1. The first step included three control variables; *anti-intellectualism*, *age* and *gender*. The second step included the four distinct dimensions of *rational choice* (*benefits of cheating*, *formal sanctions*, *shame* and *embarrassment*). *Cheating intention* was the dependent variable. After Step 1, the regression model was not significant; *gender* (*Beta* = -.15, *p* = < .01) and *age* (*Beta* = -.11, *p* = < .01) were statistically significant predictors but *anti-intellectualism* (*Beta* = .07, *p* = .17) was not a significant predictor.

The *rational choice* dimensions were added in Step 2, *benefits of cheating*, *formal sanctions*, *shame* and *embarrassment*. After Step 2 the regression model explained a statistically significant additional 29% of the variance in *cheating intention* ( $\Delta R^2 = .290$ , *p* < .001). Both *benefits of cheating* (*Beta* = .44, *p* < .001) and *shame* (*Beta* = -.22, *p* < .001) were statistically significant predictors of *cheating intention*. The control variables: *age* (*Beta* = -.05, *p* = .25), *gender* (*Beta* = -.02, *p* = .63) and *anti-intellectualism* (*Beta* = -.01, *p* = .72) were not significant predictors of *cheating intention* in Step 2.

**Table 3***Hierarchical regression analysis*

Variable	Step 1	Step 2
<i>Control variables</i>		
<i>Gender</i>	<b>-.15*</b>	-.02
<i>Age</i>	<b>-.11*</b>	-.05
<i>Anti-intellectualism</i>	.07	-.01
<i>Rational Choice</i>		
<i>Benefits of Cheating</i>		<b>.44**</b>
<i>Formal Sanctions</i>		-.06
<i>Shame</i>		<b>-.22**</b>
<i>Embarrassment</i>		-.02
<b>R<sup>2</sup></b>	.04	<b>.33**</b>
<b>Adjusted R<sup>2</sup></b>	.03	<b>.32**</b>
<b>Change in R<sup>2</sup></b>	.00	<b>.29**</b>

Note. N = 441 (after casewise deletion of missing data); \*p < .01, \*\*p < .001

**Logistic regression**

Logistic regression (Peng, Lee and Ingersoll, 2002) was used to test Proposition 2. The predictive relationship between three dichotomous dependent variables (*copying in a test, copying in an exam, plagiarising an assignment*) and the four continuous independent variables (*benefits of cheating, formal sanctions, shame and embarrassment*) were examined. The selected dependent variables are the three most common types of cheating behaviour at universities (De Jager and Brown, 2010; Ogilvie and Stewart, 2010; Rettinger and Kramer, 2009).

For *copying in a test* the overall model was statistically significant,  $\chi^2(4, N = 486) = 21.17, p = 0.0002$ . The model explained between 4.3% (Cox and Snell R square) and 10.9% (Nagelkerke R squared) of the variance. Only two of the independent variables (*benefits of cheating* and *embarrassment*) made a unique statistically significant contribution to the model. The strongest predictor of *copying in a test* was *benefits of cheating* with an odds ratio of 1.77. This indicates that participants who perceived the benefits of cheating were 1.77 times more likely to have copied another student's work in a test.

For *copying in an exam* the overall model was statistically significant  $\chi^2(4, N = 486) = 10.70$ ,  $p = 0.029$ . The model explained between 2.2% (Cox and Snell R square) and 6.9% (Nagelkerke R squared) of the variance. Only one of the independent variables (*benefits of cheating*) made a unique statistically significant contribution to the model with an odds ratio of 1.66. This indicates that participants who perceived the benefits of cheating in an examination were 1.66 times more likely to have cheated in an examination.

For *plagiarising an assignment* the overall model was statistically significant  $\chi^2(4, N = 488) = 45.99$ ,  $p \leq 0.0001$ ). The model explained between 9.00% (Cox and Snell R square) and 12.30% (Nagelkerke R squared) of the variance. Only one of the variables (*benefits of cheating*) made a unique statistically significant contribution to the model. The strongest predictor of *plagiarising in an assignment* was *benefits of cheating* with an odds ratio of 1.80. This indicates that participants who perceived the benefits of plagiarising an assignment were 1.80 times more likely to plagiarise than those that did not perceive the benefits of plagiarising an assignment.

## DISCUSSION

The aim of this study was to investigate the relationship between *cheating intention* and *rational choice* in an attempt to explain cheating behaviour. The main contributions of this study are as follows:

1. The study developed scales adapted from previous research that can be applied to the South African context. These scales showed good factorial validity and internal consistency reliability
2. Students' cheating intentions were investigated with less than half (i.e., 48.90%) of the participants indicating that it was "very unlikely" or "unlikely" for them to engage in cheating behaviour. Half the respondents expressed uncertainty about whether they would cheat in the future. This uncertainty, given the likely presence of social desirability bias, may even be interpreted as cheating intention if the benefits of cheating in a particular situation are perceived to strongly outweigh the costs associated with such cheating.
3. The extent of cheating depends on the situation as 61.90% of students reported to have committed plagiarism, but much fewer (only 3.62%) reported having copied from someone in an exam and 5.67% reported having copied from someone in a test. Interestingly, these findings, though troubling, are slightly lower than the findings from



the only previous study of academic dishonesty in South Africa, which reported that 72% of participants admitted to having committed plagiarism (De Jager and Brown, 2010).

4. Levels of academic dishonesty amongst participants in this study are less than that reported in studies from other countries (e.g., Hutton, 2006; Rettinger and Kramer, 2009; Ogilvie and Stewart, 2010). However, great caution and further research is required before implying different levels of academic dishonesty across countries.

5. Rational choice variables explained significant variance in cheating intention over and above that explained by anti-intellectualism, age and gender. As expected and as presented in previous research, the most significant predictor of cheating intention was the perceived benefits of cheating. Perceived benefits of cheating were also most predictive of reported past cheating behaviour

6. Shame had a significant negative effect on cheating intention. This finding indicates the importance of pre-university socialisation and the importance of parental and peer influences. It also holds practical implications for higher institution on how to formulate its sanctions and honour codes.

Of all the rational choice variables mentioned above, *benefits of cheating* consistently had the strongest positive correlation with *cheating intention*. This positive correlation implies that business students tend to base their decision to cheat on the perceived benefits they will gain from cheating.

There was a significant negative correlation between participants' cheating intention and the perceived costs of cheating. This negative correlation suggests that either formal or informal sanctions (*shame* and *embarrassment*) can effectively discourage students from cheating in different situations (Ogilvie and Stewart, 2010; Tibbetts, 1997). The risk of feeling ashamed and rejected by one's peers is probably the greatest inhibitor of cheating behaviour amongst young adults. Students will however cheat in situations where they know the chances of being caught is minimal (i.e., plagiarising a few words from an internet source). As per Tibbetts (1997), students' intention to cheat was determined by weighing up the possible cost (specifically shame) with the probable benefits of cheating. Other costs associated with cheating (i.e. formal sanction and embarrassment) did not explain cheating intention as much. These findings regarding the cost of cheating are also similar to that of Cochran et al. (1999) who reported shame as the only significant variable.

The results of this study provide business managers and management scientists with guidelines for the design of interventions to encourage ethical practices and ethical decision-making amongst new employees. Employers, cautioned by the findings of this study and others regarding intention to cheat levels amongst a cohort that will be the future recruitment pool for their organisations, must reduce the perceived benefits of unethical behaviour through the maintenance of effective management control mechanisms, the creation of a strong ethical values orientation in the culture of the business organisation and through management education. Tertiary institutions should work with business organisations to educate students (future employees) about the individual, business and social impact of unethical behaviour. This education process further requires a de-emphasis of the self-interest imperative, the goal of wealth accumulation and utilitarian models of management decision-making, especially if these are taught at the expense of more value-based approaches to management.

Given the high incidence of reported plagiarism, future research should investigate the frequency of different forms of plagiarism and possible reasons for these differences. It might be that the cost-benefit ratio for different forms of plagiarism differ and therefore differentially inform cheating intention. Noting Micheals and Miethe's (1989) finding that 67% of the participants in their study viewed cheating on homework or lab work as "not at all" or "only slightly" wrong, further qualitative investigation is warranted on the common student notion that minor forms of plagiarism (e.g., copying limited text without citation or copying from a friend) does not constitute "cheating".

Future researchers may consider examining the gender aspect indicated in the regression analysis and examine socialisation effects that may account for this. This is especially important given the greater representation of women in senior leadership positions. Future research should also consider the temporal horizons of those deciding to cheat or not and how they consider the short term and long term effects of their behaviour. The moderating effects of personality characteristics, anti-intellectualism, levels of sanction enforcement and the extent of institutional interventions on cheating behaviour deserves further scholarly attention.

The limitations of this research include all those attending to survey research (See Anderman, Cupp and Lane, 2010; Kronenberg, Heintze and Mehlkop, 2010; Ogilvie and Stewart, 2010)

particularly the difficulty in establishing the response rate, non-response bias, social desirability effects, and common-method bias. Of special concern is the possibility of selection bias given that responding to the survey questionnaire was voluntary. Future research should also aim to mitigate these limitations.

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# **SELECTION OF A GOVERNMENT SECONDARY SCHOOL: PERCEPTIONS OF LEARNERS, PARENTS, AND TEACHERS**

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## **ABSTRACT**

The incorporation of a market orientation is a key element in the marketing of a school. Schools can achieve a competitive advantage in their dynamic environments by anticipating, understanding and responding to the behaviour of their learners and parents.

The main component of the research was quantitative empirical research. The main objectives of this study was to investigate the relevant importance of the choice factors, the usefulness of the information sources, which primary school learners and their parents considered when they decided to enrol at a secondary school as well as the importance of the different role-players in the family during the selection process.

The findings indicated that some choice factors were more important to the respondents than others, as well as the fact that learners and their parents differed in the importance they attached to the choice factors. The findings on the usefulness of information sources also revealed that the information sources directly linked to the secondary school were the most useful for both the learners and their parents although their order of usefulness differ. The findings also revealed that the learners' opinions were the most important during the decision making process. The findings of this study could be used for effective planning and resource allocation for recruitment, communication and marketing. This should aid learners and their parents to make a more informed decision about the secondary school they wish to attend.

**Keywords:** Choice factors, information sources, secondary school, marketing strategy, consumer behaviour, decision-making, role-players.

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<sup>1</sup> Based on research by E. Bateman during his MBA studies at the Potchefstroom Business School, North-West University

# **SELECTION OF A GOVERNMENT SECONDARY SCHOOL: PERCEPTIONS OF LEARNERS, PARENTS, AND TEACHERS**

## **INTRODUCTION**

Education in South Africa is in a continuous process of change and restructuring, which creates new opportunities, but then again threats for schools. Competition will become more intense and schools will have to market themselves effectively. Public schools do not only face competition from other public schools, but also from private schools of which the numbers show an increase in enrolment from 256 253 to 386 098 over the period 2000 to 2009 (Mail & Guardian, 2011:1). In the same time frame the number of public school learners dropped by 15% in the North West province (Afribrains, 2011:2).

The Schools Act 84 of 1996, The Constitution of 1996, The National Norms, and Standards for Public School Funding Act of 1998 have been responsible for changes in the financing of education in South Africa. Since the inception of the “no-fee” school policy in 2006, Quintiles 4 and 5 schools experienced a continuous decrease in government funding, putting more pressure on their resources. An increase in the non-payment of school fees, educational costs and the withdrawal of sponsorships due to the economic turndown, create financial pressure. Therefore, alternative sources of funding are necessary. Considering the business challenges schools face, it is evident that they will have to become more marketing-orientated.

Schools are not islands – they do not exist in isolation. The communication of the image it projects to the target market is crucial. Schools are depending more and more on their supply of learners for funds. Principals have become managers seeking a competitive advantage. Image management became crucial, because many parents base their choice of a school on outward appearances and the artificial indicators of schooling (Marketing-based education, 2010:1).

Wiese (2005:2) states that in a limited financial environment, educational institutions will have to assess and re-assess marketing strategies aimed at attracting learners. In order for schools to attract more learners, they must provide a total package, which satisfies the requirements of the learners and parents better than competing schools. They have to attract



learners by providing what they expect and keep on meeting those expectations (Malherbe, 2008:2).

The incorporation of a market orientation is a key element in the marketing of a school. By anticipating, understanding and responding to the behaviour of their customers, service organizations can achieve a competitive advantage in their dynamic environments (Jaworski *et al*, 2000:45). Oplatka and Hemsley-Brown (2007:293) identify three aspects regarding a marketing orientation:

- awareness of the need to obtain information about the competitors;
- the establishment of cross-departmental activities to satisfy customers' needs; and the
- significance of customer orientation.

### **PROBLEM STATEMENT**

Changes in the macro environment are forcing educational institutions, including schools, to become more responsive to market needs. The school is an Afrikaans medium secondary school within the North West Province. The school is categorised as a quintile five school. As stated previously, the quintile five schools receive the least financial support from the government. When consulting the National Poverty Distribution Table (Anon, 2009:3) it becomes clear that 69.5% of the public schools will become “no-fee schools”. This will increase the financial burden on the provincial government, which will have a negative impact on the financing of quintile five schools.

There are five Afrikaans medium secondary schools within the immediate area. Because of the depopulation of rural areas, the closure of several mines leading to the relocation of people, the demand for Afrikaans medium education decreased. As a result, five of the nine Afrikaans Medium Primary schools decided to follow the parallel medium route. Thus, the competition for Afrikaans speaking learners is fierce and effective marketing has become progressively more significant for the sustained well-being of the school.

## **RESEARCH OBJECTIVES**

The objectives of this study were to:

1. Determine the importance of each of the characteristics (choice factors) which the grade eight learners and their parents of the school selected when they decided to attend the school;
2. Determine whether there are differences regarding the importance learners and their parents attach to the characteristics (choice factors), when they selected the school.
3. Determine the perception of the teachers of the school regarding each of the choice factors available to the parents.
4. Determine whether there are gender differences regarding the importance learners and their parents attach to choice factors when they selected the school.
5. Investigate the usefulness of the sources of information considered by grade eight learners and their parents of the school in the selection process of a secondary school.
6. Determine whether there are differences between grade eight learners and their parents on the use of information sources.
7. Determine the perceptions of the grade eight learners, their parents and teachers on the relative importance of the different role-players in the selection of the school.

## **LITERATURE REVIEW**

Although modern definitions of marketing refer to the science as “*an act to exchange goods and services for money*”, “*buying and selling in a market*” (Dictionary, 2012), or as officially approved “*Marketing is the activity, set of institutions, and processes for creating, communicating, delivering, and exchanging offerings that have value for customers, clients, partners, and society at large*” (AMA, 2007), early authors such as Davies and Ellison (1997:1) defined marketing as the managing of relationships through effective communication. Thus it is all about managing the relationship between schools and their clients (parents and learners). School marketing is about the transmitting of enthusiasm and pride for the school’s programs, personnel and learners to the public. School marketing is a process undertaken by schools to ensure their survival and continue to serve the learners a community more effectively. According to Sefali (as quoted by Malherbe, 2008:47), the

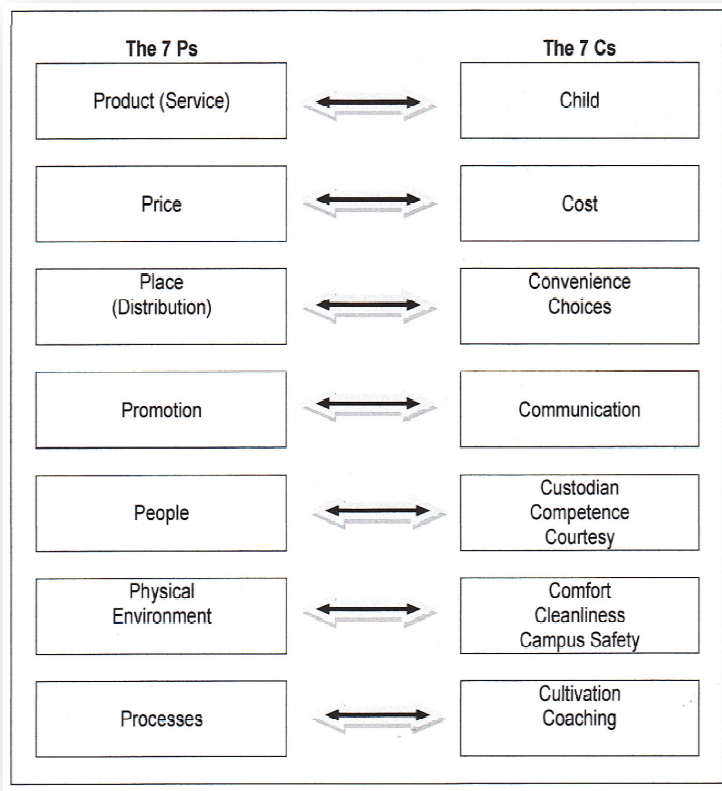
effectiveness of school marketing is not measured only by what goes on in the classrooms but the impression the school gives to the external community.

Education as a service has several characteristics, which greatly affect the design of marketing programs: intangibility; inseparability; variability and perishability (McDonald & Payne, 2006: 17). These unique characteristics of services make service marketing more challenging in contrast to marketing a physical article. Elements of the marketing mix for products (product, distribution, promotion and pricing) therefore need to be expanded to meet the special needs created by these characteristics. In addition to the traditional four Ps, the services marketing mix should include strategy components related to people, process and physical evidence (Harvey & Busher, 1996:26 and Lamb *et al.* 2009:414).

Given these features, schools can design methods to “tangibilise the intangible”, such as using the school’s brand, prioritise the teacher-learner relationship (inseparability), and introduce educational guidelines (reduce variability). Systems can also be put in place that use feedback from satisfaction surveys to better address learner’s wants. The competitive edge will go to those schools that design services that offer their learners and their parents the most pleasing overall encounter. In short, we are entering the experience economy in education.

It is critical to point out, that all of the marketing tools are vital elements; without using them in a complementary manner the school’s ability to offer a quality product or service would be compromised. Schools are fundamentally concerned with the managing of relations because they manage the total “learner- teacher” interaction process. This is done as part of attracting, maintaining, and improving customer relationships (Lamb *et al.*, 2009:11). The goal is to create value for learners and build profitable learner relationships. The "7Ps" represent the tools available to schools for influencing learner’s and their parent’s choices. Since secondary school education is about the development of the learner in his totality, each marketing tool is designed to deliver a customer (child/learner) benefit “C” as illustrated in figure 1.

**Figure 1: The marketing–mix for a school from a learner’s perspective**



**Source:** Adapted from Souba *et al.* (2001:110)

To create value, the school's 7Ps must correspond to and be aligned with the learner's 7Cs. The mix of marketing tools used will vary with the specific customer. Value must be centred in the experiences of the learners (Prahalad & Ramswamy, 2004:137).

In addition to the application of the 7Ps to the school marketing environment, a relationship marketing approach is also important. Relationship marketing is not just the responsibility of the headmaster, the school committee, for example, but it is everybody’s business. Everyone in the school needs to understand the principles of relationship marketing and be committed to building relationships with customers. While front line employees at schools such as administrative assistants, office receptionists, and teachers are often the key to the successful implementation of customer relation management programs, the efforts of all are needed (Ackerman & Schibrowski, 2007:320). Relationship marketing is the most effective when

there is a culture of respect and concern for honest relationships and the needs of people are the dominant factor – as it should be in education.

Positive teacher-learner relationships have the potential of creating a favourable learning environment in the classroom, which will determine whether a learner can benefit from the teaching-learning situation. “Teachers should be aware of the need for a positive loving relationship if learning is to take place” (Hood & Hood 2001, 171). The Department of Education sets norms and standards for educators, which spell out the multidimensional role of the teacher. The role of the class teacher include among others, a supporter including a pastoral role. This involves the creation of an atmosphere in which everyone feel that they belong, is accepted and will be supported (Donald *et al.* 2008:151 and Killen, 2000:190-191). The one factor which contributes most to the difference between good and poor teaching, is “the degree of effectiveness of the teacher in establishing a particular kind of relationship with students”, namely the quality of the teacher-learner relationship (Gordon, 2006:2). A relationship between the educator and learner is essential, because it is the core – the fundamental aspect – of the educational role of educators (Peterson & Hann, 1999:327). Patrick *et al.* (2008:125) conclude that the quality of the relationship between the educator and learner influences academic outcomes, because of the substantial effect of this relationship on the learner’s motivation and school engagement. Thus, it is clear that effective teaching cannot occur outside this relationship. Since teachers are used to building relationships and effective relationships already exist in schools, relationship marketing seems the way to go.

There are three key messages that relationship marketing can offer a school: build and maintain relationships over the long term; pay as much attention to keeping current customers as to attracting new customers; and finally recognise that there are a number of different markets, which require each its own attention (Drysdale, 1999:36 and Bisschoff *et al.*, 2004:18). This study only focused on the all-important customer market (learners and parents).

## **RESEARCH METHODOLOGY**

This study had an ex post facto design. It was a quantitative study involving a two-fold design process. Firstly a literature survey was undertaken to review the concepts and

secondary data on the marketing of services, non-profit organizations, the public sector and educational institutions as well as the consumer decision making process.

The second stage was a formal descriptive. The goal was to offer a profile or to describe the relevant aspects of the phenomena of secondary school choice selection. The secondary objectives had a predictive character with the function of pointing out new opportunities to the school. During this phase learners, parents and teachers were questioned and their responses collected by means of a structured questionnaire.

The study aimed to provide a description of the following:

- Socio-demographic information: a brief profile of the ...
  - Grade eight learners enrolled at the school during 2011 in terms of gender, age, proximity of their homes from the school, residency and family type.
  - Parents of the grade eight learners of the school enrolled during 2011 in terms of gender, age, proximity of their homes from the school and family type.
- Behavioural information: the decision making process, in terms of the choice factors, information sources influencing school selection and the importance of each role-player during the selection process of the learners and their parents.

The population was the grade eight learners, their parents and teachers of a specific school. Non-probability sampling was used in this study, since this method has particular appeal due to financial and time restraints.

Letters were sent to the parents of the 182 grade eight learners in the school to provide permission for their participation since they are underage. A total of 151 learners' parents returned the letters providing their permission resulting in an effective population of 151 learners. There were 151 questionnaires distributed to the grade 8 learners and 287 to their parents as well as 44 questionnaires to the teachers. A total of 98% (148) of the learners, 89% (255) of the parents and 86% (38) of the teachers completed valid questionnaires, resulting in a 91% (441) response rate.

A structured questionnaire, applying an itemised Likert-scale was used to because of its ease of interpretation (even by learners as young as 13 years who had to complete it). Open-ended questions were used as an introduction to the questionnaire, but structured questions were used where possible. The questionnaire also collected some socio-demographic data.

The questionnaire was pre-tested on a group of 25 learners in grade 9 and 18 parents who were representative of the survey population. In each instance, respondents were asked to give feedback on the content of the questionnaire and the clarity of the questions, and to highlight any difficulties experienced. After each of these pre-tests, recommended changes were made. Some respondents found difficulty with the language; it was clear from the pre-test that the questionnaire had to be worded simply. These needed adjustments were made to the questionnaire.

There was control over which of the learners completed the questionnaires, as designated teachers at each of the grade eight class groups acted as fieldworkers. There was no control over which of the parents completed the questionnaires, as it was sent home with the learners to be completed by the parents. There was control over which of the teachers completed the questionnaires, as it was done in the staffroom and the school principal acted as the fieldworker. This method of data collection was used as it is relatively fast, cheap, convenient, and easy to process and the response rate is usually high. Incentives for completing the questionnaires were not provided.

Descriptive techniques used are the mean, standard deviation, variance and frequency analysis. Inferential statistics were used which would include correlations, the Wilcoxon rank sum test and Cohen's d-value effect-size statistic. This study used a 0.05 level of significance. The Wilcoxon rank sum test was used in this study because it does not depend on the assumption of normality for the two populations. (Levine *et al.*, 2008:487-490).

For the purpose of this study, Cohen's d-value was also used for the interpretation of effect size between means. Values of 0.5 and higher was considered as significant differences with  $0.5 \leq d < 0.8$  suggest a medium or visible effect and  $0.8 \leq d$  as a high level of practical significance having a truly large effect (Ellis & Steyn, 2003:53; Field, 2005:32 and Rubin, 2010:140).

The reliability of the data was measured using the Cronbach Alpha coefficient, and coefficients of 0.70 and higher were deemed to be satisfactory (Field, 2007:666-668).

## **RESULTS**

### **The demographic profile of the participating grade eight learners**

The gender of the learners, 50% (74) were male and 50% (74) were female. The age distribution of the learners: the majority of the respondents (81%) were 14 years old. The proximity of learners' permanent family home to the school: 60% of the grade eight learners travel more than 20 kilometres a day to attend the school. The residency of the participating learners: 12% of the learners reside in the school hostels. The composition of the learners' families: 24% of the participating learners form part of a single parent family and 76% of the learners have both parents as part of their household. The participation rates and achievements of the learners in sport: 74% of the participating learners participate in sport activities and that 46% represent the school, 11% compete at district level, 17% compete at provincial level and 26% do not participate in sport. The participation rates and achievements of the learners in cultural activities: 47% of the participating learners participate in cultural activities and that 38% represent the school, 3% compete at district level, 6% compete at provincial level and 53% do not participate in cultural activities.

### **The demographic profile of the participating parents**

The gender distribution of the parents: 43% (109) were male and 57% (146) were female. The age distribution of the parents: 71% were in the age group 34 to 46 years old. The second largest group of parents (22%) were the age group 47 to 59 years old. 4% were younger than 33 years and 3% older than 60 years. The proximity of learners' permanent family home to the school: 52% of the grade eight learners' parents have to provide transport of more than 20 kilometres a day to attend the school. This segment has the potential to provide a market for the school hostels as only 12% of them make use of the school hostels for their children. The composition of the parents' families: 16% of the participating parents form part of a single parent family and 84% of the families have both parents as part of their household.

### **Reliability and validity of the measuring instrument**

The Cronbach's alpha reliability coefficients for the different sections as a whole for the different questionnaires are supplied in Table 1. All coefficients were satisfactory as they all exceed 0.70 (Field, 2007:666-668).



**Table 1: The Cronbach's alpha reliability coefficients**

Questionnaire	Section	Cronbach's alpha	Internal consistency reliability
Learners	A. Choice factors	0.8556	YES
	B. Information sources	0.9579	YES
	C. Role-players	0.8078	YES
Parents	A. Choice factors	0.8450	YES
	B. Information sources	0.9371	YES
	C. Role-players	0.8208	YES
Teachers	A. Choice factors	0.895	YES
	B. Information sources	0.906	YES
	C. Role-players	0.413	NO

**Research objective 1: The relative importance of the choice factors that grade eight learners used to select the school**

The results are represented in order of decreasing importance in Table 2.

From Table 2, it is evident that the choice factors of the grade eight learners differ in their importance. Some of the differences will be discussed below.

- School safety and security followed by the image of the school seemed to play a very important role in the responding learners' selection process of a secondary school, as these characteristics had very high mean values (4.58 and 4.39 respectively) and low standard deviations (0.774 and 0.886 respectively). The latter indicates that most of the responding learners had a high level of agreement on the importance of these factors.
- The learners attached the lowest ranking to the fact that their family members (brothers, sisters or parents) attended the school.
- Matric results (mean 4.34), quality of teaching (mean 4.26) and academic reputation (mean 4.22) all rank under the top six of the 28 choice factors all indicating the importance of academic achievement to the learners.
- It is interesting that the grade eight learners rate the matric results more important than their own academic achievements, which are part of the school's academic reputation for all the grades.

- It is interesting that opportunities to participate in sport activities ranked seventh and achievements in sport activities only ranked seventeenth while the school is commonly known as a “sport school”.
- Although teenagers are known to conform to peer pressure it does not seem to play a major role regarding to the choice factors as the factor regarding friends’ school choices only ranked twenty-sixth out of 28 choice factors.

**Table 2: The importance of choice factors as perceived by the learners and parents, and the differences in the importance they attach to the characteristics (choice factors)**

School characteristics (choice factors)	Learners				Parents				Wilcoxon rank sum testp-value	Cohen's d-value effect-size
	Number of respondents	Mean	Standard deviation	Ranking	Ranking	Number of respondents	Mean	Standard deviation		
School safety and security	148	4.581	0.774	1	3	255	4.706	0.624	0.301	0.161
Image of the school	148	4.392	0.886	2	7	255	4.524	0.768	0.221	0.149
Matric Results	148	4.337	0.937	3	6	255	4.612	0.642	0.021	0.293
Quality of school management	148	4.270	0.878	4	5	255	4.635	0.625	0.0001	0.416
Quality of teaching	148	4.256	0.750	5	1	255	4.784	0.457	1.73E-11	0.704
School's academic reputation (all grades)	148	4.223	0.925	6	8	255	4.518	0.669	0.008	0.319
Opportunities to participate in sport	148	4.149	1.139	7	14	255	4.023	1.079	0.064	0.111
Social life in school	148	4.128	1.084	8	24	255	3.539	1.011	1.14E-08	0.543
Knowledge of the school	148	4.126	1.119	9	4	255	3.698	1.298	0.001	0.330
Discipline in the school	148	4.122	1.056	10	12	255	4.694	0.615	6.55E-07	0.542
School's tradition	148	4.122	1.124	11	2	255	4.184	0.981	0.837	0.055
Quality of teacher involvement	148	4.101	0.931	12	9	255	4.706	0.543	6.22E-11	0.650
Wide choice of subjects	148	4.047	0.883	13	15	255	4.494	0.778	2.55E-07	0.506
Attractiveness of school premises	148	4.020	0.986	14	20	255	3.976	0.947	0.537	0.045
Academic facilities	148	3.980	0.900	15	11	255	4.463	0.668	1.88E-07	0.537
School's language policy	148	3.920	1.140	16	10	255	4.494	0.864	2.51E-07	0.504
Achievements in sport activities	148	3.865	1.182	16	19	255	3.769	1.125	0.196	0.081
Financial assistance (e.g. merit awards)	148	3.791	1.225	18	16	255	3.976	1.222	0.071	0.151

School characteristics (choice factors)	Learners				Parents				Wilcoxon rank sum testp-value	Cohen's d-value effect-size
	Number of respondents	Mean	Standard deviation	Ranking	Ranking	Number of respondents	Mean	Standard deviation		
School fees (cost)	148	3.730	1.079	19	17	255	3.890	1.085	0.111	0.147
Transport provided by the school	148	3.655	1.451	20	18	255	3.788	1.429	0.390	0.092
Location of the school	148	3.547	1.372	21	22	255	3.573	1.215	0.847	0.019
Class sizes	148	3.493	1.158	22	13	255	4.141	0.885	4.26E-08	0.560
Opportunities in cultural activities	148	3.365	1.108	23	21	255	3.616	0.884	0.043	0.227
Achievements in cultural activities	148	3.324	1.108	24	23	255	3.541	0.942	0.042	0.196
Hostels	148	3.230	1.578	25	26	255	3.082	1.471	0.256	0.094
Friends chose the school	148	2.730	1.470	26	25	255	3.309	1.287	0.0002	0.394
Learners' siblings attend(ed) the school	148	2.479	1.661	27	27	255	2.487	1.649	0.881	0.011
Parents attended the school (tradition)	148	2.445	1.575	28	28	255	1.966	1.464	0.008	0.304
Group average		3.801	1.124		3		3.971	0.972		0.152

\* Practical significance:  $d \geq 0.8$  (large effect) and  $0.5 \leq d < 0.8$  (medium effect)

\*\* Statistical significance:  $p < 0.05$

### The relative importance of the characteristics (choice factors) the grade eight learners' parents used to select the school

The results are represented in Table 2.

From Table 2, it is evident that characteristics (choice factors) differ in their importance for parents. Some of the differences will be discussed below.

- Quality of teaching and the quality of teacher involvement seem to play a very important role in the responding parents' selection process, as these characteristics had very high mean values (4.78 and 4.72 respectively) and very low standard deviations (0.457 and 0.543 respectively). This indicates that most of the responding parents had a very high level of agreement on the importance of these characteristics.
- The responding parents attached the lowest ranking to the fact that their family members (brothers, sisters or parents) attended the school.
- All aspects regarding to what happens within the classroom have are rated among the top eleven factors with a mean above 4.45 except for class sizes at thirteen with a

mean of 4.14. This clearly indicates that academic performance is of utmost importance to the parents.

**Research objective 2: The differences in the importance learners and their parents attach to the characteristics (choice factors)**

The mean values, standard deviations and significance testing results for learners and parents regarding the importance attached to choice factors are presented in table 2.

The Wilcoxon rank sum test analysis revealed statistical significance differences for 16 of the 28 characteristics (choice factors). The parents attach a higher importance than the learners to: wide choice of subjects; quality of teaching; academic facilities; quality of teacher involvement; opportunities to participate in cultural activities; achievements in cultural activities; the school's academic reputation (all grades); matric results; friends chose the school; the school's language policy; discipline in the school; quality of school management and class sizes.

Learners attach a higher importance to the social life in the school; the fact that their parents attended the school (tradition) as well as the fact that their knowledge of the school was greater than that of the other schools.

Regarding the practical significance, Cohen's d-value to determine the effect-size was applied. In eight of the characteristics (choice factors) a medium effect was revealed. The parents attach a higher importance to a wide choice of subjects; quality of teaching; academic facilities; quality of teacher involvement; the school's language policy; discipline in the school and class sizes than the learners. The learners attach a higher importance to the social life in school than the parents. The group average also shows an effect-size of 0.152 indicating a small effect on the practical significance of the differences between the parents and the learners.

**Research objective 3: The importance of choice factors for parents as perceived by the teachers**

The results are represented in order of decreasing importance in Table 3.

**Table 3: The importance of choice factors for parents as perceived by the teachers**

School characteristics (choice factors)	Percentage of responding parents in each cell					Number of respondents	Mean	Standard deviation
	Not important	Of little importance	Moderately important	Very important	Extremely important			
	1	2	3	4	5			
Quality of teaching	0	0	0	15.79	84.21	38	4.84	0.37
Wide choice of subjects	0	0	0	21.05	78.95	38	4.79	0.41
Matric Results	0	0	2.63	18.42	78.95	38	4.76	0.49
Quality of teacher involvement	0	0	2.63	21.05	76.23	38	4.74	0.50
Image of the school	0	0	2.63	26.32	71.05	38	4.68	0.53
Discipline in the school	0	0	5.26	21.05	71.05	38	4.68	0.58
Academic facilities	0	0	0	34.21	65.79	38	4.66	0.48
School's academic reputation (all grades)	0	0	5.26	23.68	71.05	38	4.66	0.58
School's language policy	0	0	2.63	42.11	55.26	38	4.52	0.56
Quality of school management	0	0	10.53	34.21	55.26	38	4.45	0.69
Class sizes	0	0	15.79	28.95	55.26	38	4.40	0.76
Bus transport provided by the school	0	0	13.16	42.11	44.74	38	4.36	0.70
School safety and security	0	5.26	10.53	36.84	47.37	38	4.26	0.86
Opportunities to participate in sport activities	0	0	23.68	39.47	36.84	38	4.13	0.78
Achievements in sport activities	0	0	18.42	55.26	26.32	38	4.08	0.67
School fees (cost)	0	0	34.21	31.58	34.21	38	4.00	0.84
Hostels	0	7.89	21.05	36.84	34.21	38	4.00	0.84
School's tradition	0	2.63	18.42	55.26	23.68	38	4.00	0.74
Attractiveness of school premises	2.63	2.63	21.05	39.47	34.21	38	4.00	0.96
Opportunities in cultural activities	0	0	23.68	57.89	18.42	38	3.95	0.66
Knowledge of the school	2.63	2.63	21.05	44.74	28.95	38	3.92	1.02
Financial assistance (e.g. merit awards)	2.63	5.26	21.05	44.74	26.32	38	3.87	0.96
Achievements in cultural activities	0	0	31.58	57.87	10.53	38	3.79	0.62
Social life in school	0	7.89	39.47	23.68	28.95	38	3.74	0.98
Brothers / sisters attend(ed) the school	5.26	13.16	21.05	42.41	18.42	38	3.55	1.10
Location of the school	0	15.79	39.47	26.32	18.42	38	3.47	0.98
Friends chose the school	5.26	5.26	39.47	36.84	13.16	38	3.47	0.98
Parents attended the school (tradition)	10.53	15.79	28.95	34.21	10.53	38	3.18	1.16

From Table 3, it is evident that characteristics (choice factors) differ in their importance. The teachers have ranked their main responsibilities among the top four choice factors namely, quality of teaching, matric results and the quality of teacher involvement. Quality of teaching was ranked as the most important with a very small standard deviation (0.37) indicating that there was a very high level of agreement among them.

#### **Research objective 4: Choice factors and learners' gender**

The results of the significant tests are represented in Table 5 (only the criteria that showed significance are shown in the table).

The Wilcoxon rank sum test analysis revealed that statistical significance differences exist for 6 of the 28 characteristics (choice factors). Female learners attach a higher importance than male learners do, to participation in cultural activities; achievements in cultural activities; school's academic reputation (all grades); discipline in the school and the quality of school management. Male learners attach a higher importance to school fees (cost) than the female learners do.

Regarding the practical significance, Cohen's d-value was applied to determine the effect-size. In only one of the choice factors a medium effect was revealed. The female learners attach a higher importance to discipline than the male learners do. All the other choice factors revealed a small effect. The learner average also shows an effect-size of 0.181 indicating a small effect on the practical significance of the differences between the two gender groups.

**Table 5: Mean values, standard deviations and significance testing results for different gender groups among the learners**

School characteristics (choice factors)	Gender				Wilcoxon rank sum test: p-value	Cohen's d-value effect-size
	Male		Female			
	Mean	Standard Deviation	Mean	Standard Deviation		
School fees (cost)	3.540	1.149	3.198	0.976	0.042	0.298
Participation in cultural activities	3.148	1.131	3.581	1.047	0.021	0.383
Achievements in cultural activities	3.121	1.134	3.527	1.050	0.036	0.358

School's academic reputation (all grades)	4.040	0.957	4.405	0.859	0.018	0.381
Discipline in the school	3.810	1.190	4.432	0.795	0.002	0.523
Quality of school management	4.054	1.058	4.486	0.579	0.046	0.408
Learner (group) average	3.701	1.201	3.863	1.040		0.181

\* Practical significance:  $d \geq 0.8$  (large effect) and  $0.5 \leq d < 0.8$  (medium effect)

\*\* Statistical significance:  $p < 0.05$

### Choice factors and parents' gender

The results of the significant tests showed that although some differences between the two gender groups are visible none of them are practical or statistically significant.

### Research objective 5 and 6: The usefulness of the information sources considered by the learners, their parents and their differences

Table 6 indicates the ranking of the information sources by the grade eight learners of the school

It is clear from Table 6 that all the information sources investigated were useful to the learners. Some comments are:

- School visits and open days were the most useful information source, followed very closely by events at the school (e.g. sports events) and the school's marketing DVD shown to them during the school's staff visit at the primary school.
- Even though websites may be seen as a relatively new medium, the learners have indicated it as being very useful (mean of 4.14).
- Learners viewed television coverage as the least useful of the information sources investigated in the study.
- The low ranking of primary school teachers (eleventh out of 12 information sources) may be because not all schools have a designated guidance teacher, which could result in information not shared to learners at primary school level.

**Table 6: The usefulness of information sources used by the learners and their parents and their differences**

Information sources	Learners				Parents				Wilcoxon rank sum test: p-value	Cohen's d-value effect-size
	Number of respondents	Mean	Standard Deviation	Ranking	Ranking	Number of respondents	Mean	Standard Deviation		

School visits and open days	144	4.493	0.836	1	1	249	4.297	0.767	0.003	0.234
Events at the secondary school (e.g. sports days)	145	4.483	0.842	2	2	248	4.262	0.854	0.004	0.259
Marketing video (DVD)	139	4.338	1.004	3	12	219	3.468	1.156	8.6E-13	0.867
Primary school visits by the secondary school staff	135	4.267	0.866	4	9	241	3.992	0.977	0.0097	0.281
Secondary school's teachers	143	4.238	1.055	5	8	249	4.072	0.893	0.011	0.157
School publications	145	4.193	0.844	6	3	253	4.232	0.860	0.534	0.045
School's website	144	4.141	0.942	7	4	244	4.184	0.788	0.912	0.046
Word-of-mouth	145	4.083	0.961	8	7	252	4.083	0.776	0.459	0.000
Parents of the secondary school	140	4.064	0.983	9	6	248	4.097	0.752	0.676	0.034
Magazine and newspaper ads and articles	144	4.063	0.910	10	5	248	4.069	0.935	0.897	0.006
Alumni	137	3.876	0.870	11	10	234	3.847	0.916	0.836	0.032
Primary school teachers	139	3.664	1.036	12	11	238	3.731	0.987	0.563	0.065
Television exposure	134	3.493	1.175	13	13	199	2.842	1.220	2.12E-05	0.554
Group average		4.107	0.948				3.937	0.914		0.180

\* Not applicable responses were eliminated from the data set for further analysis

\*\* Practical significance:  $d \geq 0.8$  (large effect) and  $0.5 \leq d < 0.8$  (medium effect)

\*\*\* Statistical significance:  $p < 0.05$

### The usefulness of the sources of information considered by grade eight learners' parents

Table 6 indicates the ranking of the information sources by the parents of the grade eight learners of the school based on their mean values and will serve as a general indicator of which information sources in general are more useful to the parents than others.

It is clear from Table 6 that all the information sources investigated were useful to the parents. Some comments on this information are:

- School visits and open days were the most useful information source, followed by events at the school (e.g. sport events) and the school's publications.
- Information sources directly linked to the secondary school or sources that are more personal, such as reference groups, seem to be more useful to the parents than information from mass media.
- Parents viewed television coverage as the least useful of the information sources investigated in the study.



### **Research objective 6**

The mean values, standard deviations and significance testing results for learners and their parents on the use of information sources are represented in table 6.

The Wilcoxon rank sum test analysis revealed that statistical significance differences exist on the usefulness of the information sources for six of the 13 information sources. These information sources are: primary school visits by the secondary school staff; school visits and open days; secondary school's teachers; events at the secondary school (e.g. sports days); television exposure and the marketing video or DVD of the school. Learners attach a higher usefulness to all six of these information sources.

Cohen's d-value to determine the effect-size was applied to investigate the practical significance of the differences in the usefulness of the information sources. In one of the information sources, a medium effect was revealed which was television exposure.

A large effect on the practical significance was revealed in the usefulness of one of the information sources namely the marketing video or DVD of the school with the learners indicating it to be a much more useful information source than the parents.

The group average also shows an effect-size of 0.180 indicating a small effect on the practical significance of the differences between the parents and the learners.

**Research objective 7: The perceptions of the learners, their parents and teachers on the relative importance of the different role-players in the selection of the school.**

**Table 7: The relative importance of the different role-players during the selection of a secondary school**

Importance of the different role-players		Percentage of respondents in each cell						Number of respondents (N)	Mean	Standard deviation
		Not applicable*	Not important	Of little importance	Moderately important	Very important	Extremely important			
Respondent	Role-player	0	1	2	3	4	5			
Learners	Learner	0	1.35	2.03	10.14	22.30	64.19	148	4.46	0.86
	Mother	0	2.70	5.41	14.86	27.70	47.97	148	4.09	1.14
	Father	4.05	2.70	6.08	14.19	30.41	42.57	148	3.92	1.31
Parents	Learner	0.78	0.78	2.35	10.2	18.82	67.06	255	4.74	0.50
	Mother	0.39	0.39	1.96	10.98	32.94	53.33	255	4.00	0.84
	Father	4.71	1.18	2.75	9.41	32.16	49.80	255	3.47	0.98
Teachers	Learner	0	0	0	7.89	42.11	50.00	38	4.42	0.64
	Mother	0	0	2.63	18.42	39.47	39.47	38	4.16	0.82
	Father	0	0	2.63	18.42	44.74	34.21	38	4.11	0.80

\* Not applicable responses were eliminated from the data set for further analysis

From table 7 it is clear that the learners, their parents and the teachers has the perception that the learners are the most important role-players during the selection process, followed by the mother with the father being the least important role-player.

It might seem that the parents regard the importance of the learners (mean of 4.74) greater than what the learners do themselves (mean of 4.46) and their own roles less important than the rating of their children. However, the Wilcoxon rank sum test analysis revealed that no statistical significance differences ( $p < 0.05$ ) exist in each of these cases. Regarding the practical significance, Cohen's d - value to determine the effect - size was also applied. This revealed a small effect on the practical significance ( $d < 0.5$ ). The p - values as well as the d – values for the two population samples learners and parents are as follows:

- Importance of learner as role-player:  $p = 0.771$ ;  $d = 0.316$
- Importance of mother as role-player:  $p = 0.670$ ;  $d = 0.079$
- Importance of father as role-player:  $p = 0.716$ ;  $d = 0.345$

Thus, the results from the parents and the learners are corresponding. The teachers have the same perception as the learners and the parents

## **CONCLUSIONS AND RECOMMENDATIONS**

It can be concluded that all the objectives of the study were met.

### **Choice factors**

#### **The comparison of the importance for learners to their parents**

According to this study the ranking of the choice factors, with regard to importance, clearly show that school safety and security, image of the school, matric results, the quality of school management, the quality of teaching and discipline in the school were among the most important choice factors influencing the learner's as well as the parent's selection process. Thus if the secondary school wants to make use of a generic marketing and communication approach it should emphasise these choice factors in its communication.

Choice factors ranked among the top ten for the learners but not for the parents are opportunities to participate in sport activities, the social life in school with the remaining choice factor within this category the school's tradition. When the promotion is directed toward the learners (for example during primary school visits), the focus should be on these three choice factors, as well as the ones used in the generic approach.

Likewise, if the school is communicating with the parents it should emphasise the choice factors ranked among the top ten for the parents but not for the learners namely the quality of teacher involvement, a wide choice of subjects and the school's language policy. The choice factors used in the generic approach should not be disregarded since they are just as important as the three choice factors above.

### **The importance of choice factors according to gender**

- **The gender of the learners**

The results of this study showed that there is differences in the importance males and females attach to the choice factors. Only one choice factor revealed a practical significant difference between the gender groups. This choice factor was discipline in the school, which the female learners regard as more important than the male learners do.

Instead of just focusing on this one choice factor, the school should also be aware of the top 10 choice factors for male learners and female learners.

If the secondary school wants to make use of a generic marketing and communication approach, it can focus on the choice factor similarities in the top 10. If the school wants to attract more female learners, it should focus on the choice factors that were more important to the female learners. Likewise, if the school wants to recruit male learners it should emphasise the choice factors that the male learners indicated as more important to them.

- **The gender of the parents**

The results of this study showed that there is no practical significant differences in the importance males and females attach to the choice factors. However, although there are no practical significant differences for male parents and female parents, their top 10 rankings differ.

If the secondary school wants to make use of a generic marketing and communication approach, it can focus on the choice factor similarities in the top 10. If the school is communicating with a mother, it should focus on the choice factors that were more important to the female parents. Likewise, if the school is communicating with a father it should emphasise the choice factors that the male parents indicated as more important to them.

Although 10 choice factors were selected in the above sections, the number of choice factors that the school decides to focus on, will depend on its performance levels on the factors and the resources available as well as the image and position the school is trying to create for itself.

- **The teachers' perception on the importance of choice factors for the parents**

The school management must discuss the differences in table 2 and table 3 with the teachers to clear any misperceptions. The school must try to obtain a competitive advantage by focusing on the most important choice factors for the learners and their

parents. Therefore, the teachers should channel their efforts and energy towards the improvement of these choice factors. Keeping in mind that the parents ranked the secondary school's teachers as the fifth most useful information source the teachers need to know which choice factors to emphasise when they have conversations with prospective parents.

### **Information sources**

- **The usefulness according to learners**

The learners could be best informed through school visits and open days, events at the school, the marketing DVD, primary school visits by secondary school staff, teachers of the secondary school and school publications (newsletters and brochures).

School visits are especially important, since the learners do not view primary school teachers as a very useful source of information and the secondary school should attempt to disseminate information to the primary school teachers by trying to involve them in school visits to improve their usefulness.

The ranking of school visits and open days, events at the school and the marketing DVD as the three most useful information sources indicate that the marketing of the "experience" should be a priority in the marketing strategy directed towards the learners.

The secondary school should take cognisance of the fact that alumni and primary school teachers are not useful to this group and it may indicate a weakness in the communication or relationships the secondary school has with them. The school could attempt to improve their communication and build relationships with alumni and primary school teachers to make it more useful sources of information to prospective learners.

The school should remember that television coverage is not a very useful information source for the learners.

- **The usefulness according to the parents**

The parents would best be targeted through school visits and open days, events at the school, the school's publications (newsletters and brochures), the school website, parents of secondary school and word-of-mouth.

The secondary school should acknowledge the fact that the marketing DVD is not useful at all to the parents and it may indicate a weakness in the availability of the source to the parents. The availability could greatly be improved by way of the school's website, which is a very useful information source for the parents. The distribution of the DVD's to the learners during primary school visits and the use of social media such as You Tube could also have the desired effect. This information source is an important source to the school since it is mainly used to strengthen the perception of a happy school community.

Primary school teachers are not useful as an information source to prospective parents. The school could attempt to improve their communication and build relationships with primary school teachers to make this a more useful source of information to prospective learners

The school should also realise that television coverage is not at all a useful information source for prospective parents.

- **The comparison of the usefulness according to learners and the parents**

The secondary school should carefully choose the information source to be used depending on the specific segment of the market they want to target as some sources are more useful than others for the different segments.

If the secondary school wants to make use of a generic marketing, it can focus on the similarities in the rankings by the learners and the parents. Thus, the information sources to be used should be school visits and open days, events at the school as well as the school publications.

Should the school decide to target a specific niche market, it should make use of more focused communication sources than school visits and open days, events at the school and the school publications (e.g. newsletters and brochures).

When the communication approach is directed at the parents as a grouping the school website, the parents of the secondary school as well as the word-of-mouth sources should be added to the three sources used in the generic approach.

When the secondary school wants to target the prospective learners with the promotion the information sources should be school visits and open days, events at the school, the marketing DVD, primary school visits by the secondary school's teachers, the teachers of the secondary school as well as the school publications.

- **The role-players**

From the results it can be concluded that the learners, their parents and the teachers has the perception that the learners are the most important role-players during the selection process, followed by the mother with the father being the least important role-player. This implies that the differences between the learners ranking of the importance of the choice factors and that of their parents should be taken into consideration in relation to the type of information to be distributed to the two groupings. The same do apply with regard to the usefulness of the information sources. Thus, a segmentation strategy should be developed and incorporated in the secondary school's marketing strategy.

It is therefore recommended that the secondary school should ensure that marketing messages that relate to the needs and wants of the learners, according to the importance they attributed towards the different choice factors, must be delivered effectively and efficiently through the information sources, they considered the most useful. A similar strategy should also be developed with regard to the parents.

It is clear that the recommendations and implications of the choice factors and information sources will ultimately have implications for the marketing strategy of the secondary school, since it regulate the products and services, prices, promotions, processes, distribution, people and physical evidence decisions.

## **SUMMARY**

The findings of this study provide an understanding of the importance of choice factors considered by prospective learners and their parents in selecting the school, and enable the school to use their limited funds more efficiently to attract quality learners, create a unique position and gain a competitive advantage. Based on the results of this study, learner and parent focused marketing communication can be developed. In particular, the research adds to the understanding of how learners and their parents chose the school and where the learners and their parents gathered their information to base their decisions on. The findings of this study also provide an insight on the influence of the different role-players in the family during the selection process, which should lead to more certainty regarding the target markets. Ultimately, the secondary school could use the information from the study to become more marketing-oriented and to adapt their marketing mix to correspond with the findings of the study, to recruit and importantly to retain their learners.



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# **DRIVING CONSUMER PERCEPTIONS THROUGH FACEBOOK: AN INVESTIGATION INTO EMPOWERING BRANDS IN THE 21<sup>ST</sup> CENTURY**

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## **ABSTRACT**

The presence of social network marketing, through platforms such as Facebook and Twitter, has ballooned as an increasing online audience turns to these forums to engage with other individuals and organisations. This study considers the impact of the variables interactivity and media richness on brand attitude and brand image. The empirical work was conducted through an electronic survey of young adults who consume beer and are active users of Facebook fan pages. The results revealed that interactivity had a positive effect on brand attitude, whilst media richness did not. As expected, brand attitude was strongly linked to brand image in this context. This suggests that marketers would be well advised to engage with customers on fan pages in routinely responding to their comments and allowing them to upload suitable content. If consumers feel that they have ‘ownership’ of these pages, promotion of this sort is far more likely to be an effective means for building the brand.

**Keywords:** Social media, interactivity, media richness, branding.

## **INTRODUCTION**

Social networking platforms, such as Facebook and Twitter, continue to grow in leaps and bounds. According to Kaplan and Haenlein (2009) and Zhang, Mattila & Cranage (2010), these sites act as intermediaries in the process of allowing users to connect and share information through utilising personal profiles.

Although previous research has looked at how advertisers use social networks as platforms for their brand communications (Mabry, 2010), little research addresses how consumers perceive their use as contributing to brand image (Zhang et al., 2010). This is problematic as millions of Dollars are poured into social networking campaigns, often with mixed results.

This particular study focused on young professionals' attitudes towards the use of Facebook fan pages as a platform to improve brand image of beer brands, through influencing brand attitudes with the use of media richness and interactivity. Two key antecedents of brand image were identified and incorporated into the analysis, interactivity and media richness. The motivation for including these variables is detailed in the literature review below.

Based on the above assertion, this study is guided by the research question: *What is the impact of the interactivity and media richness of a beer brand's Facebook fan pages on brand attitude and, ultimately, brand image?*

## **LITERATURE REVIEW**

Brands are key strategic assets, offering firms an opportunity to exploit the value within and, ultimately, enabling them to own a position and image in consumers' minds (Martinez, Chernatony & Polo, 2004). There are numerous definitions of brand image (Dobni & Zinkhan, 1990), all of which imply the key idea that brand image is consumer-centric. Unlike brand identity, which originates from the firm itself, brand image is the consumer's perception of the brand and the positioning of that brand in their minds (Nandan, 2004).

Whilst there is considerable consensus on how firms can build a strong brand image using mass media platforms (Aaker, 1991; Keller, 1993; Aaker & Joachimsthaler, 2000; Kapferer, 2008), there is little research regarding building brand image via modern interactive platforms (Keller, 1993) such as Facebook.

The authors considered brand image to be the end point in the analysis and set about to determine the factors which influence this particular construct.

Park, Jaworski and MacInnis (1986) argue that brand image is positively influenced by brand attitudes, which help to position and differentiate a brand's products from competitors. Additionally, Hoyer and Brown (1990) found that when consumers lack sufficient product information, brand attitudes are used as a guide for brand image formation. When consumers form positive brand attitudes, greater consideration is given to that brand, resulting in positive brand image (Lane & Jacobson, 1995). Low and Lamb (2000) believe that brand attitude is not only an indicator, but rather has significant effects on brand image development.

Aaker and Keller (1990) found that brand attitude is a significant influencer of consumer brand evaluations, and these evaluations lead to brand image formation. In the context of this study, this means that a consumer's attitude towards the brand and Facebook fan page will affect their perceptions and guide the formation of the brand's image.

Thus, the following hypothesis is derived from the conceptual overview above:

*H<sub>1</sub>: There is a positive relationship between brand attitude and brand image in the case of social network fan pages*

The literature survey conducted identified two key variables which appear to influence brand attitude, namely interactivity (Jee & Lee 2002; Sundar, Kalyanaraman & Brown, 2003; Wu 1999; Zhang et al., 2010) and media richness (Zhang et al, 2010). These have been found to have an effect on brand attitudes in an online environment and are, hence, influential factors in this context (Hoogeveen, 1997; Sundar, 2000; Zhang et al., 2010; Steuer, 1992).

### **Interactivity**

Heeter (2000) defines interactivity as a replication of face-to-face interaction, whilst Bucy (2004) sees interactivity as a reciprocal communication exchange via communications technology. Interactivity is an extensively researched construct (Ferber, Foltz & Pugliese, 2005; Jensen, 1998), especially online (McMillan & Hwang, 2002; Zhang et al., 2010). The interactive nature of Facebook is having a profound positive effect on the levels of consumer engagement online (Ferber et al., 2005) and has created a many-to-many channel of communication (Hoffman & Novak, 1996).

This study looks at the interactivity of Facebook, specifically the fan page's setup and whether bilateral exchanges are facilitated. Fan pages facilitate brand interactions in an attempt to understand consumers' needs via feedback mechanisms, active walls, regular status updates, and discussion forums (Wiley, 2008) and it is thus important that bilateral exchanges are possible.

Interactivity is said to exert a possible influence on consumers' attitudes towards a brand online (Zhang et al., 2010). The relationship between interactivity and brand attitude is further explored below.

#### *The Relationship between Interactivity and Brand Attitude*

Fortin and Dholakia (2005) conducted research that found that Facebook interactivity is vital in influencing consumers' brand attitudes. Similarly, Synder-Duch (2001) found that interactive channels are viewed to be more personal than traditional channels, and thus have a profound effect on attitudes towards advertising. Interactivity affects brand attitudes online through increased conversational value and dialogue between the brand and consumers as well as an on-going flow of information, adding to brand perceptions online (Sundar et al., 2003; Zhang et al., 2010).

Based on the aforementioned discussion, it is hypothesised that:

*H<sub>2</sub>: Interactivity has a significant and positive relationship with brand attitude in the context of social network fan pages.*

### **Media Richness**

Media richness is vital to Facebook fan pages as it considers the intensity with which a mediated environment is able to present information to the consumers' senses (Zhang et al., 2010). Media

richness is essentially "the representational richness of an environment as defined by its features" (Steuer, 1992: 74) and has been proven to enhance a brand's level of online presence (Fortina & Dholakia, 2005). In a practical sense, media richness includes elements such as audio, static images and video (Kaplan & Haenlein, 2009; Simon & Peppas, 2004)

Messages transferred online that are of a high quality, in other words have a high degree of richness, are considered more effective than those messages which lack media richness (Fortin & Dholakia, 2005; Zhang et al., 2010). Hoffman and Novak (1996) found that increased levels of media richness positively affect brand attitudes, and thus media richness is seen as an important construct of Facebook fan pages affecting brand attitude.

### *The Relationship between Media Richness and Brand Attitude*

Attitudes are learnt over time (Schiffman & Kanuk, 2009), thus it is important that media richness improves consumer learning by presenting information in a variety of media forms (Zhang et al., 2010). Li et al. (2002) found that media richness increases the quality and effectiveness of messages.

Hopkins et al. (2004) revealed that media richness has a lasting impact on generating positive brand attitudes. Simon and Peppas (2004) found that media rich websites have a positive relationship with brand attitudes, particularly when product involvement is high, while the results were less significant for low involvement products, such as beer (Bendixen, 1992).

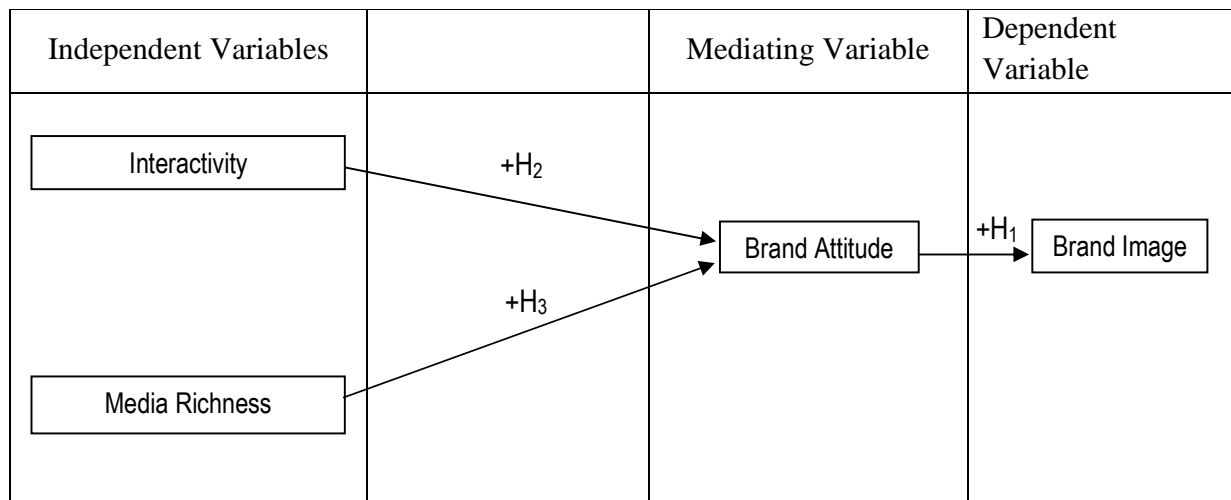
Hopkins et al. (2004) propose thus that consumers' brand attitudes will be stronger in a media rich environment as opposed to one composed of informational, mediated communications. In line with this, websites with multiple forms of media such as text, images, sound and video are more likely to affect brand attitudes than websites which lack media richness (Cook & Coupey, 1998; Jiang & Benbasat, 2003).

Thus, based on the above literature, we propose that:

*H<sub>3</sub>: There is a positive relationship between media richness and brand attitude in the context of social network fan pages.*

After extensively analysing the literature above, this study proposes the conceptual model presented in Figure 1. The model measures how the constructs of *interactivity* (between the consumer and fan page) and *media richness* (perceived vividness of information in terms of multimedia components on the fan page) influence *brand attitudes*, and how these effects translate into positive brand image for the brand.

**Figure 1: Conceptual Model**



## METHODOLOGY

### Sampling & Data Collection

The sample utilised for this study consisted of young professionals who met the following four criteria:

- 18 to 34 years of age;
- in the process of obtaining or have obtained a degree or diploma
- aware of the South African beer market
- active online as a fan of a beer brand’s Facebook fan page.

A non-probability sampling technique, specifically convenience self-selection sampling, was employed for this study. A sample size of 200 respondents was generated.

Data was collected using an anonymous online electronic survey using convenience sampling technique. The survey was available to respondents for a period of three weeks (25 July to 22 August 2011) and no incentives were offered to the respondents so as not to skew the data.

### Measurement Scales

This study used previously tested scales to ensure that the questions were suitable. Structured questions were used in the form of both Likert scales and semantic differentials based on the literature reviewed (McMillan, 1999; Martinez et al., 2004; Aaker, 1996; Aaker & Williams, 1998; Kirmani, Sood & Bridges, 1999).



## **Reliability & Validity**

The reliability of the constructs was ascertained through computation of Cronbach alphas, all of which were recorded as above 0.7.

In order to establish convergent validity, Average Variance Extracted (AVE) figures were calculated. AVE measures the amount of variance explained by an unobserved construct in relation to the variance due to random measurement error. The acceptable cut-off for this measurement is considered to be 0.5 and is considered to explain an acceptable to large proportion of the variance. These values ranged from 0.44 to 0.67. The requirements for convergent validity were met for all constructs except for Interactivity (0.44). Despite being below the predefine threshold, the status of interactivity was deemed acceptable as it was only very marginally below that of the 0.5 threshold.

In order to establish discriminant validity, the Fornell-Larcker criterion were utilised. This approach dictates that the square root of the AVEs should be greater than any correlations with all other unobserved variables on the latent variable correlation table. The requirements for discriminant validity were indeed met for all constructs.

These tables are included in the Appendix.

## **RESULTS**

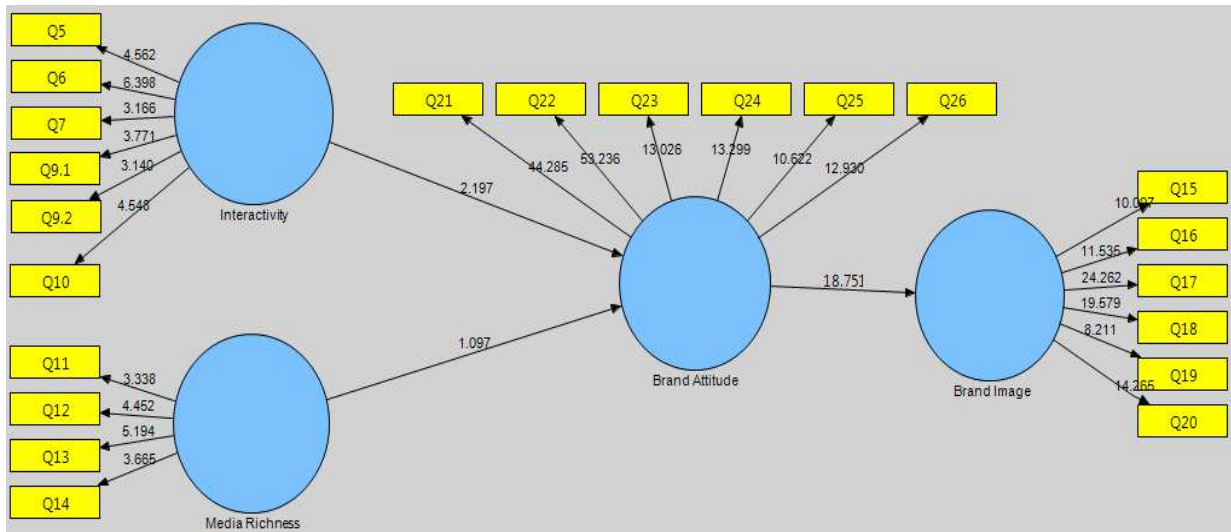
This study utilised Partial Least Squares modelling, using SmartPLS 2.0, to test the conceptual model.

### **Model**

Figure 2 represents the t-values for the structural model obtained from the bootstrapping algorithm. T-values indicate whether or not a significant relationship exists between variables within the model. Two tailed t-tests were conducted at the five percent significance level.

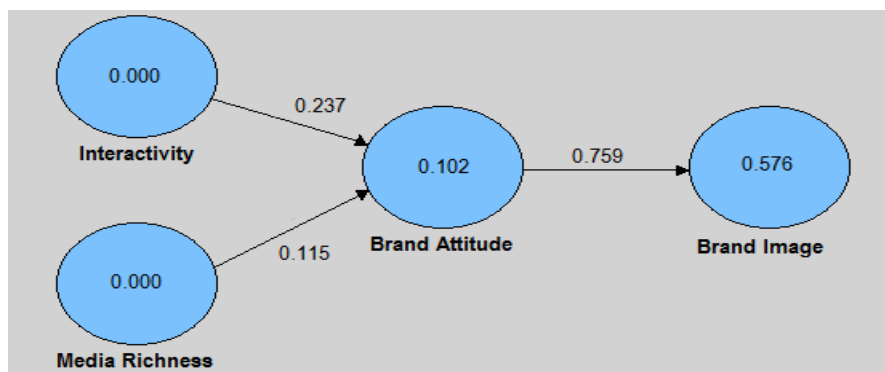
Figure 2 indicates that all of the items measuring the constructs are significant, with t-values greater than the desired cut-off of 1.96. Figure 2 also indicates that Interactivity of the Facebook fan page which has a t-value of 2.197 has a significant influence on consumers' Brand Attitudes online. Interactivity on the Facebook fan page thus significantly affects Brand Attitude of the beer brand at the five percent level. Brand attitude (t-value of 18.541) was also found to have a significant influence on consumers' Brand Image online at the five percent level. Media Richness however (t-value of 1.097) does not have a significant effect on Brand Attitude as the t-value falls below the five percent significance level of 1.96. This relationship is thus not significant at the five percent level.

**Figure 2: Partial Least Squares analysis output (t-values)**



Path coefficients demonstrate the strength of the relationships in the model. This is depicted in figure 3. Here, Brand Attitude and Brand Image move together with a very strong Beta value of 0.759 as predicted. Interactivity has a Beta value of 0.237 which shows a significant relationship between the construct of Interactivity and Brand Attitude. Although Media Richness did not have a significant t-value, and thus the relationships were not deemed significant, its Beta value can still be seen in Figure 3 (0.115) as weak and insignificant.

**Figure 3: Partial Least Squares analysis output (path coefficients)**



It can be noted that all of the path coefficients are positive. This means that the dependent and independent variables move together. Thus, as the level of Interactivity on the Facebook fan page rises, the level of Brand Attitude and thus Brand Image will also rise with it as a result of these positive Beta values.

To analyse the prediction quality of the model, the  $R^2$  value of the dependent variable (Brand Image) was considered, so as to determine the percentage of the variation explained by the model.

As depicted in figure 2, this is indicated as 0.576, meaning 57.6% of the variation is explained by the model. According to Chin (1998), an  $R^2$  value of 0.67 is considered a substantial indicator of prediction quality and a value of 0.33 is considered moderate. From this, it can be seen that the prediction quality of this model for Brand Image is rather substantial.

### **Outcome of Hypotheses Testing**

*Hypothesis 1: There is a positive relationship between brand attitude and brand image in the context of social network fan pages.*

The PLS model showed that there is a significant positive relationship at the five percent level of significance (t-value = 18.751) between Brand Attitude and Brand Image as hypothesised. This effect has a Beta value of 0.759, which means that Brand Image increases by a significant margin with an increase in Brand Attitudes.  $H_1$  is accepted at the five percent level of significance and conclude that there is a significant positive relationship between Brand Attitude and Brand Image on Facebook fan pages.

*Hypothesis 2: Interactivity has a significant and positive relationship with brand attitude in the context of social network fan pages*

Interactivity had a t-value of 2.197. Thus consumers' Brand Attitude of beer brands is sufficiently predicted by the level of Interactivity present on the beer brand's official Facebook fan page at the five percent level. This effect has a Beta value of 0.237, which means that Brand Attitude increases by a significant margin with an increase in in the level of Interactivity on the Facebook fan page.  $H_2$  is accepted at the five percent significance level and conclude that there is a significant relationship between Interactivity and Brand Attitude in the context of South African beer brands on Facebook fan pages.

*Hypothesis 3: There is a positive relationship between media richness and brand attitude in the context of social network fan pages.*

Media Richness had a t-value of 1.097, therefore consumers' Brand Attitude of beer brands cannot be predicted by the level of Media Richness present on the beer brands official Facebook fan page at the five percent level.  $H_3$  is rejected concluding that Media Richness does not have a significant positive relationship with Brand Attitude in the context of South African beer brands on Facebook fan pages.

## **CONCLUSIONS**

This study empirically examined the impact of interactivity and media richness, in the context of Facebook fan pages, on brand attitudes and how this impacts young professionals' perception of brand image of South African beer brands.

The relationship between brand attitude and brand image has been critically evaluated and discussed in previous research (Aaker, 1991; Aaker & Biel, 1993; Keller, 1993; Low & Lamb, 2000; Nandan, 2004) and this study confirmed this relationship in the context of Facebook fan pages for South African beer brands at the five percent level. This makes a significant contribution to academic literature by testing this relationship in a social media environment, which is growing in strength and popularity with regards to online marketing and customer communications (Blakeman & Brown, 2010; King, 2008). This finding was also important to identify whether brand image can be improved online for the beer category which is differentiated based on its brand, rather than its functional characteristics (Pettigrew, 2002).

This study found that the levels of interactivity on Facebook fan pages have an effect on brand attitude as found by Fortin and Dholakia (2005), Synder-Duch (2001) as well as Sundar et al. (2003). This study confirms this and concludes that increased levels of interactivity on Facebook fan pages of South African beer brands will improve the user's attitude toward the brand. Thus higher levels of interactivity will lead to better brand attitudes and a better brand image

This study identified media richness as another potential success factor of Facebook fan pages in improving brand attitude and thus brand image. Media richness has been previously proven to enhance brand attitudes; in both advertising (Hopkins et al 2004; Park & Young 1986) as well as on websites (Fortin & Dholakia 2005, Jiang & Benbasat 2003, Simon & Peppas 2004). This study found that the relationship between media richness and brand attitude was not significant. The reason for this could be that brand attitudes are influenced through consumers' memories of and past experiences with the brand (Olson, Kanwar & Muderrisoglu, 1979; Mitchell & Olson 1981). Attitudes, which are difficult to influence (Ajzen & Fishbein 2005) will not be significantly influenced merely by rich media displayed on fan pages, as these interactions are no longer memorable, but rather more commonplace, because as Kaplan and Haenlein (2009) found, media richness is consistent across any particular channel.

## **RECOMMENDATIONS**

Practitioners could use social media, or Facebook at least, as a viable platform for managing both brand attitudes and brand image for young professionals. This is important for industries where the use of mass media as a communication medium is restricted and/or prohibited (e.g. 'sin' industries such as tobacco or alcohol) as it gives brand managers the tools to manage these intangible assets. It is also be useful for brand managers generally looking to enhance their consumers' brand attitudes and image.

Based on the findings, interaction with the brand is more memorable than the media richness of the brands' pages, thus managers should improve the levels of interactivity on their Facebook fan pages. It would thus appear that a rich multimedia interface is subordinate to bi-directional communication in creating a positive attitude towards the brand. In other words, a high-tech orientation towards the fan page should not be prioritised over a relationship embedded approach.

The easiest way to improve the interactivity scores on Facebook is for firms to allow users to post and comment on all activities as well as for the brand to comment on users' inputs which are meaningful to the on-going conversation. Brands can also assist with improving their interactivity by engaging consumers in conversations that are mutually beneficial and truly engaging. This should be done in an on-going conversational manner between the Facebook users and the brand rather than just posting once-off videos, pictures or web links that are more informational and promotional in nature.

These findings underscore the importance of having a trained professional managing the brand's voice through these real-time exchanges as the brand voice will have to remain consistent and interactive.

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## APPENDIX

**Table 1: Reliability Indicators**

<b>Construct</b>	<b>Cronbach's Alpha (PLS)</b>
<b>Interactivity</b>	<b>0.73</b>
<b>Media Richness</b>	<b>0.72</b>
<b>Brand Image</b>	<b>0.84</b>
<b>Brand Attitude</b>	<b>0.90</b>

**Table 2: Average Variance Extracted (AVE)**

<b>Construct</b>	<b>AVE</b>
<b>Interactivity</b>	0.44
<b>Media Richness</b>	<b>0.54</b>
<b>Brand Image</b>	<b>0.56</b>
<b>Brand Attitude</b>	<b>0.67</b>

**Table 3: Cross Loadings**

<b>Latent Variables</b>	Brand Attitude	Brand Image	Interactivity	Media Richness
Brand Attitude	0.82	0	0	0
Brand Image	0.75	0.75	0	0
Interactivity	0.30	0.45	0.63	0
Media Richness	0.26	0.44	0.61	0.74

**TOO MUCH OF A GOOD THING?**  
**THE EFFECT OF ITEM REDUCTION IN CATEGORY MANAGEMENT**

*Justin Beneke, University of Cape Town*  
*Michael Cook, University of Cape Town*

**ABSTRACT**

This study aims to investigate the effect of item reduction on consumer assortment satisfaction within the red wine category. The study used an online experiment utilising a simulated online wine store. Lowest selling wines were removed after the first buying phase, and the respondents repeated the browsing process in the reduced assortment. A questionnaire measured the shift in perceptions. The results reveal that assortment perceptions can be maintained in the face of item reduction. There is also a strong association between category familiarity and assortment satisfaction, with differing levels of assortment satisfaction between high and low category familiarity groups. The presence of a favourite item also plays a role in maintaining assortment perceptions. The results suggest that retail managers can reduce assortments by removing low selling items and customers' assortment perceptions will remain unaffected. Furthermore item reduction can be used to increase consumers' assortment satisfaction if they are unfamiliar with the product category.

**Keywords:** assortment, satisfaction, category management, retailing

**INTRODUCTION**

Over-choice is a current phenomenon in the retail environment (Schwartz, 2005). Consumers are inundated with options, and while these offer multiple benefits, the psychological costs associated with choosing from a large assortment impact consumer perceptions, decision-making and purchasing behaviour (Iyengar & Lepper, 2000; Schwartz, 2005).

As assortments have been shown to be a key determinant in store choice (Campo, Gijsbrechts & Nisol, 2004) retailers are seeking optimal assortment strategies. In light of this, item reduction has been suggested as a possible means for improving assortments by combating the effects of

over-choice (Sloot, Fok & Verhoef, 2006). Previous studies have focused on the effect of item reduction on sales (Drèze, Hoch & Purk, 1994), assortment perception (Broniarczyk, Hoyer & McAlister, 1998), choice satisfaction (Iyengar & Lepper, 2000), store loyalty and store image (Chernev, 2003; Oppewal & Koelemeijer, 2005). However, there is a lack of literature regarding the effect of item reduction on assortment satisfaction – a gap which the current study attempted to fill.

In addition, the role of product category familiarity in determining assortment satisfaction was also considered as this is known to have significant effects on consumer behaviour (Chiou, Drodge & Hanvanich, 2002; Herrera & Blanco, 2011; Lange & Dahlén, 2003; Laroche *et al.*, 2010), yet has not been considered in current item reduction literature.

The research question that guided this study was: “What is the effect of item reduction on consumer assortment satisfaction in the South African retail wine sector?”

## **LITERATURE REVIEW**

Previous studies have identified a retailer’s assortment as being central to attracting consumers (Campo, Gijsbrechts & Nisol, 2004; Tan & Cadeaux, 2011). In light of this, retailers use various assortment strategies (Nielsenwire, 2010) to improve the attractiveness of their assortments. Some South African retailers with large assortments have engaged in item reduction, for example, two Pick n Pay branches in the Gauteng region (Hodgson, 2011) as well as some Game/Foodco branches (Independent Online, 2010). Despite this, many retailers still fear that item reduction would result in a negative outcome (Tan & Cadeaux, 2011). However, with an understanding of how assortment perceptions can be maintained, retailers with large assortments need not fear item reduction.

### **Maintaining Assortment Perceptions in Item Reduction**

In the past, retailers felt that there is a one-to-one relationship between consumers’ assortment perceptions and the number of Stock Keeping Units (SKUs) therein (Broniarczyk *et al.*, 1998). Researchers have refuted this, and claim that assortment perceptions differ from reality (Scheibehenne *et al.*, 2010) and are affected not only by the number of SKUs, but by a number of factors (Broniarczyk *et al.*, 1998). These factors are: the availability of favourite items, the

shelf space allocated to the category (Broniarczyk *et al.*, 1998), attribute differences (Hoch *et al.*, 1999; Van Herpen & Pieters, 2002) and brand -size combinations (Boatwright & Nunes, 2001). This study considered the availability of favourite items in maintaining assortment perceptions.

Amine & Cadenat (2003) suggest that the availability of the favourite item is a primary cue affecting consumer assortment perception. However, 'favourites' are not necessarily clearly established in the minds of consumers (Kahn, 1995). Favouritism is a subjective and changing concept, as tastes may be determined by recent consumption, or be altered due to uncertainty regarding future moods (Kreps, 1979).

This issue is amplified in the wine category, where the choosing of favourites is determined by a vast number of complex cues (Casini & Corsi 2009). Thus, favourite items were determined in accordance with previous literature regarding item reduction. Specifically, they are the SKUs with the highest sales figures in the selected category, as these are the overall most-preferred items (Boatwright & Nunes, 2001; Broniarczyk *et al.*, 1998).

It thus leads that the low-selling items are not the most preferred SKUs. Previous item reduction studies removed these low-selling items from the assortment (Boatwright & Nunes, 2001; Broniarczyk *et al.*, 1998), the rationale being that low-selling items are only considered desirable by a small number of people (Broniarczyk *et al.*, 1998). Thus, the majority of consumers should remain unaffected by their removal. Literature also supports that consumers use heuristics to make choices from large assortments – this includes selecting a preferred item (Broniarczyk *et al.*, 1998; Hoch *et al.*, 1999). These heuristics work by reducing the effectual size of the assortment (Chernev & McAllister 2005; Paulssen & Bagozzi, 2005; Schwartz, 2005). For example, in repeat purchases consumers often recall a subset of the available assortment that contains their favourite items, while ignoring the other SKUs.

Thus, the removal of low-selling items should go largely unnoticed as they are unlikely to form part of a consumer's consideration set, the end result being that assortment perceptions remain unchanged after item reduction (*viz.* removal of low selling items) has taken place. This is supported by the findings of Broniarczyk *et al.* (1998).

In conjunction with this, the theory of the Just Noticeable Difference (JND) also suggests that item reduction can go unnoticed (Broniarczyk *et al.*, 1998), the premise being that consumers are only able to notice a change when it passes a certain threshold. Of course, this would not hold if the consumers' favourite items were removed. Thus, there is support for being able to maintain assortment perceptions through item reduction of low selling items, if the change remains below the consumers' JND. It is thus posited that:

*H<sub>1</sub>: There will be no change in Assortment Perceptions after item reduction if the favourite items are maintained in the assortment.*

The ability to manipulate an assortment size without consumers' assortment perceptions changing provides retailers with the opportunity to increase consumers' assortment satisfaction through item reduction.

### **Increasing Consumer Satisfaction through Item Reduction**

An investigation of literature reveals that the maintaining of assortment perceptions may be essential in order for item reduction to be successful. Broniarczyk *et al.* (1998) found that item reductions of up to 50% where the low-selling items were removed did not result in any changes of assortment perception. Similar results were found by Boatwright and Nunes (2001) who also noted an increase in sales.

In contrast, negative results for item reduction were found by Berger, Draganska & Simonson (2007) and Borle *et al.* (2005). However, both had large item reductions of 66% and up to 91% respectively. Berger *et al.* (2007) found that consumers preferred the larger assortment. This indicates a change in how the consumers perceived the assortment, namely, that the perceived benefits of the original assortment had been diminished by the item reduction.

It may be argued that when assortment perceptions are maintained after item reduction, the perceived benefits of the original assortment are maintained, while the associated costs of choosing are diminished. This should lead to an improvement in consumers' assortment satisfaction. It is therefore posited that:

*H<sub>2</sub>: If assortment perceptions are maintained, item reduction has a positive effect on consumer assortment satisfaction.*

It is important to note that not all consumers are the same. For this reason, they do not all incur the same level of costs when faced with a large assortment. The following sections focus on the role of product category familiarity.

### **Product Category Familiarity**

Consumers gain familiarity with a product category through their experiences (Herrera & Blanco, 2011; Zheng, Zhou & Nakamoto, 2007) which result in the accumulation of knowledge regarding the category; including expectations regarding the category's attributes (Sujan & Bettman, 1989). Based on this, product category familiarity is seen as consumers' degree of prior experience and level of knowledge in the product category.

Consumers' level of product category familiarity can have significant effects on purchasing behaviour (Herrera & Blanco, 2011; Laroche, Nepomuceno, & Richard, 2010). This is particularly prevalent within the wine category, where literature indicates that high and low familiarity consumers differ on purchasing factors such as price, region and grape variety (Zaichkowsky, 1988), consumption situation (Quester & Smart 1998), and medals and ratings (Lockshin, 2001). However, there is no available research that investigates how high and low familiarity wine consumers differ in terms of their assortment satisfaction when choosing a wine. The following section discusses this concept.

### **Effect of Product Category Familiarity on Assortment Satisfaction**

Previous research conducted on assortment satisfaction found that category familiarity has a significant moderating effect. Mogilner, Rudnick and Iyengar (2008) found that, when faced with an unfamiliar assortment, consumers' satisfaction was significantly increased if the assortment was clearly categorised (for example, grouping magazines by 'fashion', 'gardening', and 'gaming'). However, when faced with an assortment of products with which they were familiar, the presence of categories had little effect on their satisfaction with the assortment.



When consumers have higher familiarity with an assortment, they are more knowledgeable about the category's attributes, the importance of the various attributes and the relation amongst them (Zheng, Zhou & Nakamoto, 2007). They may have also established certain preferences for certain attributes. For example, a high familiarity wine consumer may have a preference for a certain vineyard, taste and body. Furthermore, he may know what attributes he is willing to compromise on. Low familiarity consumers, on the other hand, are unlikely to have established decision criteria regarding product attributes. Thus, when faced with a non-aligned attribute assortment, low familiarity consumers may incur greater costs as they need to make trade-offs on more attributes (Gourville & Soman, 2005). One would therefore expect that the more familiar a respondent is with a product category, the fewer costs they incur during the decision making process. Based on the above, it is hypothesised that:

*H<sub>3</sub>: There is an association between product category familiarity and assortment satisfaction.*

## **METHODOLOGY**

The population parameters were all deemed to be wine consumers in Cape Town, South Africa, over the age of 18. As no database of wine drinkers was available to the researchers, respondents were identified on a voluntary, self-assessment basis.

A non-probability quota sampling technique was used, namely, the selection of experiment participants was based on their age, previous wine consumption, demographics and location. A matching technique was applied to ensure that test units in the post-experiment were comparable in terms of background and demographics to those in the first group.

Previous research approaches were considered in the determination of the study's sample size requirements (Chernev & Hamilton, 2009; Huddletson, Whipple, Mattick & Lee, 2009; Reutskaja & Hogarth, 2009; Sela, Berger & Liu, 2008); where sample sizes ranged from 60 to 659 respondents, with the average sample size being 175 respondents. However, the experimental nature of this study led to the determination of a smaller sample than some of the above-mentioned studies. This study thus aimed to survey 200 respondents; 100 respondents before and after the item reduction. In practice, an invitation to participate in the experiment was

sent to 352 respondents, resulting in 161 respondents across both phases of the experiment. This equates to a response rate of 45.7%.

Of 161 respondents, 86 completed the first phase of the experiment, while the post-experiment group was made up of 75 respondents that differed only slightly in composition to the first. Thus, an effective mortality rate of 12.8% was present in the study.

### **Experiment Procedure**

A field experiment was carried out by simulating an online wine store. Respondents were directed to the site and incentivised to participate through the chance of winning a shopping voucher.

Respondents were then free to browse the online store and simulate their usual purchasing behaviour in selecting (or not selecting) a wine. All respondents, regardless of purchase decision, were directed to an online questionnaire. Both phases of the experiment were open for a period of 5 days.

After the first phase, the sales data were analysed to identify the lowest selling wines to ensure no favourite items would be removed. Based on this, and in accordance with literature (Borle *et al.*, 2005; Broniarczyk & Hoyer, 2010; Sloot *et al.*, 2006), the assortment was reduced by 26%; a removal of 16 low-selling wines. Thus, those participating in the second phase of the experiment completed the online questionnaire after reviewing the reduced assortment of 44 red wines.

A pre-test of this questionnaire had been carried out previously amongst 25 respondents of the target population in order to test for errors and user-friendliness, as well as to review the items for clarity and face validity.

### **Measures**

Consumer satisfaction is defined by two dimensions: 'assortment benefits' and 'assortment costs' (Reutskaja & Hogarth, 2009). These dimensions were measured individually using multi-item 5-point Likert scales, which is in line with other literature (Blomer & de Ruyter, 2003; Chernev & Hamilton, 2009). Furthermore, the use of multi-item scales has been shown to be

more reliable than single item scales (Churchill & Surprenant, 1982; Oliver, 1980). The Likert scales adopted for this study used anchor points 1=strongly disagree; 2=disagree; 3=neutral; 4=agree and 5=strongly agree. No items were reverse-scored.

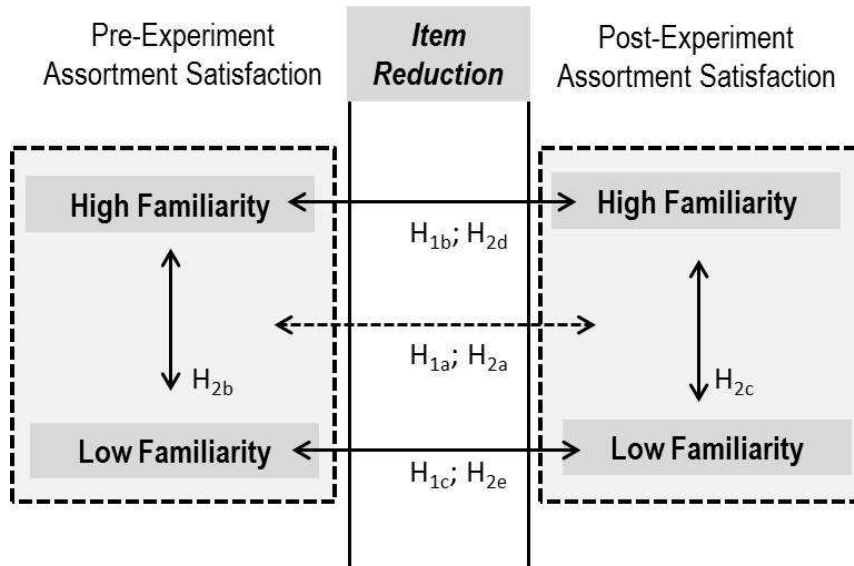
Question numbers 4 to 6 measured the ‘benefits’ dimension of assortment satisfaction, and were adapted from Henkemeyer’s (2009) study on assortment perceptions. Question numbers 7 to 9 measured the ‘costs’ aspect of assortment satisfaction. This scale was adapted from Diehl and Poyner (2010). Additionally, questions numbers 10 to 12, adapted from Henkemeyer (2009), measured the respondents’ ‘product category familiarity’.

Using the abovementioned items, summated scales were created for assortment costs, assortment benefits and product category familiarity for the purpose of testing the hypotheses. Assortment satisfaction was then calculated by considering the difference between the benefit and cost summated scales. The study’s findings are presented next.

## **FINDINGS**

Hypotheses 1 and 2 were both tested using independent t-tests. The assumptions of normality and equality of variance were confirmed through prior checks. These hypotheses were both tested at a total sample level and between product category familiarity groups as shown in figure 1.

Figure 1: A graphical representation of hypotheses 1 and 2



*Assessment of Hypothesis 1*

Hypotheses 1 tested if the availability of the favourite item would maintain assortment perceptions in the event of item reduction in the red wine market. This hypothesis was tested thrice: first between the complete pre- and post-experiment samples ( $H_{1a}$ ), then between the pre- and post-experiment samples of High Familiarity respondents ( $H_{1b}$ ) and Low Familiarity respondents ( $H_{1c}$ ) separately. The results of these tests are presented below.

Table 2: Independent t-test results for hypothesis 1<sub>i</sub>

	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval	
						Lower	Upper
$H_{1a}$	-0.71	159	0.479	-0.078	0.11	-0.296	0.139
$H_{1b}$	0.038	83	0.97	0.006	0.166	-0.324	0.337
$H_{1c}$	-1.114	74	0.269	-0.156	0.14	-0.435	0.123

As indicated, the null hypothesis for  $H_{1a}$  was not rejected at the 5% significance level with a p-value = 0.479. Thus, the assortment perception of the complete pre-experiment sample ( $M=3.66$ ,  $SD=0.71$ ) and the complete post-experiment sample ( $M=3.73$ ,  $SD=0.68$ ) was the same.

Furthermore, the null hypotheses of both  $H_{1b}$  and  $H_{1c}$  were not rejected at the 5% level with p-values = 0.970 and 0.269 respectively. Thus, there was no difference between the assortment perceptions of the High Familiarity pre-experiment ( $M=3.60$ ,  $SD=0.78$ ) and post-experiment ( $M=3.60$ ,  $SD=0.74$ ) samples; nor between the Low Familiarity pre-experiment ( $M=3.72$ ,  $SD=0.63$ ) and post-experiment ( $M=3.87$ ,  $SD=0.59$ ) samples. This indicates that assortment perceptions were maintained across the experiment.

### *Assessment of Hypothesis 2*

Hypothesis 2 tested whether there would be a difference between levels of assortment satisfaction between pre-experiment and post-experiment respondents due to item reduction. Multiple iterations of this hypothesis were carried out as follows.

First, a test for a difference in assortment satisfaction was conducted between the complete pre- and post-experiment samples ( $H_{2a}$ ). As indicated in table 6, the null hypothesis was not rejected at the 5% level with a p-value = 0.289. Thus, there was no difference between the pre-experiment ( $M=0.78$ ,  $SD=1.09$ ) and post-experiment ( $M=0.96$ ,  $SD=1.02$ ) samples' assortment satisfaction. However, in light of the strong association between product category familiarity and assortment satisfaction (discussed later) this hypothesis was expanded upon.

Table 3: Independent t-test results for hypothesis 2<sub>i</sub>

	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval	
						Lower	Upper
H <sub>2a</sub>	-1.063	159	0.289	-0.177	0.167	-0.506	0.152
H <sub>2b</sub>	-3.347	84	0.001	-0.744	0.222	-1.187	-0.302
H <sub>2c</sub>	-0.952	73	0.344	-0.223	0.235	-0.691	0.244
H <sub>2d</sub>	0.223	83	0.824	0.05	0.226	-0.4	0.5
H <sub>2e</sub>	-2.043	74	.045	-.471	.230	-.930	-.012

In order to establish if there was a difference between the assortment satisfactions of High and Low Familiarity respondents in the pre-experiment group the following hypothesis was tested:

*H<sub>2b</sub>: There is a difference between levels of satisfaction of the High and Low Familiarity respondents in the pre-experiment group.*

The null hypothesis was rejected at a 5% significance level with a p-value=0.005. Thus, there is a difference between levels of assortment satisfaction between High Familiarity ( $M=1.12$ ,  $SD=1.041$ ) and Low Familiarity ( $M=0.47$ ,  $SD=1.075$ ) samples in the pre-experiment phase; specifically, High Familiarity respondents have greater assortment satisfaction than the Low Familiarity respondents.

A similar procedure was followed for the post-experiment samples with the following hypothesis:

*H<sub>2c</sub>: There is a difference between levels of satisfaction of the High and Low Familiarity respondents in the post-experiment group.*

The null hypothesis was not rejected at a 5% significance level with a p-value=0.344. It is thus concluded that, in the post-experiment group, there was no significant difference in assortment satisfaction between High Familiarity ( $M=1.07$ ,  $SD=1.032$ ) and Low Familiarity ( $M=0.85$ ,  $SD=0.999$ ) respondents.

The above two findings indicate that the assortment satisfaction levels between High and Low Familiarity respondents converged after item reduction. In order to gain a better understanding as to how this convergence occurred the effect of item reduction within familiarity levels was tested. The High Familiarity sample was considered first, where the following hypothesis was tested.

*H<sub>2d</sub>: There is a difference between levels of assortment satisfaction between pre-experiment and post-experiment respondents in the High Familiarity sample.*

The null hypothesis was not rejected at a 5% significance level (as  $p=0.824$ ). Thus, there was no significant difference in assortment satisfaction levels between the High Familiarity pre-experiment ( $M=1.12$ ,  $SD=1.04$ ) and post-experiment ( $M=1.07$ ,  $SD=1.03$ ) samples.

Similarly, assortment satisfaction levels were tested across the pre- and post-experiment samples of the Low Familiarity respondents, with the following hypothesis:

*H<sub>2e</sub>: There is a difference between levels of assortment satisfaction between pre-experiment and post-experiment respondents in the Low Familiarity sample.*

With a p-value = 0.045, the null hypothesis was rejected at a 5% significance level. There was thus a significant difference between the assortment satisfaction levels of the Low Familiarity pre-experiment ( $M=0.38$ ,  $SD=1.01$ ) and post-experiment ( $M=0.85$ ,  $SD=1.00$ ) samples. More specifically, the Low Familiarity sample's assortment satisfaction significantly increased after item reduction took place.

### *Assessment of Hypothesis 3*

Hypothesis 3 tested whether an association between product category familiarity and assortment satisfaction exists. A Chi-square test of association was done using the Familiarity and Satisfaction summated scales. The data were first examined to ensure that the requirements and assumptions of the Chi-square test were met, namely, those of random sampling, sufficient sample size, sufficient expected cell counts, and independence of observations. The result of the significance test is presented below.

Table 1: Chi-Square Test of Association and Cramer's V (n = 161)

	<b>Value</b>	<b>df</b>	<b>Sig. (2-sided)</b>
Pearson Chi-Square	485.654	384	.000
Cramer's V	.501		.000

The null hypothesis of no association was rejected at the 5% level (as  $p=0.000$ ), meaning an association between product category familiarity and assortment satisfaction exists. The strength of this association was evaluated through the calculation of Cramer's V, which indicated a strong association ( $crv = 0.501$  ( $p=0.000$ )) (Healey & Prus, 2010).

It was therefore decided that, in addition to testing the hypotheses on a general level, the sample should be split between High Familiarity and Low Familiarity respondents in order to establish

whether the process of item reduction has different effects on the two groups. Of the total sample ( $n=161$ ), 52.8% fell into the High Familiarity group (pre-experiment  $n=47$ , post-experiment  $n=38$ ), and the remaining 47.2% into the Low Familiarity group (pre-experiment  $n=39$ , post-experiment  $n=37$ ).

## **DISCUSSION**

The purpose of this study was to determine the effect of item reduction on consumer assortment satisfaction in the red wine category.

The results of the study indicated that, by maintaining the favourite items (high selling SKUs), respondents' assortment perceptions remain unchanged in the face of item reduction. This result is consistent with previous research (Amine & Cadenat, 2003; Boatwright & Nunes, 2001). Interestingly, this study adds to the above literature by showing this finding to be consistent across consumers regardless of their familiarity level with the product category.

The study also found that there was no significant difference in the levels of assortment satisfaction between the complete pre-experiment and post-experiment samples, which is in line with the findings of Sloot, Fok and Verhoef (2006). This may mean that assortments can be reduced without negatively impacting the assortment satisfaction of consumers. However, if only considered on this level, the complete story is not told.

Here, the study's findings showed that there was a strong association between consumers' product category familiarity and their satisfaction with the assortment. Previous literature has emphasised that a wine consumer's level of knowledge has a substantial influence on their purchasing behaviour; for example, authors have identified that High and Low Familiarity consumers differ on aspects such as consumption situation, (Quester & Smart, 1998), and the importance of price, region and grape variety (Zaichkowsky 1988). This finding is thus a valuable addition to the current literature on wine purchasing behaviour.

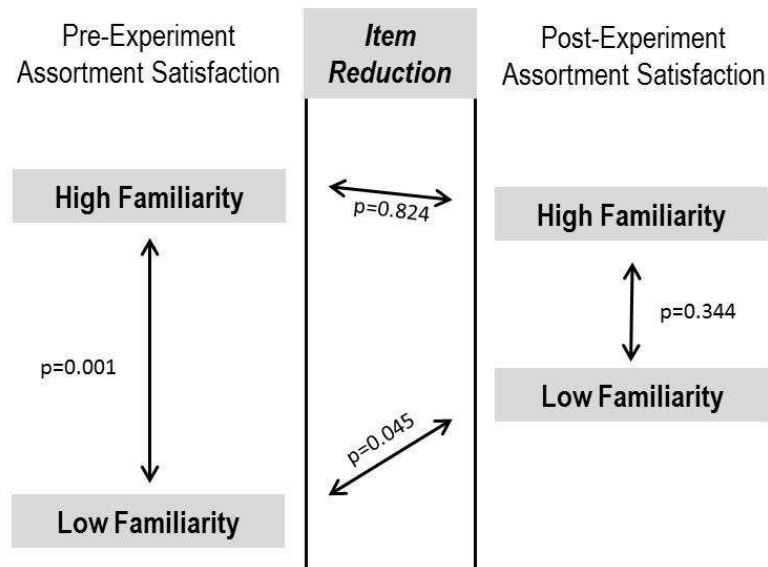
Due to the fact the familiarity was found to be associated with assortment satisfaction; the sample was broken down into Low and High Familiarity respondents.



Significant differences in assortment satisfaction levels between the different product category familiarity levels in the pre-experiment sample were found; with High Familiarity respondents having higher levels of satisfaction. However, this difference in assortment satisfaction levels was no longer significant between the two groups in the post-experiment sample. Thus, the two group's assortment satisfaction converged.

This convergence took place through a significant increase in assortment satisfaction in the Low Familiarity sample after item reduction, while the High Familiarity sample's assortment satisfaction remained unchanged. These findings are graphically represented in Figure 2, after which the managerial implications are considered.

Figure 2: The convergence of consumer assortment satisfaction



## MANAGERIAL IMPLICATIONS

Based on the above conclusions, it is recommended that if retailers suspect their consumers to be facing choice overload in their stores, then engaging in item reduction of approximately 20% to 50% (Broniarczyk *et al.*, 1999) could prove beneficial. It is further recommended that retailers first focus on assortments with non-alignable product categories.

Although the sales volume was the only criteria used in this study to decide which SKUs to eliminate from the experiment's assortment, the choice of which SKUs to eliminate may not

always be this straightforward. Kadlec (2005) suggests that the additional factors that retail managers should consider include profitability of the SKU and the retailers' strategy. For example, a retailer may have a range of luxury wines that are amongst the lowest selling SKUs, but these wines may have high margins and may be instrumental in improving the store's image.

As assortment perceptions remain unchanged after item reduction, the overall satisfaction of the consumers should either increase or stay constant, depending on the consumers' level of familiarity with the product category. Retailers should thus analyse which group the majority of their customers fall into before undertaking item reduction. If the majority of customers are of high familiarity, then SKU reduction may not have any effect on their assortment satisfaction level, and thus should only be done if the retailer sees additional value in doing so (for example, the reduction of inventory costs). However, if the majority of the retailer's customers are of low familiarity, then item reduction is strongly advised as their assortment satisfaction is likely to increase. This is highly beneficial for both the consumer and the retailer as assortment satisfaction has been shown to be a key determinant of store choice (Campo, Gijsbrechts & Nisol, 2004).

If retailers are not willing or able to reduce their assortments, it is suggested that they consider alternative ways of lowering the assortment costs faced by low familiarity customers. Tactics could include having friendly and helpful sales personnel available to provide advice, or grouping the assortment into sub-groups based on the most prominent attribute (for example, by wine type) with clear signage on the shelves. Another method would be to provide an electronic kiosk with a series of questions (for example, regarding dinner plans, food types, etc.) that guides consumers through the decision-making process. At the end of the questions, it would present the consumer with a limited selection of 5 wines that are best suited to the consumer's specific situation.

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# **FEED BUYING BEHAVIOUR OF SMALL-SCALE BROILER FARMERS**

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## **ABSTRACT**

The South African poultry industry is a large part of the agricultural industry and a very important contributor to the Agriculture's Gross Domestic Product. This industry is expanding and very good growth is predicted for the formal as well as the informal segments. The informal segment, consisting of small-scale farmers, holds a great deal of potential and their buying behaviour of broiler feed is becoming a very important factor.

Data was collected by means of a questionnaire and 98 completed questionnaires were usable. Descriptive statistics and factor analysis were used to analyse the data. The factor analysis identified seven significant factors that influence the purchase behaviour of small-scale farmers, namely Value for money and opportunity; Perceived brand value; Customer support and service; Consensus on available quality; Brand loyalty; Feed price at the reseller; and Bag size. Cronbach alpha was used to determine the reliability of the data.

Although some interesting results were obtained, and the factors cumulatively explained more than the required 60% of the variance, more research on this topic in a larger geographical area is required. This is especially true since unsatisfactory reliability coefficients were recorded.

**Keywords:** Broiler feed, buying behaviour, factor analysis, farmer, chicken

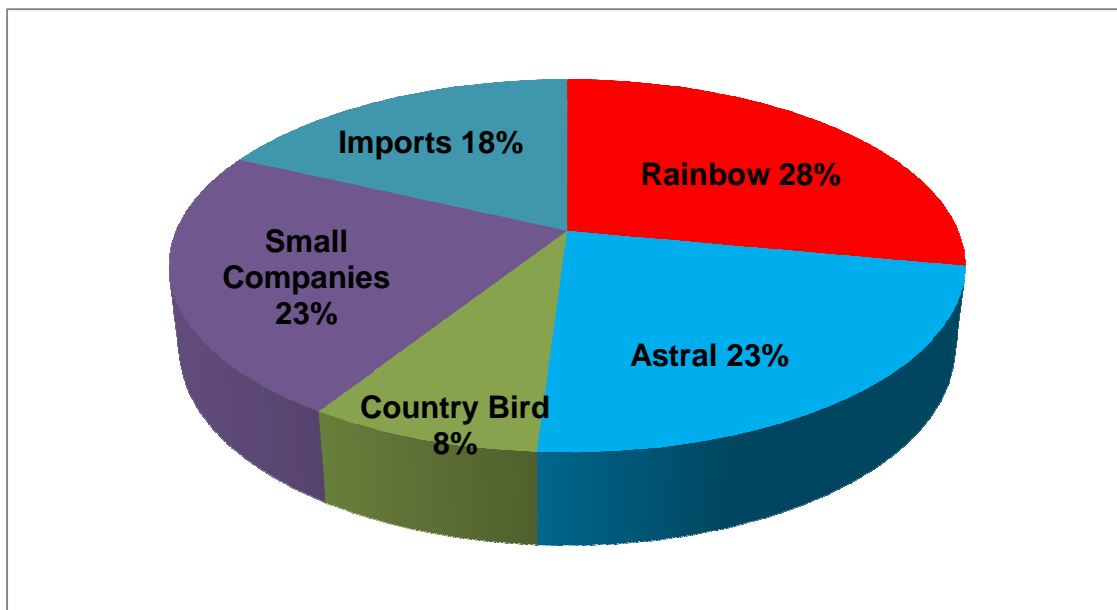
<sup>1</sup>The paper stems from the MBA dissertation by JP Brits during his studies at the Potchefstroom Business School, North-West University. The study was completed in 2011.

## INTRODUCTION

According to Esterhuizen (2010), the South African poultry industry, with a gross value of more than R23 billion, is the country's largest individual agricultural industry and is contributing more than 17 percent to Agriculture's Gross Domestic Product. Broiler production dominates the poultry industry.

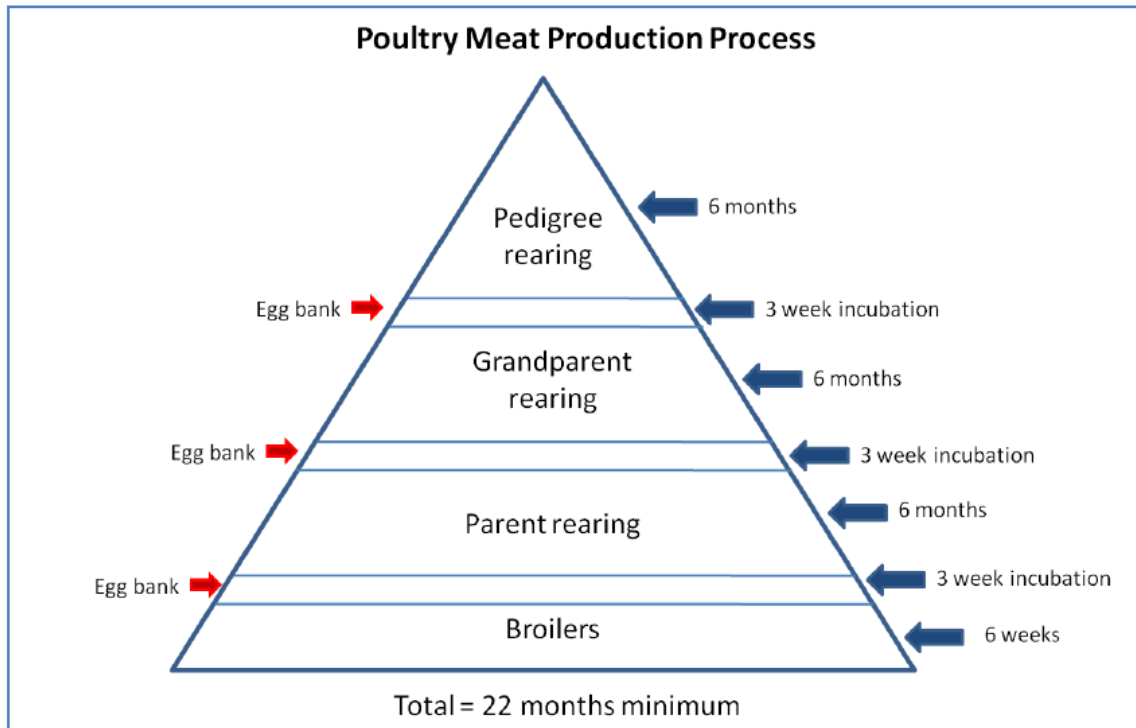
Esterhuizen (2010) states that the broiler industry in South Africa is dominated by two large producers, namely Rainbow and Astral (see Figure 1). Together, these two companies produce 50 percent of total broiler production in South Africa. Rainbow, on average, produces 4.4 million broilers per week and Astral, on average, 3.8 million. The third largest producer, Country Bird, produces 1.3 million broilers per week or 8% of the total broiler production in South Africa. Four medium-sized producers (producing more than 600000 broilers per week) supply 20% of the market, followed by approximately 44 smaller producers (producing fewer than 200,000 broilers per week).

**Figure 1: The major producers in the broiler industry of South Africa**



For broilers to get to the end consumer, they follow a poultry meat production process, as explained by Figure 2.

**Figure 2: Poultry meat production process**



**Source: SAPA (2010)**

The poultry meat production process starts with pedigree stock – their eggs are collected, hatched and these chickens are then raised as grandparent stock. It takes from 33 to 42 days to get the broilers to slaughter age, depending on the required weight that is required at slaughter. The final markets for these broilers are fresh meat, frozen chicken, value-added products or live birds. The big integrated broiler businesses have their own abattoirs as well as processing facilities where value-added products are produced. The smaller broiler farmers sell their birds to abattoirs, or pay the abattoirs to slaughter their chickens. Some of the smaller producers slaughter the chickens themselves and sell them as fresh or frozen meat. There is also a live chicken market, as mentioned above. This market is supplied by medium- and mostly small-scale broiler farmers. The live birds are either sold directly to the end consumer by the farmers or to hawkers who then sell them to the end consumer.

Broiler feed is a large component of the cost of broiler production and could make up as much as 70 to 80% of the total production cost. It is, therefore, a very important aspect in the profitability of the broiler business for commercial as well as small-scale broiler farmers.

### **PROBLEM INVESTIGATED**

The conditions and final markets for commercial and small-scale broiler farmers differ quite significantly. Despite that, the marketing strategies of feed producing companies are based on commercial farmers, and limited strategic marketing focuses on the small-scale farmers. There is, therefore, a need to get a better understanding of the purchase behaviour of the small-scale farmers so that this market segment could be targeted and developed as a specific market segment.

### **RESEARCH OBJECTIVES**

The primary objective is to determine which factors influence consumer preference of small-scale broiler farmers when they buy bagged broiler feed.

In order to achieve the primary objective, the following secondary objectives were formulated:

- To gain valuable insight into the needs of smaller and emerging broiler farmers.
- To identify the factors that they think play a role in the profitability of their businesses.
- To identify factors that they perceive to be playing a role in the downfall of their businesses.
- To prioritise the factors that influence consumer preference, so that these factors can be used in building a market strategy that focuses on small-scale and emerging broiler farmers

### **LITERATURE REVIEW**

According to Schiffman and Kanuk (2009), the term consumer behaviour is defined as the behaviour that consumers display in searching for, purchasing, using, evaluating and disposing of products and services that they expect to satisfy their needs. Consumer behaviour focuses on how individuals make decisions to spend their available resources (time, money, effort) on

consumption-related items; in other words, what they buy, why they buy it, when they buy it, how they evaluate it after the purchase and the impact of such evaluations on future purchases. Schiffman and Kanuk (2009) reason that the production concept assumes that consumers are mostly interested in product availability at low prices– its implicit marketing objectives are cheap, efficient production and intensive distribution. This orientation makes sense when consumers are more interested in obtaining the product than in specific features and will buy what is available rather than to wait for what they really want. This concept is mostly used in the case of developing markets or expanding markets. However, contrary to price, the product concept portrays a situation where consumers will buy the product that offers them the highest quality, the best performance and the most features.

When small-scale farmers purchase broiler feed, all of the above concepts can play a role. Since most of the farmers are new to farming, they do not have the management skills to measure certain aspects. Due to a lack of knowledge, they may also perceive broiler feed as a commodity and see all types of feed as equal. This can urge them to follow the production concept, meaning low price and availability will be very important to them, and will be the main factors that determine which feed they buy.

Some of the small-scale farmers do, however, measure different performance criteria and this enables them to compare different products and choose the one with the most benefits. Feeding recommendations, feed formulations, feed type (in meal form, pellet form, crumble form) are all part of the different features that broiler feed consists of. All of these features may play a role in the performance of the chickens on the specific feed and, in the end, the profitability of broiler production.

Most of the feed companies build their product range for the large volume clients or for internal usage and then sell these products to the small-scale farmers as well. They are therefore applying the selling concept where they sell products they unilaterally decided to produce. Kool (1994) states that it is important to take consumer buying behaviour as well as industrial buying behaviour into account when considering the purchase behaviour of farmers. The farmers' buying

behaviour can be perceived as a specific type of industrial buying behaviour, because farmers buy inputs to produce farm products.

According to seminal work by Wind and Webster (1972), later to be confirmed by Webster (1995), industrial buying behaviour is seen as a series of individual decisions carried out by organisational members whose decisions are influenced by four sets of variables:

- Individual characteristics of these members, including personality, motivation, cognitive structure, learning process, interaction with the environment, preference structure, and decision process.
- Interpersonal relationships among the members of the buying centre (users, influencers, decision-makers, buyers, and gatekeepers), including both task (relating to the specific buying problem) and non-task activities, interactions and sentiments of the group members, group task structure, and leadership patterns.
- Organisational characteristics, including the buying and organisational task, structure (the communication, authority, status, and reward system), technology and personnel.
- Environmental factors, including the physical, technological, economic, political, legal and cultural environment as it affects the values and norms, the availability of goods and services, general business conditions, and marketing information.

The farmer, his workers and family can therefore act as an organisation and the above-mentioned variables could influence the purchase behaviour of the small-scale farmers. According to Kool (1994), the organisational context of farmers' buying behaviour is completely different from the buying behaviour of industrial companies. Although the farmer often carries out the purchase, the buying decision can be made autonomously by the farmer or jointly with other family members. This buying situation is very similar to the buying decision-making within households. For this reason, farmers' buying behaviour can be characterised as industrial buying behaviour as far as the product is concerned and as households' buying behaviour from the organisational point of view.

### **The consumer's decision-making process**

To establish why consumers (farmers) buy certain products, the process of consumer decision-making should be taken into consideration. This stimulus response model shows that marketing and other stimuli enter the consumer's black box and produce certain responses. The response to these stimuli may not always be the same, as there is interaction between different stimuli, and the consumer's behaviour may also be irrational sometimes.

Schiffman and Kanuk (2009) state that many earlier theories concerning consumer behaviour were based on the economic theory and the notion that individuals act rationally in the purchase of goods and services to maximise their benefits. Later research, however, discovered that consumers are just as likely to purchase impulsively and to be influenced not only by family and friends, by advertisers and role models, but also by mood, situation and emotion.

Since the farmers purchase feed to use in a process of producing another product (chickens), the factors in this model would be more complicated than in the case of only simple consumer behaviour. Some of the factors will be multi-factorial and there could be interactions between these various factors. The effects of the different factors in the stimulus response model on purchase behaviour have been studied, although very limited research has been done on purchase behaviour of farmers and nearly no literature is available on the purchase behaviour of small-scale farmers. Core principles of marketing and sales and technical experience are therefore applied to the stimulus response model to establish the importance of these factors and their influence on the purchase behaviour of small-scale broiler farmers when purchasing feed.

### **Product**

Hawkins, Best and Coney (2004) define a product as anything a consumer acquires or may acquire to meet a perceived need. They also state that consumers are generally buying to satisfy needs, not physical product attributes. In the case of this study, the consumers are therefore not buying broiler feed, but a means of growing their chickens to sell them profitably. To be successful, products must meet the needs of the target market better than the competitors. The question that must be asked is whether the farmers are measuring the product traits and contributes (performance of the broilers on the feed) and if they act according to

the influence these traits have on their purchase behaviour. To measure the product traits of feed and the relative performance of broilers on this feed, it is necessary to make sure that all the other variables that influence the broilers are kept constant.

If farmers want to compare two different types of broiler feed, they need to do it in such a manner that they limit the influence of other variables. They must test the feed at the same time, under the same conditions and also make sure that they use the same quality of day-old chickens. Measurements like feed intake, feed conversion ratio, mortalities and profitability should be taken into consideration during these comparisons. For this study, the product traits have been placed in categories of *product quality*, *packaging*, *brand equity* and *associated services*.

- **Product quality**

Grunert, Bech-Larsen and Bredahl (2000) define quality dimensions as product-specific characterisations that consumers form, based on the product characteristics that they believe indicate the usefulness of the product in fulfilling purchase motives. The quality aspect of broiler feed is characteristics of the product that are important for the performance of the broilers on this feed. The pellet quality of the feed is one such aspect. Thomas and Van der Poel (1994) stated that animals receiving pelleted feed generally have higher performances in terms of average daily gain and lower feed conversion compared to mash feeds, as reported for pigs and poultry. In another study by Hamilton and Proudfoot (1995), it was concluded that body weights, feed conversion and monetary returns improved significantly when broiler chickens were given pelleted diets rather than mash diets. Ingredient particle size of the grains used in mash diets influenced the body weights, but to a lesser extent than pelleting of the diets. The pellet quality is determined by measuring the percentage of “fines”. The higher the percentage of fines in the feed, the lower the quality of the pellets will be.

- **Packaging**

Kotler and Armstrong (2010) state that packaging involves designing and producing the container or wrapper and to protect the product. Recently, however, numerous factors have made packaging an important marketing tool as well. In bagged broiler



feed, packaging is another product trait that could be a distinguishing factor between two products. There may be a perception that a product with better packaging is of better quality. By changing the packaging of different types of broiler feed within a range, it may be seen as a positive product trait, for example, if the starter feed is in a green bag, the grower feed in a blue bag and the finisher feed in a red bag, it will be easier for the farmer to ensure that he and his staff use the correct feed at the right stage.

Most broiler feed is packaged in 50kg bags and distributed by agents or cooperatives. These agents and coops deliver the feed in certain cases, but only large quantities. Most of their sales are, however, for collection at the premises. Due to the logistical problems that many of the subsistence and small-scale farmers experience, consideration should be given to package size. It is easier to carry a 12 or 15kg bag or take it on a taxi or public transport. The package size is therefore an important product trait. The relationship between disposable income and package size is also important. A 50kg bag costs far more than a smaller bag although the price per kilogram may be the same. The total price could therefore be the limiting purchase factor. Although a fixed amount of feed is needed to grow a certain amount of chickens, the farmer's cash-flow situation may play a role in the frequency of these purchases as well as the size of bags that is purchased.

Some of the farmers re-use the feed bags to store their crops in, or they use it to manufacture curtains for their chicken houses. The quality of the bags will therefore influence these practices. It is therefore important to determine how important a factor packaging is to the small-scale farmers when purchasing broiler feed.

- **Brand equity**

According to Hawkins *et al.* (2004), brand equity is the value consumers assign to a brand above and beyond the functional characteristics of the product, and can be as the value inherent in a well-known brand name. They state that this value stems from the consumer's perception of the brand's superiority and the social esteem that using it provides and the consumer's trust and identification with the brand. Most of the bigger feed mills are part of integrated broiler businesses; therefore, the effect that the brand

equity of well-known chicken brands has on the brand equity of the specific feed mill and their products should also be investigated. Brand loyalty could be hard to maintain if there is a problem with availability of feed. Because chickens cannot go without feed if a preferred brand is not available, the farmer will then have to buy a different brand of feed.

- **Services**

Hawkins *et al.* (2004) define services as peripheral activities that are performed to enhance the primary product. Due to all the complexities of rearing chickens, the following services are deemed necessary:

- Correct technical advice by qualified technical advisors such as nutrition and feed selection;
- Assistance with general management issues;
- Credit facilities (such as 30-day accounts); and
- Delivery service to deliver the feed to the small-scale farmers.

### **Price**

According to Han, Gupta and Lehmann (2001), price is one of the most powerful tools available to marketers. It has a significant influence on consumers' purchase behaviour and consequently on firm sales and profits. It is therefore not surprising that price promotion has become an increasingly large fraction of the marketing budget and an almost ubiquitous aspect of consumer choice and it is therefore important to note what effect the discount structure could have on the consumer. Although there is a strong belief that price is the most important factor that influences consumer purchase behaviour, in a study done in Zimbabwe by Chikweche and Fletcher (2010), however, it was concluded that the belief that price is the primary influencer to purchase in subsistence communities, is false. Their research proved that there are different dynamics that influence the role of price.

The following factors may influence the price and price perception when small-scale broiler farmers purchase feed:

- Price of feed per kilogram could differ between various packaging sizes, although the quality and benefits of the product remain the same.
- The price of two products could be equal, but to achieve the same results, more of one product has to be used.
- Although a feed is much more expensive, the total cost to produce a kilogram of broiler meat may be lower with this feed than with the cheaper alternatives.
- The most expensive feed is not necessarily the best quality feed.
- If the focus of the broiler business is to maximise profit, the price of feed is irrelevant, but the performance and profitability of the feed are the important measures.

### **Promotion**

Laroche *et al.* (2001) state that sales promotions encompass all promotional activities. Unlike advertising, personal selling, or public relations; it is an action-focused marketing event whose purpose it is to have a direct impact on the behaviour of the firm's customers. Most feed companies make use of a push strategy and rely on agents to sell their products to end users. These types of agents also service the smaller and subsistence farmers. A push strategy generally works better because technical advice and the correct feeding recommendations could lead to better results on the feed. Personal selling is therefore a very important way of promoting such a product.

Because farmer buyer behaviour could in some sense also be classified as industrial buyer behaviour, the buyer/seller relationship is also very important. The fact that feed sales are in most instances not a once-off event but an on-going process further emphasises the importance of the buyer/seller relationship.

Other promotional activities that are utilised by feed manufacturers are to have special prices during lower demand phases. Discount structures for larger purchase volume are used to increase sales. The effects of these marketing strategies are not evident in the literature and more research is required in this regard.

In a study by Sharp and Sharp (1997), they concluded that it is clearly possible to alter repeat-purchase patterns, at least to a small degree, and loyalty programmes are probably the only marketing effort that deliberately focuses on bringing about such change. Loyalty programmes could therefore be implemented by feed companies to enhance the repeat purchase behaviour of small-scale dairy farmers.

### **Place**

Kotler and Armstrong (2010) define the place stimulus as a company activity that makes the product available to target consumers. Schiffman and Kanuk state that “the place” is the distribution of the product or service through specific store and non-store outlets. For small-scale broiler farmers, place could be a very important stimulus that affects their purchase behaviour. Some of these farmers have limited or no means of transport and rely on the public transport system. If feed is not available in their immediate area and they need to travel long distances to purchase feed, this may influence their feed purchasing behaviour.

There will also be an interaction between the price and place stimuli and the way that these factors affect purchase behaviour. If feed is only available far from the farm, the price of the feed at the reseller is not as important as the total cost to purchase the feed and transport it to the farm. Local feed that is more expensive per bag may therefore have a lower total cost than feed that needs to be transported to the farm.

Another factor that may enhance the effect of place on the purchase behaviour is that most of the small-scale farmers work on a cash basis. This causes a security risk if they need to travel long distances with public transport to go and buy feed. The unreliability of public transport and the sometimes long time it takes to use public transport in the rural areas may also increase the effect of the place stimuli on purchases.

### **Other stimuli that could influence purchase behaviour**

In addition to the marketing mix, there are also other factors that could stimulate demand for broiler feed. These are:

- **Economic factors**

According to Kool (1994), an important aspect of the buying behaviour of family farms is the interdependency between expenditures on household consumption and on means of production. Poor economic conditions will lead to a decrease in the disposable income of the community. This may lead to a decrease in the demand for chicken, which will lead to a lower chicken price for the farmer. When demand drops and the farmer is selling live birds, it means that he has to feed the birds for a longer period of time and this will influence the profitability of his operation. When profitability goes down, the farmers will decrease their placement of chicks and will therefore need less feed. The inverse is also true; when economic conditions are favourable, this may lead to a bigger demand for protein and therefore a higher demand for chicken. Farmers will then increase the cycles of broilers as well as the number of broilers per cycle. This will lead to greater purchases of broiler feed.

- **Special events**

There is a definite seasonal trend in broiler feed sales— the peaks of these trends are before Easter and Christmas. This trend can be explained by a higher demand for poultry. Various factors can contribute to this phenomenon, including the return of migrant workers, annual bonuses, religious beliefs etc. Since it takes approximately six weeks to produce market ready broilers, this higher demand leads to higher purchases of broiler feed a few weeks before the special events.

- **Climatic factors**

Because most of the small-scale and subsistence farmers do not have proper housing facilities for their broilers, environmental conditions and climate play a big role in the success or failure of their businesses. Table 2 shows the ideal temperatures and relative humidity for broilers of various ages.

**Table 2: Ideal relative humidity and temperature for broilers at different ages**

Age days	Relative humidity	Temperature °C
0	30-50%	32-33
7	40-60%	29-30
14	50-60%	27-28
21	50-60%	24-26
28	50-65%	21-23
35	50-70%	19-21
42	50-70%	18

The information in this table shows that the ideal temperatures for broilers are very specific. If environmental conditions differ from the ideal conditions for the chickens at a specific age, the farmer will have to try to improve these conditions in the broiler house. If temperatures drop, extra heat should be provided to keep the birds warm. The cost of providing the extra heat could be a deterrent for farmers to place birds during these conditions.

- **Cultural factors**

In a study by Lee and Karcen (2008) to examine factors thought to influence consumers' planned and impulse purchase decisions, including subjective culture (individualist or collectivist consumers) and the presence of another person at the time of purchase, the following findings were made:

- There are important differences in consumers' planned and impulsive purchasing behaviour. They specifically showed that the effect of being with another person during an impulse purchase has a differential effect across cultures.
- Consumers from collectivistic countries were more satisfied with their impulse purchase when they were with an important other, versus when they were alone at the time of purchase, while consumers from individualistic countries showed no difference in satisfaction between these two purchase situations.
- For planned purchases, the presence of another person had no impact on post-purchase satisfaction for either collectivists or individualists.

- Culture clearly impacts consumers' buying behaviour.

Grilo, Shy and Thisse (2000) state that it has long been recognised that the pleasure of consuming a good may be affected by the consumption choice of other consumers. In some cases, social pressures may lead to conformity; in some others, individuals may feel the need of exclusiveness under the form of vanity. Such externalities have proven to be important in several markets. However, the market implication of these externalities is still unclear.

## **RESEARCH METHODOLOGY**

The research methodology comprised a literature study and empirical study. A literature study was conducted to determine which factors, according to the literature, may play a role in the purchasing behaviour of small-scale farmers. Emphasis was on consumer behaviour as well as industrial consumer behaviour. Literature that deals specifically with the purchase behaviour of farmers is limited - the principles of other consumer behaviour studies had to be adapted to fit this study.

A quantitative study was conducted by using a questionnaire that was distributed to farmers in the surrounding areas of Thohoyandou, Giyani, Letsitele and Tzaneen. A questionnaire containing 28 questions, which tested 11 possible factors that may influence purchase behaviour, was constructed by using the information obtained from the literature study. The questionnaire started off with a section that determined certain demographical data of the respondents, followed by the 28 questions in random order. The questionnaires consisted of Likert-type questions. Responses were evaluated as: *strongly disagree (1)*, *disagree (2)*, *neither agree nor disagree (3)*, *agree (4)* and *strongly agree (5)*. The questions were kept as simple and short as possible and were put in easily understandable terms to ensure that the respondents understood all the questions. The languages used in the questionnaire were English and Sepedi, and assistance was available to the respondents if they had trouble to understand a question.

The distribution of the questionnaire was done on farmers' days as well as during visits to the small-scale farmers. These visits were done randomly and not aimed at targeting a specific group of farmers. Local broiler feed resellers in the areas also handed the questionnaires to all their walk-in clients. Respondents were given an incentive to respond: If they completed a questionnaire, they were entered into a lucky draw for prizes. The prizes ranged from branded T-shirts to fivebags of broiler feed. The hit rates with this type of questionnaires were very good – out of 150 questionnaires, 88 were completed properly. A total of 19 questionnaires had to be discarded because they were not properly completed, and 43 questionnaires were never returned to the researcher.

An electronic questionnaire was also sent out to a national database of small-scale farmers. The response to the electronic questionnaire was not very good, as only 10 out of 130 respondents completed the online version. This resulted in a final response of 98 questionnaires.

The data from the questionnaires were captured using Excel spreadsheets and then subjected to the following statistical analyses:

- Descriptive statistics (mean and standard deviation) were utilised to establish baseline data.
- The Bartlett test of sphericity was used as an indicator of the strength of the relationship among the variables as well as the suitability of the data towards factor analysis.
- The Kaiser-Meyer-Olkin measure of sampling adequacy was used to measure whether the relationship between variables is strong enough to proceed with a factor analysis.
- Factor analysis was used to explain the variance in the data and to determine whether the number of factors and the loadings of measured variables on them conform to what is expected on the basis of the pre-established theory from the literature study.
- Cronbach alpha was used to test the reliability of the data. Field (2007) states that the most referenced acceptable value for Cronbach alpha is values higher than 0.7.



## RESULTS

### Mean values

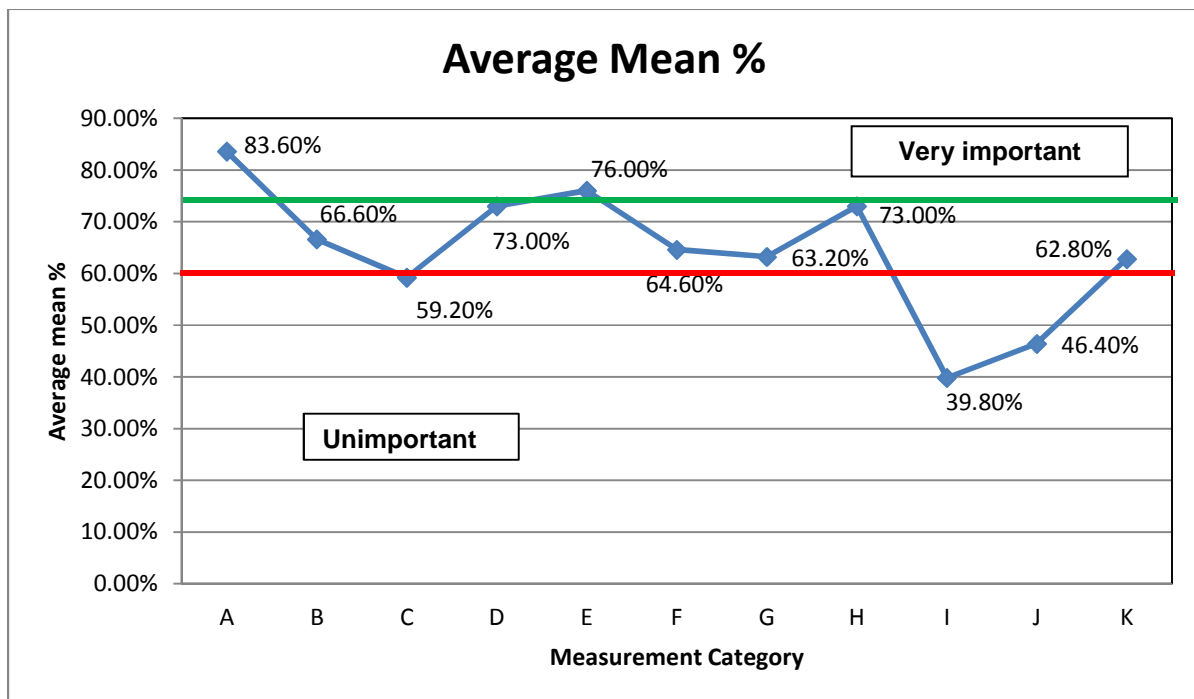
The mean values are presented in percentage format. The five-point Likert scale was converted to percentages by dividing the mean score per category by the maximum score of 5. Figure 3.1 shows the mean values of the categories. According to research by Bisschoff and Haasbroek (2009), the following guidelines could be used to interpret the data:

- Under 60% = Unacceptable/Unimportant
- Between 60 and 75% = Acceptable / Important
- 75% and higher = Excellent / Very important

Measurement *Category A* (Quality) and *Category E* (Price) have values of 83.6% and 76% and these can be seen as very important. The small-scale farmers would therefore consider price and quality and possibly the interaction between these as very important when they make feed purchasing decisions.

The measurement categories for packaging (66.6%), services (73%), promotion (64.60%), place (73%) and economics (62.80%) are in the acceptable/important range and will therefore also influence the purchase behaviour of the farmers. The brand category with a mean of 59.2% and the climate (46.40%) and special events category (39.80) fall in the unimportant range and the influence of these categories on buying behaviour seems to be very small.

**Figure 3: Summary of the mean values**



**Key:**

A : Quality	G : Place
B : Packaging	H : Economic
C : Brand	I : Special events
D : Service	J : Climate
E : Price	K : Cultural
F : Promotion	

**Sample adequacy and sphericity**

The Kaiser-Meyer-Olkin (KMO) measure of sampling adequacy and Bartlett’s test of sphericity were performed on the data and the results are presented in Table 3.

**Table 3: KMO and Bartlett's Test**

Kaiser-Meyer-Olkin measure of sampling adequacy.		.599
Bartlett's Test of sphericity	Approx. Chi-Square	1082.564
	df	378
	Sig.	.000

The KMO value is 0.599 and therefore bigger than the value of 0.5. The data would therefore be acceptable for factor analysis purposes. The significant value for the Bartlett test that was done on the data is 0.000 and therefore small enough to reject the hypothesis and to conclude that the

strength of the relationship among variables is strong. This value would justify the data to be subjected to factor analysis.

### Factor analysis

The factor analysis revealed that eight factors could be identified from the data. The first factor in the factor analysis explains 16.76 % of the variance. Table 3.5 shows the total variance explained by all eight factors. The factor analysis explains a cumulative variance of 65.8%, which represents a good fit of the data regarding the purchase behaviour of small-scale farmers.

**Table4: Total variance explained**

Component	Initial Eigenvalues			Extraction sums of squared loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	4.692	16.756	16.756	4.692	16.76	16.756
2	3.302	11.792	28.548	3.302	11.79	28.548
3	2.298	8.208	36.756	2.298	8.21	36.756
4	2.077	7.418	44.174	2.077	7.42	44.174
5	1.973	7.045	51.219	1.973	7.05	51.219
6	1.535	5.482	56.701	1.535	5.48	56.701
7	1.297	4.631	61.333	1.297	4.63	61.333
8	1.249	4.462	65.795	1.249	4.46	65.795

The identified factors were labelled and interpreted. Table4 is a component matrix and shows these factors as well as the percentage of variance explained by each of the factors.

- **Factor 1: Value for money and opportunity**

Factor 1 is the most important factor and has been identified as *Value for money and opportunity* (explaining a variance of 16.76%). The items loading on factor 1 point to a value-for-money aspect or an opportunity aspect as the most important elements the farmers consider when purchasing broiler feed. *Elements* that point to the value aspect of this factor are in the price, quality and brand categories. The negative factor loading for three of these items shows that customers do not prefer the cheapest feed, or the best quality feed and that they do not always measure the chicken's performance. The belief that all brands are the same also proves the monetary value that is placed on the brand

and that farmers do not necessarily want to pay more for a certain brand. These items therefore show that in the choice of broiler feed, it is about value for money for these farmers. The other items in this factor point to opportunity. Farmers will only place chickens in certain situations, for instance before Christmas and Easter, and not in winter time. They will also only use feed that is available in their area and look out for specials. All these items show that farmers make use of certain opportunities when they purchase broiler feed.

- **Factor 2: Perceived brand value**

Factor 2 is labelled *perceived brand value* and explains 11.79% of the variance. These items point to the fact that the brand value (and the success of other farmers with this brand) is an important factor when farmers decide which feed to purchase. The negative value for the item concerning advice and support shows that the farmers will buy a strong brand of feed even without the support of that company. The item concerning the cash situation of the farmer could be interpreted in this factor as that the farmer would only buy his preferred brand of feed when he is in the financial position to do so.

**Table 3.6:Component Matrix**

Measurementcategory	Purchase behaviour factors	Component							
		1	2	3	4	5	6	7	8
<b>Price</b>	I buy the cheapest feed	-0.727							
<b>Quality</b>	I only buy the best quality feed	-0.726							
<b>Promotion</b>	I look for specials on feed and then buy that brand	0.701							
<b>Climate</b>	I do not place chickens in winter time	0.651							
<b>Brand</b>	All brands of feed are the same	0.588							
<b>Special events</b>	I only place chickens for Easter or Christmas	0.576							
<b>Quality</b>	I measure the performance of my chickens and use this to decide which feed is best to use	-0.514							
<b>Economic</b>	I only place chickens when there is a very high demand for them	0.485							
<b>Place</b>	I only buy a brand of feed that is available close to my farm	0.459							
<b>Service</b>	If a company gives me good advice and support I will buy their feed		-0.677						
<b>Cultural</b>	It is important to use the same feed as the other farmers in my area		0.675						
<b>Price</b>	I work out the total feeding cost and do not worry about price per bag		0.542						
<b>Economic</b>	I only place chickens when I have cash available		0.531						
<b>Cultural</b>	I will use the same feed as successful farmers in my area		0.529						
<b>Brand</b>	I always buy the same brand of feed		0.484						
<b>Promotion</b>	I only buy feed from well known companies			0.670					
<b>Service</b>	I will buy feed from a company that gives me a account			0.597					
<b>Service</b>	I will buy feed from a company if they can deliver the feed to me			0.468					
<b>Cultural</b>	My family would help me decide which feed to use				0.601				
<b>Place</b>	I only buy a brand of feed that is always available				0.573				
<b>Quality</b>	I buy feed with good pellet quality and low amounts of fines in the pellets				0.563				
<b>Packaging</b>	Packaging is very important to me when I buy feed					0.555			
<b>Price</b>	Price per bag is not as important as the performance of the chickens					0.514			
<b>Brand</b>	When my brand of feed is not available I will not buy other feed					0.553			
<b>Place</b>	I calculate the total cost to get the feed to my farm						-0.450		
<b>Packaging</b>	I prefer buying 50kg bags							0.631	
<b>Packaging</b>	I prefer buying smaller bags								0.488
<b>Promotion</b>	Advertisements will determine my choice in feed								0.455

- **Factor 3: Customer support and service**

Good customer support and service are important to the farmers when they purchase feed. Factor 3 is identified as *customer support and service* and this factor explains 8.21% of the variance. The item concerning whether a company is well known in an area could be interpreted in this factor as the involvement of the company in an area and therefore seen as a service of the company to the local community.

- **Factor 4: Consensus on available quality**

This factor is identified as *consensus on available quality*. Three items are loaded for this factor and the factor explains 7.42% of the variance. Pellet quality is seen as an overall measure of product quality by most farmers. This factor shows that farmers prefer good quality feed, but it must be available locally. They would only make purchase decisions after consulting their family and thus getting a consensus on which local available feed with the best quality they should buy.

- **Factor 5: Brand loyalty**

Factor 5 is labelled as *brand loyalty* and three items are loaded onto this factor and explains 7.02% of the variance. The items concerning the importance of packaging and performance of the chickens could be interpreted as being seen as characteristics of the brand. The item stating that if a brand is not available, the farmer would not buy another brand shows the loyalty towards the brand.

- **Factor 6: Feed price at the reseller**

This factor could be identified as *feed price at the reseller*, and only one item is loaded significantly onto the factor. The factor explains 5.48% of the variance. The negative factor loading shows that farmers do not calculate the total cost to get the feed to their farms. This suggests that they compare feed prices at different resellers and use the best price and not the total cost to make their purchasing decisions.

- **Factor 7: Bag size**

Bag size is the label that is put onto factor 7 and it explains 4.63% of the variance. Only one item is loaded onto this factor and the item shows that farmers want the bag size to be 50kg.

- **Factor 8:**

This factor explains 4.46% of the variance, but the two items loading onto the factor are diverse. The factor is therefore not labelled

The cumulative variance explained by the factors is 61.3%, and thus regarded to be a good fit for the data.

### **Reliability**

The reliability of the data was statistically determined by employing the coefficient of Cronbach alpha. The reliability measures appear in Table 5.

**Table 5: Reliability statistics**

<b>Cronbach Alpha</b>	<b>No of Items</b>
.383	82

The Cronbach alpha value is 0.383. As mentioned under the discussion about Cronbach alpha, the cut-off point of 0.7 is used normally. Cortina in Field (2007), however, states that such general guidelines should be used with caution, because the alpha value depends on the number of items on the scale. He shows that as the number of items of the scale increase alpha will increase. It is therefore possible to get a large alpha number due to the large number of items on the scale and not because the data is reliable.

In a study done by Schmitt (1996), it was concluded that there are four caveats that are implied regarding the proper use of Cronbach alpha. Schmitt states that:

- Alpha is not an appropriate index of unidimensionality to assess homogeneity.

- In correcting for attenuation due to unreliability, the use of alpha as an estimate of reliability is based on the notion that the measures involved are unidimensional. When this is not the case, the corrected coefficients will be overcorrected.
- There is no sacred level of acceptable or unacceptable level of alpha. In some cases, measures with (by conventional standards) low levels of alpha may still be quite useful.
- Presenting only alpha when discussing the relationships of multiple measures is not sufficient. Intercorrelations and corrected intercorrelations must be presented as well.

These facts about the use of Cronbach alpha show that although the value is low, it can still be useful. However, despite the fact that low reliability could be useful, Field (2007) still maintains that alpha values below 0.58 on ratio or interval scales, should be heeded with caution.

## **CONCLUSIONS**

The primary objective of the study was to determine which factors influence consumer preference of small-scale and emerging broiler farmers when buying bagged broiler feed. The seven labelled factors (one was not labelled) explain the purchase behaviour of small-scale broiler farmers and identified a new set of behavioural factors. There is, however, correspondence to factors that were proven to have an influence on the purchase behaviour that was described in the literature study.

It was perceived from literature that the quality of broiler feed and the influence of that on chicken performance and profitability would be one of the most important factors. The study showed that the most important factor to the small-scale broiler farmer when making his purchasing decision is that there must be an opportunity for him to grow broilers, and local availability offered that is very good value for money. This relates to quality but only to a certain degree— a quality product without regard to pricing, or a quality product without an opportunity to grow broilers, would not influence the farmer to buy a certain brand of feed. The small-scale farmer would only be influenced if the quality of the product is also linked with value for money and an opportunity. This opportunity relates to what was seen in the literature study concerning special events like Christmas and Easter, as well as climatic conditions that will influence the purchase behaviour of the farmers.



The second most important factor, perceived brand value, corresponds more with the factors in the literature study about brand equity. An interesting factor that could almost be linked to the opportunity of the most important factor is that preferred brand will only be purchased by the farmers if they are in the financial position to do so. It was stated in the literature study that if a specific brand of feed is not available, the farmer will be forced to buy something else, because the chickens cannot go without feed. This fact does not relate to the results of the study. From factor 5, which deals with brand loyalty, it seems as if the farmers would make another unknown plan until their brand of feed is available. A possible scenario could be that small-scale farmers buy their broiler feed before they place chickens and if their preferred brand is not available, they would not place chickens.

Customer service and support were also shown to play an important role in the purchase behaviour of small-scale farmers. This corresponds well with the perceived ideas in the literature study, although the importance of technical advice that seemed very important in the literature study is not important according to the results of the factor analysis. Delivery of feed and credit facilities from the feed company are seen by the farmers as important factors.

Availability of feed in their area would have an influence on the purchase behaviour of small-scale farmers, but there is a definite interaction between availability and the quality of the feed. The opinion of their family members about feed purchases also seems to be important.

From the results of factor 6 it can be concluded that the farmers use the feed price at resellers to compare prices. They do not calculate the total cost to get the feed to the farm. This could be because the farmers see local available quality feed as a more important factor than the feed prices at the reseller. They do not calculate the total cost to get the feed to the farm because they only purchase quality feed that is locally available. There would therefore not be a huge transport cost involved in getting the feed to the farm. The fact that farmers prefer buying 50kg bags is different from the ideas in the literature study that farmers would prefer smaller bags that are easier to handle during transport. This fact may be considered a factor because if feed is available locally, there will not be huge logistical problems to get it to the farm.

## **MANAGERIAL IMPLICATIONS**

If a feed company wants to focus on the small-scale farmer segment of the broiler industry, it is important for them to understand which factors influence the purchase behaviour of these farmers. The most important factors that influence the purchase behaviour of small-scale farmers that the management of companies should consider are:

- Products that provide value for money and specific opportunities to grow more broilers throughout the year.
- The companies' perceived brand and the brand value of their products.
- Customer support and services with the most important services being delivery services and credit facilities.
- To sell a product it must be of good quality and be available in the local area close to the small-scale broiler farmers.
- Small-scale farmers are brand loyal.
- Feed prices are compared at the point of sale and this emphasises the need of feed to be available in the farmers' living areas.
- Small-scale broiler farmers prefer feed bags to be 50kg.

## **SUMMARY**

Descriptive statistics that were performed on the data showed that the price and quality categories must be seen as very important. Small-scale farmers would therefore consider price and quality and possibly the interaction between these as very important when they make feed purchasing decisions. The data was tested to determine whether it was suitable for factor analysis. After favourable results from these tests, the data was subjected to factor analysis. The factor analysis revealed that eight factors could be identified from the data and that these factors explain a cumulative variance of 65.8%.

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# **EXPLORING THE FACTORS THAT CONTRIBUTE TO KKNK TICKET PURCHASES**

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## **ABSTRACT**

Declining ticket sales is a current problem threatening the sustainability of South African arts festivals. This is associated with competition in the festival market and significant changes in ticket purchase behaviour among performing art audiences. This article explores the key factors that contribute to ticket purchases at KKNK, to assist festival organisers/marketers in developing effective marketing strategies.

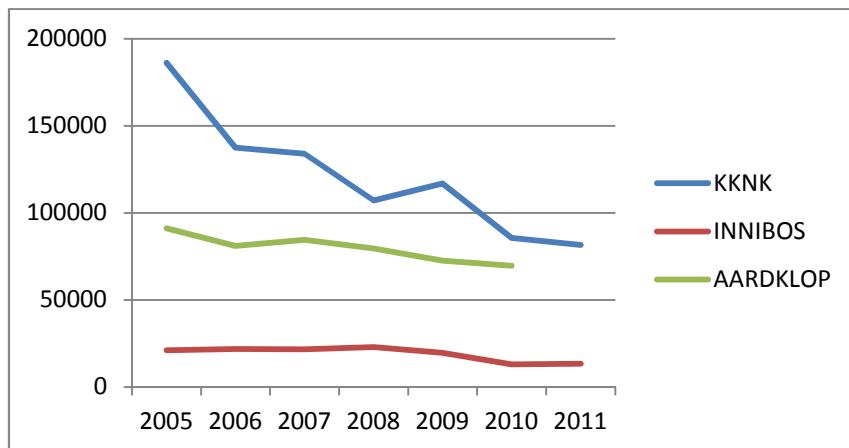
## **INTRODUCTION AND PROBLEM STATEMENT**

One of the fastest growing segments of tourism globally, is events and festivals (Gursoy, Kim & Uysal, 2004:172; Lee, Lee & Wicks, 2004:61). During the past two decades, special events (including festivals) have not only multiplied, but they have diversified (Mehmetoglu & Ellingsen, 2005:119). Based on the research by Wilson and Udall (1982:3) (as cited by Van Zyl, 2005:6) seven broad categories of festival and event types have been identified, namely sports events; dance, jazz and music festivals; sacred, language and religious festivals; heritage and culture festivals; harvest and food festivals; shows, fairs and related festivals; and well as arts festivals.

Festivals fulfil an important cultural, economic and social role (Anderson & Getz, 2008:199; Getz, 1997:5). These benefits have not only prompted a remarkable increase in conceptual and empirical studies on festivals and events; but have encouraged various destinations in hosting such festivals, thus increasing festival availability (Hughes, 2000:2; Visser, 2005:165). In the South African arena alone, there are more than 300 annual festivals to choose from, of which arts festivals have especially grown in both number and size (Tassiopoulos, 2005:4; Van Zyl & Strydom, 2007:121). Some of these arts festivals include

Aardklop National Arts Festival, Innibos National Arts Festival, Volksblad National Arts Festival (more recently known as the Vryfees), the Gariiepsfees and Woordfees. However, the popularity and rapid expansion of the festival industry may become the very cause that threatens the sustainability of arts festivals in South Africa, since the over-supply of these events leave prospective attendees with an average of 25 festivals per month to choose from. This results in increased competition in the festival market; and ultimately a negative impact on the longevity of arts festivals in the country (Van Zyl & Stydom, 2007:121; Mehmetoglu & Ellingsen, 2005:119; Van Zyl, 2005:5-6). Competition in the festival market can lead to significant changes in ticket purchase behaviour among performing art audiences (Scheff, 1999,17).

This phenomenon is evident in South Africa, since many major arts festivals are experiencing a decline in the number of ticket sales (Botha, 2011:3; Kruger, 2009:3; Saayman & Saayman, 2006a:40-41) (See Figure 1). The most prominent decline, as indicated in Figure 1, is the case of the Klein Karoo National Arts Festival (hereafter referred to as KKNK). This annual festival takes place during the month of April in the town of Oudtshoorn, situated in the Western Cape Province. This festival makes provision for a variety of performing arts, accommodating both renowned and upcoming artists within genres such as drama, cabaret, classical music and jazz. Each year the festival attracts approximately 1 000 artists, involved in more than 200 productions and exhibitions; over a period of eight festival days (Slabbert, Saayman, Saayman & Dreyer, 2008:1; Van Schalkwyk, 2004:2). ). The decline in KKNK ticket sales typically reflects the principles of a product life-cycle, which state that individual events (or products) tend to progress through stages of growth, maturity and decline (Getz, 1993:951). The product life-cycle therefore reflects how a festival is doing in this competitive market environment, by indicating the stage or phase it is in. Not only are the number of festival visitors and ticket sales (and ultimately the income generated from this) declining as a result of competition in the market place (Saayman & Saayman, 2006a:40-41), but producing and programming a quality festival with the escalating cost of production and the rising cost of artists' fees, is also a greater challenge than ever (Kwak, 2005:41). In addition to this, marketing expenses have more than doubled over the past 50 years (Sheth & Sisodia, 1995:19). This has resulted in ever-increasing ticket prices and this, together with increasing competition, has caused significant changes in ticket purchase behaviour among performing arts patrons (Scheff, 1999,17).



**Figure 1: Decline in South African arts festival ticket sales**

**Source: Botha (2011)**

Purchase behaviour is defined as the factors/aspects that influence people's decision making on whether to purchase something and what to purchase (Bloomsbury, 2009:362). As consumers become more demanding and selective in their purchase behaviour, marketers find it increasingly difficult to predict consumers' responses to different features, benefits, packaging options, information sources, ticket purchase outlets, pricing and many other aspects, unless they use market research to understand customers' purchase behaviour and to plan marketing strategies accordingly (Scheff-Bernstein, 2007:143). It is therefore vital that marketers understand which aspects influence or, more specifically, contribute to the demand for their product. Such aspects can be actively manipulated by the marketer to improve sales. Various authors agree and state that, to counteract the decline in ticket sales in a competitive festival market, effective and strategic marketing of festivals is essential (Uys, 2003:11; Walo, Bull & Breen, 1997:96). Organisers and marketers of recurring events (such as arts festivals) can adopt and implement a number of marketing strategies to prolong the growth phase of the festival's life-cycle. One such marketing strategy is market penetration, whereby more ticket-purchasing visitors are attracted to the festival by means of a more competitive marketing mix (Getz, 1993:951). Focusing on ticket purchasers is an especially viable strategy since visitors who purchase tickets at festivals tend to stay for longer periods of time and spend more than visitors not interested in ticketed shows/productions (Thrane, 2002:281; Kruger, Saayman & Ellis, 2010:79). In most cases, revenue generated from ticket sales, serves as festivals' main source of income (Anderson & Getz, 2008:207.210; Kruger, 2009:3)

It's therefore important to conduct research whereby the key factors contributing to KKNK ticket purchases are explored. This will provide a better understanding of the ticket-

purchasing market, and more effective marketing strategies can be formulated and implemented by festival marketers and organisers. The needs and preferences that appeal to the ticket-purchaser will therefore be addressed, resulting in positive ticket purchase behaviour. This would prove to be beneficial to the festival organisers/marketers of KKNK, since desired purchase behaviour from attendees corresponds with sales volume and revenue (Shimp, 2010:50; Kruger, 2009:17; Saayman & Saayman, 2006b:219). Therefore, the aim of this article is to explore the key factors that contribute to KKNK ticket purchases.

## LITERATURE REVIEW

Marketing research that assists arts festival marketers in understanding which aspects influence, or more specifically, contribute to the demand for their product, is essential. The importance of such research has prompted researchers to conduct such or similar studies. Examples of these studies, which focus on aspects influencing ticket purchase behaviour at various events, are highlighted in the table below (Table 1).

**Table 1: Relevant studies pertaining to aspects influencing ticket purchase behaviour**

Research / Study	Aspects	Event	Authors
Factors influencing subscription and single-ticket purchases at performing arts organisations	Factors influencing ticket purchase decisions (purchase behaviour) including special occasion/event, recommendation from friends/relatives, media reviews, interest in a specific production, interest in a specific artist/performer, reputation of the organising party, seat location and price, leisure time, scheduling in advance, availability of dates for performances, ticket prices, value for money, location of performances, children in the household, travelling time ,etcetera.	Four major performing arts organisations in San Francisco	Scheff (1999)
Investigating how the attributes of live theatre productions influence consumption choices using conjoint analysis: the example of the National Arts Festival, South Africa	The influence of attributes such as the type of cast, reputation of the producer/director, the context or setting, production type/genre and ticket price on consumption choices.	Grahamstown National Arts Festival in South Africa	Willis and Snowball (2009)
An easily implemented framework for forecasting ticket sales to performing arts events	The influence promotional effort and spending, production timing, location of production and event characteristics on attendance/ticket sales	Performances at a university theatre company	Putler and Lele (2003)



The role of price tiers in advance purchasing of event tickets	The effects of price , face value and discounts on ticket purchase behaviour	Performances at family events across major and smaller markets in the USA	Moe and Fader (2009)
Programmatic choices and the demand for theatre: the case of Flemish theatres	The influence of factors such as consumer income, price, price of substitutes, cast size, language of playwright, revivals of old productions on attendance/ticket purchases	Performances at 57 Flemish theatres.	Werck and Heyndels (2007)
Analysis of the consumption of artistic-cultural goods and services in Brazil	The determinants of consumption (purchasing tickets) including income, educational and socio-demographic characteristics as well as location.	Consumers of various cultural-artistic goods/services in Brazil including theatres, concerts, dance performances, exhibitions, museums, cinemas, etcetera	Diniz and Machado (2011)
Full-income and price elasticities of demand for German public theatre	The influences of factors such leisure time, ticket price, full-income, theatre tours, reputation of the theatre, technical standard of the stage and design on demand for performing arts.	Large number (178) of German public theatres.	Zieba (2009)

From Table 1 it is evident that recent and less recent studies pertaining to aspects influencing ticket purchase behaviour across a variety of events exist. Examples of these aspects include ticket prices, ticket-related discounts, value for money, promotional effort, recommendations from family and friends size of production, and location of the performance. However, the need still exists to explore the key aspects that contribute to the ticket purchases of KKNK audiences, since no such research has previously been conducted. By determining the contribution of each aspect to a KKNK festival visitor's eventual behaviour of purchasing a ticket/s, will empower KKNK's marketers/organisers to focus on the aspects that matter most to ticket purchasers and that lead to positive purchase behaviour. This will enable them to allocate their marketing budgets more effectively and channel their marketing strategies in a viable manner, thus maintaining and/or increasing the number of ticket-purchasing visitors. This will ultimately assist in addressing the decline in ticket sales that KKNK is currently experiencing in an exceedingly competitive festival marketplace. Therefore, the aim of this article will be to explore the key aspects that contribute to KKNK ticket purchases.

## **METHOD OF RESEARCH**

The survey consisted of a self-administered questionnaire (developed by Botha, 2011) that was distributed amongst ticket purchasers at KKNK, thus a purposive sampling method was used. The survey was conducted on each day of the festival period from 2 to 9 April 2011.

The first section of the questionnaire consisted of closed questions relating to socio-demographics (age, province of residence) and behavioural elements (number of people for whom they purchased tickets, the total number of tickets they purchased, the number of times they previously visited KKNK, and the number of days they spend at KKNK). The second section entailed rating the extent to which 32 different aspects contributed to their ticket purchases. This was presented in the form of a 5-point Likert-type scale ranging from 1 - made no contribution; 2 - made a small contribution; 3 - made a contribution; 4 - made a significant contribution; and 5 - made a maximum contribution. In order to limit response bias, different on-site locations where ticket-purchasing tourists were present (such as the areas/venues where the shows/productions are held, as well as the ticketing facilities where tickets are issued) were targeted for the distribution of the questionnaires. An array of show/production venues were selected to make provision for a variety of production genres. Trained fieldworkers ensured that respondents were briefed about the purpose of the research and willing participants.

In 2009, 44 934 visitors attended the KKNK (Slabbert, Kruger, Viviers, Saayman & Saayman, 2009:38). 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. According to Israel (2009:6), from a population of 50 000 ( $N$ ), 397 respondents ( $n$ ) are seen as representative and result in a 95% level of confidence with a  $\pm 5\%$  sampling error. Six-hundred and thirty-five (635) usable questionnaires were gathered, and according to the formula, is a representative and adequate sample size.

Exploratory factor analysis was performed on the 32 aspects contributing to arts festival ticket purchases in order to synthesise the large amount of data into smaller and more descriptive factors. After the key descriptive factors were identified, Cronbach Alfa coefficients were calculated for each factor as well as mean values. In addition, effect sizes (by means of ANOVA) were calculated to determine the size of the effect of three independent variables (age, number of days spent at the festival, number of times KKNK was previously visited) on the key factors that contribute to KKNK ticket purchases.

## RESULTS

The results below will be discussed in three sections. Firstly, a demographic profile of the festival attendees that purchased tickets at KKNK; secondly, the key factors that contribute to ticket purchasing; and thirdly, an ANOVA test to identify possible differences between the categories of the independent variables

### Profile of ticket purchasers to KKNK

From Table 2, it is evident that most respondents are between the ages of 46 and 60 (middle-aged), with the average age of 49. The results also indicate that the majority of the respondents originate from the Western Cape Province (56%), followed by Gauteng (16%). Most of the respondents are repeat visitors (85%); they have previously visited the festival an average of 7 times; and they stay an average of 5 festival days. The respondents prefer to attend performances within the genres drama (69%), comedy (37%), as well as music theatre and cabaret (30%). They purchase an average of 5 tickets per person.

**Table 2: Profile of ticket purchasers at KKNK**

Attribute	KKNK 2011 Percentage: N = 650	Attribute	KKNK 2011 Percentage: N = 650
<b>Age:</b>		<b>Days spend at Festival</b>	
<18	1%	1-2 days	13%
18-25	7%	3-4 days	38%
26-35	10%	5-6 days	23%
36-45	16%	7+ days	26%
46-60	<b>42%</b>	Average days spend	5 days
61+	24%		
Average Age:	49		
<b>Province of origin</b>		<b>*Type of show attending</b>	
Western Cape	<b>56%</b>	Drama	<b>69%</b>
Gauteng	<b>16%</b>	Dance	6%
Eastern Cape	12%	Word art, poetry	4%
Free State	4%	Children's theatre	1%
KwaZulu-Natal	3%	Theatre discussions	4%
Mpumalanga	3%	Music theatre & cabaret	<b>30%</b>
Nothern Cape	2%	Classical music	9%
North West	2%	Rock	5%
Limpopo	1%	Visual arts &exhibitions	4%
Outside RSA borders	1%	Comedy	<b>37%</b>
		Jazz	3%

<b>Previous visits to festival</b>		<b>Average number of people tickets are purchase for</b>	<b>3 people</b>
First time	15%		
2-4 times	30%		
5-7 times	19%	<b>Average ticket purchased per person</b>	<b>5 tickets per person</b>
8-10 times	14%		
10+	22%		
Average visits	7 times		

*\*Can attend more than one genre*

### **Factors that contribute to ticket purchases**

This section explores the underlying patterns of the reported aspects that contribute to ticket purchasing by means of a factor analysis. To determine the appropriateness of principal analysis (data reduction procedure) for the collected data, a Kaiser-Mayer-Olkin measure of sampling adequacy and the Bartlett test of sphericity were examined. The Kaiser-Meyer-Olkin measure of sampling adequacy aims to examine whether the strength of the relationship between variables is large enough to proceed to a factor analysis. The measure obtained was 0.890 which is highly acceptable. The Bartlett test was found to be significant ( $p > .00001$ ) and therefore the data reduction by principal components would be legitimate. A factor analysis with varimax rotation method was performed on the 32 aspects contributing to ticket purchases. The varimax rotation method was chosen due to very few correlations between the factors. Factor extraction criterion and loadings of 0.30 were used for item inclusion. This resulted in 31 aspects loading into 7 factors which accounted for 59.23% of the total variance. The factors were labelled according to similar characteristics, namely: Media (Factor 1), Quality facilities (Factor 2), Monetary facets (Factor 3), Internal Motives (Factor 4), Production credentials (Factor 5), Festival experience (Factor 6) and Festival programming (Factor 7). Eigenvalues for these factors ranged from 1.08 (the lowest) to 9.07 (the highest). Cronbach's coefficients were also examined for each factor to check the reliability of the data, and to serve as a measure of internal consistency among the items. All the Cronbach Alpha values were above 0.5 (Table 3) which is widely acceptable for exploratory research (Field, 2000; Nunnally, 1967). The mean values per factor were also calculated, according to a 5 point scale (1-made no contribution, 2- made a small contribution, 3-made a contribution, 4- made a significant contribution, 5-made a maximum contribution). Table 3 clearly indicates that respondents feel the factors that contribute the most to ticket purchases are production credentials (3.99), festival experience (3.60), festival programming (3.37), quality

facilities (3.18) and internal motives (3.16). The two factors that made the smallest contribution were media (2.82) and interesting monetary facets (2.71).

**Table 3: Factor analysis (KKNK)**

<b>FACTOR LABEL</b>	<b>Factor 1: Media</b>	<b>Factor 2: Quality facilities</b>	<b>Factor 3: Monetary facets</b>	<b>Factor 4: Internal motives</b>	<b>Factor 5: Production credentials</b>	<b>Factor 6: Festival expe- rience</b>	<b>Factor 7: Festival program- ming</b>
Television interviews and discussions of shows	0.83625						
Radio interviews and discussions of shows	0.81513						
Television advertisements	0.68169						
Written reviews of shows in general newspapers and magazines	0.63344						
The festival website	0.57355						
The festival newspaper (KRIT)	0.54552						
The festival guide	0.45729						
Award winning shows	0.33305						
Word-of-mouth (family, friends, via the grapevine)	0.33932						
The general accessibility of the venue		0.82172					
The standard and quality of the venue-facilities hosting the shows		0.81807					
The accessibility of ticketing systems or services at the festival		0.59972					
The efficiency and user-friendliness of ticketing systems via the internet		0.57384					
The value for money that I receive for the shows		0.48140					
My ability to afford tickets for shows			0.91677				
The general ticket prices for shows			0.83206				
My willingness to pay the ticket prices for shows			0.83173				
The fact that I am an avid fan and have the urge to see a specific actor, cast, artist or musician in “real-life”				0.74156			
The desire to support a colleague, friend or family member who performs in a show/s				0.67758			
The desire to take a family member or friend to attend a specific show/s				0.64397			
My love for the arts and desire to see as many productions as possible				0.57139			
The fact that it is a “once-off” or “special edition” show/production considered to be a must-see				0.33360			
Familiarity and reputation of the actor, cast, artist or musician in the shows					0.88788		
Familiarity and reputation of the playwright, author or composer of the shows					0.87620		
The ability to schedule shows in advance						0.80760	
The fact that I have sufficient leisure time at hand to attend shows						0.66511	
The atmosphere and spirit that I experience at the festival						0.55203	
The festival image and brand						0.30878	
The timeslot of shows							0.70243
The overall compilation of the festival programme							0.54429
My personal preference for a specific genre							0.47491
<b>FACTOR LABEL</b>	<b>Factor 1: Media</b>	<b>Factor 2: Quality facilities</b>	<b>Factor 3: Monetary facets</b>	<b>Factor 4: Internal motives</b>	<b>Factor 5: Production credentials</b>	<b>Factor 6: Festival experience</b>	<b>Factor 7: Festival programm</b>

							ing
<b>Cronbach Alpha coefficients</b>	0.853	0.770	0.840	0.700	0.865	0.703	0.590
<b>Mean Value</b>	2.82	3.18	2.71	3.16	3.99	3.60	3.37

### **Effect sizes**

The ANOVA was performed to test for significant differences in the mean values of the independent variables (age categories, number of visits to the festival and behavioural (number of days spend at the festival), based on each of the key factors (dependent variables) as identified by the factor analysis. Categories were created for the data of these three independent variables, as measured by the questionnaire. Five ‘age’ categories, three categories for ‘number of days spent at the festival’ and three categories for number of times the festival was previously visited were therefore used.

### **Number of days**

Number of days spend at the festival was divided into three categories, namely Category one: 1-2 days; Category 2: 3-4; and Category 3: 5 and more days. All three these categories were tested for significant statistical differences by means of an ANOVA. This resulted in all the effect sizes scoring below 0.5, which indicates that there are no statistically meaningful differences between these categories based on the seven key factors.

### **Number of visits to the festival**

Number of visits to the festival was also divided into three categories. Taking into consideration the number of years the festival has existed since its inception (17 years), the categories were divided as follows: Category 1: first time visitors; Category 2: 2-7 times; Category 3: 8 times and more. Once again, the ANOVA revealed no statistically meaningful differences between the categories based on the 7 key factors, since all the effect sizes resulted below 0.5.

### **Age**

Age was divided in 5 categories, namely Category 1: <25 years; Category 2: 26-35 years; Category 3: 36-45 years; Category 4: 46-60 years; and Category 5: 60+ years. Effect sizes

revealed statistically meaningful differences (medium effect) between Age Category 1 and 3 (0.60), as well as Age Category 1 and 5 (0.51) regarding monetary facets.

**Table 4: ANOVA for comparison of the factors by age**

Factor	Age Category 1	Age Category 3	Effect size
Monetary facets	<25 yrs Mean: 3.13 Std. Dev: 1.09	36-45 yrs Mean: 2.53 Std. Dev: 1.06	0.60
Factor	Age Category 1	Age Category 5	Effect size
Monetary facets	<25 yrs Mean: 3.13 Std. Dev: 1.09	60+ yrs Mean: 2.60 Std. Dev: 1.12	0.51

## FINDINGS

The purpose of this research was to explore the key factors contributing to KKNK’s ticket purchases. This was done so that KKNK’s organisers and marketers can better understand and provide for the needs of this festival’s ticket purchasing market; thereby assisting in securing ticket sales. Based on the results, the following findings can be reported:

Firstly, the factor analysis revealed that ‘production credentials’ (familiarity and reputation of the actor, cast, artist, or musician; and the familiarity and reputation of the play writer, author or composer of the performance) is the most important factor contributing to arts festival ticket purchases. Research confirming that these factors positively influence demand for the arts/performances, such as Putler and Lele (2003); Throsby (1990); Urrutiaguer (2002); Lampel and Shamsie (2000); Throsby (1983); Levy-Garboua and Montmarquette (2003); Scheff (1999); Wallace, Seigerman and Holbrook (1993); Abbé-Decarroux (1994); Sochay (1994); Albert (1998); Litman and Kohl (1989); Litman and Ahn (1998); Zufryden (2000); Akdede and King (2006); as Willis and Snowball (2009). The latter study in particular was also based on an arts festival in South African whereby these aspects (reputation of the producer, author and cast) were identified as quality indicators that acted as a determinant of ticket sales.

Secondly, the factor ‘festival experience’ (ability to schedule shows in advance, sufficient leisure time at hand, atmosphere and spirit experienced at shows, and the festival image and brand), was found to be the next most important contributor of ticket purchases. Similar

studies support the aspects within this factor; however, none of them had these aspects grouped together as one factor. The ability to schedule shows in advance is supported in studies conducted by Swanson, Davis and Zhao (2008); Moe and Fader (2009); Beaven and Laws (2005); Halcoussis and Mathews (2007); Felton (1989); Smith (2007); and Scheff (1999). Sufficient leisure time at hand is also supported by Ateca-Amestoy (2008); Werck and Heyndels (2007); Frey and Vautravers-Busehart (2000); Seaman (2005); Levy-Garboua and Montmarquette (2003); Felton (1989); Scheff (1999); Putler and Lele (2003); Withers (1980). The atmosphere and spirit experienced at the event, as a contributor of demand, were evident in studies conducted by Lee, Lee, Lee and Babin (2008); Holbrook and Hirschman (1982); Elliott and Hamilton (1991); as well as Smith (2007). The image and brand of the event/festival contributing to ticket sales, is an aspect present in the studies of Urrutiaguer (2002); and Scheff (1999).

Thirdly, the ‘festival/event’s programming’ (preference of a genre, timeslot of shows, and overall compilation of the festival programme) is a very prominent contributor of demand for the arts/performances in the literature. Timeslots is considered to be a very important determinant of participation; and is evident in the studies by Ateca-Amestoy (2008); Courty (2000); Smith (2007); Scheff (1999); Putler and Lele (2003); Weinberg (1986); Boyle and Chiou (2009). The preferences for specific genre’s is also particularly important as indicated by the literature which places great emphasis on this aspect. This is evident in the studies by Colbert (2003); Corning and Levy (2002); Abbé-Decarroux (1994); Ateca-Amestoy (2008); Bordwell and Thompson (2001); Willis and Snowball (2009); Akdede and King (2006); Scheff (1999); Levy-Garboua and Montmarquette (2003); as well as Putler and Lele (2003). Overall compilation of the festival programme is an aspect supported by research Lee *et al.* (2008); Unwin, Kerrigan, Waite and Grant (2007) and Gursoy, Spangenberg and Rutherford (2006). Once again, none of these studies had these aspects grouped together as one factor.

The fourth most important factor, namely ‘quality facilities’ comprises of aspects abundant in the literature. These include the general accessibility of the venue (as supported by Scheff, 1999:22 and Yoon, Lee & Lee, 2010:337,341); as well as the standard and quality of the venue-facilities (supported by Tkaczynski & Stokes, 2010:70 and Urrutiaguer, 2002:187). A great amount of literature on aspects relating to ticketing is evident. These aspect include ‘accessibility of ticketing systems/services at the festival’ (strongly motivated by Smith, 2007:186-187); and ‘efficiency and user-friendliness of ticketing systems via the internet



(confirmed in two different studies by Beaven & Laws, 2007:120; 2004:183). ‘Quality facilities’ is directly associated with the aspect ‘value for money’, which is verified by Borgonovi (2004:1871).

The aspects that loaded in the fifth most important factor, ‘internal motives’, are supported in the literature, but as separate components. To attend performances with family and friends is, in many studies, considered to be social motive, which in turn, is embedded in personal/internal needs (Bowen & Daniels, 2005:155; Tkaczynski & Stokes, 2010:70); as portrayed in the factor label ‘internal motives’. Stigler and Becker (1977:76) supports the desire to see as many shows as possible is supported. The provision of “once-off” or “special edition” shows/productions within the program is an aspect supported in the literature by authors Corning and Levy (2002) and Sheff (1999). As an avid fan, desiring to see the performers in real life is an aspect also found to be important by Bowen and Daniels (2005:155), Tkaczynski and Stokes (2010:70) and Willis and Snowball (2009:182). The aspect ‘desire to support a colleague, friend or family member who performs in the show’ is not abundant in the literature; however, it is supported by MacArthur (2008:15).

Sixthly, and very interestingly, was the finding that media (television interviews and discussions of shows, radio interviews and discussions of shows, television advertisements, written reviews of shows in general newspapers and magazines, the festival website, word-of-mouth, festival newspaper, festival guide, award winning shows) contributed the second least to attendees ticket purchases at KKNK when compared to the other factors. This is surprisingly contradictory to the tremendous emphasis that is often placed on marketing and advertising endeavours within the literature. The separate aspects in this particular factor are also found in other studies relating to the arts. Radio/television interviews/discussions as well as television advertisements are supported by Slack, Rowley and Coles (2007:52-53). Written reviews is yet another prolific aspect, including studies by Le’vy-Garboua and Montmarquette (2003:2); Gemser, van Oostrum and Leenders (2007:43); and Reinstein and Snyder (2005:27). The festival guide/programme is also found in research by Lee *et al.* (2008:58) and Akdede and King (2006:230). Evident in a study by Nilsson *et al.*, (2001:36) is festival newspapers; and festival website, is an aspect apparent in research by Slack *et al.* (2007:52-53). Supported by Boyle and Chiou (2009) and Karic (2011) is word-of-mouth. The aspect ‘award-winning shows’ present in this factor, suggests that these outstanding performances

'markets' the festival as an event associated with quality performances. Nelson, Donihue and Waldman (2001:15) found that this aspect can be associated with greater ticket sales.

From all the seven factors, 'monetary facets' (ability to afford tickets for shows, the general ticket prices for the shows and willingness to pay the ticket prices for shows), was found to contribute the least to ticket purchases at the KKNK. Even so, the aspects found in this factor are especially noteworthy in the literature. Studies that support these aspects include Diniz and Machado (2011:4); Scheff (1999:16); and Snowball (2005:109). However, to what extent these monetary aspects contribute to the ticket purchase/s in the context of the many other influencing aspects, is vague.

Lastly, an important finding from this study with regards to the number of days they attend the festival, the ages of attendees, as well as the number of times they have previously visited KKNK, is that these have mostly no influence on the factors that contribute to ticket purchases. This suggests that the ticket purchasing market of KKNK is rather homogenous in this regard.

## **IMPLICATIONS**

From the conclusions, certain implications can be derived. First and foremost, the festival organisers/marketers must ensure that production credentials (*familiarity and reputation of the actor, cast, artist, or musician; and the familiarity and reputation of the play writer, author or composer*) of the performances to be held at that year's festivals, is emphasised. Festival organisers/marketers must ensure that the festival programme predominantly makes provision for renowned artists, directors and playwright. Festival markers and organisers therefore need to analyse artists and determine their popularity amongst ticket purchasers and head hunt these artists.

The total experience associated with the festival is the next most important factor to be considered. This can be successfully ensured by releasing the festival programme, well in advance. This will make provision for attendees to *schedule shows in advance*. In addition to this; and festivals should preferably be held over holiday seasons in order and to accommodate them during a time of year where they have *sufficient leisure time at hand*.

Emphasise and attention need to be given to properly plan this festival so that the KKNK's *image and brand are also associated with a vibrant atmosphere and spirit.*

The festival programming must make provision for the *preferred genre's* (drama, comedy, music theatre and cabaret); as well as careful consideration, planning and synchronisation regarding the *timeslots of shows*. The festival programme must also include "*once off*" or "*special edition*" performances, as these are popular among attendees. These aspects regarding programming will ensure that the *overall compilation of the festival programme* is what the ticket purchasing market wants.

Although media exposure is important, it is not a dominant factor, therefore spending related to media should be carefully thought through. Strong emphasis should be placed on promoting production credentials. Tickets purchasers need to be informed about shows were the "big names" performs in. Media should also focus on using famous actors, playwright and directors on their marketing material.

Monetary facets (*ticket prices, affordability, and willingness to pay*) are not considered to be such an important facet contributing to ticket purchases when compared to the other factors. Festival organisers and marketers can therefore consider gradual, yet sufficient increases each year, without the concern of facing too much resistance from this market. This could imply that ticket purchasers to KKNK would be willing to pay higher prices for tickets as long as they get what they want.

With regards to the differences between attendees aged 25 years and younger versus 36 and 45 years (Age Category 3), as well as 60 years and older (Age Category 5), it suggests that the younger ticket purchasers are more affected by monetary facets, possibly because they do not earn a fixed income.

Since the number of days spent at the festival indicated no differences regarding the key factors that contribute to their ticket purchases, the organisers/marketers of KKNK should continue focussing on the highest rated factor, namely production credentials. For instance, by making provision for performances with the 'big names' every day of the festival duration, will grant visitors (regardless of them visiting few or many of the festival days), the opportunity to book the performances they favour on the days they prefer.

The number of times KKNK was previously visited also revealed no differences regarding the key factors contributing to ticket purchases. This implies that first time visitors and loyal visitors purchase tickets for the same reasons. Therefore there's no need to differ marketing strategies for first time and loyal visitors. It also suggests that should the programme cater for the needs of this ticket purchasing market, it will not only satisfy the needs of the loyal, regular visitors; but will also appeal to the KKNK newcomer.

## **CONCLUSIONS AND RECOMMENDATIONS**

These findings and implications provide KKNK festival organisers/marketers with valuable insights regarding the ticket-purchasers of this festival; whereby they can specifically cater for the needs of this market. This will facilitate maintaining and increasing their involvement in the arts. Satisfied frequent participants may very well become habitual attendees (McCarthy & Jinnett, 2001:29); thus securing a prominent portion of the festival's revenue through ticket sales, and ultimately addressing the declines in KKNK's ticket sales in a very competitive South African arts festival market. In addition to KKNK, it is recommended that the questionnaire is slightly adapted to make provision for a broader base of arts/music/cultural performances at which this type of research can be conducted. This will assist in discovering whether attendees of arts performances at festivals differ from the arts performance attendees to once-off shows (such as civic theatre performances, popular music events); thus allowing for a greater variety of comparative studies to be conducted and broadening the research base regarding attendance at the performing arts. It is also recommended that studies which focus on the individuals who do not purchase tickets are done, to provide insights regarding the reasons that inhibit individuals from purchasing tickets.

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**EVERYTHING TO EVERYBODY? TEACHER VERSUS RESEARCHER: AN  
ANALYSIS OF RESEARCH PRODUCTIVITY BY SATISFACTION TYPOLOGY IN  
THE CONTEXT OF A SOUTHERN AFRICAN RESEARCH UNIVERSITY.**

Chris William Callaghan, University of the Witwatersrand

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**ABSTRACT**

Across the globe, and in the Southern African context of higher education, literature indicates an ever-present tension that exists between teaching and research, two fundamental work roles in such Universities. Despite certain literature that relates aspects of these roles to different aspects of job performance, absent from such literature is an analysis of a dimension of job performance, research productivity, by specific locus of satisfaction, in this context. In this research, correlation and multiple linear regression analysis are used to test theory that predicts relationships around research productivity that differ by locus of satisfaction. Findings indicate that although individuals with a teaching locus of satisfaction are less research productive than their counterparts, applying their teaching efforts to postgraduate supervision is found to be associated with higher levels of research productivity. Interestingly, hybrid type academics, who derive their satisfaction from both teaching and research, are found to be the least productive.

**INTRODUCTION**

Within an increasingly globalised context, the regional Southern African University, as an educational institution plays a role in meeting the diverse needs of a range of societal stakeholders (Beckmann and Prinsloo, 2009). The ranking of such Universities is typically premised upon research output, and the extent to which a University meets a society's

knowledge needs (Carpenter, 2011). However, an institution's ability to meet such needs is dependent upon the performance of such an institution, which, in turn, is dependent upon the motivation and satisfaction, and Job Performance, of the individuals that comprise it (Judge, Thorensen, Bono and Patton, 2001).

According to a range of literatures, a large body of theory, including seminal theory (Chen, Ployhart, Thomas, Anderson and Bliese, 2011; Hackman and Oldham, 1976; Herzberg, 1966; Organ, 1988; Scott, 1966) has been found to predict a positive and significant relationship between Job Satisfaction and Job Performance, according to certain loci, or dimensions of satisfaction. Meta-analysis findings have also provided evidence of the positive and significant relationship between Job Satisfaction and Job Performance (Judge et al., 2001).

More specifically, Job Satisfaction is a critically important aspect of management due its relationship with employee turnover, or the loss of staff from organisations (Aydogdu and Asikgil, 2011, Delobelle, Rawlinson, Ntuli, Malatsi, Decock and Depoorter, 2011; Mobley, 1977). The consequence of dissatisfaction of academic staff is not typically limited to the loss of such highly skilled individuals from institutions, but can also result in the exodus of such individuals to other countries. The loss of highly skilled individuals out of the region and into the globalised university system also reduces local economic growth and results in a "reduction in a nation's capacity to develop as a 'knowledge society' and therefore compete in the global economy", and also "constitutes a major loss of investment in terms of the education and training of its highly skilled professionals" (HSRC, 2012:1).

Work dissatisfaction does not only contribute to lower institutional performance (and lower levels of research output in the case of the University) through the exit of staff, but can also cause withdrawal of effort in pursuit of organisational objectives (Organ, 1988; 1997).

It is argued that if academic staffs are dissatisfied then this can potentially be associated with a cost, which, in turn, can be borne by the individual, the institution, and potentially the broader society itself. Importantly, such a cost is also expected to result in lower levels of research productivity. This research, therefore, investigates the research output relationships around specific loci of satisfaction in the context of a large Southern African regional research-oriented University; the University of the Witwatersrand. Four measures of research productivity are

included in the analysis; (i) Department of Education (DOE) accredited journal article publications, (ii) Department of Education accredited journal articles that are also ISI or IBSS accredited, (iii) conference presentations and (iv) conference proceedings publications. Findings are used to provide recommendations for further research, and for the management of research productivity in such a context. The specific focus of the research is introduced as follows.

## **PROBLEM INVESTIGATED**

A fundamental tension exists for the contemporary University, which is tasked with the delivery of services based upon the needs of different stakeholders (Del Rey, 2000). Two fundamentally important work roles have historically dominated, and continue to dominate, University work; teaching and research (Del Rey, 2000; Hattie and March, 1996).

The tension between these two roles is also reflected in current discussions in the common press, and other forums, which stress the need to, concurrently, satisfy both of these roles, whilst acknowledging the tension present in such a task, particularly as such Universities are also globally rated on the basis of their research productivity (Carpenter, 2011; Saideman, 2011).

Notwithstanding the need for universities to be ‘everything for everyone’ in a context of competition for funds contributions from students and also for research funding (Gautier and Wauthy, 2007), it is argued in this research that specific knowledge of the costs and consequences of this role conflict with regard to the individual academic, in the Southern African University context, is absent from the literature.

More specifically, it is argued that the management of such a conflict between competing tasks, and the attainment of research productivity without the loss of skilled staff through dissatisfaction requires knowledge that relates to (i) the relative relationships of research productivity around individual academics that derive their work satisfaction from teaching versus research; of (ii) the relative typologies of biographical and contextual factors associated with such individuals; and (iii) the specific differences in the antecedents of research productivity between individuals that derive their work satisfaction from teaching versus research in this context. The problem addressed by this research is the lack of knowledge of these three aspects



of work in this context. This research, then, contributes to the literature and attempts to provide insights into how the research productivity process can be more effectively managed, in a manner that is associated with a reduction in the human cost involved in the management of these two, potentially conflicting, aspects of University work; teaching and research.

## **RESEARCH OBJECTIVES**

The objective of this research is to test theory that relates research productivity, as a dimension of Job Performance, to differences between individuals that derive their work satisfaction primarily from either teaching or from research, termed a Teaching Locus of Satisfaction (TLS) in the former instance, and a Research Locus of Satisfaction (RLS) in the case of the latter. A subordinate objective of this research is to provide insight that may allow for the relative satisfaction and research productivity of academic staff to be facilitated in a manner that reduces the human cost associated with such work role conflict. From these objectives, the following three research questions are derived:

- What is the relationship between the two Loci of Satisfaction (Teaching and Research) and research productivity?
- What is the biographical or contextual typology associated with each of these groups (individuals with a Teaching versus a Research Locus of Satisfaction)?
- What is the specific typology of factors that contribute to research productivity differently according to differences between these two groups differentiated by Loci of Satisfaction?

Using an associative empirical cross-sectional research design, this research aims to provide insight that can provide answers to these research questions. Theory and empirical findings that relate to the tested relationships are introduced as follows.

## **THE LITERATURE: THEORY AND HYPOTHESES**

Satisfaction is related to individual work performance through the mechanism of Organisational Citizenship Behaviour (OCB), whereby OCB, or effort that goes beyond that which is compensated by the organisation, is withdrawn if an individual is dissatisfied with aspects of work (Organ, 1988). This mechanism can also be taken to work at a group level (Organ, 1997). Dissatisfaction, then, is expected to potentially reduce such 'extra-role' behaviour. According to Herzberg's Two-Factor theory, motivation, and satisfaction, are typically associated with factors that provide intrinsic payoffs to individuals (for example; recognition), termed 'motivator factors', yet extrinsic rewards are typically regarded as 'hygiene factors', or factors peripheral to intrinsic motivation, which cannot motivate individuals as effectively as such intrinsic factors (Herzberg, 1966). The implication of Herzberg's theory (1966) is that intrinsic factors are at the heart of individual motivation. According to Hackman and Oldham (1976), it is the intrinsic meaning of work that will provide intrinsic payoffs to individuals which will be expected to be associated with motivation and work satisfaction. Meta-analysis findings have found support for the relationship between Job Satisfaction and Job Performance, on the basis of over 312 different samples ( $n=54417$ ), with a mean true correlation of .30 across these samples (Judge et al., 2001). Person-organisation and person-job fit, however, have also been found to influence the relationship between satisfaction and Job Performance (Erdogan and Bauer, 2005). According to the scarcity model of the relationship between teaching and research, role conflict dominates in contexts where scarcity of time, energy and commitment is present together with the need for these to be allocated to different roles (Moore, 1963). According to the predictions of the scarcity model, the relationship between teaching performance and research performance is expected to be negative. The types of investments individuals make in teaching are also fundamentally different from those of research (Fox, 1992). Other research has been found to contest the scarcity model, as in certain cases individuals with teaching, research and administration roles have also been found to be more productive than academics with fewer roles (Hattie and Marsh, 1996). The conventional wisdom model also contests the scarcity model, and posits that research enables academics to be better teachers, and not less effective in teaching (Hattie and Marsh, 1996). Another model that contests the scarcity model is the 'g' model, which argues that individuals with high levels of ability in one area typically have an underlying cognitive strength, which can be applied in both teaching and research (Hattie and Marsh, 1996). In the literature it

has also been argued that teachers need to engage in research that benefits teaching, yet not in fundamental research which is more resource intensive (Hattie and Marsh, 1996). Certain values have been mooted as being associated with both good teaching and good research: high commitment (in the form of perseverance, dedication and hard work); creativity (in the form of imagination, originality and inventiveness); investigativeness; and critical analysis (Hattie and Marsh, 1996). Despite commonalities which may exist between good teachers and researchers there may, however, be moderators to this relationship such as commitment and time, that “mediate the relationship and may cause the relationship” to be negative (Hattie and Marsh, 1996:512). It is argued in this paper that individuals that derive their primary work satisfaction from different Loci of Satisfaction will differ in their investment of time and energy applied to an activity. Overall, according to their meta-analysis of the literature, Hattie and Marsh (1996) stress that satisfaction was found to be more important than potential rewards for performance in both teaching and research. Satisfaction therefore dominated the extrinsic aspect of these relationships (Hattie and Marsh, 1996). From the above literature, Hypothesis 1 is offered; that *there is a significant association between Satisfaction, measured as specific Loci of Satisfaction, and research productivity.*

The research productivity literature has been found to support the link between experience of research and increased research productivity over time (Hattie and Marsh, 1996). Other conceptions within the literature both challenge the scarcity model, or, alternatively, support it. According to the different enterprises model teaching is fundamentally different from research according to the activities associated with each (Hattie and Marsh, 1996). The differential personality model predicts that differences in personality between individuals provide a better fit with either teaching or research (Hattie and Marsh, 1996). To the extent that Positive Affectivity and Negative Affectivity typically act as a proxy for the ‘big five’ personality factors of Extraversion and Neuroticism, respectively (Watson, Clark and Tellegen, 1988), differences in these factors might be expected to potentially influence research productivity in different ways for individuals with different Loci of Satisfaction. In contrast to the differential personality model, the unrelated personality model suggests that differences between the personalities of teachers and researchers are orthogonal (Hattie and Marsh, 1996). According to this theory, teachers are “liberal, sociable, showing leadership, extroverted, low in anxiety, objective, supportive, nonauthoritarian, not defensive, intelligent, and aesthetically sensitive” yet

researchers are “striving to create order, independence, achievement orientation, and dominance” (Hattie and Marsh, 1996:514). Further, according to this theory teachers and researchers both show leadership, but differ primarily in supportiveness, as researchers are expected to be less supportive (Hattie and Marsh, 1996). However, according to the divergent reward system model the conflicting roles of teaching and research are associated with different expectations and obligations that are underpinned by different institutional reward systems (Hattie and Marsh, 1996). According to the predictions of this model, the relationships that exist around research productivity and teaching might reflect the remuneration and informal rewards systems of such institutions. The implication of this model is that such conflicting roles can be managed. Differences between individuals with different Loci of Satisfaction can also be associated with other intrinsic factors, and other factors associated with Job Performance might also be differently associated with individuals with different Loci of Satisfaction.

Meta-analysis findings have provided evidence of significant associations between Self-efficacy and measures of work performance (Stajkovic and Luthans, 1998). Evidence also exists that supports the notion that financial incentives can be effective in motivating higher levels of research productivity (Hales, Shahrokh and Servis, 2005). Evidence has also been found to support the use of intrinsic motivating factors such as professional awards and recognition to enhance commitment to research productivity (Young, 2005). The expectations of managers, or of context, might create the conditions of a ‘self-fulfilling prophecy’ akin to the seminal discovery of the influence of teachers upon learners by Rosenthal and Jacobson (1968). The implication of this body of theory and empirical findings is that research productivity can be managed, as long as the intrinsic mechanisms that underlie work performance are respected, and are aligned with the process.

Age has been found to be positively associated with higher levels of commitment in certain work contexts (De Clercq and Ruis, 2007), and has been found to typically form a u-shape of satisfaction along a range of loci over age (Blanchflower and Oswald, 2008; Kellenberg and Loscocco, 1983) and to generally be positively associated with life satisfaction (Ardelt, 1997). Differences in biographical or contextual factors might shape, or, alternatively, might be associated with, a different typology of individual Loci of Satisfaction, and this might influence the fit between an individual and the organisation (person-organisation fit) or influence the fit

between an individual and the job (person-job fit) (Erdogan and Bauer, 2005). According to Activation theory, an individual has a unique activation level which, if miss-matched to tasks, will cause dissatisfaction (Scott, 1966). If certain types of research work, for example, are relatively less stimulating than other work, certain individuals are expected to be better matched for such work than others (Scott, 1966). Activation is typically associated with performance in the form of an inverted 'u' shape, with the middle ranges associated with optimal performance. This is a physiological aspect of work that is manifested in affective states (Scott, 1966), which might differ between individuals, or be reflected in tested relationships. On the basis of the above literature, Hypothesis 2 is derived, *that there is a significant association between different Loci of Satisfaction and individual biographical and contextual factors.*

A range of factors are also evident in the literature that relate to research productivity that may plausibly differ in their influence on different forms of research productivity because of differences in Satisfaction Loci of Satisfaction. Journal authorship has been found, in certain cases, to be dominated by male authors (Rachal, Shelley and David, 2008). Differences in publishing rates have also been found in academic contexts (Rothausen-Vange, Marler and Wright, 2005). Male academics have, in other contexts, also been found to spend less time on teaching and more time on research than female academics (Barbezat, 2006). Interconnectivity between researchers, in different forms, is also expected to be associated with higher levels of research productivity (Swan, 2007). Networks between individuals, such as ties to a home country have been found to increase an individual's access to resources (Coleman, 1988; Light, 1984, Shapero and Sokol, 1982; Wilson and Martin, 1982), which might also enable research productivity through such academic networks. Exposure to practitioner communities and membership of professional associations might offer certain skills that might enable research productivity (Crane, O'Hern and Lawler, 2009). Marriage and dependent children might reflect the presence of family-to-work spillovers that might constrain Job Performance (Eagle, Miles and Icenogle, 1997; Dilworth, 2004; Dilworth and Kingsbury, 2005). Collaboration with colleagues and also with masters or doctoral students has been found to be significantly associated with higher levels of research productivity (Hara, Solomon, Kim and Sonnewald, 2003). Whether teaching and research are related has an implication for the management of such research productivity. The Bureaucratic Funding Model suggests that if teaching and research are not related then teachers and researchers should be rewarded each for their different strengths

separately (Hattie & Marsh, 1996). In the literature certain researchers have claimed that curricula could be tailored better for student needs if they were not bound to research (Hattie & Marsh, 1996). Derived from the discussion above, Hypothesis 3 is offered, *that there is a significant difference in the associations between biographical and contextual factors and research productivity by Loci of Satisfaction*. Having provided an overview of the voluminous literature that relates to potential relationships between variables to be tested, the research methodology applied in this research is considered as follows.

## **RESEARCH METHODOLOGY**

This research applied an exploratory descriptive research design. The research was located within the positivist epistemological paradigm and the scientific method was applied, with empirical statistical tests used to test hypotheses (Burrell and Morgan, 1979).

### **Data Collection**

The entire institution was sampled. Survey instruments were distributed by research assistants across the institution. The surveys were distributed within addressed sealable envelopes that used the internal mail system to return to a central collection point. Anonymity was ensured in this manner. Reliability was enhanced through the use of a standardised research protocol, where all methods were applied in a consistent manner, so as not to introduce extraneous variance into the process. Of a population of about 800 full-time academic staff, two hundred and twenty-five usable responses were obtained, with a response rate of about twenty-eight percent. Due to the non-responses, which were expected in such a context, the method is taken to be equivalent to convenience sampling, as ethical considerations were applied and refusals were unconditionally respected. The instrument was piloted before administration. Scales were developed according to the principles of validity and were tested for reliability. Job Satisfaction was found to return a Cronbach Alpha value of .859. The measures of Satisfaction Loci of Satisfaction were found to return Cronbach Alpha values of .79 for Research Locus of Satisfaction and .743 for Teaching Locus of Satisfaction when measured against the measure of satisfaction with research versus teaching. This measure was included in order to test the reliability of these items.

## Data Analysis

A univariate analysis was performed upon the data. The data were checked for accuracy of data entry; for missing values; and for the degree of fit with regard to their distributions and the assumptions of the bivariate and multivariate techniques included in the research design. Bivariate scatterplots were checked for points associated with relatively high leverage, high discrepancy and high influence (Tabachnik and Fidel, 2007). Univariate data was checked for normality, and skewness and kurtosis values were examined. Kolmogorov-Smirnov and Shapiro-Wilk tests were performed on the univariate data in order to check for non-normality. Normal probability-probability (P-P) and quartile-quartile (Q-Q) plots were run and checked for deviations from normality. Bivariate scatter plots were checked for the assumption of linearity between variables, and for the presence of heteroscedasticity. Data were also checked with regard to the assumptions of the multivariate tests applied. On the basis of the univariate analysis, parametric tests of bivariate relationships were performed using tests of Pearson's  $r$ . However, to ensure the integrity of the results, the bivariate associations were tested using two further non-parametric tests, using Spearman's Rho measures and also Kendal's Tau tests. The latter were included due to the presence of ties within the data (Tabachnik and Fidel, 2007). These were used to check the process, and are not reported here.

In the case of correlations of binary items with continuous items, Pearson point biserial correlations were used. In this manner, a robust analysis of the bivariate relationships allowed for insight into the net, or zero-order relationships between tested variables. The bivariate analysis, however, did not indicate the structure of the multivariate effects; covariate effects were not included. Therefore multiple linear regression analysis was used in order to provide further insight into these effects, and into the testing of the hypotheses. The most common minimum requirement for the inclusion of predictors within a multiple linear regression model is ten cases of data, or data points, for each predictor in the model (Field, 2005). This requirement was met. The inclusion of variables in the model was based upon an analysis of the literature. The selection of variables was based upon a theoretical rationale, and therefore it was deemed acceptable to use backward elimination. Variables were removed from the equation if they did not attain significance at within the ten percent level of significance. Variables found to be significant at the five percent level were taken to be significant in analysis. This process was first

run with the full sample of each group. Then, on the basis of tests of the assumptions of the model, certain variables identified as outliers or influential points were removed, and the model was run again. Variables found to be significantly associated with the dependent variable in both the models with no data removed and in the models with data removed were regarded as supported associations. A justification for the inclusion of variables into the MLR model is provided as follows.

Inflated correlations between variables were identified, and composite variables, or variables which shared an underlying structure, were excluded from the MLR analysis. Consequently, of the range of experience variables, these were considered to share an underlying structure of time, and therefore only one of these variables was included: years of experience as a researcher. Similarly, the PhD supervision item was also not included because the master degree supervision item was included, in order to avoid multicollinearity. Job satisfaction, Self-Efficacy associated with each form of research productivity; Positive and Negative Affectivity and Locus of Control were all measured using Likert-type scales, which provided interval data for analysis. Age was measured in years as a ratio data item (Stevens, 1946). Other variables measured using Likert-type scales included a preference for quantitative versus qualitative methods; number of masters students supervised and a measure of number of dependent children. Gender, membership of professional associations; marital status; South African origin and English/non-English home language were all included as binary variables. All these variables were included in the initial model, as the inclusion of all of these variables was considered to be justified by theory and previous research (Field, 2005). In order to facilitate the testing of comparative hypotheses, the analysis was also applied to the sample after it was split by Locus of Satisfaction. The sample was split into two groups differentiated by locus of satisfaction: respondents with a Research Locus of Satisfaction (n=129) and a Teaching Locus of Satisfaction (n=94). Scores on these Likert-type scale items were dichotomised, and the mid-point was not included. For the purposes of further insight, a further split was applied, and a hybrid category was also removed from these groups. This split, however, was not considered to be part of the primary analysis process. Certain limitations of the research are outlined as follows.



## Limitations

Smaller significance values were expected across most tests than would have been expected in contexts with a more heterogeneous range of respondents (Tabachnik and Fidel, 2007). This range restriction was expected to be due to the selection process of academics in such institutions, where almost all staff have attained higher degrees. To some extent, this process is expected to 'select out' a significant amount of variability that might be present in other working contexts. Nevertheless, the findings associated with investigations of relationships in this context were expected to generalise to other higher education contexts to the extent that certain similarities were shared with this context. Another limitation is the cross-sectional nature of such research. A longitudinal perspective might offer more insight into the changes around satisfaction over time (Chen et al., 2011). Sample selection bias might have been introduced through self-selection; academics with more interest in research productivity might have been more likely to respond. Nevertheless, within these constraints it is argued that these findings are generalisable to other contexts to the extent that such contexts share similarities with this context.

## The Sample

The variable that measured a preference for research over teaching was found to be negatively associated with satisfaction with teaching, or a Satisfaction Locus of Satisfaction ( $-.593; p < .0001$ ) and positively associated with satisfaction with research, or a Research Locus of Satisfaction ( $.657; p < .0001$ ). This validated the conception that these two Loci of Satisfaction represent separate and oppositional clusters of the sample. An Administration Locus of Satisfaction (tested only for the purposes of further insight) was not found to be significantly associated with a preference for either research or teaching. Individuals with a Teaching Locus of Satisfaction were found to comprise 41.8% of the sample, and individuals with a Research Locus of Satisfaction were found to comprise 57% of the sample. For further insight, when hybrid types (individuals with high scores in both teaching and research Loci of Satisfaction) were removed, 52 respondents of the entire sample, or 23% of the sample were categorised as hybrids, or individuals with both a Research Locus of Satisfaction and a Teaching Locus of Satisfaction. Table 1 reports the descriptive statistics of the sample, excluding the research productivity descriptive statistics, which are reported in Table 2. Tables 3, 4 and 5 report the descriptive

statistics for academic staff with a Teaching Locus of Satisfaction, Research Locus of Satisfaction, and for both a Teaching and a Research Locus of Satisfaction (hybrid type of Locus of Satisfaction), respectively. Tables 6, 7 and 8 report the Pearson correlations for Research Locus of Satisfaction, Teaching Locus of Satisfaction and Administration Locus of Satisfaction with the measures of research productivity, respectively. Table 9 reports the results of the tests of the multiple linear regression models (MLR) that relate to DOE and DOE ISI and IBSS accredited journal articles as dependent variables, and Table 10 reports the same for the conference proceedings publications and conference presentations tests. Tables 11, 12, 13 and 14 report the results of the MLR testing with the following as dependent variables: DOE journals, DOE ISI/IBSS journals, conference presentations and conference proceedings publications, respectively. Table 15 reports further analysis of Pearson biserial correlations between the measures of research productivity and the three categories: of individuals with a Teaching Locus of Satisfaction (with hybrids removed), a Research Locus of Satisfaction (with hybrids removed), and hybrids (individuals with both a Teaching and a Research Locus of Satisfaction). Table 16 reports the same, yet with biographical and contextual factors tested instead of research productivity measures. Table 17 reports the results of the testing of MLR models with Teacher, Researcher and Administration Loci of Satisfaction, respectively. Due to the large number of tables, which are deemed necessary for inclusion within this paper, these tables, with the exception of Table 1 which is shown below, are placed at the end of the paper, after the references section. The results are reported and discussed as follows.

## **RESULTS AND DISCUSSION**

The reporting of the results and the discussion of the research findings is undertaken as follows. In each section, for the purposes of clarity, the tested hypothesis is used as the section heading.

*Null-hypothesis 1.a.: There is no significant association between a Teaching Locus of Satisfaction and research productivity.* A Teaching Locus of Satisfaction is found to be negatively associated with publication in: internationally accredited journals, total journal publication, the publication of conference proceedings, conference presentations and the publication of book chapters. However, no association was found between a Teaching Locus of

Satisfaction and the publication of books. The null-hypothesis is rejected. To the extent that such individuals with a Teaching Locus of Control are found to be significantly dissatisfied with research when contrasted with teaching, these findings are found to support seminal theory (Hackman and Oldham, 1976; Herzberg, 1966; Organ, 1988; Scott, 1966), and meta-analysis evidence (Judge et al., 2001), from different contexts, that predicts a negative relationship between work related dissatisfaction and aspects of work performance. The dichotomy between these two fundamental tasks of the university; teaching and research, is found to be reflected in the satisfaction profiles of academic staff. To the extent that a Teaching Locus of Satisfaction is found to be negatively associated with almost all of the tested measures of research productivity, these findings support the notion of role conflict, and the scarcity model (Moore, 1963), where satisfaction with one role might be less compatible with the performance of another role. Scarcities of time, or resources, are at the heart of such role conflict according to Moore (1963). Despite previous meta-analysis findings that have contested the notion of the scarcity model (Hattie and March, 1996), in this context this conception cannot be excluded. Investments in time, or other individual intangible resources might, indeed, not be mutually supportive, as argued by Fox (1992). Whereas other research has investigated the relationships of time spent on the different roles (Hattie and Marsh, 1996), this research investigates the intrinsic satisfaction structures associated with different aspects of these roles.

**Table 1. Descriptive Statistics: Entire Sample**

	N	Minimum	Maximum	Mean	Std. Deviation
Job Satisfaction	225	3	21	15.07	4.025
Satisfaction Teaching	225	1	7	4.24	1.583
Satisfaction Administration	225	1	7	2.23	1.529
Satisfaction Research	225	1	7	4.87	1.552
Total Self-efficacy Research	225	80	600	425.25	106.358
Self-efficacy DOE journals	225	0	100	74.29	25.177
Self-efficacy DOE ISI IBSS	225	0	100	71.87	25.157
Self-efficacy Proceedings	225	0	100	76.39	23.813
Self-efficacy Presentations	225	0	100	81.50	21.383
Self-efficacy Quantitative	225	0	100	49.88	33.404
Self-efficacy Qualitative	225	0	100	71.33	27.471
Negative Affectivity	225	9	41	17.75	6.629

Positive Affectivity	225	6	86	38.13	6.870
Locus of Control	225	30	95	69.56	10.622
Age	225	22	72	40.67	10.555
Gender 1=male#	225	0	1	.47	
Years as a researcher	225	.00	48.00	10.1989	8.84216
Professional Associations#	225	0	1	.81	
Masters Supervised	224	0	60	6.19	9.554
Preference Quantitative=1	225	.0	9.0	.456	.7213
Married#	225	0	1	.57	
Dependent Children	224	0	7	1.09	1.279
RSA origin#	225	0	1	.56	
English#	225	0	1	.52	.501

Notes: #a binary variable. The mean represents the proportion within the sample.

The divergent reward system model predicts that relationships around teaching and research will reflect the human resources systems that prioritise research over teaching in terms of promotions, and, therefore, remuneration (Hattie and Marsh, 1996). It is argued that if research productivity is to be increased, then such reward structures need to further incentivise such research output. It is argued that intrinsic satisfaction loci might enable individuals to be robust, however, to such systems. It is, therefore, further argued that such role conflict might be reduced in this manner only if the intrinsic satisfaction of such individuals is taken into account in the process.

For the purposes of further analysis, binary variables were created for (i) hybrid loci of satisfaction types, which comprised individuals that scored over the midpoint of the scale (4) for both teaching satisfaction and research satisfaction; (ii) teaching only Locus of Satisfaction, whereby those with a satisfaction with research were removed from this sub-sample; and (iii) research only Locus of Satisfaction, representing individuals with high research satisfaction only. Surprisingly, hybrid satisfaction types are found to be negatively associated with all the research productivity types other than the publication of book chapters, and teacher-only types are found to be negatively associated with only DOE ISI and IBSS journal publication, conference presentations and the publication of book chapters. This further analysis suggests that, although individuals with a Teaching Locus of Satisfaction are typically negatively research productive,

individuals that derive their satisfaction from both teaching and research are the least productive across the entire range of research productivity measures. This finding might suggest that role conflict might be most intense in individuals that derive their satisfaction from both teaching and research. It is argued that this finding further supports the scarcity model of Moore (1963), as role conflict, particularly in terms of time or other resource allocation, is expected to be more intense for individuals that derive their satisfaction from both roles. It is argued that certain important implications flow from this.

**Table 2. Descriptive Statistics for the Research Productivity Items**

	N	Minimum	Maximum	Mean	Std. Deviation
Accredited DOE Journals	225	0	100	4.27	10.139
Accredited DOE ISI/IBSS	225	0	100	7.19	14.690
Conference Proceedings	225	0	40	3.42	6.051
Conference Presentations	225	0	150	8.82	16.695
Books	225	0	100	1.05	6.802
Book Chapters	225	0	30	1.70	3.271

Notably, the hybrid category is dominated by satisfaction with teaching (Table 16). Interestingly, individuals with a research only Locus of Satisfaction are found to not be significantly dissatisfied with the incentives available for research. It is individuals with a teaching only Locus of Satisfaction that are found to be the only of these three groups to be significantly associated with this item (satisfaction with financial incentives available for research). This might indicate that financial incentives may play a role in the intrinsic motivational perceptions of individuals that derive their satisfaction from teaching and not research. A recommendation that derives from this is that the impact of extrinsic rewards upon research productivity of such individuals should be further researched. Human resources remuneration systems might provide a better incentive for such individuals.

**Table 3. Descriptive Statistics Teaching Locus of Satisfaction**

	N	Minimum	Maximum	Mean	Std. Deviation
TotJobSat	95	3	21	14.57	4.633
SatTeach	95	4	7	5.74	.802
SatAdmin	95	1	7	2.46	1.681
SatRes	95	1	7	4.43	1.499
TotSelfEfficacyResearch	95	80	600	381.57	104.585
SelfEfficacyDOEPub	95	0	100	67.26	22.417
SEIntJournal	95	0	100	62.58	24.699
SEConfProc	95	0	100	68.77	25.389
SEPresentconf	95	0	100	75.49	23.081
Sestatisticalanalysis	95	0	100	42.33	31.139
	95	0	100	65.14	27.169
SEQualitativeanalysis					
TotNA	95	10	41	18.02	6.540
TotPA	95	6	50	37.76	6.331
TotLC	95	39	95	69.16	10.098
Age	95	22	66	39.87	11.507
Gender 1=male	95	0	1	.36	.482
Years as a researcher	95	.00	40.00	8.7579	7.71082
Professional Associations	95	0	1	.78	.417
Masters Supervised	95	0	40	5.44	8.228
PreferenceQuant=1	95	.0	1.0	.363	.4342
Married	95	0	1	.58	.496
Dependent Children	94	0	7	1.10	1.368
RSA	95	0	1	.60	.492
English	95	0	1	.57	.498
Valid N (listwise)	94				

The negative associations of hybrid academics contest certain of the predictions of the conventional wisdom model that predicts a positive and synergistic relationship between teaching and research, and also the 'g' model which also predicts such a relationship (Hattie and Marsh, 1996) which are predicated on the inherent ability of an individual which can result in competence that spans both of these work roles. It is argued that the inherent ability of an individual will, instead, be directed by intrinsic forces such as a satisfaction locus of satisfaction. The different enterprises model, which predicts that teaching and research are fundamentally different activities (Hattie and Marsh, 1996), is considered to be supported in this context,

although the prediction of this model; that no relationship exists, is not supported, as individuals that derive their satisfaction from teaching are found to be significantly less research productive.

**Table 4. Descriptive Statistics Research Locus of Satisfaction**

	N	Minimum	Maximum	Mean	Std. Deviation
TotJobSat	130	3	21	15.65	3.714
SatTeach	130	1	7	3.90	1.569
SatAdmin	130	1	6	2.14	1.424
SatRes	130	3	7	5.92	.807
TotSelfEfficacyResearch	130	80	600	444.10	102.106
SelfEfficacyDOEPub	130	0	100	75.85	26.400
SEIntJournal	130	0	100	77.23	22.731
SEConfProc	130	0	100	78.77	23.477
SEPresentconf	130	0	100	82.38	21.765
Sestatisticalanalysis	130	0	100	54.44	33.822
SEQualitativeanalysis	130	0	100	75.43	24.981
TotNA	130	9	32	17.05	5.089
TotPA	130	25	50	38.63	5.298
TotLC	130	30	95	69.78	11.597
Age	130	22	72	39.88	10.400
Gender 1= male	130	0	1	.51	.502
Years as a researcher	130	.50	48.00	10.7462	9.40564
Professional Associations	130	0	1	.81	.396
Masters Supervised	130	0	60	6.28	9.905
PreferenceQuant=1	130	.0	1.0	.450	.4526
Married	130	0	1	.52	.501
Dependent Children	129	0	7	.97	1.299
RSA	130	0	1	.55	.499
English	130	0	1	.52	.501

Clearly evident from Table 16 is the difference in research-related Self-efficacy between teaching-only satisfied and research-only satisfied individuals. These negative associations seem to dominate the associations of teacher-only satisfied individuals.

Interestingly, the hybrid category is found to have fewer negative Self-efficacy scores yet is found to have more negative research productivity scores than the teaching-only category. The significance of Self-efficacy as a predictor of research productivity supports empirical evidence from other contexts, including meta-analyses (Stajkovic and Luthans, 1998) that have found

positive associations between Self-efficacy and different dimensions of work performance. This finding might indicate that some effect dominates the low research productivity of hybrid academics that exists over and above the effect of Self-efficacy. It is argued that this lower level of research productivity is associated with more intense role conflict. Whereas the negative associations of teaching-only satisfied individuals are associated with lower levels of Self-efficacy, it is argued that hybrid academics are less research productive because of a fundamental role conflict between the twin roles of teaching and research. It is, therefore, argued that there is a typology of research productivity by Satisfaction Locus of Satisfaction which dominates work roles in this context. It is argued that if human resources systems do not take these differences into account then dissatisfaction might result, with further consequences to the retention of skilled personnel.

**Table 5. Descriptive Statistics Hybrid Both Teaching and Research Locus of Satisfaction**

	N	Minimum	Maximum	Mean	Std. Deviation
TotJobSat	52	3	21	15.44	4.084
SatTeach	52	4	7	5.48	.700
SatAdmin	52	1	6	2.44	1.577
SatRes	52	3	7	5.48	.779
TotSelfEfficacyResearch	52	80	600	401.54	105.967
SelfEfficacyDOEPub	52	0	100	68.94	24.078
SEIntJournal	52	0	100	69.52	24.580
SEConfProc	52	0	100	71.92	25.880
SEPresentconf	52	0	100	76.73	22.878
Sestatisticalanalysis	52	0	100	44.52	33.007
SEQualitativeanalysis	52	0	100	69.90	25.059
TotNA	52	10	32	17.31	5.607
TotPA	52	27	50	38.62	5.402
TotLC	52	46	95	69.87	10.559
Age	52	22	66	36.71	10.141
Gender 1=male	52	0	1	.40	.495
Years as a researcher	52	.50	40.00	8.6250	7.42536
Professional Associations	52	0	1	.75	.437
Masters Supervised	52	0	32	4.27	6.256
PreferenceQuant=1	52	.0	1.0	.375	.4524
Married	52	0	1	.48	.505
Dependent Children	51	0	7	.86	1.357



RSA	52	0	1	.58	.499
English	52	0	1	.50	.505

*Null-hypothesis 1.b.: There is no significant association between a Research Locus of Satisfaction and research productivity.* According to the bivariate analysis, a Research Locus of Satisfaction is found to be significantly and positively associated with all of the measures of research productivity except conference proceedings publications, book publications and the publication of book chapters. The null-hypothesis was rejected. These findings indicate that there might be a substantive difference between these types of research production that is reflected in these satisfaction profiles. The publication of conference proceedings might be less satisfying to such researchers. Similarly, the production of books and book chapters might also be less satisfying to these individuals. This finding suggests that if ways could be found to increase the intrinsic satisfaction of individuals with research work then research productivity would be increased. It is argued that this (satisfaction levels specific to research) acts as a primary mechanism that might offer a way to increase research productivity amongst academic staff. It is therefore recommended that human resources management systems focus more extensively upon the intrinsic rewards or intrinsic aspects of incentivising research productivity, particularly because evidence has been found to support the notion that such incentives are effective in increasing research output in academic contexts (Hales et al., 2005).

**Table 6. Correlations for Research Locus of Satisfaction**

Variable	Bootstrapped 95% Confidence interval	Coefficient/p-value
DOE Journal publications	.051/.056	<b>.159/p&lt;.02</b>
International publications	.121/.290	<b>.210/p&lt;.002</b>
Total journal publications	.131/.303	<b>.217/p&lt;.001</b>
Conference Proceedings	-.074/.233	.083/p<.227
Conference Presentations	.069/.272	<b>.166/p&lt;.015</b>
Book Publications	-.149/.191	-.069/p<.315
Book Chapter Publications	-.01/.228	.098/p<.152

Notes. Significant coefficients and p values are highlighted in bold.

*Null-hypothesis 1.c.: There is no significant association between an Administration Locus of Satisfaction and academic research productivity.* An Administration Locus of Satisfaction is not found to be significantly associated with any of the measures of research productivity. The null-hypothesis is accepted.

*Null-Hypothesis 2. There is no significant association between Loci of Satisfaction and biographical and contextual factors.*

*Null-hypothesis 2.a.: There is no significant association between a Teaching Locus of Satisfaction and biographical or contextual factors.* According to the results of the MLR, individuals with a TLS are found to be characterised by a typology which is associated with lower levels of research Self-efficacy, with a tendency to be married and to have a home language of English. They also tend to be female, although this association is significant at just outside the five percent level of significance. This finding tentatively supports evidence from other contexts of gender-based differences in research productivity (Rachal et al., 2008; Rothausen-Vanger et al., 2005). This finding might be taken to, implicitly, echo similar findings that relate to gender differences for these two roles, such as those that have found that male academics typically spend more time on research rather than teaching (Barbezat, 2006). Further research is suggested into the relationships between gender and satisfaction loci and the implications of these relationships for research productivity in this context.

Research Self-efficacy was found to have the highest standardised coefficient in the equation for individuals with a TLS and a RLS. This factor is found to dominate both equations. The implication of this is that self-belief and self-confidence should be developed through a process of confidence building. For example, where beginning researchers start with conference presentations, and then build up to more advanced forms of research. It is argued that this is an important finding, as approaches that do not take Self-efficacy into account as a major factor in academic development in intrinsic motivation will not be as effective in such tasks as those that do.

**Table 7. Correlations for Teaching Locus of Satisfaction**

Variable	Bootstrapped 95% Confidence interval	Coefficient/p-value
DOE Journal publications	-.308/-.067	-.190/p<.005
International publications	-.395/-.188	-.291/p<.0001
Total journal publications	-.401/-.195	-.285/p<.0001
Conference Proceedings	-.357/-.141	-.251/p<.0001
Conference Presentations	-.323/-.142	-.226/p<.001
Book Publications	-.170/.139	.061/p<.376
Book Chapter Publications	-.260/-.061	-.150/p<.028

*Null-hypothesis 2.b.: There is no significant association between a Research Locus of Satisfaction and biographical or contextual factors.* According to the results of the MLR, individuals with a RLS are found to have a typology associated with higher levels of research Self-efficacy, are less likely to be married, and are more likely to have significantly lower levels of Negative Affectivity. The null-hypothesis is rejected, and the alternative hypothesis is accepted. The dominance of research Self-efficacy in the equation and the significance of the Negative Affectivity item suggest that intrinsic aspects are an important aspect of Loci of Satisfaction. The significance of the Negative Affectivity is taken to support the differential personality model (Hattie and Marsh, 1996) which suggests that differences in personality factors influence the different levels of fit between teaching and research. To the extent that Negative Affectivity is typically proxied by the ‘big five’ personality item ‘Neuroticism’ (Watson et al., 1988), this finding is taken to support the argument that intrinsic aspects of the individual are important, and perhaps dominant, aspects of research productivity. The unrelated personality model, which predicts orthogonal relationships between personality dimensions and the different roles of teaching and research (Hattie and Marsh, 1996) is therefore found to be contested by these findings. Rather than an orthogonal relationship, these findings suggest an oppositional relationship between these roles, when these relationships are framed in relation to Loci of Satisfaction.

**Table 8. Correlations for Administration Locus of Satisfaction**

Variable	Bootstrapped 95% Confidence interval	Coefficient/p-value
DOE Journal publications	-.131/.049	-.05/p<.466
International publications	-.131/.075	-.03/p<.665

Total journal publications	-.132/.057	-.042/p<.537
Conference Proceedings	-.058/.253	.104/p<.129
Conference Presentations	-.150/.08	-.049/p<.473
Book Publications	-.104/.165	-.047/p<.491
Book Chapter Publications	-.165/.041	-.081/p<.234

The recommendation that derives from these findings is that if such institutions need to increase research productivity then this might be best achieved through a focus on the satisfaction structure of such academics. More research is therefore suggested into the specific relationship between personality and satisfaction in this context.

**Table 9. The exploratory MLR models for Journal article publication**

Model	R	R Squared	Adjusted R Squared	Std.Error of the Estimate	Durbin-Watson	F-value	Highest Condition Index	Dependent variable
Teacher Locus of Satisfaction	.530	.281	.257	3.289	2.11	11.717 (p<.0001)	4.49	DOE publication
Researcher Locus of Satisfaction	.506	.256	.244	10.933	1.993	21.66 (p<.0001)	3.22	DOE publications
Full sample	.490	.240	.234	8.89	1.950	34.83	3.41	DOE Publications
Teacher Locus of Satisfaction	.439	.192	.166	7.202	2.058	7.15 (p<.0001)	6.78	International Journal publications
Researcher Locus of Satisfaction	.716	.513	.485	12.891	1.933	18.22 (p<.0001)	16.19	International Journal publications
Entire sample	.653	.427	.411	11.31	1.937	26.8 (p<.0001)	18.267	International Journal publications

*Null-hypothesis 2.c.: There is no significant association between an Administration Locus of Satisfaction and biographical or contextual factors.* According to the MLR analysis, individuals with an Administration Locus of Satisfaction are found to have significantly lower levels of research Self-efficacy and are also found to be more likely to not be of South African origin. The

null-hypothesis is rejected. Although not a primary focus of this research, these findings indicate that further research might offer more insight into this group as a subset of individuals with a different locus of satisfaction in this context.

**Table 10. The exploratory MLR models for Conference Presentations and Proceedings Publications**

Model	R	R Squared	Adjusted R Squared	Std.Error of the Estimate	Durbin-Watson	F-value	Highest Condition Index	Dependent variable
Teacher Locus of Satisfaction	.573	.328	.306	5.38	2.182	14.65(p<.0001)	7.325	Conference Presentations
Researcher Locus of Satisfaction	.486	.237	.225	16.26	1.86	19.53 (p<.0001)	7.99	Conference Presentations
Full sample	.548	.300	.277	14.25	1.945	13.12 (p<.0001)	19.87	Conference Presentations
Teacher Locus of Satisfaction	.436	.190	.169	2.787	2.271	7.101 (p<.0001)	9.96	Proceedings Publications
Researcher Locus of Satisfaction	.566	.320	.293	5.589	2.29	11.59 (p<.0001)	5.52	Proceedings Publications
Entire sample	.514	.265	.241	5.273	1.97	19.78 (p<.0001)	9.55	Proceedings Publications

*Null-hypothesis 3: There is no significant difference in the association between biographic/contextual factors and research productivity by locus of satisfaction.*

*Null-hypothesis 3.a. There is no significant difference between biographic/contextual factors and DOE journal article publication by Locus of Satisfaction.* According to the multiple linear regression analysis certain differences were found between the predictors of DOE journal article publication between individuals with a Teacher and Researcher Locus of Satisfaction. The null-hypothesis was rejected. While years as a researcher was a significant predictor for individuals with a RLS, for individuals with a TLC this factor was significant at just outside the five percent level of significance. This might indicate that years of experience as an academic is not as

effective at facilitating higher levels of research productivity for individuals with a TLS as for those with a RLS. Masters supervision, however, is found to be a significant predictor of DOE publications for individuals with a TLS, but not for those with a RLS. The implication of this is that the masters supervision process might enable research productivity for such academics. Collaborations, between other academics, or between students and supervisors, has been found to be a significant aspect of higher levels of research output (Hara et al., 2003).

**Table 11. MLR results DOE Journal Article Publication as Dependent Variable**

Variable	Teacher Locus of Satisfaction	Researcher Locus of Satisfaction	Entire Sample
Constant	1.302/p<.047	-3.378/p<.041	-2.401/p<.026
Years as a researcher	.109/.221/p<.051	.600/.449/p<.0001	.527/.459/p<.0001
Masters supervised	.167/.362/p<.002	-	
English	-1.449/-.189/p<.042	-	
Married	-	3.54/.141/p<.0001	2.22/.109/p<.071

The synergy of work between a supervisor and a student might enable individuals with a relatively lower level of satisfaction with research to be more research productive. The positive relationship between masters supervision supports the predictions of the conventional model (Hattie and Marsh, 1996) that posits a positive relationship between research and teaching, but only at the postgraduate supervision level of teaching. The predictions of the 'g' model, that a second order effect, or an underlying ability that is specific to an individual but which allows for performance in two different work roles, is found to only be supported at the postgraduate level of teaching, in the form of masters supervision.

**Table 12. MLR results DOE ISI or IBSS accredited Journal Article Publication as Dependent Variable**

Variable	Teacher Locus of Satisfaction	Researcher Locus of Satisfaction	Entire Sample
Constant	-6.87/p<.003	-3.69/p<.564	-7.754/p<.101
Years as a researcher	.233/.228/p<.024	1.17/.610/p<.0001	1.097/p<.0001
Preference quantitative methods	3.064/.169/p<.088	4.89/.123/p<.064	
International journal Self-efficacy	.105/.33/p<.001	.174/.221/p<.002	
Job Satisfaction		-.710/-.144/p<.034	-.404/-.109/p<.056

Masters supervised		-.269/-.149/p<.037	-.201/-.130/p<.027
Dependent children		-3.035/-.147/p<.028	-1.818/-.158/p<.003
Positive Affectivity			.285/.133/p<.02
Gender		4.56/.127/p<.059	4.8/.163/p<.002

The negative association of English as a predictor of research productivity for individuals with relatively higher levels of TLS is surprising, and unexpected. It might be possible that individuals with a home language different from English might have a different experience of the tension between the teacher versus the research role, and might be more research productive because of this difference. Further research is suggested into the relationships around home language, satisfaction and research productivity. Another unexpected finding is the positive association that is found between DOE publication and marriage for individuals with a RLS, which supports similar findings by Barbezat (2006) yet contests findings of the negative influence of family-to-work spillovers (Dilworth, 2004; Dilworth and Kingsbury, 2005). Further research is suggested into the influence of interaction effects between work and family life in this context.

**Table 13. MLR results Conference Presentations as Dependent Variable**

Variable	Teacher Locus of Satisfaction	Researcher Locus of Satisfaction	Entire Sample
Constant	-2.759/p<.10	-11.470/p<.028	-.17.7/p<.004
Years as a researcher	.191/.229/p<.035	.823/.419/p<.0001	.721/.380/p<.0001
Locus of Control			
Presentation Self-efficacy	.062/.245/p<.008	.165/.210/p<.008	.089/.127/p<.04
Job Satisfaction			-.445/-.106/p<.094
Masters supervised	.222/.284/p<.011		.224/.128/p<.053
Dependent children			-1.66/-.127/p<.032
Positive Affectivity			.453/.186/p<.004
Gender			4.8/.143/p<.015

*Null-hypothesis 3.b. There is no significant difference between biographic/contextual factors and DOE ISI and IBSS journal article publication by Locus of Satisfaction.* According to the multiple linear regression analysis results, years as a researcher, international journal publication Self-efficacy and a preference for quantitative methods are found to be predictors of international journal publication for individuals with both loci of satisfaction. The preference for quantitative

methods, however, was found to be associated with international journal publication at just outside the five percent level of significance for both of the satisfaction types. For individuals with a RLS, Job Satisfaction, masters supervision and dependent children were found to be negative and significant predictors of international journal publication. In order to check the negative association between masters supervision and international journal publication, a partial correlation analysis was applied, using years as a researcher as the controlled variable. Although the zero order correlation was found to be significant ( $r=.145;p<.0001$ ), when years as a researcher are controlled for the association between international journal article publication and masters degree supervision is found to be negative ( $r=-.173;p<.01$ ), with bootstrapped confidence intervals ranged from  $-.332$  (lower) to  $-.021$  (upper). These findings also support the conception that family-to-work spillovers can constrain performance (Dillworth, 2004; Dillworth and Kingsbury, 2005), although only for this group of academics. However, this finding, in this context and for this group, also contests findings that dependent children have been positively associated with academic research productivity (Barbezat, 2006).

**Table 14. MLR results Conference Proceedings Publication as Dependent Variable**  
**Coefficient/Standardised Coefficient/Bootstrapped 95% lower confidence interval/upper confidence interval**

Variable	Teacher Locus of Satisfaction	Researcher Locus of Satisfaction	Entire Sample
Constant	1.209 <sup>^</sup> /10.4/1.58	-.928/-3.18/1.3	-1.845 <sup>*</sup> /-4.17/.378
Years as a researcher	.099 <sup>*</sup> /.251/.025/.182	.264 <sup>*</sup> /.374/.107/.440	.257 <sup>**</sup> /.376/.141/.395
Preference quantitative methods		2.49 <sup>*</sup> /.17/.379/4.55	
Conference Publication Self-efficacy	.027 <sup>*</sup> /.227/.003/.053		.034 <sup>**</sup> /.137/.009/.061
Job Satisfaction	-.139 <sup>^</sup> /.211/-.308/.002		
Dependent children		1.22 <sup>*</sup> /.239/.236/2.28	
Positive Affectivity			
Gender		1.85 <sup>*</sup> /.140/.209/3.51	1.9 <sup>**</sup> /.160/.684/3.27
South African origin		-.2.25 <sup>*</sup> /.169/-4.25/-.13	-1.66 <sup>*</sup> /.136/-3.03/-.284

Notes: <sup>^</sup>p<.10; <sup>\*</sup>p<.05; <sup>\*\*</sup>p<.01. Bootstrapping applied using 1000 iterations

For individuals with a TLS, these associations were not found to be significant. The differences in the significant associations between locally accredited journal article publication and



international journal article publication suggest that a fundamental differentiation between the two levels of publication may exist. At the ‘highest level’ of research productivity, international journal publication is associated with higher levels of dissatisfaction. Whereas more masters supervision might enable research productivity for local journal publication for individuals with a TLS, in the case of more productive researchers that produce international journal articles this activity might act as a constraint to research productivity.

**Table 15. Pearson Biserial Correlations; Hybrid, Teaching Satisfaction only and Research Satisfaction only with research productivity**

Type of Research Output	Hybrid	Teaching only	Research only
DOE journal publication	-.129 <sup>^</sup>		.190**
DOE ISI and IBSS journal publication	-.134*	-.170 <sup>^</sup>	.324**
Conference proceedings	-.153*		.224**
Conference presentations	-.122 <sup>^</sup>	-.145*	.217**
Book publication	.111 <sup>^</sup>		
Book chapters publication		-.135*	

*Null-hypothesis 3.c. There is no significant difference between biographic/contextual factors and conference presentations by Locus of Satisfaction.* Conference presentations, it is argued, are especially important as these provide an opportunity for beginning researchers to enter the research process. According to the MLR results, years as a researcher and presentation Self-efficacy were both found to predict conference presentations for both satisfaction types. The only difference between these two satisfaction types was the significance of the masters supervision variable for individuals with a TLS. The implication of this finding is that, in much the same way as this variable was also found to be significant for the same individuals in predicting DOE publications, masters supervision is a mechanism through which such individuals achieve research output. DOE publications and conference presentations might share this commonality.

**Table 16. Pearson Biserial Correlations Hybrid Locus of Satisfaction, Teaching Satisfaction only and Research Satisfaction only**

Variable	Hybrids	Teaching only	Research only
Job Satisfaction PBC		-.190**	.135*
Research versus teaching	-.133*	-.581**	.566**
Satisfaction with teaching	.431**	-	
Satisfaction with research	.216**	-	
Satisfaction with administration			-.148*
Satisfaction with financial incentives research		-.146*	
DOE publication Self-efficacy	-.117^	-.166*	.177**
DOE ISI IBSS publication Self-efficacy		-.331**	.305**
Conference proceeding publication		-.228**	.202**
Conference presentation Self-efficacy	-.122^	-.166*	.129^
Statistical analysis Self-efficacy		-.154*	.252**
Qualitative analysis Self-efficacy		-.213**	.209**
Postgraduate teaching Self-efficacy	-.164*		.197**
Age	-.206**	.147*	
Gender (female)#		8.56*	.145*
Total work experience	-.215**	.185**	
Experience as a researcher			.159*
Years of formal education		-.120^	.167*
Other countries lived in for a year or more			.228**
Mr./Ms. designation	.128^	.114^	-.223**
Professor designation	-.123^		.195**
Masters supervised	-.111^		
Co-authorships	-.134*	-.142*	.258**
Married		.141*	
Dependent children		.117^	

Notes: #Chi Squared test was used here because both items are binary variables. ^p<.10; \*p<.05; \*\*p<.01

*Null-hypothesis 3.d. There is no significant difference between biographic/contextual factors and conference proceeding publication by Locus of Satisfaction. Years as a researcher is the only variable that is a predictor of conference proceedings for both satisfaction types. Conference proceeding publication Self-efficacy is found to be associated with conference proceedings publication for individuals with a TLS, yet not for those with a RLS. Interestingly, Job Dissatisfaction is found to be associated with higher levels of conference proceedings*

publications for individuals with a TLS. For individuals with a RLS, a preference for quantitative methods, having more dependent children, being male and not being of South African origin are found to be associated with more conference proceedings publications.

**Table 17. MLR results Teaching Locus of Satisfaction and Research Locus of Satisfaction as Dependent Variables**

Independent Variables	Teacher Locus of Satisfaction Dependent Variable	Researcher Locus of Satisfaction Dependent Variable	Administration Locus of Satisfaction Dependent Variable
Constant	6.41	4.178**	3.121**
Total Self-efficacy research	-.006**/-.395	.004**/.280	-.002^/-.116
Gender 1=male	-.351^/-.111		
Married	.489*/.153	-.468**/-.150	
English home language	.392*/.124		
Negative Affectivity		-.043**/-.184	
RSA origin			-.386/-.127^
R	.460	.386	.184
R squared	.211	.149	.034
Adjusted R squared	.197	.137	.02
Standard error of the estimate	1.42	1.435	1.498
Durbin-Watson	1.746	1.948	2.243
F-value	14.6**	12.8**	2.784^ p<.064
Highest of condition indices	11.2	12.9	

Notes: coefficient before slash/standardised coefficient after slash; ^p<.10; \*p<.05; \*\*p<.01

## CONCLUSIONS

It is concluded that the cohort of academic staff at such a University differ substantively according to intrinsic measures of their Loci of Satisfaction. It is argued that important implications flow from these findings. It is further argued that failure to re-design human resources systems to take into account individual Loci of Satisfaction might lead to sub-optimal levels of research productivity in such Universities, and other possible consequences. Certain of the other conclusions of this research are discussed together with recommendations for practice as follows.

## MANAGEMENT IMPLICATIONS

This research supports previous meta-analysis findings (Hattie and Marsh, 1996) that indicate that satisfaction and intrinsic aspects dominate relationships between teaching and research. It is argued that the Bureaucratic Funding Model's predictions (Hattie and Marsh, 1996) are supported in this context, in that academics are found to differ significantly between the roles of teaching and research according to the structure of the satisfaction that they derive from such roles. It is, therefore, recommended that these differences are taken into account in the HR structures of such institutions, and that the comparative advantage of individuals, in terms of their Job Satisfaction matches, is used more effectively in such institutions. More specifically, it is strongly recommended that more research-productive individuals are allowed more time for research, and more teaching-satisfied individuals are allowed more time for teaching. By taking into account such fundamental differences in Satisfaction Loci between such individuals, it is argued that net research productivity will be increased, through the reduction of such role conflict. It is further argued that these relationships dominate the intrinsic landscape of research productivity, and that, by not addressing this dominant issue, there is a cost associated with not managing this; a cost that accrues to the individual and also the institution. If the strategy of institutions is to achieve more research productivity from all staff, then certain implications follow from these results. Evidence of the success of financial, or extrinsic incentivisation of research productivity from other contexts (Hales et al., 2005) suggest that remuneration structures can be effective in incentivising research output, but the evidence provided by this study suggests that intrinsic factors such as Self-efficacy and satisfaction cannot be excluded from any process that seeks to increase research productivity.

The attainment of higher levels of research productivity from teaching-satisfied staff should, on the basis of these results, be focused first upon conference presentations and DOE journal publication. The core thrust of such initiatives should be based upon teaching-related approaches, such as masters degree supervision. Worryingly, experience as a researcher does not (at within the five percent level of significance) contribute to DOE article publication for teacher-satisfied staff. However, if masters degree supervision is the mechanism through which such productivity is facilitated, then it is argued that the more masters students are supervised over time, the more such productivity can be increased, because masters supervision is inherently related to teaching.

In this way the individual that derives their satisfaction from teaching can be more research productive; by 'teaching' research to their masters degree students. Further research is recommended into the differences between the nature and relationships around such differences between undergraduate or postgraduate course work teaching and the teaching aspects inherent in postgraduate supervision. It is concluded that this is, perhaps, the primary mechanism which can be used to increase research productivity in individuals that derive their primary work satisfaction from teaching and not research.

On the basis of these findings, it is argued that the management of research productivity, therefore, should be structured around a 'ladder' of different levels of research productivity. The first rung of the ladder, or conference presentations, should be the first goal of the process. The dominant influence of Self-efficacy in these findings provides evidence that the management of intrinsic perceptions of academic staff dominates relationships around research productivity in this context. These findings highlight the seminal work of Rosenthal and Jacobson (1968) that found that learning is dominated by the intrinsic self-perceptions of learners, which can be shaped by the expectations of teachers. A fundamental implication of such work is that the subjective experience of such learning can be managed. By supporting such staff and providing training, encouragement, and positive expectations, staff can move up through the rungs of the ladder, first by presenting at conferences, then by achieving the publication of these presented papers, followed by publications in DOE accredited journals. After this, publication in ISI or IBSS accredited journals will follow. These results provide empirical evidence of the different structures of associations around each level of this 'ladder' of research progression. Of these factors, this research has also provided evidence of the fundamental differentiation in this context between role related Loci of Satisfaction. It is argued that these findings also contest 'managerialist' approaches to managing academic staff for research productivity that are based upon extrinsic, or 'carrot and stick' systems, and advance an alternative approach that is, instead, focused upon the intrinsic satisfaction structure of such different individuals.

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# **THE ROLE OF JOB SATISFACTION IN SOUTHERN AFRICAN ACADEMIC JOB PERFORMANCE: A TEST OF SEMINAL THEORY.**

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## **ABSTRACT**

In order to meet social needs, and address societal challenges, the University is dependent upon the research productivity of its staff. Satisfaction contributes to the retention of, as well as the Job Performance of, academic staff. An exploratory cross sectional quantitative research design is applied to a sample of 225 respondents of academics from a large regional Southern African University, the University of the Witwatersrand. Correlation, partial correlation, and multiple linear regression analysis are used to test theory that predicts relationships between Job Satisfaction and research productivity as a dimension of Job Performance. Findings indicate that academics that produce more ISI/IBSS accredited journals are relatively more job dissatisfied. Junior academics, particularly those without doctoral degrees, are found to be more Job Satisfied. It is argued that remuneration and retention systems need to address this discrepancy. Self-efficacy and an internal Locus of Control were found to be predictors of Job Satisfaction.

**Keywords:** Job Satisfaction; Research Productivity.

## **INTRODUCTION**

The Southern African educational institution, nested as it is within an increasingly globalised and increasingly competitive milieu, has educational and developmental obligations to societal stakeholders (Beckmann and Prinsloo, 2009). However, at the heart of the ability of such

organisations to deliver on these societal obligations to address societal challenges is the performance of such institutions. The performance of such organisations, however, is underpinned by the individual performance of its human resources. Within such a globally competitive environment, the regional University is not isolated from increasingly globalised competition for highly skilled human resources, and South Africa, as a country, is experiencing a 'brain drain' of a significant magnitude (HSRC, 2012). Such a loss of staff, particularly highly skilled research staff, is associated not only with costs to organisations but also with costs to society itself (HSRC, 2012).

Job Satisfaction or, alternatively, Job Dissatisfaction, has been found to be an important predictor of employee turnover, or the exit of skilled human resources from organisations (Aydogdu & Asikgil, 2011, Delobelle, Rawlinson, Ntuli, Malatsi, Decock & Depoorter, 2011; Mobley, 1977). A substantial volume of literature, including work by certain seminal theorists, predicts a significant and positive association between Job Satisfaction and Job Performance (see, for example, Chen, Ployhart, Thomas, Anderson and Bliese, 2011; Hackman and Oldham, 1976; Herzberg, 1966; Organ, 1988; Scott, 1966). This relationship has also been found to be supported by meta-analysis findings (Judge, Thoresen, Bono and Patton, 2001). Dissatisfaction can therefore result in forms of withdrawal such as absenteeism (Anderson & Geldenhuys, 2011) or the exodus of skilled personnel (Aydogdu & Asikgil, 2011).

Despite much research that relates to the relationships between Job Satisfaction and work performance globally and in the Southern African context, absent from the literature is evidence of the relationships between individual Job Satisfaction and research productivity, a dimension of work performance in the Southern African University context. It is argued that without such knowledge Universities run the risk of losing staff, most particularly the staff that are most able to leave and work for other institutions, either in Southern Africa or abroad.

Using a descriptive, exploratory research design, this research attempts to address this deficiency in knowledge, by investigating the relationships between Job Satisfaction and Job Performance, measured as research productivity, in the Southern African higher education context of a large regional research University, the University of the Witwatersrand. Research productivity was measured as (i) Department of Education accredited ISI (Thomson Reuters accredited) and IBSS (International Bibliography of the Social Sciences) journal article publication; (ii) Department of Education accredited but not ISI and IBSS accredited journal publications; (iii) conference

presentations, (iv) the publication of conference proceedings, (v) the publication of books, and (vi) the publication of book chapters. Further, relationships between Job Satisfaction and different types of work experience and other biographical and contextual factors were also interrogated. It is argued that this study addresses a deficiency in the literature that relates to the influence of Job Satisfaction upon Job Performance in the Southern African University context. The research problem investigated in this study is now introduced as follows.

### **PROBLEM INVESTIGATED**

The specific tasks associated with research productivity, as a dimension of Job Performance, it is argued, belong to a set of work activities which differentiate academic work as a specific 'type' of work. As such, the extent to which Human Resources or Management theory generalises from other contexts into this specific professional cohort is not clear without empirical evidence to support management practices based upon such theory and practice. It is argued that such theory, developed and tested in other contexts, cannot inform Human Resources and Management practices for such people in such institutions without research that validates such practices in this context. Further, it is also argued that different 'levels' of skills and knowledge of academic knowledge workers differentiate the experience of work in such an 'academic industry' where, for example, individuals that are more internationally research productive are part of, and more exposed to, a more globalised network, or cohort, of research practitioners. It is argued that this tension, between exposure to the global, and the influence of the global, and the influence of the local, is reflected in relatively lower levels of Job Satisfaction of academics that publish more extensively in international journals. It is further argued that such investigations of the dissatisfactions within this specific cohort of professionals are increasingly important in a context that might be associated with a scarcity of such skilled workers. The costs of a lack of knowledge of such dissatisfactions can lead to attrition, and the loss of skilled personnel who are, because of their higher levels of international exposure, perhaps in higher demand in other international universities, or perhaps have more such opportunities. It is also argued that without such knowledge of the specific structure of dissatisfaction within this cohort certain of these professionals will be lost to research work itself. Such a loss of human resources may represent a potential loss of institutional capital, and, it is argued, represents a further societal cost, as such people are needed to facilitate skills transfer to new generations. It is argued that any factor that

constrains the retention of such important sources of institutional capital will be associated with a cost; to the individual, to the institution, to the stakeholders that are serviced by such institutions; and to the broader society itself. The problem addressed in this research, therefore, is the lack of literature that relates to the structure of generalised Job Satisfaction, or Job Dissatisfaction in this specific population of knowledge workers, and, more specifically, the lack of knowledge around (i) Job Satisfaction and research productivity, a dimension of Job Performance in this context that is specific to this cohort of professional workers; (ii) Job Satisfaction and the influence of different past work experience, including work experience in other, non-research, contexts; and (iii) Job Satisfaction and the influence of biographical and contextual factors, derived from the literature, such as financial incentives for research; levels of Self-efficacy, Affectivity, Locus of Control; and seniority. This research seeks to address this problem associated with a lack of such knowledge, and seeks to contribute to the literature that relates to this specific type of work in a context of management of knowledge creation, or research productivity.

## **RESEARCH OBJECTIVE**

The objective of this research is to test theory, and more specifically, seminal human resources theory, that relate Job Satisfaction to Job Performance, and also to experience and other intrinsic and extrinsic aspects of academic work, in the Southern African context of a research university. The subordinate objective of this work, as already indicated above, is to empirically investigate the ‘associative structure’ of Job Satisfaction, or Job Dissatisfaction, in this context, and derive recommendations and implications for theory and for practice that can help such institutions to contribute to the Job Satisfaction of their staff, which might result in reduced losses of institutional capital and a lessening in the broader costs to stakeholders and society that are related to such losses. Derived from this research objective are the following research questions, around which this research is structured:

- What is the relationship between Job Satisfaction and Job Performance, measured as research productivity, in this context?
- What is the relationship between Job Satisfaction and different forms of work experience in this context?
- What is the optimum typology between Job Satisfaction and individual biographical and contextual factors in this context?

An exploratory descriptive research design appropriate for the answering of these research questions is applied in this research. The paper proceeds as follows. First, literature is reviewed, and theory and previous research findings that are relevant to the investigation are discussed, and hypotheses are derived. Then, the methodology of the research is introduced and discussed. After this, the results of the testing of the hypotheses are reported and discussed. The paper concludes with a discussion of the recommendations for further research and for practice. The literature is now reviewed.

## **LITERATURE REVIEW**

The global literature that relates to the link between Job Satisfaction and Job Performance has typically developed from the basis of work by certain seminal theorists. Job Satisfaction has been defined as the “pleasurable emotional state resulting from the appraisal of one’s job as achieving or facilitating one’s job values” (Locke, 1969:317). Job Satisfaction and Job Performance are the two most significant foci of industrial/organisational psychology research (Judge and Bono, 2001). Satisfaction is expected to contribute to performance across a sample, most particularly because dissatisfaction can be related to withdrawal from an intrinsic investment in tasks (Organ, 1988). For Organ (1988:4), Organisational Citizenship Behaviour (OCB) is “individual behavior that is discretionary, not directly or explicitly recognized by the formal reward system”. This definition locates OCB at the individual level. However, Organ (1997:91) also offers a further definition of OCB as a group-level construct, as “contributions to the maintenance and enhancement of the social and psychological context that supports task performance (or the technical/technological/production system)”. Satisfaction is, therefore, premised to underpin Organisational Citizenship Behaviour, which is, in turn, expected to contribute to work performance, both at the individual level (Organ, 1988), and at the group level (Organ, 1997). The extent to which this mechanism of transmission (from Job Satisfaction to Job Performance) posited by Organ (1988; 1997) does operate in organisational context is not, however, independent of other influences. This theory offers perhaps one dimension of a multi-dimensional relationship between Job Satisfaction and Job Performance. Other theory has supported the notion that different types of work are, of themselves, more likely to be related to higher levels of satisfaction and motivation. For example, Herzberg’s (1966) Two Factor theory stresses the relative importance of intrinsic aspects of a job versus the more extrinsic aspects.

Hackman and Oldham (1976) also stress the psychological, or intrinsic, aspects of work that are posited to result in higher levels of satisfaction and motivation. Meta-analysis findings offer a perspective of the 'net' relationship between Job Satisfaction and Job Performance. Meta-analysis findings based upon 312 samples and 54417 respondents have found a mean true correlation between Job Satisfaction and Job performance of .30 (Judge, Thorensen, Bono & Patton, 2001). As indicated, in this context, however, it is expected that generalised Job Satisfaction is the net manifestation of a host of satisfaction loci. To the extent that OCB theory is prioritised in the performance literature, and also explains the relatively high levels of performance of certain individuals in the absence of commensurate remunerative systems (Organ, 1988; 1997), Hypothesis 1. is offered, that *generalised job satisfaction is significantly associated with research productivity*. The satisfaction of an individual with a particular job is also influenced by person-job fit, and also person-organisation fit (Erdogan and Bauer, 2005). The fit of an individual with certain tasks, and, consequently, affectivity, is dependent upon a match between the stimulation level of such a task and the unique level of tolerance an individual has for such a stimulation level, according to Activation theory (Scott, 1966). This theory suggests that the performance of different tasks might be relatively more or less satisfying for different individuals. According to Activation theory, a mismatch between the stimulus level of certain tasks and the specific level of activation of an individual will result in dissatisfaction with such an activity (Scott, 1966). Individuals will also be expected to leave such work if such a mismatch were to exist, due to dissatisfaction (Scott, 1966). The effect of experience, then, would be expected to shape the work activities of different individuals. For example, activity level mismatches might result in individuals focusing on parts of a job that they are more satisfied with, such as the focus of some academics on teaching, and others on research. The role of experience, however, is also critically important in understanding satisfaction in individuals within organisations because satisfaction is not static; it might be declining or increasing at a point in time (Chen et al, 2011). Referent cognitions theory predicts that individuals make comparative evaluations of their work, or job, as experiences are contrasted with different scenarios and such evaluations have been found to predict different loci of satisfaction (McFarlin and Sweeney, 1992). Time spent at tasks, and experience in jobs has been found to contribute significantly to job performance across contexts (Schmidt and Hunter, 1992). Such experience can take the form of Specific Human Capital, whereby this knowledge, or learning, cannot be

transferred to (and obtain a return in) other work contexts, or can, alternatively, take the form of General Human Capital which can be transferred to (and obtain a return in) other contexts (Becker, 1975). The critical notion in this regard is that time-related accumulated knowledge will be expected to represent an investment in human capital (Becker, 1964). Such an investment in human capital is expected to obtain a return, on the basis of the increases in productivity associated with such investments (Becker, 1975). According to Becker (1975), such investments also have an intrinsic reward, related to satisfaction. Age, as a proxy for cumulative experience, typically can represent a form of human capital, or the knowledge-related investments in individuals over time (Becker, 1975). Age has been found to be associated with commitment and effort (De Clerq and Ruis, 2007), and with higher levels of satisfaction (Ardelt, 1997) in different contexts. The relationship between age and satisfaction has typically been found to reflect a 'u-shaped' curve over age (Blanchflower and Oswald, 2008; Kallenberg and Loscocco, 1983). On the basis of the above literature, Hypothesis 2 is derived, *that there is no significant association between Job Satisfaction and work experience*. With regard to the relationship between individual biographical factors, an intrinsic factor at the individual level that has been found to be associated with Job Satisfaction is Locus of Control. Locus of Control is a measure of an individual's perceptions of whether outcomes in such a person's life are either the results of his or her own efforts (an internal Locus of Control), or are the results of factors outside his or her control (an external Locus of Control) (Rotter, 1966). Differences between different individuals along the dimension of external versus internal locus of control are predicted to be associated with differences in behaviour (Rotter, 1966). Meta-analysis findings indicate that Locus of Control has been found to have an estimated true score correlation of .32 with job satisfaction and .22 with job performance (Judge and Bono, 2001). Differences in behaviour are Locus of Control has been found to be associated with a range of different outcomes, both at the individual level (see Littunen & Stormhammar, 2000; Miller, Kets De Vries & Toulouse, 1982; Wallston & Wallston, 1978) , and at the organisational level (see Miller et al., 1982). For example, on the basis of a review of the literature, individuals with an internal Locus of Control have been found to typically be more satisfied in work; to be more effective leaders; to be more task oriented; and to be more likely to resort to persuasive forms of power use in work contexts (Miller *et al.*, 1982). Other reviews of the Locus of Control literature indicate that differences between individuals on the basis of internal versus external Locus of Control has been found to



be associated with differences in bodyweight and other health related behaviours (Wallston & Wallston, 1978). Spektor and O'Connell (1994) also found individuals with an internal Locus of Control to be associated with significantly levels of job satisfaction and lower levels of work anxiety than individuals with an external Locus of Control. Activity theory offers further insight into the relationship between biographical and contextual factors and Job Satisfaction. According to Activation theory, if an individual is faced with over-activation, such a state might be characterised by stress and negative affectivity due to the difference between an uncharacteristically high activation level and the individual's own characteristic level (Scott, 1966). Similarly, if an individual experiences under-activation, then negative affect is expected to motivate a "greater effort on the part of the organism to increase stimulation" (Scott, 1966:14). This theory offers a neurologically-oriented perspective of the relationship between Job Satisfaction and Job Performance. For Scott (1966:14), the characteristic activation level of an individual is a generalised threshold of sensitivity to stimulation from all sources, which is primarily related to biochemical structure, which, in turn, is "in part, genetically determined", yet also determined upon a subjective component, that is related to meaningfulness. The repetition of tasks, related to monotony, is expected to be associated with a decline in the individual's activation level (Scott, 1966). If this activation level drops below the individual's characteristic level then the individual will be expected to experience negative affect, and will be motivated to increase impact, and increase stimulus exposure (*ibid.*). If, however, the individual is not able to increase impact, then performance will typically decline (*ibid.*). If the individual is, however, able to increase the impact of stimulus then positive affectivity will result as the activation level approaches the characteristic level (*ibid.*). However, if stimulus impact is not increased the individual will be expected to leave the situation if this is possible, either temporarily or permanently (*ibid.*). To the extent that the specific tasks associated with research productivity will be expected to offer a certain degree of stimulation (that is task-specific) to an individual engaged in such tasks, it is also the degree of subjective engagement with the task, and the meaningfulness of the task, which enables a match between the individual and the task. It is argued, however, that, according to Scott's (1966) conception, meaningfulness of such tasks can influence the individual's threshold to stimulation over time, so that a match between the activation, or stimulus levels of such work and the specific stimulation threshold of an individual is enabled over time. It is argued, therefore, that the potential monotony of tasks such as data

capture and analysis or other aspects of research work are associated with a certain activation level, but that a match between an individual and this work can be learned, and that Job Satisfaction is a function of the extent to which person-job fit exists in such a context. An overarching implication of Activation theory is that variety or complexity associated with the task itself might have an intrinsic influence upon productivity and satisfaction that might also be greater than the influence of external or extrinsic factors (Scott, 1966). Further, the effect of job enlargement upon work processes will be expected to be associated with higher levels of job performance and positive affect (Scott, 1966). However, it is argued that certain aspects of research work are not easily subject to job enlargement by an individual researcher. Other more extrinsic measures have been found to be associated with higher levels of research productivity, such as the use of professional awards which might also work through intrinsic mechanisms of recognition to facilitate higher levels of research productivity (Young, 2005). Extrinsic incentivisation in the form of financial rewards has also been found to be effective at motivating higher levels of research productivity (Hales et al., 2005). An individual level factor that has been found to be associated with higher levels of work performance is Self-efficacy (Bandura, 1982). According to evidence from meta-analysis findings, Self-efficacy has been found to be significantly associated with work related performance (Stajkovic and Luthans, 1998). Self-efficacy has been defined as a personal judgement of “how well one can execute courses of action required to deal with prospective situations” (Bandura, 1982:122). However, the strength of the association between Self-efficacy and task performance is weaker for more complex tasks, although the relationship is typically significant across levels of task complexity (Stajkovic and Luthans, 1998). On the basis of their findings, Stajkovic and Luthans (1998) suggest that, over time, the influence of Self-Efficacy might reduce as individuals develop effective task strategies to deal with complex tasks, and higher levels of Self-Efficacy might also enable better task strategies. The lagged effects between Self-Efficacy and work performance for different levels of work complexity also suggest that learning effects might be reflected in such a finding (Stajkovic and Luthans, 1998). Situations can influence self-perceptions and individual behaviours (Rosenthal and Jacobson, 1968). For instance, Rosenthal and Jacobson (1968) found that teachers with false expectations of learners which were in fact chosen at random behaved differently to such children on the basis of their expectations. The behaviour of these teachers was found to influence the performance of these children in the direction of the expectations of

the teachers (Rosenthal and Jacobson, 1968). The behaviour of the children, as measured as Intelligence Quotient (IQ) tests therefore was found to align toward the expectations of the teacher (Rosenthal & Jacobson, 1968). This effect, or the “self-fulfilling prophecy” refers to the case where “one person’s prediction of another person’s behaviour somehow comes to be realised”, and the “prediction may, of course, be realised only in the perception of the predictor” or may be “communicated to the other person, perhaps in quite subtle and unintended ways, and so has an influence on his actual behaviour” (Rosenthal & Jacobson, 1968: 20). On the basis of this literature, it is argued that intrinsic factors such as self-efficacy dominate in their relationships with Job Performance, and, to the extent that person-job fit is enhanced through higher Self-efficacy, Self-efficacy is expected to be significantly and positively associated with Job Satisfaction. Another internal mechanism, related directly to satisfaction, might direct behaviour in a manner that is aligned with affect (Scott, 1966).

A review of the neuropsychological literature reveals a neurological aspect to motivation as ‘reward’ and ‘punishment’ centres of the brain have been found to respond to electrical stimulation differently (Scott, 1966:10). On the basis of reviewed physiological neurological research, Scott (1966:10) argues for an affective component of behaviour “which is perceived as a bipolar continuum ranging from extreme negative affect (feelings characterised as unpleasant) through indifference to extreme positive affect (feelings characterised as pleasant)”. For Scott (1966:10), “this affective construct does not specify behaviour direction” but “is one of the determinants of overt response”. Implicit in this seminal conception is the notion that over time Affect can influence behaviour, even if it cannot direct behaviour. To the extent that an individual’s neuropsychological structure might influence behaviour, and, in turn, job performance and research productivity, a justification is derived for the inclusion of affectivity as a factor in the analysis. In contrast to Scott’s (1966) conception of a bipolar continuum, affect has been found to manifest differently for Positive versus Negative Affect (Watson, Clark & Tellegen, 1988). Positive and Negative Affect have been found to consistently dominate results of studies into the structure of affect, as independent factors (Watson *et al.*, 1988). The mood states that comprise Positive and Negative Affect are related to trait Positive Affectivity (PA) and Negative Affectivity (NA), which correspond broadly to the “dominant [Big Five] personality factors of extraversion and anxiety/neuroticism, respectively” (Watson *et al.*,

1988:1063). Another factor suggested by the literature that has been associated with significantly different effects in academic contexts is gender.

Gender, as a variable, is taken to be a measure of more than biological differences between the sexes. Such a measure, therefore, might also acts as a proxy for the complex interplay between cultural norms and different societal expectations, which might constrain the advancement, and productivity, of individuals, depending on context. The academic context is expected to be no different. Rachal, Shelley and David (2008) found in a review of two leading higher education journals over an 11 year period, from 1995 to 2005 that 56.7% of the authors were male. Rothausen-Vange, Marler and Wright (2005) studied a sample of 162 associate professors of organization science in American universities, and found gender differences in the publishing rate between more and less research-oriented departments. Barbezat (2006) found male academic respondents to report less time spent on teaching and more time spent on research than female academic respondents. Barbezat (2006) found that total publications, as a measure of research productivity, were significantly associated with gender, in that male researchers were significantly associated with more total publications. Barbezat (2006) found most male and female academics to include the following factors as constraints to research: high teaching loads, large courses, PhD courses, and an 'excessive emphasis' on teaching. Other factors identified as constraints by a smaller subset of respondents were found to include: the lack of co-authors amongst colleagues, colleagues that did no research at all, family responsibilities, marital problems, and administrative and service commitments (Barbezat, 2006). According to Barbezat (2006), however, female perceptions of constraints to research productivity were similar to that of male respondents. Barbezat (2006) concludes, on the basis of her research, that the differences between female and male researchers seem to span many variables, but that such differences might be decreasing over time. Other factors that might influence an individual academic's Job Satisfaction over time are expected to be related to the progression of such an individual 'up the organisation' over time. It is argued in this research that a sort of a 'ladder' of progression exists within such institutions, where one dimension of this ladder is comprised of rungs of research productivity which need to be mastered. These 'rungs' range from conference presentations (the most accessible form), to conference proceeding publication, to DOE accredited journal publication, and then to the highest form of research production: DOE ISI and IBSS accredited journal publication. These rungs, however, it is argued, conform to a parallel ladder, of 'rungs'

made up of ranks, the lowest being the Mr./Ms. designation, followed by the doctoral, or Dr. Designation, which is then followed by the Associate Professor and Professor designations. It is a fundamental argument of this work that the experience of Job Satisfaction is differentiated at different levels, or rungs, of this 'ladder' in such organisations. Central to this argument is the notion of learning, and knowledge acquisition.

In terms of research productivity as a measure of Job Performance, the indirect effect of mental ability, though enabling knowledge acquisition, is expected to be stronger than its direct effect upon job performance (Schmidt and Hunter, 1992). According to this conception, differences in mental ability will be expected to reflect in differences in the influence of job specific experience on research productivity. Individual differences in learning will, therefore, be expected to be found, and these are expected to be associated with the movement of individuals up this 'ladder' of progression over time. An integrative perspective, it is argued, is required in order to reconcile the notion of mental ability (Schmidt and Hunter, 1992) with the conceptions of accumulated specific and general human capital (Becker, 1964). It is argued that, in the context of this research, the conception of mental ability (Schmidt and Hunter, 1992) effectively reduces to a factor that reflects the differing rates at which different individuals are able to accumulate specific and general human capital, all else being equal. Mental ability, it is acknowledged, in its measured form, is also dependent upon the education history of individuals, and also through their subjective engagement with the education process (Rosenthal & Jacobson, 1968). Progression upwards on this 'ladder' of research productivity is taken to be related to the investment of time and learning in this process. Over time, a substantively different type of individual might be evident at the higher levels of such organisations; individuals that have, over time, learned how 'to learn', and have perhaps 'learned' a better person-organisation fit (Erdogan and Bauer, 2005) in a specific context of knowledge creation. Over time, however, individuals might tend to accrue family commitments.

Barbezat (2006) found that the presence of children in a household, as a tested factor, was positively and significantly associated with increased research productivity, for both men and women. This is in contrast with the notion that family-to-work spillover effects are expected to, if found, be negative rather than positive (Dilworth, 2004; Dilworth & Kingsbury, 2005). On the basis of the above review of the literature Hypothesis 3 is proposed, *that there is a significant*

*association between Job Satisfaction and individual biographical and contextual factors.* It is argued that a specific typology of individual biographical and contextual factors will be associated with Job Satisfaction, and, alternatively, Job Dissatisfaction. The research methodology applied in this research is considered as follows.

## **RESEARCH METHODOLOGY**

An exploratory empirical cross-sectional research design was applied in this research. The sampling frame of this research was made up of about 800 full-time permanent academic staff of the University of the Witwatersrand. Surveys were distributed to respondents who were then asked to return these, anonymously, via the internal mail system. Respondents were provided with addressed envelopes that could be sealed. Two hundred and twenty-five responses were obtained, resulting in a response rate of just under thirty percent. Generalised Job Satisfaction was measured using seven-point Likert-type scales, derived from the Minnesota Satisfaction Questionnaire scales (Arvey, Bouchard, Segal & Abraham, 1989; Muchinsky, 1983). Three items were used to measure Generalised Job Satisfaction. The items were reversed each time. The Cronbach Alpha obtained for these items was .859. Bivariate tests of association were applied to the data. Partial correlation analysis was used. Bootstrapping was applied to the partial correlation analysis in order to achieve higher levels of confidence in the results. Multivariate testing, in the form of multiple linear regression was also used. First, a phase of exploratory multiple linear regression testing was applied. Following Field (2007) each of the variables included in the model were derived from theory or from evidence derived from past research findings. The exploratory multiple linear regression analysis was applied using backward elimination in order to avoid suppressor variables. Variance Inflation Factor values and Tolerance values were checked for evidence of multicollinearity. The final model, which included only variables significantly associated with the dependent variable at within the ten percent level of significance, was itself checked for significance. F-values and significance were reported. The Probability-Probability plot was checked for the dependent variable for deviation from the plotted line, and the histogram of the standard residuals was inspected for the extent to which it resembled a normal distribution. The Durbin-Watson statistic for the model was also inspected to ascertain the potential presence of serial correlation. In order to increase the confidence of the predications made on the basis of these results, the final model was run again using a bootstrapping procedure based upon 1000 iterations. The confidence levels associated

with each of the coefficients was reported. The results of the findings are reported and discussed as follows.

## RESULTS/FINDINGS

### Descriptive Statistics

The descriptive statistics for the measures of research productivity are reported in Table 1, and the descriptive statistics for the entire sample are reported in Table 2. Table 3 and Table 4 report certain of the results of the testing of hypothesis 2 that relate to the use of partial correlation analysis. Table 5 reports the significant correlations between Job Satisfaction and biographical and contextual variables. Table 6 reports the multiple linear regression results with Job Satisfaction as the dependent variable.

Table 1.a. Descriptive Statistics for the Research Productivity Items

	N	Minimum	Maximum	Mean	Std. Deviation
Accredited DOE Journals	225	0	100	4.27	10.139
Accredited DOE ISI/IBSS	225	0	100	7.19	14.690
Conference Proceedings	225	0	40	3.42	6.051
Conference Presentations	225	0	150	8.82	16.695
Books	225	0	100	1.05	6.802
Book Chapters	225	0	30	1.70	3.271

*Null-hypothesis 1: there is no significant association between Job Satisfaction and research productivity.* According to the bivariate analysis of the associations between Job Performance, measured as seven dimensions of research productivity, no significant bivariate association was found between Job Satisfaction and these dimensions of Job Performance. When parametric partial correlation analysis was applied to the data, with Negative Affectivity and Positive Affectivity controlled for, and with bootstrapping of 1000 iterations applied, Job Satisfaction was also not found to be significantly associated with either of the dimensions of research productivity.

Table 2. Descriptive Statistics: Minimum, Maximum, Mean and Standard Deviation

	Minimum	Maximum	Mean	Standard Deviation
Job Satisfaction	3	21	15.07	4.025
Research versus Teaching	1	7	4.33	1.717
Satisfaction Teaching	1	7	4.24	1.583
Satisfaction Administration	1	7	2.23	1.529
Satisfaction Research	1	7	4.87	1.552
Self-efficacy Research	80	600	425.25	106.358
Self-efficacy DOE journals	0	100	74.29	25.177
Self-efficacy ISI/IBSS journals	0	100	71.87	25.157
Self-efficacy Proceedings	0	100	76.39	23.813
Self-efficacy Presentations	0	100	81.50	21.383
Self-efficacy Statistical Analysis	0	100	49.88	33.404
Self-efficacy Qualitative Analysis	0	100	71.33	27.471
Negative Affectivity	9	41	17.75	6.629
Positive Affectivity	6	86	38.13	6.870
Locus of Control	30	95	69.56	10.622
Age	22	72	40.67	10.555
Gender 1=male	0	1	.47	.500
Full-time work experience	.0	48.0	14.613	10.6913
Years as a researcher	.00	48.00	10.1989	8.84216
Years working Wits	.0	48.0	6.387	6.7372
Mr/Ms designation	0	5	.48	.583
Dr designation	0	1	.32	.466
Associate Professor	0	1	.14	.345
Professor	0	1	.08	.272
Masters Supervised	0	60	6.19	9.554
Married	0	1	.57	.496
Dependent Children	0	7	1.09	1.279
RSA origin	0	1	.56	.497
English	0	1	.52	.501

With regard to the net relationships, this finding does not support theory offered by Hackman and Oldham (1976), Herzberg (1966), Organ (1988; 1997) or Scott (1966), these taken to historically represent seminal theorists in the field. This finding, of no significant net association between Job Satisfaction and Job Performance, also runs contrary to meta-analysis findings of a true mean correlation of .30 between overall Job Satisfaction and Job Performance found over



312 samples and 54417 respondents by Judge *et al.* (2001). To the extent that job-person fit is expected to influence the relationship between Job Satisfaction and Job Performance in a significant manner, the predictions offered by Erdogan and Bauer (2005) are, similarly, not found to be supported in this context. With theory that predicts a positive and significant association between Job Satisfaction and Job Performance that includes theory that ranges from seminal perspectives of the influence of neurological or physiological factors (Scott, 1966) to theory that relates to the nature of work itself (Hackman and Oldham, 1976; Herzberg, 1966), it is concluded that none of these bodies of theory is supported as an overarching explanation for this finding. According to Self-determination theory (Gagne and Deci, 2005), relatively more autonomous work, such as research work, is expected to be associated with higher levels of Job Satisfaction, yet this prediction is also not found to supported in this context. There are, according to these theoretical predictions, many different contributing effects that underpin the net association between Job Satisfaction and Job Performance. Another explanation of this relationship might, however, arise from the nature of academic work itself.

A plausible explanation for this effect is the presence of range restriction (Sackett and Yang, 2000). If academic staff are typically a relatively homogenous group of individuals that have been 'selected' into such work on the basis of the completion of higher degrees and other criteria which reduce the variability in Job Satisfaction relationships, or associations, then such a finding might be expected. Such research, it is argued, is important in such contexts, in order to ascertain the extent to which such theory does extend to such cohorts of professional workers.

However, when specific work-role loci of satisfaction were also statistically removed using partial correlation analysis, the relationship between Job Satisfaction and international journal article publications ( $p < .069$ ) and also total journal article publications ( $p < .078$ ) were found to be negative, yet at just outside the five percent level of significance. According to the mechanism of OCB offered by Organ (1988; 1997), dissatisfaction can disable the extra, or not directly compensated commitment and effort that an individual applies to work. If dissatisfaction is associated with higher levels of research productivity once specific subordinate work role related satisfaction is removed then Organ's (1988; 1997) predicted mechanism does not seem plausible as an explanation of this net finding. Similarly, neurologically oriented psychology theory such as Activation theory (Scott, 1966) is also not supported as a dominant effect that predicts that as individuals, in meaningful work, become aligned with the activation levels such as monotony

associated with certain types of work, they become increasingly less dissatisfied, and also more productive at such work. The control, through partial correlation analysis, of the specific work-role related loci of satisfaction was expected to reveal relationships that were not confounded by such differences. To the extent that individuals with higher levels of research productivity are expected to have been able to adjust their work to a better job-person fit based upon the match between psychological states and their work activities, given the relatively autonomous nature of academic work, Hackman and Oldham's (1976) predictions are, similarly, not supported in this context when research productivity is taken to represent Job Performance. If research work is associated with meaningful recognition and this work is high in motivation related work factors as opposed to hygiene factors, then, according to Herzberg's (1966) predictions; that such individuals (with more of their work applied to these tasks) will be more satisfied to the extent that these tasks are 'motivator' factors, is not found to be supported as an explanation for this net association. To the extent that higher levels of research productivity reflect a dynamic, or temporal component (Chen et al., 2011), that is reflected in a bivariate relationship with Job Satisfaction, individuals with higher levels of international journal article publications are found to be less satisfied with their jobs in general. The explanation of this finding, therefore, might need to be related to the international dimension of such publication. According to referent cognitions theory (Folger, 1987), individuals who successfully publish in international journals might have a different structure of evaluations of their jobs, which might be associated with the exposure to an international context of research productivity, which they, in contrast to the rest of the sample, have, to some extent, become relatively more competent in. A plausible explanation for this effect might be that individuals that successfully publish more in internationally accredited journals might 'frame' their evaluation of their Job Satisfaction with reference to the options that are, perhaps, relatively more available to such productive researchers. It is argued that individuals at different stages of research productivity development are associated with substantially different structures of relationships around their experience of the academic context. In other words, individuals that 'reach' a stage of productivity that attains international recognition of their work might have more relative opportunities, and might be more able to, for example, move to other international universities and, therefore, to be more likely to compare such contexts, which is expected to be reflected in generalised Job Satisfaction. Because international journal publication is the only measure of research productivity to be

negatively associated with Job Satisfaction further research is suggested into the relationship between exposure to different contexts and the influence of such exposure upon Job Satisfaction of academic staff in such contexts. An implication of this finding is that such institutions would benefit from further research into the relative contribution of differences sources of differences in the work environment between different universities, or different institutions, both locally and internationally. A further implication of this finding is the support it lends to the notion that different structures of associations are associated with different 'levels' of development or progression in academic research. This particular finding supports the differentiation between international and local journal publication. This might indicate that relatively higher levels of dissatisfaction might motivate higher levels of research productivity along these dimensions. Alternatively, this might indicate that individuals that produce more such journal articles are relatively more dissatisfied in this context.

Table 3. Hypotheses 1 and 2: Partial Correlation Significant Associations of Job Satisfaction

Variable	Controlled	Bootstrap 95% confidence intervals Lower/upper	Coefficient /Significance
Total work experience	Negative Affectivity (NA); Positive Affectivity (PA)	-.25/- .01	-.130/p<.058
Institution-specific experience	NA; PA	-.269/- .007	-.130/p<.058
Satisfaction with financial incentives for research	NA;PA	.124/.381	.260/p<.0001
Internationally Accredited Journal Articles	NA;PA; Satisfaction with research; Satisfaction with teaching; Satisfaction with administration	-.24/- .005	-.126/p<.069
Total Journal Articles	NA;PA; Satisfaction with research; Satisfaction with teaching; Satisfaction with administration	-.276/.005	-.122/p<.078

Notes: ^p<.10; \*p<.05; \*\*p<.01; \*\*\*p<.001

*Null-hypothesis 2: there is no significant association between Job Satisfaction and experience.*

According to Activation theory (Scott, 1966), an individual's activation threshold can, over time, converge with the activation levels specific to certain types of work, if such work is meaningful. If this effect were to manifest for academic researchers then this theory would predict that, over time, given that an individual has remained in such a context where such tasks are performed, work experience would be associated with Job Satisfaction.

*Null-hypothesis 2.a: there is no significant association between Job Satisfaction and total work experience.* The partial correlation analysis of the association between Job Satisfaction and full-time work experience, with both Positive and Negative Affectivity controlled for, and with bootstrapping of 1000 iterations applied, revealed a negative association between Job Satisfaction and total work experience, albeit at just outside of the five percent level of significance. This does not support the notion that an individual's person-job fit will improve over time as predicted by Activation theory (Scott, 1966). However, this variable (total work experience) is not limited to research-specific work, but includes all working experience. This finding, in the contexts of academics, might capture an evaluation of the current job with past job experience, according to the tenets of referent cognitions theory (Folger, 1989), which might, therefore, suggest that more total work experience offers more opportunity to compare work aspects with those of other contexts experienced. If total work experience is taken to represent general human capital (Becker, 1964), then total work experience would reflect accumulated learning that an individual accumulates over their entire career. When using the same control variables but adding years as a researcher as a control variable in the partial correlation analysis the association between total work experience and Job Satisfaction is also negative ( $p < .07$ ), again at just outside the five percent level of significance. If this associations a relative level of dissatisfaction that is more pronounced the more an individual has experienced other work than that of research work, then this might suggest that a differentiation may exist; the academic work context might be different from other work contexts, and that this difference might be reflected in generalised Job dissatisfaction. Further research should be undertaken to ascertain in which ways such work does indeed differ from work in other contexts and what the implications of such differences are for Job Satisfaction. The testing of the variable that captured years as a researcher was expected to provide further insight into the relationship between Job Satisfaction and different forms of experience more precisely.

Table 4. Hypothesis 2. Partial Correlation Significant Associations

Variables	Controlled	Bootstrap 95% confidence intervals Lower/upper	Coefficient /Significance [zero order]
Age with DOE Journal articles	Years as a researcher	-.079/.092	-.014/p<.843 [.330/p<.0001]

Notes: ^p<.10; \*p<.05; \*\*p<.01; \*\*\*p<.001

*Null-hypothesis 2.b: there is no significant association between Job Satisfaction and years as a researcher.* No significant association was found between Job Satisfaction and years as a researcher, both in terms of zero-order correlations and when the control variables (Negative Affectivity and Positive Affectivity) were included. Whereas the association between total work experience and Job Satisfaction was negative and significant at just outside the five percent level of significance, the association between years as a researcher and Job satisfaction is not significant. This finding might tentatively context the notion that with experience a better person-job fit might result in higher levels of Job Satisfaction in this context, in that there is no longer a negative association over time if the experience is within the same type of work. The contrast between teaching and research is not expected to influence this relationship, because over time the adjustments posited by Activity theory (Scott, 1966) will be expected to act also with regard to teaching. To the extent that person-job fit can be learned, or context specific learning in the form of specific human capital (Becker, 1964) can enable more effective job performance, dissatisfaction associated with poor job-person fit is expected to reduce with experience. However, this finding, of no relationship between Job Satisfaction and years as a researcher might indicate that the relationship between Job Satisfaction and experience is more difficult to predict with such a work cohort in this context.

*Null-hypothesis 2.c: there is no significant association between Job Satisfaction and years of experience within the institution.* Years of experience within the institution were found to be negatively yet weakly associated with Job Satisfaction (p<.058). One possible explanation of such a negative association is the notion that as an individual gains specific human capital (Becker, 1964) this might enable research productivity, which might, in turn, enable an individual to compare and contrast job-specific factors with other contexts as a function of an

individual's status as a more productive researcher. In order to test this notion further, the total journal articles variable was included as a control variable in the bootstrapped partial correlation analysis. As expected, once this variable was included, the relationship between institution-specific experience and Job Satisfaction was found to no longer be significant at within the ten percent level of significance ( $p < .14$ ). The implication of this finding is that individuals at higher levels of research productivity might be less job satisfied than others at lower levels of research productivity.

Table 5. Hypothesis 3. Significant Biographical or Contextual Associations of Job Satisfaction

Variable	Bootstrap 95% confidence intervals Lower/upper	Coefficient /Significance
Satisfaction with financial incentives for research	.124/.381	.260/ $p < .0001$
Teaching locus of satisfaction	-.247/.052	-.099/ $p < .147$
Administration locus of satisfaction	-.212/.069	-.074/ $p < .281$
Research locus of satisfaction	.020/.315	.174/ $p < .011$
DOE publication Self-efficacy	-.014/.258	.122/ $p < .075$
International journal publication Self-efficacy	-.020/.264	.124/ $p < .069$
Conference proceedings publication Self-efficacy	-.001/.260	.131/ $p < .055$
Conference presentation Self-efficacy	.017/.314	.162/ $p < .018$
Statistical analysis Self-efficacy	-.020/.253	.116/ $p < .089$
Qualitative analysis Self-efficacy	-.061/.200	.069/ $p < .316$
Negative Affectivity	-.488/-.252	-.376/ $p < .0001$
Positive Affectivity	.292/.506	.401/ $p < .0001$
Teaching Postgraduate Self-efficacy	-.005/.219	.110/ $p < .107$
Locus of Control	.267/.531	.267/ $p < .0001$
Years of experience working for the institution	-.265/.009	-.124/ $p < .124$
Age	-.199/.037	-.089/ $p < .196$
Years as a researcher	-.182/.056	-.065/ $p < .342$
Total work experience	-.193/.049	-.073/ $p < .287$
Mr. Designation	.045/.293	.177/ $p < .009$
Dr. Designation	-.250/.016	-.115/ $p < .092$

*Null-hypothesis 2.d. There is no significant association between Job Satisfaction and age.* No significant association was found between age and Job Satisfaction. This finding does not support other findings that predict that satisfaction, along different loci, typically manifests as a

u-curve over age in different contexts, or is predicted to correlate positively with age (Ardelt, 1997; Blanchflower and Oswald, 2008; Kallenberg and Loscocco, 1983). This association is also not significant when the influence of total work experience is controlled for using partial correlation analysis ( $p < .473$ ). The academic cohort might be atypical in the nature of Job Satisfaction.

*Null-hypothesis 3: there is no significant association between Job Satisfaction and individual biographical and contextual factors.* According to the bivariate analysis, a range of individual biographical and contextual factors were found to be associated with Job Satisfaction. The bivariate analysis was taken to represent a test of the net associations between these variables. Satisfaction with the financial incentives for research productivity was found to be positively associated with Job Satisfaction ( $r = .241; p < .0001$ ). This finding might support the notion that extrinsic rewards are associated with commitment to research (Hales et al., 2005; Young, 2005) to the extent that Job Satisfaction might reflect such a commitment in a manner that is reflected in the job itself. Dissatisfaction with the extrinsic rewards of research is, therefore, found to be associated with job dissatisfaction. The implication of this is that further research needs to be conducted into how and why such research incentives might be associated with such dissatisfaction. Human Resources Management processes should benchmark other, similar, institutions and ensure that such dissatisfaction be managed.

Job Satisfaction was found to be significantly associated with a range of measures of Self-Efficacy. DOE publication Self-efficacy, international journal publication Self-efficacy, conference proceedings publication Self-efficacy and statistical analysis Self-efficacy were all found to be related to Job Satisfaction at just outside of the five percent level of significance. These findings support the predictions of theorists such as Stajkovic and Luthans (1998) and Bandura (1982) that beliefs about competencies will be associated with higher levels of satisfaction, or lower levels of individual dissatisfaction. The association between statistical analysis Self-efficacy and Job Satisfaction is interesting and unexpected. Whereas qualitative analysis Self-efficacy is not significantly associated with Job Satisfaction, the weakly significant association for quantitative analysis might suggest that a lack of confidence, or self-belief associated with quantitative skills might spill over into Job Satisfaction. An implication of this finding is that support to staff in quantitative methods might contribute to increased levels of Job

Satisfaction for such individuals. Of all the tested Self-efficacy factors, conference presentation Self-efficacy was found to be significant at within the five percent level of significance. This finding supports the core argument of this research; that a 'ladder of progression' or different typology of research productivity is associated with different levels of advancement of researchers in an academic context. Self-efficacy with conference presentations is the 'first level' of academic output, or the first opportunity many academics have to begin their research process. As such, this might represent the first, and most salient, barrier to progression in research productivity. Dissatisfaction is therefore found to be most strongly associated with individuals with a low self-confidence or self-belief related to conference presentations. The relationship between dissatisfaction and low levels of self-belief or Self-efficacy is less intense for individuals that are 'past' this initial form of research productivity. The implication that derives from this is that individuals should receive support in the form of mentoring or encouragement that can assist in this process. Higher levels of Job Satisfaction might result from such interventions. Job Satisfaction was found to be significantly associated with Positive Affectivity and to be negatively associated with Negative Affectivity. The salience of the effects of Affectivity posited by theorists such as Watson and Pennebaker (1989) was found to be supported, and these variables were included as control variables following the prescriptions of Podsakoff *et al.* (2003). Job Satisfaction was also found to be positively associated with Locus of Control. This finding is consistent with the meta-analysis findings of Judge and Bono (2001) that have found a positive and significant association between Job Satisfaction and Locus of control (estimated true score correlation of .32) and other findings that predict the same relationship (Miller *et al.* 1982). The item used to capture staff without doctoral qualifications or professor titles was found to be positively associated with Job Satisfaction in a point biserial correlation analysis. This might support the notion that as individuals progress in status in the institution, the more dissatisfied they become. In order to gain a deeper understanding of this effect, Negative Affectivity, Positive Affectivity and total journal publications were controlled for in a further partial correlations process with bootstrapping applied. However, the association between Job Satisfaction and not having a doctoral or professorial designation was found to remain significant ( $p < .008$ ). The Dr. designation is found to be weakly and negatively associated ( $p < .092$ ) with Job Satisfaction. When journal articles are controlled for, however, this relationship reduces in significance ( $p < .126$ ), and is no longer significant at within the ten percent level of significance.



These findings suggest that the structure of Job Satisfaction changes at different levels of research productivity. Further research is suggested into the relationships between senior academics and Job Satisfaction in this context.

Table 6. Hypothesis 3. Multiple Linear Regression Results Dependent Variable Job Satisfaction with Bootstrapped Coefficients

Multiple Linear Regression Model	B	Bootstrap <sup>a</sup>				
		Bias	Std. Error	Sig. (2-tailed)	95% Confidence Interval	
					Lower	Upper
(Constant)	4.984	-.108	2.391	.047	.139	9.851
Satisfaction with financial rewards for research	.509	-.010	.136	.001	.240	.755
Teaching locus of satisfaction	-.274	.002	.188	.145	-.683	.088
Negative Affectivity	-.131	.001	.036	.002	-.209	-.063
Positive Affectivity	.121	.003	.031	.001	.069	.199
Locus of Control	.099	.000	.024	.001	.053	.146
Mr/Ms designation	1.280	-.012	.397	.002	.524	2.166

a. Bootstrap results are based on 1000 bootstrap samples

According to the exploratory multiple linear regression analysis process, an exploratory model was derived. The model was then tested again, using a bootstrapping process in order to achieve a higher level of confidence in its prediction value. The exploratory multiple linear regression analysis was applied using backward elimination in order to avoid suppressor variables. The highest of the Variance Inflation Factor values was 1.936, for years as a researcher, with a corresponding Tolerance value of .516. In order to reduce the potential for multicollinearity to influence the model this variable was removed from the analysis and the model was run again. Of the subordinate satisfaction loci variables Self-efficacy for research was also found to have a relatively high Variance Inflation Factor of 1.578. This factor was also removed when the model was re-run. In the final model, which included only variables significantly associated with Job Satisfaction at within the ten percent level of significance, the highest Variance Inflation factor was 1.196, and the lowest Tolerance value was .813. The resultant model was significant ( $p < .0001$ ;  $F = 21.47$ ) with six degrees of freedom. Satisfaction with financial incentives for publication, Positive Affectivity, Locus of Control and the Mr/Ms designation were found to be

significantly and positively associated with Job Satisfaction. Negative Affectivity and satisfaction with teaching were both found to be negatively associated with Job Satisfaction, the latter, however, at just outside the five percent level of significance. The Probability-Probability plot for the dependent variable, Job Satisfaction, reflected very little deviation from the plotted line, and the histogram of the standard residuals reflected what appeared to be a reasonably normal distribution. The Durbin-Watson statistic for the model was 2.03, which was deemed to be close enough to the value of two to indicate a reasonably low level of serial correlation. The R squared value for this model was found to be .383 and the adjusted R squared value was found to be .373. This indicated that almost 40% of the variance in Job Satisfaction was explained by the factors included in the model. The model was run again, and bootstrapping was applied. After the bootstrapping process the R squared value remained the same yet the adjusted R squared value was found to be .365. The bootstrap results for the coefficients are reported below in Table 6. When bootstrapping was applied, the satisfaction with teaching variable was no longer found to be significant ( $p < .062$  before;  $p < .145$  after) at within the ten percent level of significance.

## **CONCLUSIONS**

Seminal theory that ranged from physiological (Scott, 1966) to psychological and human resources management literature (Hackman and Oldham, 1976; Herzberg, 1966; Organ, 1988; Organ, 1997) was tested in this context. However, in contrast to the predictions of this large body of theory, no net significant association was found between Job Satisfaction and any of the dimensions of research productivity. This contests the positive and significant association between these factors mooted by this body of seminal theory. It is argued that there are two fundamental aspects to this analysis that might account for these findings. Firstly, it is argued that, following Self-determination theory (Gagne and Deci, 2005), a different structure of satisfaction relationships might be at work in research productive work due to its highly autonomous nature. Secondly, it is argued that range restriction (Sackett and Yang, 2000) might be present in a population of academics that have been selected into a relatively homogenous group through requirements such as higher degree attainment and other requirements. However, an exception to the other categories of research productivity was that of international journal publications, which was weakly and negatively associated with Job Satisfaction. It was concluded that individuals with higher levels of international journal publications were relatively

more job dissatisfied. The predictions of referent cognitions theory (Folger, 1989) were taken to provide a possible explanation for this relationship; more internationally research productive individuals might be less job satisfied if they experienced more opportunities as a result of such higher levels of international journal publications. This tentative conclusion was considered to be further supported by the finding that individuals that progressed beyond the doctoral level of designation, when measured against those with the Mr. or Ms. designation, were found to be significantly more job dissatisfied than those more 'junior' staff.

Work experience over and above years of research experience were found to be weakly and negatively associated with Job Satisfaction. Years of institution-specific experience were found to be weakly and negatively associated with Job Satisfaction until the influence of total journal articles was included as a control variable, and the relationship was then found to not be significant. Interestingly, age was not found to be significantly associated with Job Satisfaction, in contrast with the predictions of a range of theorists that predict a positive association between age and Job Satisfaction (Ardelt, 1997; Blanchflower and Oswald, 2008; Kallenberg and Loscocco, 1983).

Job Satisfaction was found to be significantly yet weakly associated with Self-efficacy relating to both forms of journal publication, the publication of conference proceedings and the ability to perform statistical analysis. This was found to support the notion that self-efficacy of competence in work related tasks will typically make for more satisfied individuals (Bandura, 1982; Stajkovic and Luthans, 1998). It is concluded that there is an intrinsic payoff to knowledge of statistical skills in this context. Self-efficacy was found to be most significantly related to conference presentations. It was concluded that such a finding is important because this is the 'first level' of research productivity development. In other words, beginning researchers will typically begin with conference proceedings in order to learn the process of research.

Job Satisfaction was also found to be related to an internal Locus of Control. This was found to support historical evidence from other contexts (Miller et al., 1982). Individuals that hold themselves accountable for the work relationships around themselves are more Job Satisfied in this context.

## **MANAGERIAL IMPLICATIONS/RECOMMENDATIONS**

On the basis of the analysis, the following implications are derived. Recommendations for theory, or further research, and also for practice, are also offered. In the absence of a clear and unambiguous tested relationship between Job Satisfaction and five of the measures of research productivity, further research is suggested. The academic researcher is taken to perhaps be a certain type of professional employee, and further research into the specific nature of this kind of work is, it is argued, important in order to be able to understand the intrinsic relationships around job performance in this context. With regard to the negative relationships between international journal article publication and seniority, it is recommended that further research into comparative contexts is undertaken. Human resources practices and systems might require adjustment in order to address the relative dissatisfaction of what appears to be more senior academics. Such human resources systems should, it is argued, 'take up' the net effect of contextual aspect upon more senior academics. In other words, the differences in the holistic employment experience that are the result of globalised or localised influences might need to be taken into account by human resources systems. This might take the form of extrinsic factors, such as remuneration, or of intrinsic factors. It is argued that further research might offer more insight into the specific reasons that relate to the relative dissatisfaction of academics that publish more international journal articles.

It is recommended that more training be provided in statistical methods and in research skills, as such an investment in learning has been demonstrated to have an intrinsic return in this context. Furthermore, it is argued that training that is specific to each form of research productivity may yield a more significant intrinsic return to academic staff members.

Training that can enable such individuals to develop an more internally-oriented Locus of Control will also, on the basis of these findings, be expected to contribute to individual Job Satisfaction.

On the basis of these findings, it is also argued that HRM systems and practices be aligned with the needs of such individuals as they develop up the 'levels' of research productivity. At the first level, where a researcher begins to develop the skills associated with the presentation of research, the institution should focus its resources and attention upon this stage in particular, because of the uniquely significant relationship found between conference presentation Self-efficacy and

Job Satisfaction. It is argued that such a focus will perhaps yield a reasonable intrinsic return to such investments.

Another recommendation which arises from these findings is that the remuneration of senior, more internationally active, research staff be based upon further research into comparative contexts; between the experience of the Southern African context and the experience of the globalised context. In other words, the opportunities available for such academics closer perhaps to the 'global centres' of research should be taken into account in such remuneration structures. If senior research active professionals are remunerated in a manner that takes such 'pull factors' into account, the relative dissatisfaction of staff with more internationally accredited journal publications might be reduced. In conclusion, it is argued that such relative Job Dissatisfaction might be an important indicator of, or a precursor to, a potential, or imminent, loss of institutional capital, and that such a loss might have a significant impact upon the contribution of such universities to societal stakeholders.

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# THE ROLE OF NETWORKS IN NEW VENTURE DEVELOPMENT

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## ABSTRACT

This research paper explores the role of networks and its influence on new venture development. The research followed a qualitative research approach, interviewing 12 entrepreneurs. The analysis revealed that although networks were relied upon to overcome resource constraint challenges during the start-up phase of the entrepreneurial process, networks were also important throughout the other stages.

## INTRODUCTION

Entrepreneurship is considered to be an important mechanism for economic development through job creation, innovation and its welfare effect (Herrington, Kew and Kew, 2010; Timmons and Spineli, 2011). Driver, Wood, Segal and Herrington (2001) note that entrepreneurial capability is a necessary ingredient of a countries capacity to sustain economic growth.

The Global Entrepreneurship Monitor (GEM) gives an indication of a countries entrepreneurial intensity where the focus is specifically on the Total Early-Stage Entrepreneurial Activities (TEA). The TEA index measures the percentage of individuals between the ages of 18 and 64 that are involved in starting new businesses. In 2010, South Africa ranked 27th out of 59 countries, with a TEA rate of 8.9% being below the average (11.9%) of all participating countries. Herrington, *et al.*, (2010) states in the 2010 GEM that in all the previous GEM surveys, South Africa's performance in terms of relative position has consistently been below the median. 2010 was the first year that this trend has been reversed. GEM research has shown a consistent association between a country's stage of economic development and its level of entrepreneurial activity. South Africa's TEA rate of 8.9% is a significant improvement on the 2009 TEA rate of 5.9%; however, it is still below the average for all efficiency driven economies (11.7%) as well as significantly below the average for all

middle- to low-income countries (15.6%). These findings thus again confirm South Africa's trend of below-average entrepreneurial activity, demonstrated in previous GEM surveys.

Owing to the low economic growth, high unemployment, an unsatisfactory level of poverty in South Africa and the low entrepreneurial intensity level, entrepreneurship becomes a critical solution for the starting and developing of small businesses. In this regard various researchers (Ahwireng-Obeng and Piaray, 1999; Luiz, 2001; Netswara, 2001; Verhoeven, Crous and Smit, 2001; Orford, Wood, Fischer, Herrington and Segal, 2003; Pretorius and Van Vuuren, 2003; Van Eeden, 2003; Co, 2004; Nhlapo, 2004; Ueckerman, 2004; Nieman and Nieuwenhuizen, 2009; Herrington *et al.*, 2010) and research projects (of which the Global Entrepreneurship Monitor is the largest) have tempted to establish and analyse the factors that influences new venture creation and also factors that inhibits the growth of these businesses.

By analysing the factors that influence new venture development it can make potential entrepreneurs aware of the importance of considering these factors in the start-up and growth of their businesses.

This research paper explores the role of networks and its influence on new venture development.

## **PROBLEM STATEMENT**

Van Eeden, Viviers and Venter (2003) indicate that the estimated failure rate of SMMEs in South Africa is between 70% and 80% and millions of Rands are being lost on business ventures because of avoidable mistakes and problems. Olawale and Garwe (2010) also indicate that about 75% of new small and medium businesses in South Africa do not become established businesses. Von Broembsen, Wood and Herrington (2005) state that the probability of a new SME (Small and Medium Enterprise) surviving beyond 42 months is less likely in South Africa than in any other GEM sampled country. The effect of this is that new SMEs will not be able to fulfil their developmental roles as needed in South Africa.

In 2004 a study was commissioned by Ernst and Young and Rand Merchant Bank (Naude, 2004) to establish the factors that inhibit entrepreneurship in South Africa. This study highlighted the following factors: limited access to start-up capital, an appropriate education

system, government regulations and bureaucracy, lack of business knowledge, costs of entry, discrimination, lack of mentorship and government assistance and uncompetitive behaviour from established companies. Other exogenous factors that influences the start-up and growth of ventures in South Africa are the labour legislation (Luiz, 2001; Co, 2004); discrimination and black economic empowerment legislation (Le Roux, 2004); corporate governance (Le Roux, 2004); bureaucratic red tape (Ahwireng-Obeng and Piaray, 1999); the tax system (Luiz, 2001); South African Government and other support structures (Herrington *et al.*, 2010; Pretorius and Van Vuuren, 2003; Nhlapo, 2004; Netswara, 2001); entrepreneurial culture of the country (Herrington *et a.*, 2010; Pretorius and Van Vuuren, 2003); and education and training (Herrington *et al.*, 2010, Orford, *et al.*, 2003).

Endogenous factors are related to the internal environment of the business. Endogenous factors that have found to inhibit entrepreneurship in South Africa includes the following: cost involved in establishment of a business and access to finance (Ueckerman, 2004); cost involved in the growth of a business (Verhoeven, Crous and Smit, 2001); availability of resources (Nieman and Nieuwenhuizen, 2009) and managements lack of education and business knowledge (Van Eeden *et al.*, 2003, Orford *et al.*, 2003).

Research conducted by Vissa (2010), Witt, Schroeter and Merz (2008) and Brush, Greene and Hart (2001) suggests that networks can assist the entrepreneur in overcoming the lack of critical resources at start-up. Robertson, Collins, Medeira and Slater (2003) also indicate that networks are one of the critical factors in any start-up of a venture.

The problem statement that needs to be addressed can be formulated as follow: What role do networks play in new venture development?

## **RESEARCH OBJECTIVES**

The **primary objective** of this study is to explore the role of networks in new venture development.

In order to achieve the primary objective, the following **secondary objectives** have been formulated:

- what is entrepreneurs understanding of the concept “networks”;
- which, if any, types of networks are predominantly used by entrepreneurs;
- the extent of networks and the challenges faced in setting up a new venture; and
- at what stages of the entrepreneurial process networks are used.

## **LITERATURE REVIEW**

The literature review will firstly clarify the concept of networking, followed by a discussion on the relationship between networks and entrepreneurship and the various types of networks that can be used by entrepreneurs.

Networks are defined by Premaratne (2002) as personal relationships between an entrepreneur and his/hers external actors. O’Neill, Soni, Coldwell and Edmonds (2004) state that an entrepreneurial network can be regarded as a series of reciprocal relationships that have the potential to generate customer value and build sustainable competitive advantage for the entrepreneur. Ramsey (2008) defines that a network is simply a professional support group of peers that offers reciprocal encouragement, empathy and wise council when needed. Nieman and Nieuwenhuizen (2009:192) state that networks are “patterned, beneficial relationships between individuals, groups or organisations that are used to secure critical economic and non-economic resources needed to start and manage a business”.

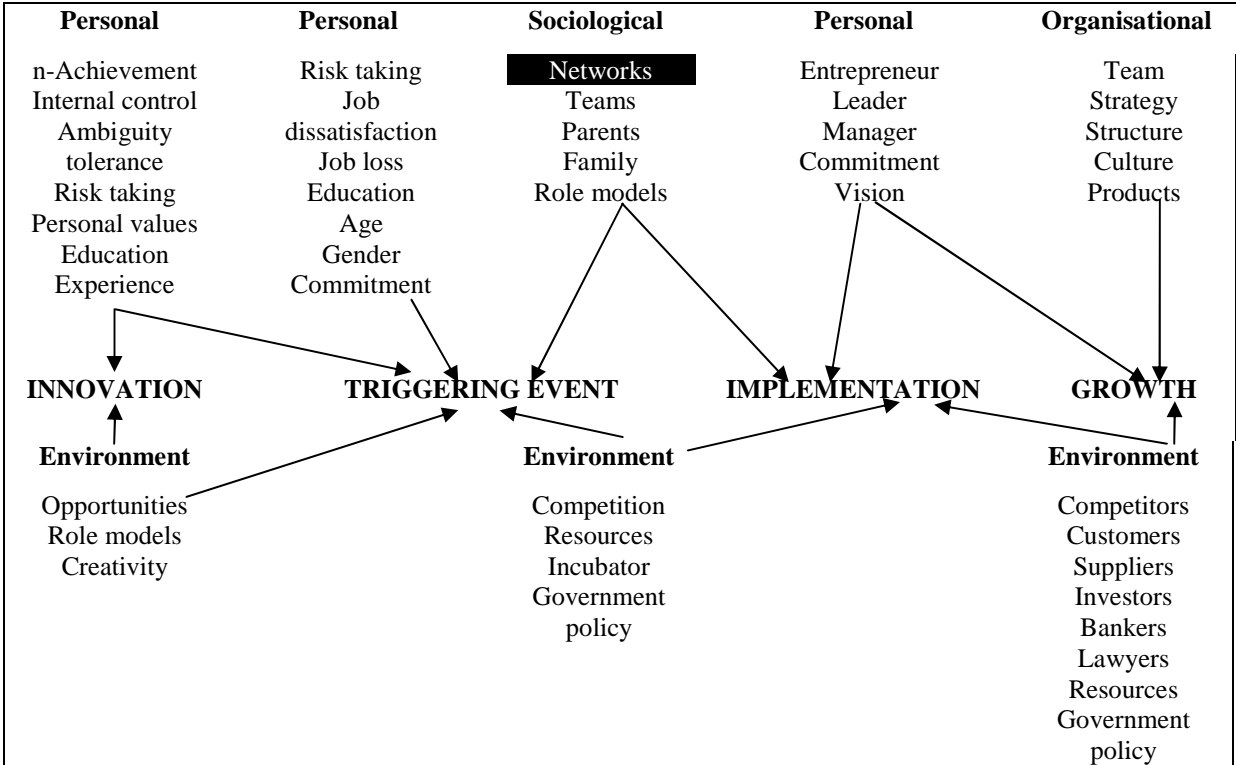
The notion of networks fundamentally being based on relationships, which result in benefits to parties in those relationships, is one supported by Prenkert and Hallen (2005) who state that business networks can be defined as interconnected business relationships with consistent exchange relations. From a business perspective, it seems that viewing networks as a set of relationships that ultimately result in the exchange of resources from one party to another, with the objective being to help achieve business goals, is a view that is consistent with those of Prenkert and Hallen (2005) and Nieman and Nieuwenhuizen (2009) and will also be adopted for purposes of this research.

**Role of networks in the entrepreneurial process**

The entrepreneurial process is one through which a new venture is created by an entrepreneur. Nieman and Nieuwenhuizen (2009) state that this process results from the actions of the entrepreneur in bringing resources together to form the business in order to pursue the opportunity. Hisrich, Peters and Shephard (2008) indicate that the entrepreneurial process is the process of pursuing a new venture, whether it is new products into existing markets, existing products into new markets, and/or the creation of a new business.

Various researchers have proposed an entrepreneurial process, for example Moore (1986); Wickham (2006); Timmons and Spinelli (2011); Hisrich, *et al.*, 2008) and Morris, Kuratko and Covin (2008). The original entrepreneurial process of Moore has been enhanced by Bygrave (Bygrave, 1989) and is illustrated in figure 1.

**FIGURE 1  
A MODEL OF THE ENTREPRENEURIAL PROCESS**



Source: Bygrave (1989)

According to the process illustrated in figure 1, entrepreneurship can be broken down into steps and stages. It is a logical progression of events through an innovation life cycle; and can

be applied to any organisational context, depending on the environmental context within which an entrepreneurial event occurs. The model identifies personal, sociological, organisational and environmental/external factors that trigger or moderate an entrepreneurial activity. This process indicates that networks are of particular importance in start-up phase (triggering event) of a new venture as well as in the implantation phase.

The entrepreneurial process according to Hisrich, *et al.*, (2008) identifies four distinct phases (stages): (1) identification and evaluation of the opportunity, (2) development of the business plan, (3) determination of the required resources, (4) management of the resulting enterprise. These phases proceed progressively but no one stage is dealt with in isolation or is totally completed before work on other phases occur. Table 1 gives an illustration of the four phases (stages) in the entrepreneurial process.

**TABLE 1**  
**ENTREPRENEURIAL PROCESS**

Identify and evaluate the opportunity	Develop the business plan	Resources required	Manage the enterprise
<ul style="list-style-type: none"> <li>• Opportunity assessment</li> <li>• Creation and length of opportunity</li> <li>• Real and perceived value of opportunity</li> <li>• Risk and returns of opportunity</li> <li>• Opportunity versus personal skills and goals</li> <li>• Competitive environment</li> </ul>	<ul style="list-style-type: none"> <li>• Title page</li> <li>• Table of content               <ul style="list-style-type: none"> <li>○ Executive summary</li> <li>○ Major sections</li> <li>○ Description of the business</li> <li>○ Description of the industry</li> <li>○ Technology plan</li> <li>○ Marketing plan</li> <li>○ Financial plan</li> <li>○ Production plan</li> <li>○ Organisation plan</li> <li>○ Operational plan</li> <li>○ Summary</li> </ul> </li> <li>• Appendixes</li> </ul>	<ul style="list-style-type: none"> <li>• Determine resources needed</li> <li>• Determine existing resources</li> <li>• Identify resource gaps and available suppliers</li> <li>• Develop access to needed resources</li> </ul>	<ul style="list-style-type: none"> <li>• Develop management style</li> <li>• Understand key variables for success</li> <li>• Identify problems and potential problems</li> <li>• Implement control systems</li> <li>• Develop growth strategy</li> </ul>

**Source:** Hisrich, *et al.*, (2008)

Jackson and Oliver (2003) state that networks are particularly valuable in new venture development and are of strategic importance to entrepreneurs, as they compete successfully against large businesses through relying on business contacts, acquaintances and associates within the network. Nieman and Nieuwenhuizen (2009) list the following functions that a network may carry out for the entrepreneur the entrepreneurial process: Ensuring that goals for growth and the vision of the entrepreneur are realistic; increasing the entrepreneur’s level of aspiration; helping to identify opportunities; providing practical assistance; providing emotional support; and providing a sounding board for ideas. Stokes and Wilson (2006) add

the following benefits of networking for an entrepreneur: the ability to scan the external environment for an opportunity; leveraging the required resources in the most cost-effective way; provides potential routes towards achieving innovation without the need for expensive research and development departments and early marketing within a new venture relies extensively on the personal contacts of the entrepreneur.

Research conducted by Brush *et al.*, (2001) and Morris *et al.*, (2008) suggests that at the pinnacle of the challenges encountered by entrepreneurs in the entrepreneurial process is the shortage of a number of critical resources, like creative technical skills, a permit/license or patent, well-established customer contacts, a great location, a well-constructed and motivated team, excess production capacity or a loyal distributor. According to Nieman and Nieuwenhuizen *et al.*, (2009) resources are the things that an entrepreneur uses to pursue a business opportunity. In broad terms four types of resources that entrepreneurs will combine to start and develop a business are financial, human, physical and information.

Resources are limited to the entrepreneur. The determination to overcome the challenge of limited resources resides with the entrepreneur's ability to construct an efficient resource base from which to build and grow the new venture (Nieman and Nieuwenhuizen, 2009). The challenge of keeping a new venture afloat in light of such resource constraints is further highlighted by Leung (2003) who suggests that during the start-up phase of the new venture, objectives are primarily focused around surviving with limited resources. The entrepreneur needs to address the resource problem to ensure the success of the entrepreneurial venture. The importance of acquiring resources to build a business, and the way in which networks assist in doing so, are noted by Jackson and Oliver (2003). Jackson and Oliver (2003) contend that most new ventures would not be self-sufficient enough with respect to critical resources, and they may therefore have to seek out people or groups with complementary skills and knowledge in order to form an alliance or network.

If the lack of resources is the major challenge facing entrepreneurship (Brush *et al.*, 2001), then any way in which networks address the shortage of resources would highlight the importance of networks in entrepreneurship. Witt *et al.*, (2008) refer to the importance of networks for resource acquisition purposes as a common practice in the start-up of new ventures. This view is consistent with that of Vissa (2010) who suggests that network ties between businesses are important because they enable businesses and start-ups to access



resources that may otherwise be difficult to develop or acquire, particularly when facing the task of new venture development.

Networks have also been shown to improve entrepreneurial effectiveness by providing access to resources and competitive advantage without requiring capital investment (Slotte-Kock and Coviello, 2010). In this regard, Bratkovic, Antoncic and Ruzzier (2009) elaborate on some of the resources the entrepreneur may acquire through the use of networks. These valuable resources the entrepreneur has access to through a network include personal, material and emotional support; information and advice.

Chen and Tan (2009:1081) argues that networks “facilitate entrepreneurs to access instrumental resources such as information, capital, market, technology, and expressive resources such as emotional support, and are considered a rare and valuable resource that is difficult to imitate”. Shaw (2009) suggests that networks have been found to encourage the pooling and sharing of resources among start-ups, enabling them to develop new products and compete with these larger counterparts.

Berggren and Silver (2009) highlight the importance of networks in facilitating resource acquisition for the entrepreneurial venture, and the need for these resources, by saying that networks provide access to resources, and broadening the resource base of start-ups enhances the competitiveness and survivability of the business. The use of networks in helping to overcome the resource-constraint challenge which confronts the entrepreneur is believed to alleviate the pressure and increase the survivability of the new business (Berggren *et al.*, 2009; Jackson and Oliver, 2003; and Witt *et al.*, 2008).

Research suggests that networks not only help with the survivability and competitiveness of businesses, but have an impact on the overall success of the entrepreneurial venture as well. Bratkovic *et al.*, (2009) support this notion in stating that entrepreneurs’ personal success and success of their businesses are often attributed to personal relationships or networks, and these networks are considered to be one of the most important sources for the entrepreneur’s business.

It has become increasingly clear that networks within the start-up business are extremely important, if not the most important factor in sustaining an entrepreneurial venture (Maniukiewicz, Williams and Keogh, 1999).

### **Types of networks**

Nieman and Nieuwenhuizen (2003) identified four broad types of networks that can be used by the entrepreneur – personal, social, extended and other networks.

- **Personal networks**

Personal networks consist of persons with whom an entrepreneur has direct relations, and are considered to be more than the sum of individual connections that form the network (Bratkovic, *et al.*, 2009; Nieman and Nieuwenhuizen, 2009).

According to Bratkovic *et al.*, (2009) the entrepreneur is in contact with family and friends, employees, advisors and partners, all of whom form part of the entrepreneur's personal network.

- **Social networks**

Nieman (2006) states that social networks refer to communication between different parties where an exchange of information takes place. Social networks can also refer to the exchange of goods and services, as well as normative exchanges based on social expectations. Social bonds which are based on community ties and conformity to collective values forms social networks.

- **Extended networks**

Extended networks do not focus on the individual, but rather on the collective in the form of groups or clubs that the entrepreneur may belong to (Nieman and Nieuwenhuizen, 2009). Examples of extended networks are professional bodies like the Foundation for African Business and Consumer Services (FABCOS) and The Black Business Council (BBC).

- Other networks

Nieman and Nieuwenhuizen (2009) indicate that entrepreneurs normally use personal, social or extended networks but other networks also exist, for example the Internet, internal networks in an organisation (whether in formal or informal structures), and external human resources (for example attorneys, bankers, accountants, advisors or consultants).

## **RESEARCH METHODOLOGY**

This research followed an explorative qualitative approach. Silverman (2001) argues that qualitative research can provide a deep understanding of a social phenomena – in this case, networks and the role they play in new venture development.

### **Research population and sampling**

The population comprised all the individuals who had undertaken to develop an entrepreneurial venture within the South African environment, whether the ventures were successful or not. The research used convenience and snowball sampling as the basic procedure to facilitate the research (Zikmund, 2003). Fifteen respondents were identified through entrepreneurial forums made available through *Entrepreneur Magazine* and the online forum ‘*entrepreneur.co.za*’, as well as the business social network site LinkedIn. Cognisance was given to the fact that the number of respondents might have to be adjusted once the research was being undertaken to ensure that, once the data reached saturation, no time would be wasted. According to Cassell and Symon (1994), saturation refers to the point at which no more major insights are being gained, and the phenomenon is thoroughly explored.

### **Data collection**

Given the topic of research, a literature study and personal interviews were deemed to be the relevant means of collecting the data. The primary data were collected from 15 personal in-depth interviews. During the interview eleven predetermined questions were asked to the respondents. The audio part of an interview was recorded using a mobile recorder, and after the interview, both the notes from the recordings of the interview, and the written notes regarding the participants’ responses were transcribed into an interview report (text format).

## **Data analysis**

Content analysis was used to analyse the data. Content analysis according to Zikmund (2003) involves systematic analysis, as well as observation, to identify the specific information content and characteristics of the message. The responses to the interview questions were documented and analysed to ascertain the views and feelings of respondents regarding the role of networks in new venture development. The comments of the respondents were summarised and clustered to draw upon and highlight any similarities or differences between them.

## **RESULTS**

Initially fifteen respondents were identified through entrepreneurial forums made available through *Entrepreneur Magazine* and the online forum '*entrepreneur.co.za*', as well as the business social network site LinkedIn. Provisions were made to account for the possibility of data reaching saturation point before all fifteen interviews could be completed. This proved to be the case, and sufficient data were acquired from twelve respondents to be able to undertake the research.

The entire sample consisted of male small business owners. Two of the respondents worked in the professional services industry, having started businesses involved in business development and training. Four of the respondents in the sample were active in the clothing and textile industries, directly involved in targeting retail channels. Two respondents worked in building and manufacturing, where one of the two sold the business to look for a traditional eight-to-five position. Four of the respondents, were established in the financial industry, and the remaining respondent had started a business in the hospitality industry. The ages of the respondents varied. Eight of the respondents were between the ages 30-35, one respondent was between the ages of 25-30, two were between the ages of 40-45, and one respondent fell in the 60+ age group.

Three of the respondents had been involved in entrepreneurship for more than ten years. Four respondents had been in the process of new venture development for five years or more, and the remaining five respondents had been entrepreneurs for less than five years.

The responses provided by the interviewees were analysed and are presented according to the secondary objectives formulated for this study.

### **Entrepreneurs' understanding of the concept *networks***

The question was put to the respondents to ascertain what their understanding around the term *network* is. The way in which the respondents interpreted a term which has been used rather loosely in the business context would help shed some light on responses to issues addressed later on in the interview. Of interest was that, in a number of varied responses given, every respondent alluded to the significance of people in a network. The following responses were elicited:

*I presume networks relates to whatever spheres you are connected to. You have **people** playing in the same space, or you have contacts in the finance industry that you have access to financial resources, you may have technical resources, I'd say it's just a network **of people** you know and what they represent in you venture. (Respondent 11)*

*Networks are more or less the **people** around me that I can tap into whenever I need help. (Respondent 2)*

*Literally a network is **people** that you get in contact with. What I believe in is that in my network, they have been to a course that I have done for some other company but they have seen what I can do. They immediately have knowledge, in other words. (Respondent 6)*

*Networks can be explained in a way that, if you are a business owner, you have to have people around you in different fields. It's all about who you know, not what you know. You don't have to know much, but if you know people who know what you are wanting done, you don't have to do much. (Respondent 3)*

*A network is a group of **people** that are in your... how can I put it? If you are the centre of the net, you've got these strands leading out and you connect all the dots up, knowing that person knowing this person and you being the focal point of the network. (Respondent 10)*

The above responses relate to the people the respondents knew, and being able to contact those individuals should help be needed. Similar views, but with a slight difference of what a network represents, were uncovered by other responses. These respondents made an issue of clearing up the fact that a network is not necessarily who they know, but rather about the people who know them. This is reflected by the following responses:

*Networking is about **people**. Networking to people is getting your name out there, making sure that John, Pete, Paul whoever knows who you are, what you are, and what your business is about. That's networking. (Respondent 7)*

*A network is **people** you know. Actually, it's not people you know its people that know you. Often people say in business 'it's not what you know it's who you know'. I disagree. It's not who you know it's who knows you. It's about getting people to know you and that they want to do work with you instead of you just wanting to do work with them. (Respondent 9)*

One respondent in the study suggested that a network consists of something other than just people, but soon thereafter changed his mind. His response is given below:

*Networks are basically a number of **people**, or even organisations, but generally its people, it's very personal. A number of people who you can count on, with whom you've had dealings in the past, which were mutually beneficial. (Respondent 8)*

There was only one respondent who suggested that a network was anything that could help acquire resources in a business. This ties in with the findings by Morris *et al.*, (2008) that the need for a sufficient 'resource base' is an issue to the entrepreneur. This particular respondent made reference to a network as predominantly being a tool to overcome the resource challenge facing an entrepreneur:

*Networks open up doors, but as quick as they open, they can also close. A network is a resource gateway. (Respondent 4)*

Considering the views of the respondents, there was a consistency with the findings of Prekert and Hallen (2005) and Nieman and Nieuwenhuizen (2009) that networks are beneficial relationships between individuals with consistent exchange relations.

### **The extent of networks and the challenges faced in setting up a new venture**

After the respondents' thoughts around what they believed a network to be had been ascertained, the entrepreneurs were then prompted to align their descriptions of a network with the challenges they encountered in setting up a new venture. First, the respondents were asked to discuss whether or not they had networks in place before undertaking the task of new venture development. The responses indicated that a number of respondents had had significant networks in place before starting their respective ventures. This can be noted from the following responses:

*Through my work experience and through my previous studies I had relationships and networks set up before starting my venture. (Respondent 2)*

*Yes. I met quite a few people over the years just working here and there, quite a few associates. Mostly I would say previous clients became closer, someone you do business with in another sphere and has interests that overlap with yours, and he has contacts in that industry, and it just works out. (Respondent 11)*

*We had a broad-based network, which meant that in my eleven years prior to doing this, I knew a number of the players in the market and they knew me. Where myself and my partners come from, we've always been reliant on networks to create fulfilment of our business goals. We could move networks from where they were to where we wanted them to be because of our long-standing business relationships. (Respondent 5)*

*Yes. Clothing was my first endeavour, so basically what happened was everyone had clothing accounts with us and we just converted that existing network and started borrowing them money. So we took an existing network and converted it from one product into another product, so the network was already there. (Respondent 7)*

*When I left to start the business which is entrenched in the financial markets, I approached all the relationships that I had built when working at the JSE. So all the brokers I went to were people I had a very good relationship with that evolved into a friendship. (Respondent 4)*

*Yes. I'm very social and I network a lot. I tend to adapt according to what the demand is. I network with students I've lectured to and businesses that they're in, friends' families and families' friends, even complete strangers. (Respondent 9)*

The responses of the other participants indicated that they too had networks in place before starting their ventures, but at varying degrees to those responses mentioned above. The respondents with smaller networks in place prior to new venture development provided the following responses:

*Very limited, very limited. (Respondent 6)*

*The only network I had was my brother, and my boss that was helping me out. That was my sole network. (Respondent 10)*

Although certain networks in place seemed to be smaller than others, what was interesting to note was that even if some networks were smaller than others, the networks seemed to grow rather quickly based on the networks of the players in the respondents' networks. The ability to leverage off other networks through just a few contacts was evident in the following responses:

*I was new to Johannesburg from about May last year. So, I used my varsity connections, people I knew from varsity to get into different social circles. That started expanding my*

*networks and through using different organisations and different means, I was able to build up quite an expansive network. (Respondent 1)*

*Apart from my dad and close relatives, that's about the only type of network I had. But my dad had networks, so if I wanted second-hand equipment or to hire something, he knew who to ask. So, it's not necessarily about who you know, but rather about the people that the person you know knows. (Respondent 3)*

After engaging in discussions regarding the networks respondents had in place before starting their respective ventures, the respondents were then asked to speak about these networks, and elaborate on whether having these networks helped in overcoming their challenges to new venture development. After having been asked to discuss networks and their ventures, these respondents had the following to say regarding networks and overcoming the challenges to entrepreneurship:

*Yes, Yes. One big client I was working for virtually one hundred percent of the time had a possibility that they were going to get themselves into trouble. The bit of networking I did at that stage gave me that contact and I got an additional income stream. (Respondent 6)*

*Our biggest challenge was around finance and what the network did was to start and create a sales pipeline for us. So, from a networking perspective we were able to start getting more contacts, we started creating leads, and from that we actually started populating our sales pipeline. (Respondent 8)*

*Most definitely. From a technology point of view, I had relationships with these network players in the industry. Let's say Vodacom, MTN and Telkom – I knew the people who had a point of presence in the JSE and I knew the people who were running it, it helped to know players in that industry, there's always someone able to help. A company that services the JSE has an international network with over 400 points of presence connections worldwide. So I leveraged off powerful networks. (Respondent 4)*

*Oh yes. You must remember, you can have the cash but if you don't have the network you can't push out the cash or put out the product. If you don't have a product, you can't utilise the network, and if you don't have a network, you can't move the product. They coexist, nothing else. (Respondent 7)*

*Networking helped for the financial problem. The opportunity came about for financial investment in the company from a previous contact so it definitely helped for that issue. Even in my past venture, a hosting company I dealt with led to investment in another company through a very strong relationship I developed there. (Respondent 11)*

*Definitely. The things I do, most of it I can't do on my own. It's always finding people to do things and it's quite random. The job I'm doing now, I actually sourced all the people in HR through my mechanic. He knew people that knew people that could do the work. (Respondent 9)*

The following respondent mentioned that the only network in place before starting the business consisted of his brother and his boss. The response once again suggests that the size



of the network is actually quite irrelevant. The way in which that network, consisting of just two people, grew the business is quite interesting:

*Yes. From networking with my boss and my brother, the network started growing. It's extremely important, you have to have this base of people, if you don't you're going to crash. My brother sparked something and by word of mouth, telling people I have an injection moulding company and I make good moulds at a cheap price. One person led me on to another person and so this network started forming that I've got today. (Respondent 10)*

Another respondent continued to affirm the way in which networks assisted in overcoming the challenges to entrepreneurship:

*Huge, it has to. I don't think you can start a business without networks. I have seen businesses absolutely thrive purely based on networks. As soon as you start having networks, it's like a snowball effect. The more networks you have, the more people expand on those networks. (Respondent 3)*

The respondent went on to suggest the following:

*Without networks the business couldn't succeed. We're in the life insurance industry and nobody is going to support somebody whom they don't know, that's the reality of it. We have a reputation for excellence and being the best, and we've built that reputation through our networks.*

The data gathered through the interviews with the respondents are consistent with the literature from Slotte-Kock *et al.*, (2010), Vissa (2010) and Witt *et al.*, (2008) in that networks provide entrepreneurs with access to critical resources, which are pertinent to overcoming the challenges to entrepreneurship.

### **Type of networks used by the entrepreneurs**

The respondents were asked to identify the types of networks used in establishing a new venture and overcoming the challenges to entrepreneurship. The main types of networks analysed in this study were personal and social networking sites (which form part of the other networks identified in the literature review under networks). From the data the following information was gleaned:

*We use **personal networks**. Its people we knew, who we had done business with and done face to face business with. People we had helped in the past and who helped us. It's very direct networks that we use. (Respondent 5)*

*Literally, my **personal networks**, people I knew, business cards I had from people where I could say; this person I met there and then, he's in transport, maybe I can train them on how to change tyres and I phoned them. (Respondent 6)*

*Networks were definitely and predominantly established through **previous colleagues and meetings**. (Respondent 11)*

***Previous friends and family** was predominantly my networks. (Respondent 3)*

From the data collected through the interviews, it becomes clear that personal networks play the biggest role in new venture development. Each and every respondent was, however, aware of the impact social network sites have continued to have for other businesses. The views the respondents had regarding social network sites and the tedious use of these sites in the entrepreneurial process was of particular interest.

*When we started our business it was a good six, seven years ago and social networking hadn't really taken off or reached a tipping point if I can call it that. So, the majority of our networks were through **personal networks**. It was literally face-to-face encounters with people. (Respondent 8)*

*In my experience in building a venture, it was all **personal networks** that I relied on. I think some people use social networks and have been successful. To me it has been very weak. I have been listed on LinkedIn and it hasn't led to any business relationships. Being listed on Facebook as well doesn't seem like a very strong source to me. (Respondent 11)*

*I never used social networks at all. I'm not very technically savvy. **Personal relationships** with customers and suppliers is what I relied on most. (Respondent 3)*

*Computers, no, no. It's all about a **direct marketing network**. Person-to-person, door-to-door type networking. That's the predominant way we've infiltrated all the areas -door-to-door canvassing, the oldest way of networking to people. The normal direct approach from direct marketing is the networks that we have been using for the last how many years. (Respondent 7)*

*My networks were only **personal**. We didn't have Facebook, obviously today we've got Facebook but we're still not on Facebook and Twitter for work. If I have to think about networking our company, social sites will not work well. (Respondent 10)*

The above responses indicate that the respondents relied solely on personal networks, and the belief of many was that a social networking platform (Internet) does not contribute to overcoming challenges in the entrepreneurial process. Some respondents used sites such as Facebook and LinkedIn and found them to be rather ineffective in starting their new ventures. Other respondents suggested that they did not believe it could add value to the business, and so, did not even attempt to try it.

The above responses call into question the statements of Harris and Rae (2010) who suggest that online communities can significantly contribute to building relationships with key individuals of the business when starting a new venture.

One respondent states why the social network platform is not as useful as personal networks when starting one's business:

*Personal networks are definitely the way forward for me. Personal versus a social networking type of platform, for me the issue of trust comes into the equation when you deal with networks, and sometimes from a social networking site, those things are a little bit questionable. Especially if you're going to market and you want to be a little bit more secretive, it's important to work with people you know that you can actually manage. (Respondent 1)*

The concern identified by the respondent above is also noted by Jones (2009), who suggests that, because of the growing interconnectivity of individuals through social network sites, business owners need to be aware of the individuals that form part of the network, to ensure that the credibility of the business and brand remains intact.

Of particular interest was one respondent who pushed the social network site channel quite aggressively and still believed the results fell short of anything offered through personal networks. From the response, the belief in the importance of social network sites is evident and there seems to be an urge to become more proficient in using these sites:

*Something I'm battling with still at this stage is although I use LinkedIn, I don't think I'm making the impact that I could by using it. My LinkedIn network already consists of, I think in the region of about 800 contacts, or links to me, with obvious links to them, but I'm not leveraging that enough. I believe you need as an entrepreneur to get some help in terms of how to actually leverage the social networks. It's not a personal thing, it's sort of impersonal kind of stuff. You need to be able to leverage that quite powerfully and that you need some information on. How do you use these networks to your advantage? It's not just sending messages to people, its maybe the type of message that makes people sit up and say 'this sounds interesting'. (Respondent 6)*

The unsuccessful attempts of respondents using social network sites to drive their entrepreneurial ventures can perhaps be tied down to the warning provided by Craver (2010) that, while aggressive action can be applauded, there is a distinct call for decorum as the way in which social network sites are used can result in irreparable damage to the business.

## Stages of the entrepreneurial process where networks were utilised

A question was put to the respondents to ascertain to what extent, and more importantly in what stages, they made use of networks when considering the entrepreneurial process. Of interest were the parallels found in the participants' responses. The following responses were elicited:

*We needed networks right at the **beginning**. We leverage off networks from start-up. You leverage off people who are key to build your business, so from start-up it's key. (Respondent 4)*

*Networks were used at **start-up phase**. (Respondent2)*

The above responses show the reliance on networks at the beginning stages of the entrepreneurial process. All other responses were consistent with the views mentioned above; however, the remaining responses suggest that networks and the use thereof can in no way be isolated to just the beginning stages of building a business. The other respondents all believed that networks were a sought-after crutch within all stages of the entrepreneurial process. Some of the respondents suggested this as follows:

*We used networks in two key areas. One was around actually creating business, so that was throughout, from start-up to growth, so generally all of those stages. When the business does start to **decline**, you rely on those networks again to pick things up, absolutely. So I would say throughout. Networking was not more prevalent in any one stage; it was relied upon continuously throughout the process. (Respondent 8)*

*Considering this venture and past ventures, they come in handy at every stage. At inception there have been contacts that have helped in setting up leads and putting us in contact with key players, possibly providing finance. And networks have provided financial investment and technological support at sort of a partnership level as well. I think personal networks help you at **every single stage**, especially if you have a broad one. (Respondent 11)*

*Networks helped hugely upfront and providing **direction throughout**. As the business goes from a start-up into a more mature phase, we use our network of brokers and distribution networks. (Respondent 5)*

***Right through**. You have to rely on your networks from the beginning right through your business. We rely on our networks every month. You have to keep the network going the whole time, from the beginning, to the middle right through to the end. (Respondent 7)*

*I think you've always got to develop your networks, any business has what you call a stakeholder concept, and that is formalising the personal network into the business context. I believe you **will always use your networks**. (Respondent 1)*

*I rely on networks in **all stages** of my business. Even today, I'm trying to network all the time with people, finding out about them and telling them what we do. (Respondent 10)*

*More in the late **growth, maturity stage** did I really start using the networks... again I must be careful. Most of my initial jobs were from my network contacts. But really starting to utilise the network more widely was more in the late growth and maturity phase. I'm now in the reinvention sort of cycle again and heavily using networks at the moment. (Respondent 6)*

***Every stage.** Even trying to sell, you're always calling your suppliers asking 'Who do you know that wants to buy bricks?' At the decline stage when you want to leave you ask 'Do you know someone who wants to buy a brick business?' The whole way through, you're using networks. At the beginning I used networks to sell the bricks and at the end I used them to sell the business. (Respondent 3)*

When asked about the use of networks during the entrepreneurial process, the majority of respondents suggested that networks were utilised throughout the process, and not just in overcoming the challenges to starting a new venture. The value networks offer the entrepreneur in building and sustaining the business is evident from the responses above.

### **Final thoughts on entrepreneurship and networks**

The final question posed to the respondents emanated from the data obtained through the interviews. Having reflected on, and understood the challenges to entrepreneurship, and the means in overcoming those challenges, as well as the use of networks throughout the process of starting a venture, the respondents were then asked to share thoughts around the use of networks by an entrepreneur. The respondents suggested the following:

*The first step to becoming an entrepreneur is to say 'Do I have a large enough network that I can leverage from day one?' Networks are critical today **to start a business.** (Respondent 6)*

*The age-old adage; 'It's not what you know it's who you know' – it's still true today. If you can **gain contacts or have contacts in the right places**, your business can go within weeks where you can't get it within years. (Respondent 11)*

*I think networking is one of the most important things out there, besides the entrepreneur's desire and idea, that is by far the most important thing because no man is an island, you've got to **leverage off those networks**, those relationships, it's critical. (Respondent 2)*

*You must cultivate the questioning framework of **asking for help** and you'll be very surprised at what help you can receive by just asking people that are already in your life. (Respondent 1)*

*... if you don't have networks, you don't have **support** and you don't have any traction into the industry, so the question is 'Do you want to be a big player, or do you want to be a small player and struggle?'* (Respondent 5)

As can be noted from the above responses, networks are crucial to the entrepreneurial endeavour. In fact, the respondents suggest that, first and foremost, a network should be in place before attempting to start one's business, as it is critical to the sustainability of the business. As documented earlier, the only respondent who sold the business he started, attributed the downfall of the venture to not having a broad enough network in place before undertaking the task of starting a business. This respondent suggested the following:

*Build networks as quickly as possible. Have them before you start the business. Like now, if I take a look at how I started, I would start to sell bricks, but I would buy them in and sell them at cost. So, I could build relationships with key players before I started making the bricks themselves. That's what I would do now, looking back.* (Respondent 3)

The above response suggests that the lack of networks at the beginning stages of the business ultimately led to the demise of the business, and having a second chance, the one thing the respondent would have done differently would be to build relationships with key individuals before undertaking the task of new venture development.

All the respondents' views were consistent with those mentioned above in that networks are critical to the entrepreneur when building the business. Some of the respondents elaborated on the importance of networks with certain things to keep in mind. The following responses in that regard were noted:

*Your networks from a start-up perspective are probably one of your **biggest support mechanisms**. But before you go to use your network, you need to clearly articulate what message it is that you want to be communicating. What happens is you can also try and overuse your network. If your message isn't clear, you will go to your network and once you've given the first message people will either like it, or not like it.* (Respondent 8)

*What I've learnt is that you need to have a relationship. You have to find how to present yourself that people want to deal with you in a personal manner. My advice would be to not sell a product, but rather sell yourself from the inside out. It's all about the relationship – What I can do for you in a personal manner.* (Respondent 10)

Witt *et al.*, (2008) suggest that existing theories on entrepreneurial networks overlook the fact that network exchanges are reciprocal in nature and thus costly to the entrepreneurial venture. Witt *et al.*, (2008) further state that due to the opportunity cost of time and social obligations, market transactions may actually be a cheaper way of acquiring resources in comparison to

the utilisation of networks, bringing into question the foundation on which the relationship is based.

The respondents seem to understand exactly how a network and the benefits thereof can be defined, and apart from the literature made available by Witt *et al.*, (2008), it seems that networks play an integral role throughout the entrepreneurial process. By contrast, the results indicate that there is a consistency with the arguments provided by Bratkovic *et al.*, (2009) and Maniukiewicz *et al.*, (1999) in that networks within the start-up business are extremely important, if not the most important factor in sustaining an entrepreneurial venture, and the success of the venture is often attributed to the personal networks of the entrepreneur.

## **CONCLUSIONS**

The following conclusions can be made from this study:

The research revealed that entrepreneurs make extensive use of networks not just in starting a new venture but throughout the other stages of the entrepreneurial process, and that personal networks were the preferred choice above social, extended and other networks. Several of the respondents utilised social networking sites (Internet) and reiterated the superiority of personal relationships in the light of the uninspiring results offered from social networking mediums when starting a new venture.

The literature review investigated the synergy and extent of the relationship between networks and entrepreneurship. The major challenge to entrepreneurship was identified as being a shortage of resources when pursuing new venture development. As the need for resources vary, the challenge was synthesised as the need to build an adequate resource base.

The literature cited argued that the shortage of resources was said to be experienced primarily at the start-up phase of the entrepreneurial venture, thereby suggesting the entrepreneur's need for networks at the venture's inception. The data obtained from the respondents challenged such suggestions. It was found that, although networks were shown to add value in overcoming the resource constraint challenge, networks were relied upon throughout all stages of the entrepreneurial process (identify and evaluate the opportunity; develop the business plan; acquire the necessary resources and manage and grow the business). More

specifically, networks were relied upon to a greater extent in the growth and maturity stages of the venture, and not solely in the start-up phase as suggested by the literature. From the research it was evident that networks specifically assisted the entrepreneurs in obtaining finances; to sell products; marketing and to grow the business in general.

From the literature (Jackson and Oliver, 2003; Nieman and Niewenhuizen, 2009; Stokes and Wilson, 2006) the following benefits of networks in new venture development were identified: ensuring that goals for growth and the vision of the entrepreneur are realistic; increasing the entrepreneur's level of aspiration; helping to identify opportunities; providing practical assistance; providing emotional support; providing a sounding board for ideas; leveraging the required resources in the most cost-effective way; provides potential routes towards achieving innovation without the need for expensive research and development departments and early marketing within a new venture relies extensively on the personal contacts of the entrepreneur. From the research the following benefits were listed by the respondents: to leverage required resources; for general assistance; a support mechanism and to grow the business.

The primary research objective of the study was to explore the role of networks in establishing an entrepreneurial venture. The literature review and data obtained from the respondents suggested that networks provide critical support throughout the entrepreneurial process. Indeed, the survivability and competitiveness of the entrepreneurial venture seems to be firmly rooted in the networks the entrepreneur has in place before undertaking the task of new venture development. Thus, it can be concluded that networks play a fundamental role in establishing an entrepreneurial venture.

## **LIMITATIONS OF THE RESEARCH**

In-depth interviews were used to generate the data, and response bias might have occurred based on the way the interviewer was dressed, the interviewer's age, gender, tone of voice and other non-verbal characteristics, all of which may influence the respondents' answers as Zikmund (2003) points out. The sample was relatively small and generalisation of results may not be possible. The study investigated the role of networks in establishing an entrepreneurial venture and did not consider the success attained by each entrepreneur, thereby limiting a



possible comparative showing the degree to which networks were used and the success achieved by the respondent in each case.

## **MANAGERIAL IMPLICATIONS / RECOMMENDATIONS**

Entrepreneurship is considered to be an important mechanism for economic development through job creation, innovation and its welfare effect. Entrepreneurship becomes a critical solution for the starting and developing of small businesses. Because of the high failure rate of SMMEs (70 - 80%) in South Africa various researcher have tempted to analyse the factors that influences new venture creation and also the factors that inhibits the growth of these businesses. The entrepreneur is faced with a number of challenges when starting a business. Networks are shown to assist the entrepreneur in overcoming such challenges, thereby increasing the probability of a successful entrepreneurial process.

Networks are thus critical for the entrepreneur when undertaking the task of new venture development. The value derived from networks is broad, and should in no way be tied down to assisting the entrepreneur overcome challenges only at the venture's inception. The use of networks is shown to offer value throughout all stages of the entrepreneurial process.

The literature review, data obtained from the respondents, and the perspectives gained, brought to the fore the following recommendations:

Entrepreneurs should be acutely aware of the value to be gained from networks in the entrepreneurial process. The analysis of the objectives of the study indicates that networks are crucial not only in overcoming early challenges to new venture development, but also in ensuring the sustainability and competitiveness of the business later on.

Respondents in the study were prompted to share their thoughts regarding the use of networks in entrepreneurship. From their responses, the following valuable **recommendations** can be extracted:

The entrepreneur needs to ensure that there are large enough networks in place before starting a business. There seems to be very little sense in building networks while simultaneously trying to build a business. Key relationships need to be set up from the outset so that the

entrepreneur can leverage off the network and direct all attention to achieving the business's objectives. Failure to have decisive networks in place before pursuing any initiative could result in the quick demise of the entrepreneurial venture.

Personal networks seem to be more valuable to the entrepreneur when compared to popularised social networking sites. In the light of this, entrepreneurs should dedicate more time to developing personal relationships, as it seems that personal networks are ultimately responsible for sustaining the entrepreneurial venture. However, the value of social network sites in business should in no way be underestimated, and the entrepreneur should thus research ways to become more proficient in using social networking sites.

The research data were gathered using a sample of respondents residing in the Johannesburg area. Additional studies could be undertaken in other areas of the country in order to obtain a more accurate view of networks in the entrepreneurial process within a broader South African context.

The primary requirement for the respondents to participate in the study was to have undertaken the task of starting a business. Herein lies an opportunity for further research in that a similar study could be done using entrepreneurs who have been outstandingly successful in building a business so as to determine the value gained from the use of networks by thriving entrepreneurs. Comparative research could be undertaken to determine the success of entrepreneurs using networks in building a business as opposed to those entrepreneurs who predominantly rely on other means.

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## **WHO ARE THEY AND WHY DO THEY ATTEND THE CAPE TOWN JAZZ FESTIVAL?**

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### **ABSTRACT**

Events have grown substantially in diversity, size and number. This growth has made a positive economic impact in the South African tourism industry. The Cape Town International Jazz Festival was chosen as the focus of this study. Since tourists have become more polished in their expectations and demands, it is now imperative for destinations to increase and maintain their appeal. The Cape Town International Jazz Festival is one of the activities aimed at achieving this in the city of Cape Town. However, visitor numbers cannot be maximised when there is insufficient information available on the profiles, demographics and motivational characteristics of attendees at the jazz festival. To date the literature on events in South Africa has predominantly focused on their economic impacts and the marketing thereof and little emphasis has been placed on the profiling of jazz festival attendees and the identification of their needs and preferences. The study sets out to address the nature of jazz festival tourists in South Africa, their motivations, behavioural intentions and how attendees can be effectively segmented in order to guarantee visitor satisfaction and loyalty. Five hundred self-completion questionnaires were distributed at the Cape Town International Jazz Festival held in April 2009. The study found that the event attracts attendees for festival-specific reasons and that motivational variables are

more important than demographic variables in defining or explaining visitors to festivals. Recommendations in connection with the study include: increase on international and domestic visitor numbers at the festival include: differentiated marketing strategies, loyalty retention and visitor satisfaction. The findings from this study contributes to the limited academic research on attendees at jazz festivals and will be beneficial for jazz festival organising committees to determine future strategies on gaining a larger market of attendees at jazz festivals.

**Keywords:** Key Success Factors, Events Management, Factor Analysis, music festival, Events tourism

## **INTRODUCTION**

The growth of event tourism over the last decade has been substantial (Picardi and Robinson, 2006:1) and this development has been mirrored in South Africa (Visser, 2005:159). According to Saayman and Saayman (2004:629), South Africa has seen a substantial increase in the number, size and diversity of events over the past few years. In view of the fact that the South African tourism industry seeks to develop and improve its tourism offerings, it is vital to observe how events have made large contributions to the tourism industry in the past and to address ongoing and future challenges to ensure that the positive contributions of events are maximised (Visser, 2005:155).

According to Visser (2005:155), the hosting of events is an important factor in urban tourism development and marketing. Tassiopoulos (2005:4) asserts that events are an important part of the tourism industry in South Africa. This is in line with Hughes (2000:15) who views events as tourism attractions as they act as a counterbalance to seasonality when hosted during off-peak seasons. Events also entice tourists to spend more time and money in host destinations and, as stated by Bodwin, Allen, O'Toole, Harris & Mc Donnell, (2001:38), events generate repeat visits to host destinations.



Furthermore, events are said to create certain personas around destinations, they enhance the charm of the host destination and increase the destination's visibility in other parts of the world (Van der Wagen, 2001:5). According to Saayman and Saayman (2004:629), developed countries are starting to give recognition to the benefits and growth of events in South Africa, as evidenced by the award of major sports events to South Africa, such as the Tri-Nations Cup, the Super 14 rugby competitions, the Indian Premier League cricket and The FIFA World Cup. Apart from major sports events, major music events have also been staged in South Africa. According to Saayman and Rossouw (2010:256) South Africa hosts over 300 music events annually, excluding once-off music events. These events attract large local and international audiences and include the 46664 Nelson Mandela concert, the Oppikoppie Music Festival, the Klein Karoo National Arts Festival, the Aardklop National Arts Festival, the African Music Festival, the Standard Bank Joy of Jazz and The Cape Town International Jazz Festival.

Although music events are not the only events generating benefits, they certainly have a number of economic benefits. Authors such as Gursoy, Kim and Uysal (2004:171) assert that events of this nature create infrastructure and jobs in destinations, they attract investments to host destinations, promote the image of destination, and provide a number of recreational opportunities in the host destination (Lee, Lee, Lee & Babin, 2008:56). Historically, international tourists visiting South Africa have been drawn to Cape Town more than any other destination in South Africa (Cornelissen, 2005:165). According to market research conducted by SA Tourism (2000) the city receives close to sixty percent of all international visitors. In addition to that, the city also receives a large market share of tourists from neighbouring and non-neighbouring countries in Africa. This market share is much higher than that of its main competitor — Johannesburg.

The study concludes that Cape Town attracts more leisure tourists than any other city in South Africa, and is capable of generating more income from such tourists. Further to that, the city possesses several physical and other personas that form an essential part of its appeal to tourists (Cornelissen, 2005:165). Both Cornelissen (2005:165) and Van Zyl (2008:132) clearly state that attractions such as Table Mountain, Cape Point, the V&A Waterfront, Robben Island and the Kirstenbosch Botanical Gardens are well entrenched in the international tourist markets and have

become well recognized names internationally. These attractions have become important tourism symbols not only for the Western Cape, but for South Africa as a whole. In light of this, Veres, Clark and Golbourne (2008:314) posit that since tourists have become more polished in their expectations and demands, it is now imperative for destinations to increase and maintain their appeal. The Cape Town International Jazz Festival is one of the activities aimed at achieving the latter.

The Cape Town International Jazz Festival has been dubbed “Africa’s grandest gathering,” known for attracting a high calibre of jazz performers, generating social cohesion among people who have an appreciation of jazz music and is known as one of the most prestigious events on the African continent. The event was first held in 2000, with approximately 15 000 visitors, and has since seen an increase in numbers, with visitor numbers totalling 33 500 in 2009. Moreover, the event sets itself apart from the rest by luring significant numbers of world-renowned musicians, comprising all jazz styles, to Cape Town. The Cape Town International Jazz Festival brings in more than 40 international and local jazz artists to perform over two days on five stages. According to Farrell (2009:4), in an interview published in the Cape Town Jazz Festivals’ annual magazine, the former Minister of Arts and Culture in South Africa, Pallo Jordan, mentions that the Cape Town International Jazz Festival has become a highly dominant event on the international jazz calendar.

According to Farrell (2009:4) this event was developed based on the understanding that arts and culture are conducive to the forming of a new South African identity. Farrell (2009:4) states that the event presents contemporary cultural vibrancy, which helps to establish an identity for South Africans internationally. This argument is supported by Veres, Clark and Golbourne (2008:314) who state that events such as the Cape Town International Jazz Festival celebrate group and place identity. Furthermore, international tourists are given the opportunity to experience authentic cultural ambience, meet local residents and take part in something authentically indigenous. According to Farrell (2009:2), who interviewed former Deputy President of South Africa, Baleka Mbete, the event has securely established itself as a yearly necessity to many a South African and has become so vital that it takes precedence over other activities that take place at the same time.

Farrell (2009:2) further imparts that the event creates colossal walking spaces, thus providing opportunities for browsing through exhibitions, meeting new people and reuniting with long lost friends and acquaintances, as well as the opportunity to “show hop.” Farrell (2009:4) adds that the event has managed to surpass the division of race, class, cultural background and gender through its exceptional combination of performing artists, outstanding musical performances, music workshops and conferences. According to Farrell (2009:4) the Cape Town International Jazz Festival has accomplished and maintained a good reputation in the international sphere. This is evident through the musical connections it has made with the Lincoln centre for performing arts in New York and in the New Orleans. Farrell (2009:4) further states that this event could in future provide opportunities for South Africa to gain a heightened reputation internationally. The event has become such an integral and historical part of the cities’ annual events that it is hard to imagine it being held elsewhere. According to Tassiopoulos (2010:222) events such as the Cape Town International Jazz Festival are used as a means to promote tourism and to boost the local economy.

Furthermore, the event recreates the image of Cape Town and South Africa, making it more appealing to local and international tourists, it contributes towards the overall exposure of Cape Town and, if planned strategically, the event could help to extend the tourism season, making tourism in Cape Town more sustainable (Tassiopoulos, 2010:222).

## **PROBLEM STATEMENT**

Authors like Dewar, Meyer and Wen (2001:524) state that an understanding of what drives and motivates attendance often heightens attendee enjoyment and satisfaction, and promotes better insight into a strategy to maintain attendees and attract new ones to the festival, thereby ensuring long term sustainability. Moreover, it is important to ascertain whether the prospects of visiting certain destinations and consuming tourism products in the destination also play a role, or if attendees visit destinations exclusively to attend the jazz festival. When reviewing the problem

statement and taking into account the heterogeneity of festival tourists, the following question arises: who are the jazz festival tourists? The goals and objectives provide a more specific framework of the study. The goal of this paper is to identify groups of attendees (profiling) with homogenous characteristics, travel behaviour patterns and their motivations for attending the Cape Town International Jazz Festival.

## **LITERATURE REVIEW**

Since the formulation of their study, (Ralston & Crompton, 1988) academic interest in the area of festival and event motivation has grown significantly. Table 1 summarises the motivational research studies that have been conducted in the context festivals. Following in the footsteps of Ralston and Crompton, several researchers continued with the discussion of festival motivation (McMorland & MacTaggart, 2007:57; Kim, Sun & Mahoney, 2008:415; Woosnam, McElroy & Van Winkle, 2009:500; Li & Petrick, 2006:23 and Yolal, Cetinel & Uysal, 2009:276). Some of the tourism motivation studies are characterized by identifying travel motivations in different tourism contexts such as eco tourism, adventure tourism, rural tourism and gay tourism without examining the motivation's influence on actual travel (Hung & Petrick, 2011:386). While music-based festivals have become a highly popular form of entertainment, authors such as McMorland and MacTaggart (2007:57) and Bowen and Daniels (2005:156) argue that there has been minimal research into visitor motivations when attending festivals, primarily within the context of jazz festivals. Waterman (1998:256) describes music as "a universal and universalizing art form, transcending social and cultural fault lines, appreciated, if not understood, by all".

In addition, Bowen and Daniels (2005:155) express that the pulling appeal of music festivals lies in its ability of including activities and entertainment beyond the music itself. Festivals such as the Cape Town International Jazz Festival held in Cape Town have established themselves as unparalleled special festivals that attract tourists for a variety of reasons (Visser, 2005:155). As confirmed by the festival director, Rashid Lombard, Farrell (2009:6) states that the music festival not only integrates innumerable talent in the jazz genre, it also has a strong cultural and cosmopolitan element to it, unlike concerts where individuals are solely drawn by the motivation

to hear and view live performances of artists. Bowen and Daniels (2005:156) debate that even though there is a paucity of research into the motivation factors of festival attendees, a considerable number of studies do indicate a variety of reasons why individuals choose to attend festivals (Woosnam, McElroy & Van Winkle, 2009:501; LeBlanc, 2004:204; Pasanen, Taskinen & Mikkonen, 2009:112 and Li & Petrick, 2006:23). Authors such as Woosnam, McElroy and Van Winkle (2009:501) add that understanding the motivations of festival tourists not only assists in the successful planning of festival programmes, but also with the positioning of the festival, as well as the development of marketing messages to attract attendees. Festival motivation literature also includes topics such as socio-emotive dimensions and on-site entertainment at the festival. Although different researchers use different investigation methods, research in festival and event tourism constantly reveals that attendee motives are multidimensional and attendance frequency and interest in particular festivals are to a considerable extent predicted by actual attendance (Kim & Chalip, 2004:696).

**TABLE 1: Summary of selected studies of festival and event motivations (*Mimi, Zhuowei & Liping, 2009:587*)**

Researcher	Motivational Factors	Type of festival
Chang, 2006	Equilibrium recovery, festival participation and learning, novelty seeking, socialization, cultural exploration	Aboriginal cultural event
Bowen and Daniels, 2005	Discovery, music, enjoyment	Regional music festival
Yuan, Cai, Morrison and Linton, 2005	Festival and escape, wine, music, socialization and family togetherness	Regional wine and food festival
Lee, Lee and Wicks, 2004	Cultural exploration, novelty, escape, family togetherness, event attractions	International cultural event
Dewar, Meyer and Wen, 2001	Event novelty, escape, socialization, family togetherness, excitement	International jazz festival

Formica and Uysal, 1996	Entertainment, event attraction, excitement, group togetherness, cultural/ historical, site novelty	International jazz cultural-historic event
Crompton and McKay, 1997	Cultural exploration, novelty, regression, gregariousness, recover equilibrium, external interaction	National cultural event
Ralston and Crompton	Stimulus seeking, family togetherness, social contact, meeting new people, learning and discovery, escape from personal and social pleasures.	Regional event

Furthermore, according to Gyimothy (2009:178) some of the studies apply the motivation theory frameworks as described earlier in the chapter. More frequently, Iso-Ahola's (1982:256) escape-seeking dichotomy or Crompton's (1979:408) push and pull theories have been applied in the context of festival tourism (Gyimothy 2009:178). As explicated before, pull factors are extrinsic motivators which may be tangible and intangible and influence the choice of festival attended. However, Van Zyl (2006:155) argues that very little research has been conducted into pull factors in respect of festivals. According to Van Zyl (2006:154) although the concept of push and pull theories have been used extensively in festival and event studies, push factors are documented more widely than pull factors. Park, Reisinger and Kang (2008:163) provide examples of pull factors in the context of festivals which include festival settings, artists performing at the festival, services offered as well as other forms of entertainment offered at the festival. Alegre and Juaneda (2006:686) assert that pull factors more commonly attract first time visitors than they do repeat visitors, thereby decreasing their prevalence in strategies for marketing festivals. Generally, festival marketers emphasise push factors instead of pull factors. As discussed previously, there is a general consensus among tourism researchers that push factors are psychological motives (Uysal, Li & Sirakaya-Turk, 2008:413; Yuan *et al.*, 2005:44 and Law, Cheung & Lo, 2004:356). In particular, Boo, Kim and Jones (2009:56) state that due to

their intrinsic nature, push factors contribute an imperative function in the decision-making process of attending festivals as they create the desire to travel.

In the context of jazz festivals, push factors may include the need for escapism, community pride, appreciation for jazz music, socialisation, meeting people with the same interests, relaxation, prestige, fun, festival novelty, excitement and thrills, nostalgia, atmosphere, family togetherness or a desire to learn (Formica & Uysal, 1996:176; Woosnam, McElroy & Van Winkle, 2008:507 and McMorland & Mactaggart, 2007:59). Alegre and Juaneda (2006:686) state that push factors more commonly motivate repeat visitors than they do first time visitors. Contradictorily, Alegre and Juaneda (2006:686) persuasively argue that push factors may also inhibit loyalty to a festival. These authors refer to motivations such as “*escape*,” “*the desire to learn about new music, people, different cultures or different festival experiences*”, and they assert that attendees whose main motivation for attendance has to do with novelty and change, would not necessarily be interested in attending the same festival again. However, attendees whose main motivation includes “*rest and relaxation*,” or to “*re-energise in a familiar setting*” would tend to attend the same festival again. One of the earliest studies on festival attendees’ push and pull motivation factors was conducted by Uysal, Gahan and Martin (1993:6) who identifies five push domains, namely escape, excitement or thrills, festival novelty, socialisation and family togetherness. Another study conducted by Formica and Uysal (1996:175) compares push motivations and demographic characteristics of attendees at a jazz festival in Italy. The twenty-three motivation items were divided into five dimensions, namely excitement and thrills, socialisation, entertainment, festival novelty and family togetherness. The study reveals that two segments (residents and visitors) differed based on age, sex and along two of the five dimensions of motivations.

Tourists to the host destination emphasised socialisation as their main motivating factor, while residents attending the jazz festival were highly motivated by entertainment. Both groups, however, were most motivated by festival novelty. Other authors reach similar conclusions in their studies. For example, Woosnam, McElroy and Van Winkle (2008:502) conducted a study

exploring the motivations of attendees at the Winnipeg Fringe Theatre Music festival, and McMorland and Mactaggart (2007:61) explored motivations at a traditional Scottish music festival. Both studies pointed to “enjoyment” as the most important motivation for attending the respective festivals. Furthermore, Crompton and McKay (1997:430) made an investigation of a festival held in San Antonio in the USA to identify what motivates attendance at music festivals in general and across different festivals. These authors employed the escape-seeking dichotomy and the push-pull factors frameworks in order to identify the motivations. Overall, the thirty-one motivation items were factor analysed or broken down into six categories, namely cultural exploration, novelty or regression, recovery of equilibrium, known group socialisation and gregariousness. Research conducted by Yuan *et al.* (2005:47) demonstrates that the type or theme of the festival may have the ability to alter the motivation of attendees. These authors analyse wine festival attendees’ motivation in a Vintage Indiana Wine and Food festival. Their results show that attendees are motivated by a variety of features that are associated with the various themes and elements or pull factors of the festival as a whole.

The factor analysis conceded four motivation dimensions: festival and escape, wine, socialisation and family togetherness. In view of this, authors such as Yolal, Cetinel and Uysal (2009:280) conclude that different types of festivals can satisfy the same need, although in varying degrees. Moreover, the findings of these studies imply that motivations of festival attendees at one festival were likely to be different to those of attendees at another festival. In line with this logic Hall, Basarin and Lockstone-Binny (2010:328), assert that festival attendance motivations involve intrinsic festival characteristics, the festival environment or “festivalscape”, social experiences and attendees’ emotions. Merely understanding visitor motivations is insufficient to guarantee visitor satisfaction and loyalty. The comprehension of visitor motivations also requires festival managers to place importance on building attractive festival qualities and grasping the flow of festival visitor behaviour (Yoon, Lee & Lee, 2010:335). According to authors such as Devesa, Laguna and Palacios, (2010:548) and Kozak (2002:221), an individual’s motivation for attending a festival will strongly influence their degree of satisfaction with the festival as a whole. Yoon, Lee and Lee (2010:335) postulate that the sheer understanding of visitor motivations is inadequate for pursuing guaranteed visitor satisfaction and loyalty. In view of this, authors such as Huh, Uysal and McCleary (2006:83) and Devesa, Laguna and Palacios (2010:547) advocate the importance of visitor satisfaction. The results of such a study can assist



festival organisers and managers in customising the festival programme to suit the needs of the visitor and provide a better experience, resulting in a sustainable event.

## **METHOD OF RESEARCH**

Quantitative research was conducted at the Cape Town International Jazz Festival among the visitors to the festival by means of questionnaire. The questionnaire used in the research at the Jazz Festival, was developed by means of the literature review, using studies by Van der Westhuizen (2003), Kruger (2006), De Witt (2006) and Marais (2009), and in collaboration with the festival organisers. The questionnaire has three sections: **Section A** consists of the demographic information of the visitors, such as gender, age, language, home town, occupation, group size, number of people paid for, length of stay, type of accommodation and spending. **Section B** consists of festival information, such as festival package, favourite artists, reason for visit, number of visits to the festival, other festivals visited, number of shows attended, where information about the festival was retrieved and whether it is important to receive information regarding the festival. **Section C** consists of 45 key success statements, which are evaluated using a 5-point Likert scale (1: not important at all and 5: very important), to rate the reasons for attending the festival and the importance of several KSFs of the festival.

Field-workers distributed a total of 400 structured questionnaires between the five stages and the food courts at the Jazz Festival, which was held over a period of two days at the Cape Town International Convention Centre. According to Singel (2002), the recommended sample size is 381 for any population of 50 000 (N). Given that approximately 32 000 visitors attended the Cape Town International Jazz Festival in 2009, 400 questionnaires were more than sufficient. Respondents were selected by using a single random sampling method based on a quota (number) of questionnaires per day. Two hundred were distributed per day at several locations at the event site in order to minimize bias. Microsoft<sup>®</sup> Excel<sup>®</sup> was used for data capturing and basic data analysis. SPSS (SPSS Inc 2007) was used for further analysis of data and, in this study, comprised two stages. First, a general profile of the visitors to the Cape Town International Jazz Festival was compiled.

## **RESULTS**

The results of this study will be discussed under the following two sub-headings:

- a. The visitor profile of attendees at the Jazz festival
- b. The motivational factors of attendees at the Jazz festival

### **Profile of attendees**

Based on the findings of the cited studies in the literature review, the current research study includes demographic and travel behaviour characteristics of jazz festival tourists. This section entails the demographic information of the festival attendees. It will provide a clearer representation of what the average jazz festival attendee's profile is made up of.

#### ***Gender***

As indicated in Figure 4.1, the findings on gender at the Cape Town International Jazz festival are consistent with previous festival profiling studies where there were more female than male respondents in a jazz festival (McKercher 2004:101; Nicholson & Pearce 2000:242; LeBlanc 2004:206; Yolal, Cetinel & Uysal, 2009:284 and Law, Cheung & Lo, 2004:357). The results of the empirical study indicated that the gender distribution of the festival visitors was quite uneven with 44% of the attendees being male and 56% female.

#### ***Age***

One result that differed from previous findings on music festival studies (Yolal, Cetinel & Uysal, 2009:284; Nicholson & Pearce, 2000:242 and Crompton & McKay 1997:432) was concerned with the respondents' age. According to Figure 4.2 The Cape Town International Jazz Festival attracts older, more mature people. According to the results, the bulk of the respondents were between the age of 31-40 years of age (39%), followed by those between the age of 21-30 years of age (29.2%), and 41-50 years of age (23.8%), while those under the age of 21 only made up

(8%) of the jazz festival population. This brings the average of respondents at the jazz festival to 37.2 years. The youngest attendee was 16 years of age while the eldest was 84 years of age.

### ***Home Language***

The diversity in language and culture in South Africa displays a true “rainbow nation.” However, as stated by Kozak (2002:221) there is a lack of empirical studies that explore whether tourist motives, values, preferences and travel behaviour differ among different groups of cultures. In South Africa, language is a good indicator of the cultural group to which an individual belongs. Results illustrates that most of the attendees were English-speaking (57%), 14% were Xhosa-speaking, followed by Afrikaans speakers at 7%, Setswana-speaking attendees at 6% and another 6% speaking a non-South African language, 3% of which were from Germany. In total, 28% of the respondents spoke a black South African language. Seeing that the Western Cape includes English and isiXhosa as two of its official languages, this may indicate that the festival attracts a large number of attendees from the Western Cape.

### ***Occupation***

The question on the occupation profile revealed a rather unequal distribution of visitors across all occupational categories. The results showed that 33% of the attendees were in professional occupations, 15% were in management positions, followed by 11% of respondents who were self-employed, 9% of participants were in administrative occupations, while another 9% consisted of students. The “other” category mainly consisted of attendees in the tourism services industry.

### ***Group size***

For marketing purposes, it is important to analyse prominent economic components of the respondents. These include factors such as group size, spending patterns, number of days and nights at the festival, as well as how much is spent on certain items. Data revealed that 44% of people attending the Cape Town International Jazz Festival were travelling in groups of two, 25% of people were travelling in bigger groups, with the biggest group being composed of 50 people, 18% were travelling in a group of four, with 13% travelling in a group of three. These

findings coincide with similar research findings of authors such as Campo-Martinez, Garau-Vadell and Martinez-Ruiz (2010:865) where respondents travelling in groups of two constituted the largest group in the total sample. In this particular study it was found that respondents travelling with a partner rated the overall experience more positively and also achieved higher satisfaction levels. The 25% of respondents who stated that their group consisted of more than four people possibly attended the festival due to the opportunity it gave them to share the experience and time with their friends to meet their socialisation needs.

### ***Trip duration***

Length of stay in many tourism studies is measured by the number of days and nights spent at a destination and are directly linked to tourist expenditure (Anaman & Ismael, 2002:61; Fredman, 2008:298; Gokovali, Bahar & Kozak, 2006:736; Laessar & Crouch, 2006:403 and Kim, Han & Chon, 2008:387). This simply means that each additional night or day spent at the festival destination will increase the amount of money spent by tourists. Results illustrate that 65% of attendees spent two days at the festival, 25% spent just one day, 5% spent three days attending the festival and another 5% spent more than three days at the festival, with the longest duration being seven days and six nights.

### ***Province of residence***

A study conducted by Cannon and Ford (2002:268) found that out-of state attendees' expenditure levels are higher than those of attendees from the host destination. Due to this, it is imperative to ascertain the attendees' place of residence. Authors such as Saayman, Kruger and Van Der Merwe (2007:190) assert that the distance from or length of travel to destinations positively affects expenditure. The Cape Town International Jazz Festival has great opportunities to tap into potential markets from other South African provinces such as Limpopo, Mpumalanga, the North-West Province, Northern Cape, and the rest. It can be assumed that the marketing efforts of the jazz festival have not been aggressive in these provinces, as it has been in Gauteng, the Eastern Cape and KwaZulu Natal, but it could also mean that these provinces are less wealthy than the Gauteng Province. The results in the current study indicates that 54% percent

of the respondents were residents of the Western Cape Province, 26% percent from Gauteng province, with only 7% from the neighbouring Eastern Cape, 6% from KwaZulu Natal and a growing 7% of the respondents were from outside of South Africa. A research study conducted by Slabbert, Saayman, Saayman and Viviers (2008) finds that province of origin plays a role in the expenditure incurred by visitors at national parks in South Africa. This study concludes that tourists originating from provinces outside the national parks, especially those from the Western Cape and Gauteng, spent significantly more than visitors residing in the national park locale. Therefore, it is expected that attendees residing outside the festival destination are likely to stay longer in the festival destination and those travelling from Gauteng are likely to spend more money on attending the festival.

### ***Expenditure***

Music festivals are extensively acknowledged as contributors to destinations' tourism products (Veres, Clark & Golbourne, 2008:314; and Kim, Prideaux & Chon, 2010:219). As with other tourism-related research findings, the question of expenditure per attendee is highly important to determine the economic benefits of the festival (Yoon, Lee & Lee, 2010:335 and Lee *et al.*, 2008:56) in order to measure the economical self-sufficiency of the jazz festival and its potential as an income generator to Cape Town.

The results reveal that the festival contributes positively to the economy of Cape Town. The biggest spending was on accommodation for attendees outside the Western Cape at an average of R956, followed by R480 on weekend and day passes to the festival, a further R549 was spent on dining, R253 and R128 on alcoholic and non-alcoholic drinks respectively. Respondents spent a further R507 on transport to and within the festival, R427 on retail shopping and just under R100 on CDs, DVDs and souvenirs. Expenditure incurred by attendees was then divided into foreign visitors, visitors who live in the Western Cape or those staying with friends and family and visitors from the rest of South Africa. Total visitor spending can be calculated through the multiplication of the average spending per respondent in that category (for example: accommodation, transport, entry ticket and so forth) by the number of purchases for each category. It can therefore be assumed that attendees from other parts of South Africa make the

greatest contribution to the festival and the largest spending is made on entries to the festival. The hotel industry benefits handsomely from the jazz festival as well.

The profile of attendees of the Cape Town International Jazz festival can be tabulated as follows (Table 2):

**Table 2: Profile of visitors to the Cape Town International Jazz Festival**

<b>Category</b>	<b>Profile of visitors</b>
<b>Gender</b>	Female (52%), Male (48%)
<b>Age</b>	Average 35 to 49 years
<b>Language</b>	English (66%)
<b>Occupation</b>	Professional (24%), Management (15%)
<b>Province of origin</b>	Western Cape (68%), Gauteng (13%)
<b>City of Residence</b>	Cape Town (52%)
<b>Travel Group</b>	Average of 4 persons
<b>Number people paid for</b>	Average of 2 persons
<b>Average Spending per group</b>	R3577.81
<b>Number of times attended festival</b>	Average of 3 times

### **Motivational factors**

From a marketing perspective it is easier to cluster motivations together and to focus a marketing strategy accordingly. This would allow the marketer to understand clearly the reasons and motivations for attending the jazz festival, what attendees expect, as well as how their expectations can be met and exceeded. Respondents were asked to evaluate twenty-three motivational statements; fifteen of these motivational statements were brought forth from a review of previous festival studies which referred to tourist motivations in general and their reasons to attend festivals as well (Crompton & McKay, 1997:425; Li & Petrick, 2006:239 and Yuan *et al.*, 2005:42). When measuring the motivations of attendees, the researcher identified four dimensions of motivation factors for attending the jazz festival. These factors were labelled music and artists, depending on the nature of the festival, followed by wellbeing, socialisation

and experience and meaning. With a few exceptions, the four motivational factors were common across age, gender and occupation.

***a) Motivational factors: music and artists***

Descriptive analysis of travel motivations detected that respondents were mostly motivated by festival-specific reasons. The first group was that of music and artists. As expected, this factor serves as a pull factor due to attendees being motivated by the leisure choice of attending this festival. Table 3 illustrates that “to enjoy the music” served as a highly important motivator for attending the jazz festival, followed by “to listen to / support my favourite jazz artists.” The fact that the main motivating factors for this festival were pull factors, demonstrates the likely ability of the festival to generate loyal and repeat visitors, who will specifically attend the festival and visit Cape Town based on the musical experience the jazz festival offers them.

Table 3 also shows that since attendees to the jazz festival were not that interested in the purchasing of CDs and DVDs of their favourite jazz artist, it may be assumed that they already had this material or they preferred to purchase them somewhere other than at the festival. In this category “to enjoy jazz music” served as a very important motivator, followed by “to listen to/support my favourite jazz artists”. Furthermore, it can be noted that meeting their favourite artists, as well as learning new things about jazz music, was not a priority. This could mean that the respondents were already knowledgeable about the particular genres, as well as the artists performing at the festival, and were just attending the festival because of their appreciation of jazz music.

***b) Motivational factors: wellbeing***

The second group of factors, characterised by being push factors, measures the wellbeing factors as motivation for attending the festival. Table 3 provides an illustration of the wellbeing factor. As illustrated in Table 3, among this factor, having fun was the most important motivator for the respondents, represented by (94%), to relax (84%), followed by getting refreshed (82%), to do

exciting things (77%), to relax from daily tension (76%) as well as to escape from a busy environment (66%). As stated by Alegre and Juaneda (2006:686) pull factors such as “relaxation and escape” inhibit destination loyalty in that attendees who attend festivals for this reason are prone to seek these experiences from other festivals.

**c) Motivational factors-socialization**

The next group of factors measured socialisation as a motivation for attending the festival. As indicated in Table 3, the respondents indicated that spending time with friends and sharing the experience with someone special was an important motivator in the aspect of socialisation. In the context of festival tourism studies, these results appear to correlate with those of Kahle and Riley (2004:45) and LeBlanc, (2004:209) who recognised the presence of family and friends presence as an important motivating factor for attending a festival. Their studies found that the enjoyment of festivals is emotive and the enjoyment is heightened through group interaction. However, it was interesting to note that less than 50% of the respondents did not attend the

<b>TABLE 3: Motivational factors</b>	<b>NOT IMPORTANT</b>	<b>LESS IMPORTANT</b>	<b>IMPORTANT</b>	<b>VERY IMPORTANT</b>
<b>Motivational factors-music and artists</b>				
To listen to/support my favourite jazz artists	5%	7%	22%	66%
To learn new things such as new songs	15%	13%	26%	46%
To enjoy jazz music	4%	4%	22%	70%
To meet my favourite jazz artists	14%	16%	22%	48%
To buy CDs or DVDs of my favourite artists	33%	25%	17%	25%
To learn more about jazz music	16%	15%	32%	37%
I want to learn from experienced artists	50%	8%	12%	30%
<b>Motivational Factors: wellbeing</b>				
To relax	6%	10%	33%	51%
To do exciting things	6%	17%	31%	46%
To relax from daily tension	11%	13%	34%	42%
To get refreshed	6%	12%	26%	56%



To escape from a busy environment	15%	19%	20%	46%
To have fun	2%	4%	19%	75%
<b>Motivational factors-socialization</b>				
To share the experience with someone special	8%	9%	29%	54%
To spend time with friends	10%	11%	24%	55%
To meet people with similar interests	17%	15%	28%	40%
To socialize	10%	15%	30%	45%
<b>Motivational factors: experience and meaning</b>				
To explore a new destination	19%	19%	28%	34%
To be part of this exciting event	7%	11%	27%	55%
To do something out of the ordinary	12%	16%	29%	43%
It is an annual commitment	25%	14%	20%	41%
It is value for money	18%	14%	28%	40%
It is an opportunity to visit Cape Town	34%	9%	23%	34%

festival to socialise or to meet new people with similar interests. This could imply that the majority of the respondents prefer to keep to themselves at the festival and the motivation to meet other people at the festival is not important to them at all, but rather to enjoy the time spent with their loved ones. It can be concluded that consumption with family or friends enhances the overall attendance experience and that a component of the social dimension is the entertainment value inherent to the jazz festival.

***d) Motivational factors: experience and meaning***

The last motivational factor was motivation related to the experience and meaning respondents attached to the festival. As indicated in Table 3, fifty four percent of the respondents indicated “to be a part of this exciting event” as their reason for attending the festival. Taking into consideration that 52% of the respondents are from Cape Town, they were not interested in exploring a new destination and did not see the festival as an opportunity to visit Cape Town. However, it is important to note that there is a substantial number that are repeat visitors to the festival, as 41% indicated the festival to be an annual commitment, and another 40% viewed the festival as providing value for money.

## **CONCLUSIONS AND RECOMMENDATIONS**

The objectives of this paper were to explore the demographics as well as travel motivations of attendees at the Cape Town International Jazz festival. Generally speaking, the research findings showed that among the twenty three motivational items, festival-specific reasons were the top motivations for the respondents to attend the jazz festival as “to enjoy jazz music” and “to have fun” were the dominant motivations to attend the jazz festival. Other important motivations included “to listen to my favourite jazz artists”, “to get refreshed”, “to share the experience with someone special”, “to spend time with friends” and “to be a part of this exciting event”. Furthermore, this study confirmed findings of previous studies which found that motivational variables are more important than demographic variables in defining or explaining visitors to festivals, indicating that tourists attending the jazz festival were heterogeneous in nature.

Apart from a few exceptions, the twenty-three motivational items were common across age, gender, occupation and home language. For example, males regarded “relaxation” and “relaxation from daily tension” as an important motivation in the decision to attend the festival while, this construct was not important to females. Therefore, the understanding of visitor motivations is fundamental in keying out the target market for the jazz festival, assisting in product development and promotion, and in developing positioning strategies. In view of this, differentiated marketing strategies should be employed, using the relevant media which will appeal to and have been specifically designed to satisfy the direct needs of different people by the relevant marketing authorities.

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# **EXPLORING NEGATIVE EMOTIONS PATIENTS EXPERIENCE FOLLOWING A SERVICE FAILURE IN THE SOUTH AFRICAN HEALTH CARE SECTOR**

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## **ABSTRACT**

The health care sector in South Africa is described as one with high incidents of negative service experiences. This study identified emotions patients exhibit following a service failure at private and public hospitals. Results show three factors underlie negative emotions and that respondents experience these three factors with different intensities.

## **INTRODUCTION**

The inequality of the private and public health care sectors in South Africa is highlighted by the spending pattern of both sectors, where the private health care sector spends more to serve 6.9 million people, than the public health care sector spends on serving 37.9 million people. Furthermore, South Africa also has the highest reliance on the private health care sector of any country in the world (Pharmaceutical Executive, 2006: 8). The South African health care sector is also widely known for its high levels of service variations, specifically when comparing the private and public health care sectors with regard to the incidence of service failures experienced (de Jager and du Plooy, 2011: 103).

It is a known fact that customers experience various negative emotions during service failures. Du, Fan and Feng (2011: 451) indicate that customers who experience negative emotions during service failures, pass those negative emotions on to other customers, making it necessary for service providers to resolve the customers' problem quickly and effectively before customers engage in negative word-of-mouth and complaint behaviour.



Understanding customers' negative emotions becomes important for health care providers not only for the reasons mentioned above, but also because these providers are being held more accountable for service failures (Perrott, 2011: 58).

This paper is comprised of a literature review, an exposition into the problem at hand and research objectives, and a discussion of the methodology used to conduct the research. Finally the conclusions, recommendations and limitations of the study are presented after the results.

## **LITERATURE REVIEW**

The following section provides an exposition on the private and public health care industry in South Africa. Furthermore, negative emotions following a service failure, and previous studies conducted in the health care sector and on negative emotions are described.

### **The health care industry of South Africa**

The health care industry of South Africa is represented by two main sectors, namely the private and public health care sectors. South Africa's private health care sector is rated as the fourth best in the world, while the public health care sector is ranked amongst the lowest by the World Health Organisation (Pharmaceutical Executive, 2006: 8). The private health care sector serves 20% of the South African population, with 80% of the population being served by the public health care sector (Economist Intelligence Unit, 2011: 4). The private health care sector is dominated by three health care groups, namely Netcare, Afrox Health care and Medi-Clinic with a combined total market share of 80% (Pharmaceutical Executive, 2006: 9). Approximately 400 public hospitals (segmented into district, regional and tertiary hospitals) are operational in South Africa compared with 200 private hospitals (Economic Intelligence Unit, 2011: 6). The disparity between the private and public health care sectors in South Africa is furthermore emphasised by the fact that the private health care sector spends \$7 billion per year to serve 6.9 million people, while the Government spends approximately \$5.4 billion per year to serve 37.9 million people in the public health care sector (Pharmaceutical Executive, 2006: 8). Furthermore, South Africa is the country that has the highest reliance on private health care (44.3% of total health expenditure), followed by Uruguay (36.8%) and the United States of America (34.8%) (Pharmaceutical Executive, 2006: 8).

The public health care sector of South Africa furthermore faces many challenges such as being under resourced in terms of insufficient facilities, dated and unavailable equipment and personnel shortages. These challenges place pressure on the quality of services provided in this sector (Economic Intelligence Unit, 2011: 5; Yaacob, Zakaria, Salamat, Salmi, Hasan, Razak and Rahim, 2011: 636; Finweek, 2007: 64; Pharmaceutical Executive, 2006: 8). This situation is further compounded by the fact that although the private health care sector only serves 20% of the population, this sector employs 75% of physicians (de Jager and du Plooy, 2011: 103). To try and overcome the pressures in the public health care sector, Government is increasing its spending in this sector and is attempting to promote public-private partnerships (Economic Intelligence Unit, 2011: 3,7).

Perrott (2011: 53) and Lanjananda and Patterson (2009: 5-6) indicate that health care is one of the most important services that consumers purchase over their lifetime due to the high risk involved in selecting the right service provider and the physical and mental wellbeing it aids customers in achieving. Yet health care providers do not comprehend the importance of providing quality services to patients (Suki, Lian and Suki, 2011: 42).

Many consumers also do not have a choice as to which health care service provider to select. Lower income consumers in particular cannot afford medical aid from the private sector and need to rely on the public health care system (Yaacob *et al.*, 2011: 636).

The health care sector worldwide and especially in the developing world is often criticised for its high levels of service variations and fluctuations, specifically when comparing the private and public health care sectors (de Jager and du Plooy, 2011: 103; Suki *et al.*, 2011: 43; Yaacob *et al.*, 2011: 636; Howley, 2009: 279; Lanjananda and Patterson, 2009: 5). This could be attributed to the fact the public health care sector does not need to consider the influence of competition as the private health care sector does (Suki *et al.*, 2011: 42).

### **Service failures and negative emotions**

Varela-Neira, Vasquez-Casielles and Iglesias (2010: 34) explain that customers experience service failures when a problem occurs with the core service, or with the way in which the service was delivered. Yaacob *et al.* (2011: 638) mention that all health care providers (both private and public) need to be focused on providing services that satisfy customer needs,

although this industry is well known for poor service levels and high levels of service failures. Additionally, Perrott (2011: 58) states that health care service providers are being held more accountable for service failures. Strizhakova and Tsarenko (2010: 304) emphasise the fact that negative emotions are evoked as a result of service failures experienced by customers during service encounters, and understanding negative emotions becomes important from a marketing perspective in understanding consumer behaviour and satisfying customer needs.

Tronvoll (2011: 113) as well as Vinagre and Neves (2010: 211) state that defining emotions is a complex issue without any clarity on the concept being provided from a marketing perspective in literature. From those definitions provided in literature, Varela-Neira *et al.* (2010) define emotions as the feelings that people experience as a result or in response to a specific situation and can be classified as either positive or negative. Bagozzi, Gopinath and Nyer (1999) as quoted by Baker, Meyer and Johnson (2008: 556) provide a more clarified definition of emotions by defining emotion as a “*mental state of readiness that arises from cognitive appraisals of events or thoughts; has a phenomenological tone; is accompanied by physiological processes; is often expressed physically (e.g. in gestures, posture, facial features); and may result in specific actions to affirm or cope with the emotion, depending on its nature and meaning for the person having it*”.

Studies on emotions in general have been varied and found various emotions that people experience. For example, Izard (1977) identified ten basic emotions which include both positive and negative emotions in his Differential Emotions Theory study, namely interest, enjoyment, surprise, sadness/distress, anger, fear, shame, guilt, disgust and contempt (in Vinagre and Neves, 2010: 211-212). Smith and Bolton (2002) conducted a study on negative emotions and found five categories of negative emotions, namely anger, discontent, disappointment, self-pity and anxiety (Baker *et al.*, 2008: 556). Other studies have identified negative emotions as those including fear, sadness, guilt and hostility (Tronvoll, 2011: 114). Although most studies have investigated only specific negative emotions (such as anger and guilt), some authors contend that negative emotions can be classified according to the negative emotions customers experience themselves (such as shame, depression and guilt) in the case of a service failure (e.g. Svaeri, Svensson, Slåtten and Edvardsson, 2011; Smith and Ellsworth, 1985), the negative emotions (such as fear, anxiety and worry) customers experience as a result of the situation or the circumstance (e.g. Svaeri *et al.*, 2011; Dubé,

Bélanger and Trudeau, 1996; Smith and Ellsworth, 1985) and those negative emotions (such as frustration, anger and irritation) that are caused by the service provider and others (e.g. Svaeri *et al.*, 2011; Dubé *et al.*, 1996; Westbrook, 1987).

Customers can experience more than one positive or negative emotion during the service encounter, where stronger negative emotions are experienced during service failures (Varela-Neira *et al.*, 2010: 34; Baker *et al.*, 2008: 556). Mechinda and Patterson (2011: 101) postulate that customers tend to experience higher levels of negative emotions when service failures occur in high-contact service settings (such as at a hospital). Varela-Neira *et al.* (2010: 33) state that previous studies have identified that service failures lead to various types of negative emotions by customers, yet these studies focused on the service failure that occurred, and not on the range of negative emotions experienced by customers following the service failure. Furthermore, studies have also found that negative emotions lead to higher levels of customer dissatisfaction (Vinagre and Neves, 2010: 212-213). Du *et al.* (2011: 451) indicate that customers who experience negative emotions during service failures can pass those negative emotions to other customers in the service environment, making it necessary for service providers to resolve the customers' problem quickly and effectively before customers engage in negative word-of-mouth and complaint behaviour.

## **PROBLEM INVESTIGATED AND RESEARCH OBJECTIVES**

According to Suki *et al.* (2011: 44), the health care sector should consider the satisfaction levels of customers as well as the expectations that customers have pertaining to the services they are provided, as this will help service providers identify areas that need improvement. Yet, Piligrimienė and Bučiūnienė (2011: 1304) acknowledge that health care service providers do not consider customers' experiences when measuring service quality, but rather consider the medical results that were obtained. As previous studies identified that negative emotions experienced after a service failure lead to higher levels of customer dissatisfaction, the effects of negative emotions in the health care sector should not be ignored (Tronvoll, 2011: 111; Vinagre and Neves, 2010: 212). Furthermore, Varela-Neira *et al.* (2010:32, 43) opine that consumers' characteristics and demographics also influence the level of negative emotions experienced after a service failure. Specifically, the authors identified that age influences the intensity of negative emotions experienced.

Tronvoll (2011: 111) adds that most studies conducted in marketing have concentrated on the disconfirmation paradigm perspective (i.e. satisfaction, dissatisfaction and loyalty), and not on other aspects apart from cognition such as emotion. Although some studies have been conducted on emotions in a service setting such as those by Soscia (2007), Watson and Spense (2007), Wong (2004), Bougie, Pieters and Zeelenberg (2003), Oliver (1997) and Richins (1997), many of these only considered a few negative emotions and did not take a wider perspective of the negative emotions experienced by customers.

Larsson and Wilde-Larsson (2010: 230) state that studies conducted in the health care sector that consider the patients' perspective, have been done where patients' satisfaction levels are considered, but have focused on psychometric aspects. Howley's (2009) study identified how apologies can be used in the health care sector once service failures have been experienced, while Padmanaba Sivakumar and Srinivasan (2010) identified a link between service quality and satisfaction and positive word-of-mouth in hospitals in India. De Jager and du Plooy's (2011) study in the health care industry explored the expectations, perceptions and satisfaction levels of patients, but only looked at the public health care sector. Additionally, a study conducted by Cristea, Sucala, Stefan, Igna, David and Szentagotai Tatar (2011) on emotions within health care considered the emotions that patients experienced throughout their treatment for cardiac problems, but did not consider the effect of negative emotions as a result of the entire service encounter.

Tronvoll (2011: 111) and Strizhakova and Tsarenko (2010: 304) emphasise that by understanding the negative emotions customers experience during service failures, service providers will be able to identify the correct service recovery strategy and better satisfy customer needs. This is necessary in the South African health care sector due to the variability of service provided by this industry (de Jager and du Plooy, 2011: 103). Furthermore, considering the difference in the rating of the South African private and public health care sectors, as well as identifying the extent to which negative emotions are experienced in these two settings (Pharmaceutical Executive, 2006: 8) will provide a more detailed understanding of these two settings.

Piligrimiené and Bučiūnienė (2011: 1304) specify that studies investigating service quality among different groups of health care providers (such as private and public health care providers) are lacking. Furthermore, as discussed in previous sections, although studies have

been conducted on emotions and on health care, no studies could be identified that considered the negative emotions that private health care patients experience compared to those in the public health care sector. As Du *et al.* (2011: 451) state, previous studies have indicated that positive and negative emotions are two independent concepts. For this reason, this study specifically focuses on negative emotions experienced as a result of service failures.

Taking the above into consideration, the primary objective of this paper is to compare the negative emotions patients in the public and private health care sector experience following a negative encounter with a service provider.

The following secondary objectives were thus formulated for this study:

- Identify the negative emotions experienced by patients in the health care sector of South Africa following a service failure.
- Determine whether significant differences exist between the negative emotions experienced by patients following a service failure in the private and public health care sectors of South Africa.
- Identify whether significant differences can be observed in terms of private and public health care patients in terms of their demographic variables (gender, age and race) and the negative emotions they experience following a service failure.

The following hypotheses are set for the study:

- H1: Patients in the South African health care sector experience different negative emotions with significantly different intensities following a service failure.
- H2: Patients in the public health care sector experience significantly higher levels of negative emotions following a service failure than those in the private health care sector of South Africa.
- H3: Patients exhibiting different demographic characteristics (gender, age and race) experience significantly different levels of negative emotions following a service failure in the health care sector of South Africa.

## RESEARCH METHODOLOGY

The research methodology used in this study included a quantitative, descriptive research design. A non-probability, convenience sampling method was used. Self-administered questionnaires were handed out by trained fieldworkers to respondents who had experienced a service failure in the year preceding the survey at a public or private hospital in Gauteng.

The questionnaire commenced with a description of the research as well as respondents' rights (e.g. anonymity, refusal of answers), as well as a screening question to ensure that only respondents who had experienced a service failure at a public or private hospital in the year preceding the survey were included in the sample. The second section of the questionnaire included measuring negative emotions. The measuring instrument was adapted from previous studies on negative emotions including those of Svaeri *et al.* (2011), Smith and Bolton (2002), Bagozzi, Gopinath and Nyer (1999), Dubé *et al.* (1996), Westbrook (1987), Smith and Ellsworth (1985) and Izard (1977). Respondents were asked to rate to which extent they had experienced eighteen possible negative emotions following the service failure at the hospital on an unlabelled Likert-type scale of one to seven where 1 represents 'strongly disagree' and 7 represents 'strongly agree'. A total of 290 questionnaires were obtained for data analysis.

SPSS version 20 was used to conduct the data analysis. The distribution of the results obtained for each item included in the Likert-type scale was analysed to determine whether parametric tests or non-parametric tests would be suitable for hypothesis testing (Pallant, 2007: 56). The analysis found the distribution of results for all items within the acceptable parameters (skewness of less than an absolute value of 2.00 and kurtosis of less than 7.00) as stated by West, Finch and Curran (1995). In order to account for missing responses, pair-wise deletion was used. Furthermore, frequencies, means, standard deviation, factor analysis, paired-sample T-tests, independent sample T-tests and One-way Anova's were conducted as part of the statistical analysis. For statistical analysis a p-value of  $< 0.05$ , indicating a 95% confidence level was considered significant. Furthermore, Cohen's d-values were calculated to identify whether a practical significance is evident. Ellis and Steyn (2003:51) indicate that a d-value of 0.2 or less signifies a small effect with no practical significance, a d-value of 0.5 indicates a medium effect, while a d-value of 0.8 and higher signifies a large effect which represents a large practical significance.

## RESULTS

The following section provides an exposition of the demographic profile of respondents and their patronage is provided, as well as the findings in terms of each of the measurement sets and hypotheses formulated for the study.

### Demographic profile of respondents

Table 1 presents a demographic profile of respondents.

**Table 1: Demographic profile of respondents**

Variable	Categories	Number of respondents (count)	Percentage
Type of hospital	Private health care (have medical aid)	169	58.9
	Public health care (do not have medical aid)	118	41.1
Gender	Male	109	38.1
	Female	177	61.9
Age	Younger than 20	22	7.6
	20 – 29 years	76	25.3
	20 – 39 years	40	13.8
	40 – 49 years	36	12.4
	50 – 59 years	39	13.4
	60 – 69 years	61	21.0
	70 and older	15	5.2
Home language	Afrikaans	84	29.3
	English	106	36.9
	Nguni (Zulu, Xhosa, Swati, Ndebele)	47	16.4
	Sotho (Pedi, Sotho, Tswana)	40	13.9
	Venda / Tsonga	10	3.5
Race	African	101	35.2
	Asian	4	1.4
	Coloured	31	10.8
	Indian	39	13.6
	White	112	39.0

It is evident from Table 1 that the majority of respondents (58.9%) reported on a service failure experienced at a private hospital, compared with 41.1% of respondents at a public hospital. In addition, the majority of respondents (61.9%) were female, between the ages of 20 and 29 (25.3%), English speaking (29.3%) and white (39.0%).



## Negative emotions experienced

An exploratory factor analysis was conducted to identify whether the eighteen possible negative emotions that respondents could experience following a service failure, could be reduced into fewer underlying factors as was the case in similar studies conducted by Svaeri *et al.* (2011), Dubé *et al.* (1996), Westbrook (1987) and Smith and Ellsworth (1985).

Before factor analysis could be conducted, the suitability of the data for analysis was determined. Pallant (2007) suggests that for data to be suitable for factor analysis, a large sample size (larger than 150), a significant Bartlett's test of sphericity value ( $p < 0.05$ ) and a Kaiser-Meyer-Olkin value larger than 0.6 should be evident. The sample for the study concerned was 290, with a significant Bartlett's test of sphericity value of  $p < 0.000$ , and a KMO value of 0.910 indicating the data was suitable for factor analysis.

For the factor analysis, the principle component method was used for factor extraction and the direct oblimin method was used for factor rotation. Eigen values of one or more are seen as significant and only loadings that can be explained by literature or are above 0.3 were retained. Three factors resulted with 62.89% of the total variance being explained. Table 2 presents the factor loadings of the three retained factors.

**Table 2: Factor analysis**

Negative emotion	Factor 1	Factor 2	Factor 3
Irritation	.831		
Frustration	.830		
Unhappy	.707		
Anger	.702		
Rage	.677		
Discouragement	.626		
Disempowerment	.586		
Distress	.497		
Shame		.861	
Guilt		.823	
Sadness		.579	
Embarrassment		.571	
Loneliness		.543	
Regret		.540	
Depression		.417	

**Table 2: Factor analysis continued**

Negative emotion	Factor 1	Factor 2	Factor 3
Worry			.886
Nervousness			.860
Fear			.825
Anxiety			.807

Taking the results of the factor analysis as well as published literature into consideration, in this study Factor 1 was labelled as “externally-related negative emotions”, indicating that these negative emotions were experienced by respondents as a result of others such as the service provider (hospital). Factor 2 was labelled as “self-related negative emotions” as these negative emotions were experienced by respondents themselves after experiencing a service failure at the hospital. Factor 3 was labelled as “situational-related negative emotions” as these emotions were experienced as a result of the situation. Table 3 indicates the Cronbach Alpha values for the three factors.

**Table 3: Cronbach Alpha values**

Factor	Cronbach Alpha value
Factor 1: Externally-related negative emotions	0.901
Factor 2: Self-related negative emotions	0.866
Factor 3: Situational-related negative emotions	0.885

From Table 3 it can be noted that all Cronbach Alpha values for all factors are above 0.7 which indicates that the scale was reliable (Pallant, 2007:95).

Paired-sample T-tests were conducted to identify whether significant differences exist between the means of the three factors that underlie negative emotions, as uncovered by the exploratory factor analysis. Table 4 below presents the findings.

**Table 4: Paired sample t-test comparing negative emotion factors**

Factor		Mean of factor	Mean of difference	Standard deviation of difference	P-value	d-value**
Pair 1	Factor 1: Externally-related negative emotions	4.93	1.17	1.31	0.00*	0.89
	Factor 2: Self-related negative emotions	3.76				
Pair 2	Factor 1: Externally-related negative emotions	4.95	0.53	1.53	0.00*	0.35
	Factor 3: Situational-related negative emotions	4.42				
Pair 3	Factor 2: Self-related negative emotions	3.78	0.64	1.54	0.00*	0.22
	Factor 3: Situational-related negative emotions	4.42				

\*Indicates statistical significance ( $p \leq 0.05$ )

\*\*Indicates practical significance where 0.2 is indicative of a small effect with no practical significance, a d-value of 0.5 is indicative of a medium effect, whilst a d-value of 0.8 represents a large effect.

From Table 4 it is evident that the intensity of the negative emotions experienced by respondents in the health care sector of South Africa differs significantly. Furthermore, a large practical significant difference (d-value of 0.89) can be noted between Factor 1 and Factor 2, where respondents experienced stronger externally-related negative emotions (mean 4.93) than self-related negative emotions (mean 3.76). Furthermore, a small to medium practical significant effect (d-value 0.35) was realised between Factor 1 and Factor 3, where externally-related negative emotions (mean 4.95) were experienced at a higher intensity than situational-related negative emotions (mean 4.42). Finally, a small practical significant effect (d-value 0.22) was evident between Factor 2 and Factor 3, where situational-related negative emotions (mean 4.42) were experienced at higher intensities than self-related negative emotions (mean 3.78).

The results of the factor analysis and paired-sample T-test indicate that Hypothesis 1 (Patients in the South African health care sector experience different negative emotions with significantly different intensities following a service failure) can therefore be accepted.

## Differences in private and public health care

An independent sample T-test was conducted to determine whether a significant difference between the means of the private and public health care respondents could be identified within the three different factors of negative emotions. Table 5 presents the results of the independent sample T-test to determine whether a statistical significance between means exists (p-value). Furthermore, Cohen's d-value was calculated to identify whether a practical significance could be observed between means.

**Table 5: Service failures experienced by respondents in the last six months**

Factor	Mean Private patients	Mean Public patients	P-value	d-value**
Factor 1: External	4.66	5.33	0.000*	1.36
Factor 2: Self	3.35	4.36	0.000*	2.05
Factor 3: Situation	4.22	4.66	0.047*	0.89

\*Indicates statistical significance ( $p \leq 0.05$ )

\*\*Indicates practical significance where of 0.2 is indicative of a small effect with no practical significance, a d-value of 0.5 is indicative of a medium effect whilst a d-value of 0.8 represents a large effect

From the results in Table 5, it can be observed that for all three factors, a significant and large practical significance is evident. In all cases, those respondents who had suffered a service failure in the public health care sector experienced higher levels of negative emotions than those in the private health care sector. Hypothesis 2 stating that patients in the public health care sector experience significantly higher levels of negative emotions following a service failure than those in the private health care sector of South Africa, can therefore be accepted.

## Demographic differences between the negative emotions experienced in the private and public health care sector

From the data analysis, the following results were obtained from independent sample T-tests and One-way Anova's in terms of whether differences between the means of the different demographic groupings (gender, age and race) could be identified regarding the negative emotions respondents experienced in the private and public health care sector in South Africa.

- No significant differences could be observed between the means of males and females with regard to the three underlying factors of negative emotions experienced in the private health care sector or those in the public health care sector.
- No significant differences could be observed between the means of respondents of different age groups with regard to the three underlying factors of negative emotions experienced in the private health care sector or those in the public health care sector.
- No significant differences could be observed between the means of respondents of different race groups with regard to the three underlying factors of negative emotions experienced in the private health care sector or those in the public health care sector.

## **CONCLUSIONS, IMPLICATIONS AND RECOMMENDATIONS**

Based upon the literature review, it can be said that the large disparity between the private and public health care sectors in South Africa is evident due to the difference in spending on the part of the private health care sector and the Government. The private health care sector spends substantially more on health care than the Government, even though the private health care sector serves approximately 30 million less patients than its public counterpart who serve 37.9 million patients. In addition, South Africa also has the highest reliance on private health care in the world (Pharmaceutical Executive, 2006: 8). The lack of funding places the public health care sector of South Africa under pressure such as being under resourced in terms of insufficient facilities, equipment and facing personnel shortages. These challenges place pressure on the quality of services provided in this sector (Economic Intelligence Unit, 2011: 5). This furthermore leads to higher levels of service failure in the industry, which causes patients to experience high levels of negative emotions (Yaacob *et al.*, 2011: 638).

Although studies on negative emotions have focused on one or two negative emotions that customers experience (e.g. anger and frustration), some studies have suggested that three main categories of negative emotions can be experienced (Svaeri *et al.*, 2011; Dubé *et al.*, 1996; Westbrook, 1987 and Smith and Ellsworth, 1985). Eighteen different negative emotions as uncovered in the literature were measured in the study. Through an exploratory factor analysis, these emotions were reduced to three factors, namely those that relate to the respondents' self, those experienced as a result of the service provider, and those experienced as a result of the situation. This suggests that service providers should firstly identify for which reason patients experience negative emotions (namely as a result of themselves, those

as a result of the external service provider or those as a result of the situation). Service providers could therefore develop service recovery strategies based on these three factors by taking the specific negative emotions within each factor as identified in this study into consideration.

Furthermore, based on the three underlying factors of negative emotions identified in this study, it was found that respondents experience these emotions at different intensity levels. Respondents experience higher intensities of externally-related negative emotions following a service failure, followed by situational-related negative emotions. Health care providers should therefore have different service recovery strategies in place, based on whether the service failure occurs as a result of the service provider (external) or as a result of the situation. Respondents experience the lowest intensity of self-related negative emotions. The research found that respondents experience higher levels of negative emotions when the service failure occurred as a result of a problem caused by the service failure. This suggests that service providers need to have an immediate service recovery strategy in place which specifically emphasises recovery strategies based on service failures that can occur as a result of the health care provider or its staff. These strategies could include ensuring that staff members are highly trained and competent to minimise service failures such as incorrect diagnosis, as this will lead to negative emotions caused by the service provider. High intensities of negative emotions are also experienced by respondents as a result of the situation (which could include for example late appointments or power failures). Health care providers should therefore have recovery strategies in place to deal with service failures as a result of the situation, as this will also cause negative emotions in patients. These strategies could include, for example, having infrastructure in place, such as generators in the case of power failures. It is also necessary that frequent maintenance be undertaken on the infrastructure so that the service failure inconvenience is reduced. These strategies could aid in minimising the intensity of the negative emotions patients experience as a result of the situation, which could make it easier for the service provider to recover from the failure more easily. The results of the study indicate that respondents experience negative emotions that were self-related the least intense. This suggests that service providers need to ensure that negative emotions experienced as a result of the service provider (external) or the situation should be minimised, using the strategies suggested above as these lead to higher levels of negative emotions.

Furthermore, this study identified that patients in the public health care system experience higher levels of negative emotions than those in the private health care system. This could be attributed to the fact that the public health care sector is highly underfunded and understaffed. The fact that the public health care sector also serves a large number of patients, also increases the risks of service failures. This suggests that the public health care system should identify ways of ensuring effective utilisation of current facilities and develop a partnership with the private health care sector (as currently proposed by the Government). The best way to try and minimise service failures in the public sector is to ensure that health care providers are well trained in their profession, as well as informed on how to implement service recovery strategies.

This study identified that no significant differences could be observed in terms of respondents' gender, age and race. This suggests that health care providers can develop generic service recovery strategies aimed at the three factors of negative emotions, rather than having to develop specific strategies for patients exhibiting different demographic characteristics.

## **LIMITATIONS OF THE RESEARCH AND SUGGESTIONS FOR FUTURE RESEARCH**

The main limitation of this study is that it was only conducted in the Gauteng area. Differences may be observed if different geographical areas were researched, specifically urban versus rural areas. Furthermore, a convenience sampling method was used limiting the generalisation of results to the sample, and not the population as a whole.

Further research could be done in determining whether the three main factors of negative emotions can also be observed among different samples or industries. Research can also be conducted to determine how to identify the specific emotion that customers experience in different service settings, as this will aid service providers to identify which recovery strategies should be in place.

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# FACTORS DRIVING ONLINE BRAND EQUITY IN AN EMERGING MARKET: A SOUTH AFRICAN CASE STUDY

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## ABSTRACT

The *website functionality*, *customer-support* and *social media* of three online book retailers are hypothesized to affect brand equity indirectly via four sources: brand *awareness*, *value*, *trust* and *loyalty*. A PLS model finds that *loyalty*, *value* and *trust* have a direct influence. *Awareness* and the three web constructs have indirect effects.

**Keywords:** online, brand, equity, functionality, customer-support, social media.

## INTRODUCTION

Brand equity is commonly defined as the added value a product or service derives from its brand (Aaker, 1991). Such equity allows firms to achieve a primary source of competitive advantage (Kotha, Rajagopal & Rindova, 2001) and to charge premium prices (Keller, 1993), thereby yielding greater profits (Myers, 2003). While much attention has been devoted to the analysis of offline brand equity, comparatively little has been devoted to understanding the underpinnings of brand equity in an online setting (see for example Christodoulides *et al.*, 2006). Rubinstein & Griffith (2001) suggest that this scarcity of on-line-related research originates from the assumption that the key principles of brand development remain the same both off and online. de Chernatony (2001) challenges this view, asserting rather that, when online, brands will engage with the end user in a fundamentally different way when contrasted to the off-line setting. This being so, rather than merely mimicking brand-related factors operational in conventional retail environments, any attempt to sensitively model and assess online brand equity ought therefore *also* to include additional potential online elements and drivers (Christodoulides, 2004).

Proceeding from this on-to-off-line distinction, the primary aim of this research was to determine and assess the applicability of established brand equity drivers within an on-line environment. Derived from Aaker's (1996) work on traditional offline sources of brand equity; the established variable-drivers are: *awareness, trust, value* and *loyalty*. In order to account for the shift towards a web-based framework, additional potential drivers of online brand equity also required inclusion (Rios, 2007). Accordingly three web-marketing tools were also added to the Aaker's list of latent candidate equity drivers; namely: *web-site functionality, customer service* and use of *social media*. Deploying these three cyber-constructs, this analysis sought to model the extent of their direct impact on Aaker's four proposed sources, and thus, indirectly, on the brand equity construct itself.

While, in the main, past studies have sought to find general consensus in the conceptualization and measurement of brand equity, (see *inter-alia*, Rios and Riquelme, 2008), none have lent specific focus to this phenomena within emerging markets. This study sought thus to address this gap in the literature, conducted as it was, in Cape Town, South Africa. With a sample of 218 users of one of three online book retailers, namely: *Leisurebooks.com, Kalahari.net* or *Take2.co.za*, respondents were requested to fill in a 57-item questionnaire. The constituted dataset was then interrogated to derive a model of the factors driving brand equity across these three cited *e-tailers*.

In Section Two that follows, we present a review of the relevant literature and a consequent framework of hypotheses. The research design and description of the dataset is then presented in Section Three. Section Four outlines the empirical findings, with a discussion on the implications concluding the paper.

## **LITERATURE REVIEW**

Despite a number of brand equity conceptualization and measurement models, there is little consensus as to the precise definition and means to approximate this construct (Pappu, Quester & Cooksey, 2005). Crimmins (1992) argued that the customer-based viewpoint is pivotal since there is only value to the retailer if there is value to the customer. Other studies have followed in this vein, most especially since this version of brand equity also presents with fewer computation-related complications (Christodoulides *et al.*, 2006; Na and Marshall, 2005; Priilaid and van Rensburg, 2010; Rios and Riquelme, 2008). As its name suggests, customer-based brand equity is conceptualised as the additional value a consumer receives from a marketed brand, compared to that of a similar but

unbranded product with identical levels of marketing stimuli and product attribute (Aaker, 1991; Pappu, Quester and Cooksey, 2005; Yoo and Donthu, 2001a). As such, a customer-based framework is adopted in this study, an approach which thus also constitutes brand equity as a proxy for *brand preference*, *price premia*, and *intentions to repurchase*; all three of which are in line with Agarwal and Rao (1996); Ailawadi and Keller (2004); Ilfeld and Winer, (2002) and Rios (2007).

Using this consumer facing orientation in their web equity framework for online companies, Page and Lepkowska-White (2002: 232) proposed the application of offline measures, suggesting that the key difference between on and off-line environments lay in the configuration of each respective suite of marketing-mix drivers. Specifically, Page and Lepkowska-White argued that as drivers, *image* and *awareness* were both likely to play critical roles in the establishment of web-based equity. Additionally Rios (2007) noted that the *loyalty* construct could serve potentially as an outcome of web equity rather than one of its drivers.

In another study based in Singapore and Korea, Na and Marshall (2005) sought to demonstrate how on-line brand preference was predicted by three drivers, namely: the *experiential* (enjoyment, sociability, character, layout, user friendly), the *informational* (web interface, richness of information), and *familiarity*. All three constructs were tied to *image*; though their causal framework appeared without clear explanation.

In 2006, Christodoulides *et al.* proposed an alternate brand equity model for online retail companies called Online Retail/Service (or ORS). Using five dimensions to describe online brand equity, namely (1) *emotional connection*, (2) *online experience*, (3) *responsive service nature*, (4) *trust* and (5) *fulfilment*, the authors described web-based equity as “a relational type of intangible asset that is co-created through the interaction between consumers and the e-tail brand” (Christodoulides *et al.*, 2006: 803). This definition appeared to differ with the earlier version posited by Ailawadi and Keller (2004: 332) stating that “a retailer’s brand equity is exhibited in consumers responding more favourably to its marketing actions than they do to competing retailers”. It also differed with Keller’s (1993) view that brand equity is the measurable difference in the way a consumer responds to a branded product as opposed to a generic one. The dissimilarity between these two definitional positions and the version posited Christodoulides *et al.* (2006), led Rios (2007) to question whether the latter study was *actually* studying online retailing equity. It should be noted too that with no justification Christodoulides *et al.* also excluded the *awareness* dimension from their ORS model, creating a tenuous relationship between their five proposed factors and brand equity (see Argyriou, Kitchen and Melewar, 2005; Rios, 2007).

The most recent and comprehensive study of online brand equity was undertaken by Rios (2007). In line with previous brand equity studies, her conceptualization of customer-based brand equity evolved chiefly from the frameworks of Aaker (1996) and Keller (1993). Employing a Structural Equation Model, Rios found that off-line drivers of brand equity (specifically Aaker's dimensions of *awareness*, *trust*, *value* and *loyalty*) still played an important role within on-line environments; with *loyalty* being the most important driver. Rios (2007) also included constructs derived from recent technological developments and online trends, demonstrating that the on-line factors of *customer support* and *functionality* influenced brand equity, albeit indirectly. A third potential driver, namely *online fulfilment* was found to be void of influence.

By way of concluding this review, we observe three factors contributing to the *raison-d'être* of this research-piece. Firstly, given the lack of conformity underpinning the on-line branding literature cited above, further research is required to confirm and or amend the configuration of factors shaping web-based brand equity. Secondly, while firmly connected to the theoretical architecture of Aaker (1996) and Keller (1993), this research serves also to test the relevance and influence of the *social media* construct, a recent and hitherto untested online factor potentially driving web-equity. Thirdly and finally, with previous research generally conducted in high income countries, this study offers a point of difference, undertaken as it is in an emerging market, namely South Africa. In the sub-section that follows, an assortment of on and off-line brand-related constructs is presented and reviewed so as to formally present a suite of seventeen hypotheses to be tested in the paper.

## **Hypothesis framework**

**Awareness:** If brand awareness has been consistently defined as “the ability for a buyer to recognize or recall that a brand is a member of a certain product category” (Aaker, 1991: 61; Keller, 1993; Rios, 2007; Yoo and Donthu, 2001a), two dimensions must underpin brand awareness: recognition and recollection. Recognition describes a consumer's ability to confirm prior exposure to the brand, and, when proffered the brand-cue, to correctly identify the relevant product category (Buurmann, Jost-Benz and Riley, 2009). By contrast, when given a cue related to either the product category, the needs fulfilled by that category, or the usage situation: recollection refers to the ability to “retrieve the brand from memory” (Keller, 1993: 3).

Be it on or off-line, both Aaker (1991) and Keller (2003) have presented brand awareness as the pivotal element of a brand's equity; as it performs an important role in consumer decision-making and

has the ability to differentiate the designate company from its competitors. Though some studies have found awareness to be insignificantly related to brand equity (see Bravo *et al.*, 2007; Faircloth, 2005; Washburn and Plank, 2002), it has been argued that brand equity cannot be created *unless* brand recognition and recollection influence the formation and strength of brand associations in the consumer's mind (Keller, 1993; Pappu, Quester and Cooksey, 2005). For this reason the relevance of awareness as a source of brand equity cannot be underestimated as it directly affects the consumer's consideration of a brand within the evoked suite of candidate brands (Rios, 2007). Consequently we hypothesize that:

H<sub>1</sub>: Brand awareness has a significant positive effect on online brand equity.

**Value:** Brand value is defined by Woodruff (1997: 142) as the “customer's perceived preference for and evaluation of those product attributes, attribute performances, and consequences arising from use, that facilitate (or block) achieving the customer's goals and purposes in use situations”. As per this view, value becomes a multi-dimensional construct derived from a multitude of sources including, but not limited to: competitive price; superior customer service, availability, and breadth and depth of product assortment (see Alba *et al.*, 1997; Anckar, Walden and Jelassi, 2002). The literature is not without some debate regarding the use of perceived quality (as opposed to perceived value) as a driver of brand equity. For example, Netemeyer *et al.*, (2004) contend that consumers do not distinguish between quality and value judgments since both are formed in the same manner. More recently, Kim (2009) has confirmed that as both attribute and benefit, perceived quality establishes a sense of value in the mind of the consumer. Some studies have even suggested that it is perceived value and not perceived quality that should be employed as a driver of brand equity (see Anderson and Srinivasan, 2003; Netemeyer *et al.*, 2004; and Rios, 2007), and that, as consumers come to differentiate between brands, they will, on the basis of their long-term experiences, choose the ones that offer the highest level of perceived value (Netemeyer *et al.*, 2004). Thus according to Aaker (1996), Rios and Riquelme (2008) and Yoo, Donthu and Lee (2000) any increase in a brand's perceived value will therefore translate into an increase in brand equity. Consequently this study hypothesizes that:

H<sub>2</sub>: Value has a significant positive effect on online brand equity.

**Trust:** It has been contended that trust is “the variable most universally accepted as a basis of any human interaction or exchange” (Gundlach and Murphy, 1993: 41 cited by Harris and Goode, 2004). Both Ha (2004) and Tan and Sutherland (2004) deem it especially important in online transactions. This is due to the nature of the computer-mediated environment where there is no direct interaction



with any product or sales representatives (Rios, 2007). The presence of trust therefore reduces the uncertainty linked with online transactions and thus fulfils the consumers' need for reassurance. It follows therefore that only businesses with trusted websites will have the ability to create brand equity (Grabner-Kraeuter, 2002). The relationship between trust associations and brand equity has been established in research by both Keller (2003) and Rios (2007), and for the purposes of this study too, it is hypothesized that:

H<sub>3</sub>: Trust has a significant positive effect on online brand equity.

**Loyalty:** While customer loyalty has long been considered the cornerstone of brand equity (Baldauf, Cravens and Binder, 2003; Keller, 2003; Yoo, Donthu and Lee, 2000), there has been much debate as to whether loyalty is merely attitudinal or whether it is also behavioural. While the behavioural component is measured by repeat purchase behaviour (Anderson and Srinivasan, 2003), the attitudinal component is reflected rather by the consumer's attitude towards the brand and any indications of loyalty (Keller, 1993). This being so, both Gremler (1995) and Keller (1993) assert that any meaningful measure of customer loyalty involves should incorporate both perspectives. Consequently, loyalty has been defined as a "favourable attitude toward a brand resulting in consistent purchase of that brand over time" (Assael, 1992: 7 cited by Rios, 2007). In an online context the same follows. Here loyalty represents a customer's favourable attitude toward the online retailer which is manifested in his or her habitual purchasing and resistance to switching to other brands; resulting in greater market share (see Assael, 1998; Oliver, 1999 cited by Souitaris and Balabanis, 2007). As one of the most important sources of brand equity (Rios, 2007), it is therefore hypothesised that:

H<sub>4</sub>: Loyalty has a significant positive effect on online brand equity.

**Inter-relationships amongst lead variables:** There are suggestions within the literature that the sources of brand equity present with a potential causal order (Agarwal and Rao, 1996) and perhaps even a level of hierarchy (Yoo and Donthu, 2001a). Rios (2007), for example, determined that brand awareness precedes the associations of both value and trust which, in turn, together influence a customer's loyalty to the brand and subsequently leads directly to the creation of brand equity. Chau *et al.* (2006) found that the complexity and social uncertainty of transacting with an online business would be reduced within in a class of consumers with a high level of familiarity of an online business, as measured by their degree of awareness (Chau *et al.*, 2006). Rios (2007) demonstrated that higher levels of awareness would provide online consumers with greater value and that they were thus more likely to trust the online business in question (Rios, 2007), a finding supported by Yoon (2002) who

found that awareness had a significant association with website trust. Thus it is therefore hypothesized that:

H<sub>5a</sub>: Online brand awareness has a significant positive effect on value.

H<sub>5b</sub>: Online brand awareness has a significant positive effect on trust.

The relationship between trust and value was explored by Graebner-Kraeuter (2002) who argued that trusted online retailers add value as they reduce complexity and therefore diminish the uncertainty surrounding online transactions. A direct association between trust and value has since been established by Harris and Goode (2004) and Sirdeshmukh, Singh and Sabol (2002), though the latter paper noted that more research was needed to evaluate the nature of the link between these two constructs. Therefore, it is hypothesized that:

H<sub>6a</sub>: Value has a significant positive effect on trust.

Several researchers have posited a positive relationship between perceived customer value and loyalty (Cronin, Brady and Hult, 2000; Rios, 2007). Additionally, Sirdeshmukh, Singh and Sabol, (2002: 32) reported that “value emerges as the consistent, significant, and dominant determinant of consumer loyalty.” Also, Anderson and Srinivasan (2003) reported that customers were more likely to be satisfied if offered higher overall value by an online firm. Such an offering would reduce their need to seek alternative service providers, therefore resulting in further loyalty. Therefore, it is hypothesized that:

H<sub>6b</sub>: Value has a significant positive effect on loyalty.

Trust has been the focus of many studies seeking to explain loyalty both on and off-line (Harris and Goode, 2004; Morgan and Hunt, 1994; Sirdeshmukh, Singh and Sabol, 2002). In her study of on-line branding, Rios (2007) suggested that trust plays a more critical role than in more traditional off-line situations. The importance of trust in a company whose service has been, and is likely to continue to be satisfactory also becomes evident for consumers as they move from single to repeat-purchase patterns of purchase (Ganesan, 1994). Additionally, since trust moderates purchase risk, theory suggests that it is first necessary for the online retailer to gain the trust of a customer in its operational abilities before any online loyalty can accrue (Harris and Goode, 2004). Therefore, it is hypothesized that:

H<sub>7</sub>: Trust has a significant positive effect on loyalty.

### **Online constructs**

**Functionality:** The functionality of a website refers to the usefulness of its interface (Kaplanidou and Vogt, 2006); specifically, the structural design elements that may enhance a consumer's web experience (de Wulf *et al.*, 2006; Rios, 2008). Through useful and stimulating engineering and design, website functionality can create positive experiences for the user, which, in turn, may inflate the online retailer's reputation and generate a greater perceived awareness (de Wulf *et al.*, 2006; Yoon, 2002). Additionally, design and navigation capability may also serve to save customers time and effort in meeting their product needs, thereby generating significant customer satisfaction and value (Liang and Lai, 2002; Pitta, Franzak and Fowler, 2006). Website functionality may signal a firm's ability to serve consumer needs, thus creating a level of credibility and trust in the online business (Schlosser, White and Lloyd, 2003). So-doing, a visible investment into the website functionality implies a certain level of company competence (Chau *et al.*, 2006; Gummerus *et al.*, 2004), which, in turn, links positively to repurchase behaviour (Yoo and Donthu, 2001b). Studies by Liang and Lai (2002); Pitta, Franzak and Fowler (2006); and Wolfinbarger and Gilly (2003) have also found website functionality to be one of the most predictive factors of online customer loyalty. In terms of the above we therefore hypothesize that:

H<sub>8</sub>: Website functionality has a significant positive effect on online brand awareness.

H<sub>9</sub>: Website functionality has a significant positive effect on value.

H<sub>10</sub>: Website functionality has a significant positive effect on trust.

H<sub>11</sub>: Website functionality has a significant positive effect on loyalty.

**Customer Support:** Rios (2007: 194) paraphrased customer support as a "critical marketing effort e-marketers need to facilitate for consumers, considering that every consumer approaches an online business with different internet skills or trust dispositions." While pre-purchase support focuses on simplifying the user's purchase process, post-purchase service most commonly deals with either order tracking or product return queries (Yun and Good, 2007). Researchers posit that customer support is an important driver of both customer satisfaction and service quality, and can thus increase the perceived value customers gain from a website (Hu *et al.*, 2009). Online retailers are therefore able to raise their level of perceived value by facilitating direct consumer-to-business purchase enquiries (Srinivasan, Anderson and Ponnnavolu, 2002). Rios (2007) asserts that customer support can also assist in dispelling consumer doubt, thus enabling an online Customer-to-Business relationship and

further stimulating an increase of trust in the firm. Additionally, customer follow-up service and support may serve also as key trust building motors, for “without these in place and operating, trust building is not possible” (Pitta, Franzak and Fowler, 2006: 422). Ong and Singh (2009) also claim that online customer relationship management (CRM) initiatives aim to better understand customers’ needs and strengthen customer relationships, and ultimately consumer loyalty. Continual enhancements in online customer support have also been found to induce customer retention, and thus, again, loyalty (Yun and Good, 2007). In lieu of the above, it is hypothesized that:

H<sub>12</sub>: Customer support has a significant positive effect on value.

H<sub>13</sub>: Customer support has a significant positive effect on trust.

H<sub>14</sub>: Customer support has a significant positive effect on loyalty.

**Social Media:** Social media is defined as any Web 2.0 application that enables and empowers users to generate their own online content, and easily access and comment on the input of others (Blackshaw, 2006 cited by Xiang and Gretzel, 2010; Kaplan and Haenlein, 2010; Kim *et al.*, 2010). Such forms of online interaction offer value to consumers in a manner that traditional media can not (Vijay, 2009). Xu *et al.* (2009: 16) note furthermore, that online social communities “create new venues to build consumer social networks to enhance loyalty to a particular brand.” Thus increasingly, online firms come to recognize the importance of social media in brand building, customer service, crisis management and PR campaigns (see Diga and Kelleher, 2009; Seivold, 2009). Smith (2009) has observed that consumers respond favourably to the empowerment derived from the use of social media, and that this enables the building of stronger C-to-B relationships. Recent studies suggest that the increased C-to-B interaction provided by social media is likely to yield greater levels of consumer trust (see Drury, 2008; Heaps, 2009; Mangold and Faulds, 2009). This may in turn reduce the level of perceived risk-of-transaction and thus build stronger relationships and emotional connections between companies and their consumers; resulting in both purchase intention and repeat purchasing (Smith, 2009; Wang *et al.*, 2007). It is therefore hypothesized that:

H<sub>15</sub>: The presence of social media has a significant positive effect on a value.

H<sub>16</sub>: The presence of social media has a significant positive effect on a trust.

H<sub>17</sub>: The presence of social media has a significant positive effect on loyalty.

## DATA DESCRIPTION AND EXPERIMENTAL DESIGN

To investigate the determinants of online brand equity, three established South African web-based book retailers were selected for examination; namely Leisurebooks.com, Kalahari.net and Take2.co.za. All three employ web-marketing activities such as social media, offer homogeneous goods, and operate in an established industry. These factors made them attractive subjects for investigation. Three sets of questionnaire were developed, each specific to one of the three companies under study. These were administered both online and offline. The self-administered questionnaire contained 57 question-items (including two initial screening questions) tasked to measure the hypothesized sources of brand equity (namely: awareness, value, trust, and loyalty). In addition, items for the three company-generated web-marketing activities were included (namely: web functionality, customer support, and social media.) In line with a causal order proposed amongst sources of brand equity, no direct relationships were hypothesized between exogenous web-marketing activities and the endogenous brand equity outcome.

The final sample comprised of 218 adult respondents, all of whom indicated, as per initial screening, that they had purchased at least one book from one of the three stipulated websites. The majority of respondents surveyed were either from Kalahari.net (n= 115, 53%) or Take2.co.za (n=81, 37%). The remaining 22 respondents (10%) were Leisurebooks.com customers. Over the entire sample, 51% (n=59) indicated that they were male, 47% (n=54) that they were female. (Four individuals failed to answer this question.) The vast majority of respondents (n=79) were between the ages of 18 and 31 (69%). This statistic is comparable with the typically youthful profile of online consumers (see for example the study by Geel (2003)); therefore implicitly positioning this study as primarily analysing young adults. Across the sample, internet usage verged on the continual, with 91% of respondents (n=191) using the internet on a daily basis. A further 6% of the sample indicated usage of three-to-four times a week. Purchase frequency was less frenetic, with only 38 out of the 218 respondents (17%) indicating purchase rates of greater than one a month. The sample contained only two weekly shoppers. The majority of respondents (77%) made purchases either twice a year (29%), annually (19%) or less than once a year (29%).

Descriptive detail pertaining to the demographic and usage patterns of the test subjects is depicted below in Table I.

		Kalahari	Take2	Leisurebooks	Total
<b>Gender</b>	Male	59	54	7	120
	Female	54	26	14	94
	Did not answer	2	1	1	4
	<i>Total</i>	<b>115</b>	<b>81</b>	<b>22</b>	<b>218</b>
<b>Age</b>	18-24	64	45	2	112
	25-31	15	16	4	35
	32-38	12	4	8	24
	39-45	5	3	1	9
	46-52	11	8	2	21
	53+	6	4	4	14
	Did not answer	2	1	0	3
	<i>Total</i>	<b>115</b>	<b>81</b>	<b>22</b>	<b>218</b>
<b>Internet Usage</b>	Daily	105	73	13	191
	3-4 times per week	7	7	4	18
	1-3 times per week	2	0	3	5
	1-3 times per month	0	0	0	0
	less frequently	0	0	1	1
	Did not answer	1	1	1	3
	<i>Total</i>	<b>115</b>	<b>81</b>	<b>22</b>	<b>218</b>
<b>Purchase Frequency</b>	Weekly	0	1	1	2
	Monthly	6	22	8	36
	Twice a year	38	21	4	63
	Annually	23	17	2	42
	Less Frequently	46	15	3	64
	Did not answer	2	6	3	11
<i>Total</i>		<b>115</b>	<b>81</b>	<b>22</b>	<b>218</b>

**Table I.** Descriptive statistics: relating to demographic and usage patterns of the 218 test subjects.

All question-items were assessed using a seven-point likert scale where one denoted “strongly disagree” and seven “strongly agree”. The measures for all framework-constructs were derived from existing scales or literature-based studies - with the exception of the “social media” construct where no published scale exists. Here, a reputable marketing research company called *TNS Research Surveys* proved helpful in providing the necessary measurable items. The consequent full set of questionnaire items is presented in Appendix I.

### Model construction

With mean substitution employed to treat instances of missing data, an initial factor analysis was

conducted to ascertain the number and credibility of constructs to be tested. So doing, reliability and validity checks were performed to ensure that question-items loaded appropriately onto their constituent constructs. Reliability measures included Item Reliability Analysis (IRA), in conjunction with Total Item Correlation and Confirmatory Factor Analysis (CFA). Validity was assessed via Construct and Discriminant Validity.

Running an IRA, the Cronbach's alpha for each of the measured constructs was greater than 0.7, implying a general accuracy in the overall item-to-construct-factor loading process. Worth noting is that item one of the Social Media construct was deleted, thereby increasing the reliability of the scale, (with Cronbach's alpha boosted to 0.93). In turn, the CFA indicated that all factors were well represented by their respective items. In the test for composite reliability, each construct's composite-reliability-indicator was found to be greater than 0.7, suggesting overall internally consistency. So doing we were satisfied that the latent-constructs under analysis were adequately represented by their under-pinning questionnaire items.

In the assessment of construct validity, both convergent and discriminant validity were examined. Convergent validity was confirmed by each measurement item loading on to its latent construct with a statistically significant *t* value and correlating strongly with its designate construct. Discriminant validity was assessed by examining the cross-loadings-matrix and the Average Variance Extracted (AVE). In this study the cross loadings matrix confirmed that, except for items five and six of the *value* construct, each item loaded more highly on its assigned latent construct than on any of the others (Chin, 1998). Items five and six were subsequently excised from the analysis. Confirmatory analysis thus pointed to the deployment of eight constructs: brand equity, and its four traditional drivers (*awareness, value, trust* and *loyalty*), as well as three cyber-constructs, namely: *functionality, customer-support* and *social media*. Table II below presents descriptive statistics pertaining to the dominant latent constructs noted above.

The final stage of the analysis deployed the Partial Least Squares (PLS) methodology, a form of Structural Equation Modelling facilitated by *SmartPLS* software. Here the seventeen hypothesised dependence relationships were tested for. Additionally, though not explicitly posited, the potential for any direct relationship between the three web-marketing activities and brand equity was also examined in order to test for any model misspecification. None was found.

	Awareness	Value (*)	Trust	Loyalty	Web Functionality	Customer Support	Social Media (*)	Brand Equity
<b>Mean</b>	<b>5.78</b>	<b>5.13</b>	<b>5.69</b>	<b>4.55</b>	<b>5.33</b>	<b>5.14</b>	<b>3.16</b>	<b>4.33</b>
Kalahari	5.90	4.91	5.66	4.28	5.22	5.06	2.68	4.81
Take2	5.72	5.44	5.74	4.90	5.48	5.24	3.60	5.16
Leisure	5.40	5.17	5.64	4.70	5.33	5.19	4.06	5.32
<b>Std dev</b>	<b>1.28</b>	<b>1.27</b>	<b>1.04</b>	<b>1.69</b>	<b>1.24</b>	<b>1.23</b>	<b>1.77</b>	<b>2.22</b>
Kalahari	1.19	1.29	1.05	1.69	1.25	1.24	1.62	1.71
Take2	1.34	1.14	1.00	1.63	1.23	1.25	1.78	1.51
Leisure	1.45	1.37	1.16	1.65	1.18	1.02	1.80	1.36
<b>Skewness</b>	<b>-1.42</b>	<b>-0.63</b>	<b>-1.05</b>	<b>-0.41</b>	<b>-0.86</b>	<b>-0.65</b>	<b>0.45</b>	<b>-0.65</b>
Kalahari	-1.63	-0.47	-0.86	-0.26	-0.70	-0.55	0.77	-0.58
Take2	-1.28	-0.73	-1.30	-0.69	-1.12	-0.86	0.17	-0.73
Leisure	-1.06	-0.92	-1.13	-0.26	-0.81	-0.12	-0.05	-0.30
<b>Kurtosis</b>	<b>2.17</b>	<b>0.32</b>	<b>1.67</b>	<b>-0.76</b>	<b>0.89</b>	<b>0.45</b>	<b>-0.91</b>	<b>-0.74</b>
Kalahari	3.32	0.08	1.17	-0.84	0.55	0.33	-0.33	-0.50
Take2	1.50	0.71	2.70	-0.40	1.64	0.80	-1.13	-0.12
Leisure	0.79	0.81	1.32	-0.83	1.01	-0.77	-1.02	-1.03

**Table II.** Descriptive statistics pertaining to the dominant latent constructs. (\*) Note that the *value* and *social media* constructs do not carry the weightings of question-items items 5 and 6, and item 1, respectively.

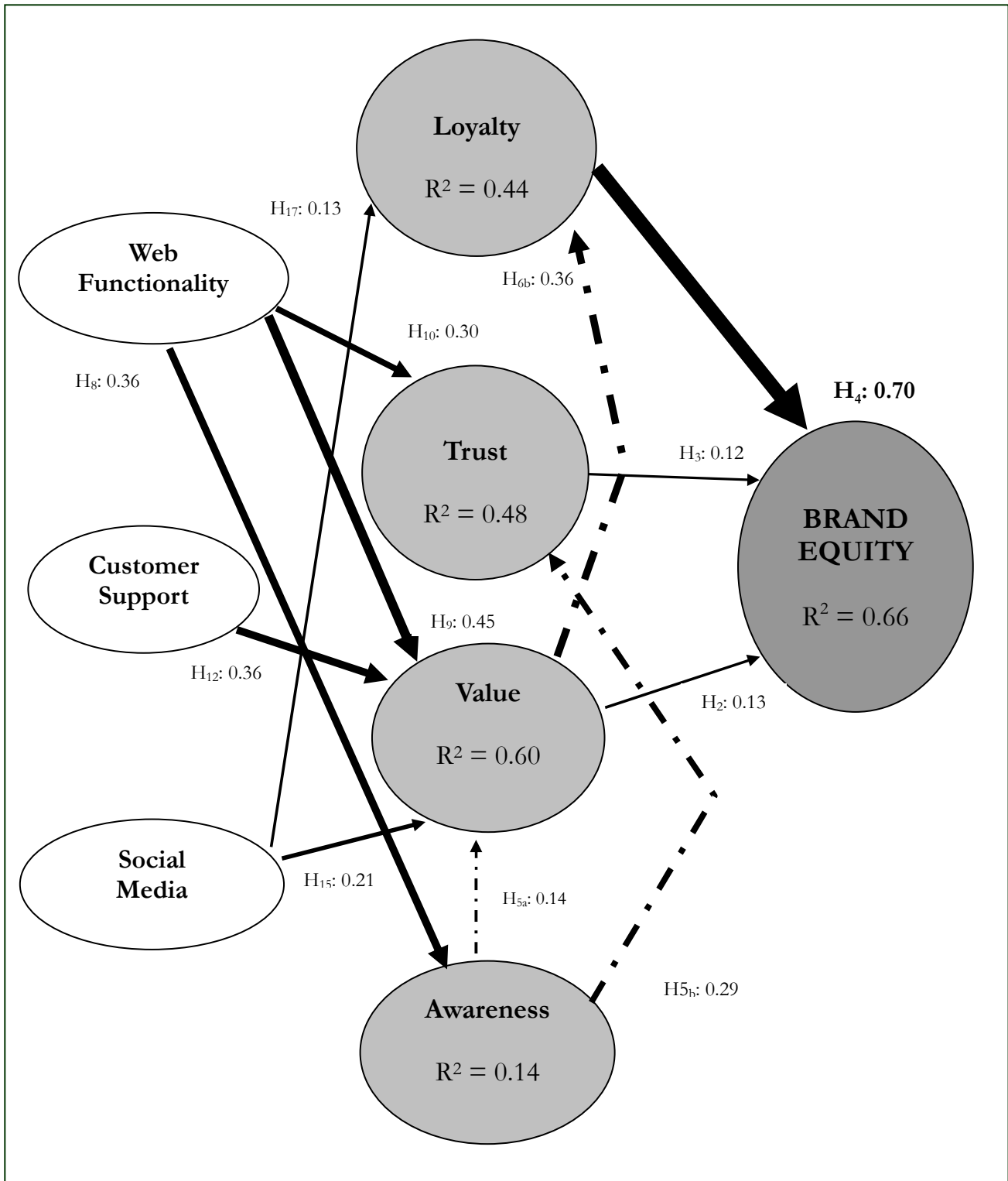
## FINDINGS

Output from the final PLS model is presented graphically below in Figure I. Additionally, each of the hypothesis outcomes can be read-off Table III.

**Brand Equity Sources: Direct effects.** According to the model output, three direct sources of brand equity were found to have a significant impact on brand equity, namely: *value* ( $\beta = 0.13$ ,  $t = 1.97$ ), *trust* ( $\beta = 0.12$ ,  $t = 2.90$ ) and *loyalty* ( $\beta = 0.70$ ,  $t = 14.26$ ). Reported output indicates thus that, of all factors, *loyalty* levers by far the greatest significant and direct influence on brand equity, with a single incremental increase in *loyalty* likely to yield a significant increase of 0.7 units in brand equity. By contrast, the *value* and *trust* constructs, while also significant (with  $t$  scores = 1.97 and 12.90, respectively), carry beta increments of only 0.13 and 0.12 respectively. These are less than 1/5<sup>th</sup> the



relative strength of *loyalty*. Additionally, and contrary to the initial H<sub>1</sub> hypothesis, *awareness* as a direct source of brand equity was not statistically significant ( $\beta = -0.07, t = -0.93$ ).



**Figure I.** A construct-diagram of the final model output. The path coefficient and hypothesis number appears for all statistically significant latent variables. The R<sup>2</sup> variance is provided for the *awareness*, *value*, *trust*, *loyalty* and *brand equity* constructs. For ease of interpretation relationships appear with arrow weightings proportionate to their coefficients. With respect to H<sub>4</sub> (the loyalty-to-brand-equity pathway), observe the all-dominant coefficient-contribution of 0.7 in modelling the *brand equity* construct. Compare this coefficient to H<sub>2</sub>'s and H<sub>3</sub>'s respective contributions of 0.13 and 0.12.

Hypothesis	Pathway	$\beta$ coefficient	$t$ -statistic	Significant?
1	Awareness $\rightarrow$ Brand equity	-0.07	-0.93	
2	<b>Value <math>\rightarrow</math> Brand equity</b>	0.13	1.97*	Yes
3	<b>Trust <math>\rightarrow</math> Brand equity</b>	0.12	2.90**	Yes
4	<b>Loyalty <math>\rightarrow</math> Brand equity</b>	0.70	14.26**	Yes
5a	Awareness $\rightarrow$ Value	0.14	2.89**	Yes
5b	Awareness $\rightarrow$ Trust	0.29	4.26**	Yes
6a	Value $\rightarrow$ Trust	0.15	1.56	
6b	<b>Value <math>\rightarrow</math> Loyalty</b>	0.36	4.08**	Yes
7	Trust $\rightarrow$ Loyalty	0.03	0.36	
8	<b>Web Functionality <math>\rightarrow</math> Awareness</b>	0.36	5.73**	Yes
9	<b>Web Functionality <math>\rightarrow</math> Value</b>	0.45	6.98**	Yes
10	<b>Web Functionality <math>\rightarrow</math> Trust</b>	0.30	3.11**	Yes
11	Functionality $\rightarrow$ Loyalty	0.18	1.79	
12	<b>Customer Support <math>\rightarrow</math> Value</b>	0.28	3.99**	Yes
13	Customer Support $\rightarrow$ Trust	0.14	1.47	
14	Customer Support $\rightarrow$ Loyalty	0.06	0.78	
15	<b>Social Media <math>\rightarrow</math> Value</b>	0.21	3.88**	Yes
16	Social Media $\rightarrow$ Trust	-0.07	-1.11	
17	<b>Social Media <math>\rightarrow</math> Loyalty</b>	0.13	2.30**	Yes

**Table III:** a depiction of each of the hypothesis outcomes as per the final PLS analysis. The  $\beta$  coefficient indicates the weighting of each pathway coefficient; the  $t$ -statistic indicates its statistical significance. Note: \* $p$  value < 0.05, \*\* $p$  value < 0.01. Pathways noted as significant appear in bold form and yield a  $t$ -statistic of 1.96 or more. To interpret read hypothesis 1: *An incremental increase in awareness yields an insignificant decrease of 0.07 units in brand equity.*

**Brand Equity Sources: Indirect effects.** Output from the model also confirms a significant relationship between value and loyalty ( $\beta = 0.36$ ,  $t = 4.08$ ), suggesting that value carries an additional influence on brand equity through the loyalty construct. In itself, *awareness* yielded no direct and significant influence on brand equity. It did however yield an indirect effect on brand equity through the constructs of *trust* ( $\beta = 0.29$ ,  $t = 4.26$ ) and *value* ( $\beta = 0.14$ ,  $t = 2.89$ ).

**Web-marketing Activities: Direct effects.** Due to the causal order of the constructs direct relationships between web-marketing activities and brand equity were not explicitly hypothesized. However, they were nonetheless examined, and, with no relationships found to be significant, the model appears to have been correctly specified.

**Web-marketing Activities: Indirect effects.** *Website functionality* was found to have a significant positive and direct relationship with *value* ( $\beta = 0.45$ ,  $t = 6.98$ ), *awareness* ( $\beta = 0.36$ ,  $t = 5.73$ ), and *trust* ( $\beta = 0.30$ ,  $t = 3.11$ ). Its relationship with *loyalty* was however found to be insignificant ( $\beta = 0.18$ ,  $t = 1.79$ ). *Customer support* only increased brand equity through *value* ( $\beta = 0.28$ ,  $t = 3.99$ ), while

its relationship with *trust* ( $\beta = 0.14, t = 1.47$ ) and *loyalty* ( $\beta = 0.06, t = 0.78$ ) both held insignificant effects. *Social media* influenced brand equity through *value* ( $\beta = 0.21, t = 3.88$ ) and *loyalty* ( $\beta = 0.13, t = 2.30$ ). Its relation to *trust* was however insignificant ( $\beta = -0.07, t = -1.11$ ).

An assessment of the structural model's ( $R^2$ ) coefficients of determination (see Figure I) corroborate the broad findings outlined above. At an aggregate level, the structural model exhibits a high coefficient of determination; the brand equity construct yielding an  $R^2$  of 0.66.

Thus out of 17 potential hypotheses, ten were proven to be statistically significant ( $H_2, H_3, H_4, H_{5a}, H_{5b}, H_{6b}, H_8, H_9, H_{10}, H_{12}, H_{15},$  and  $H_{17}$ ), and seven were not ( $H_1, H_{6a}, H_7, H_{11}, H_{13}, H_{14},$  and  $H_{16}$ ). The relevance and implications of these findings follows below.

## **DISCUSSION & IMPLICATIONS**

To study and assess the most influential variables in the development of online brand equity, a hierarchy of relationships was proposed with certain web-marketing activities (*web functionality, customer support* and *social media*) influencing online brand equity based on Aaker's (1996) traditional framework (*awareness, value, trust* and *loyalty*). Based on the findings of this paper, a significant direct relationship could not be confirmed between *awareness* and brand equity. However, awareness was found to influence brand equity indirectly through both *value* ( $H_{5a}$ ) and *trust* ( $H_{5b}$ ). The mediating role of *value* and *trust* on the *awareness*-to-brand equity relationship is consistent with the finding of Rios and Riquelme (2008) and Washburn and Plank (2002). It does however contradict Aaker (1991) and Keller's (2003) view of *awareness* as the most *critical* driver of brand equity. In this respect, Yoo, Donthu and Lee (2000) argue that most previous studies noting a direct relationship between *awareness* and brand equity only reported a weak direct relationship between these two constructs. This said the fact that people purchase from these stores (one of the screening questions of this study) means that they are aware of them. Moreover, it remains intuitive that brand equity *cannot* be created unless the brand forms associations in the mind of the consumer (see Priilaid and van Rensburg, 2010), albeit, as in the case of this study, through the mediating influences of value and trust.

Through long-term experiences with brands, consumers recognise the differentiation and superiority of brand value (Netemeyer *et al.*, 2004). In this manner, strong brands are those that provide products and services that their consumers find valuable (Harris and Goode, 2004). In the instance of this

study, *value* was found to influence brand equity both directly (H<sub>2</sub>) and also indirectly, through *loyalty* (H<sub>6b</sub>) (though not through trust (H<sub>6a</sub>)). The second part of this finding (H<sub>6b</sub>) is supported by Graebner-Kraeuter (2002) who found that the strongest association between brand equity and *value* is indirectly driven, through *loyalty*. Thus, in their attempt to foster customer loyalty, firms may better differentiate themselves from their competitors by focussing their efforts on one of the many aspects of the *value* construct. These may include competitive pricing, the promotion of convenience, the quality of product information and product variety.

The direct relationship between *trust* and brand equity is also supported by this study's findings (H<sub>3</sub>), and Yang and Peterson (2004) defend this assertion, arguing that *trust* is crucial if online commerce is to reach its full potential. Prefiguring the recent hacking of Sony consumer's banking details, in 2004, Harris and Goode observed that privacy issues remain a serious concern to customers, especially in terms of the sale of sensitive personal information. It continues to remain imperative therefore, that companies ensure the protection of their customers' privacy and that transactional systems are secure and updated.

Loyalty has been described as the heart of brand equity (Aaker and Joachimsthaler, 2000), and is seen as a major driver of success in online settings (Davis and Dunn, 2002). Similarly, within this study, *loyalty* was found to be the most influential driver of brand equity (H<sub>4</sub>), a finding which is supported in the reportage of Baldauf, Binder and Cravens (2003); Keller (2003) and Rios and Riquelme (2008). In this study the path-coefficient weighting of loyalty (0.70) was more than two-and-a-three-quarter times greater than the combined weightings of trust (0.12), and value (0.13). In line with these findings, online brand management strategies need to place major focus on the development, management and retention of customer loyalty (Page and Lepkowska-White, 2002) and attendant CRM initiatives (Carpenter, 2000).

Research by de Wulf *et al.* (2006) and Yoon (2002) highlight the importance of website design in creating positive experiences for the website user and in enhancing the customers' awareness of the firm. Furthermore, increased user satisfaction arising from improved website functionality has been found to add significantly to consumer value (Liang and Lai, 2002). Additionally, a company's visible investment into their website functionality serves to signal the firm's ability to fulfil customer promises (Schlosser, White and Lloyd, 2003; Urban, Sultan and Qualls, 2000; Yoo and Donthu, 2001b). In this respect, the findings of this study align with the literature: *website functionality* displayed significant relationships with *awareness*, *value* and *trust* (H<sub>8</sub>, H<sub>9</sub>, and H<sub>10</sub> respectively). Therefore, in order for customers to acquire the benefits of website functionality, companies should

offer easy and consistent website navigation, an interactive point-of-connection, and should store customers' preferences and information in a manner that enables streamlined purchase-ability (see Abels, White and Kahn, 1999; Suppehellen and Nysveen, 2001; Szymanski and Hise, 2000).

We found that *customer support* has only one significant relationship; with *value* (H<sub>12</sub>). This is consistent with the research by Mohanty, Seth and Mukadam (2007) who suggest that customer support is an important driver of customer satisfaction and consequently, perceived value. Aaker and Joachimsthaler (2000) argue that customer service is a critical driver of repurchasing behaviour, since it creates a value-added service (Morgan and Hunt, 1994), while Geel (2003) reports that the customers may even abandon a website if the purchase process is confusing or the viewer wishes to learn more about the company but cannot due to limited online support. Srinivasan, Anderson and Ponnayolu (2002) add that online retailers are able to increase the perceived value of an online transaction by supplying a more direct channel of communication with the company.

In this study, *value* and *loyalty* were confirmed to be significantly influenced by *social media* (H<sub>15</sub> and H<sub>17</sub>, respectively). These findings support those of Smith (2009), Vijay (2009) and Xu *et al.*, (2009) who argue that the consumer deployment of social media enables the development of valuable online relationships which in turn result in customer loyalty. Social media can also shape consumer preferences post-consumption (Xu *et al.*, 2009), thus enabling the management of customers' negative brand encounters. It can also identify and reward online brand ambassadors in an effort to foster customer loyalty (Smith, 2009). With the ongoing development of online marketing analytics, social media can also serve as an avenue for targeted promotions. All this said, social media is a relatively new phenomenon and research into this field is scant. The scope for further investigation therefore remains wide open.

### ***Limitations and Future Research Direction***

This research is subject to certain limitations owing to the intangible nature of the brand equity construct, the size of the sample and the employed method of data collection. Due to the developing nature of the online retail market, the base of research is marginal and there exists, as yet, no hitherto-established measurement-framework for the online brand equity construct. This in turn imposes limitations on both the accuracy of construct measurement and the actual conduct of causal research. A better developed understanding of the brand equity construct will, in time, allow for the development of more accurate measurement scales, and this ultimately will generate more consistent

results and definitive conclusions.

Since most respondents were under 31-years old, the findings of this study may not be generalized to the true population, biased as it is towards a younger sub-sample. This said, the research sample does however reflect the online purchasing market which is, according to Bickerton, Bickerton and Pardesi (2000: 89) “biased towards the under 40s with the under 30s age group being most likely to buy”. Apart from the effects of any youth-bias, the accuracy of the conclusions is also limited by the sample size of 218 respondents. Although the respondent-set was large enough to draw valid statistical inference, a larger sample size would provide for yet greater accuracy. In addition to this, the narrow online book industry-focus potentially constricts the broader application of results and conclusions drawn from this study.

Additionally, readers should note that the inclusion of the *social media* construct *as is* potentially constricts the understanding of the influence of the online company’s social media channels on *value*. Social media, after all, fulfils a *variety* of roles such as communicating information and serving as a channel for customer service. By considering these various roles as *separate* constructs a better understanding of the influence of social media on value would be presented. This is certainly an additional avenue of analysis for future research. This said, it should be noted too that, within online marketing, the commercial adoption of social media is a recent development, and remains for now an underdeveloped theoretical construct. Thus, even though the items measuring social media exhibited high markers of reliability and validity, the lack of any accepted scale of measurement may thus place limitations upon this study. This notwithstanding, the findings of this research are important, confirming both the applicability of the established offline brand-equity framework and the additional deployment of more recently forming online constructs.

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Construct	No.	Item detail
<i>Web Awareness</i>  Source: Yoo, Donthu & Lee (2000) and Washburn & Plank (2002).	1	I know what [X e-tailer] looks like
	2	I can recognise [X e-tailer] among other competing online businesses
	3	I can quickly recall the name of [X e-tailer]
	4	Some characteristics of [X e-tailer] come quickly to mind
	5	I have difficulty in imagining [X e-tailer]
<i>Value</i>  (Source: Burke (2002); Zeithaml (1988); Arnold, Oum & Tigert (1983), Alba <i>et al.</i> (1997).	1	I prefer [X e-tailer] because price deals are frequently offered
	2	I have a preference for [X e-tailer] because it frequently offers an updated list of product promotions (sales)
	3	In [X e-tailer] I can make the most for the least money
	4	In [X e-tailer] I can find the lowest prices for a quality brand
	5*	I cannot find quality products at an affordable price in [X e-tailer]
	6*	I have a preference for [X e-tailer] because it allows the comparison of product prices across online stores
	7	I like [X e-tailer] because it allows me to track my orders
	8	I like [X e-tailer] because it offers alternative forms of payment: cash on delivery, credit cards, money order
	9	I like [X e-tailer] because one can find the broadest range of products
	10	I have a preference for [X e-tailer] because it provides the deepest specialized assortments
<i>Trust</i>  Source: Burke (2002); Harris & Goode (2004).	1	It feels safe to disclose personal information in [X e-tailer]
	2	It feels safe to conduct transactions in [X e-tailer]
	3	[X e-tailer] has my confidence” (Yilmaz & Hunt, 2001)
	4	Most of what [X e-tailer] says about its products is true
	5	If [X e-tailer] makes a claim or promise about its product, it’s probably true
<i>Loyalty</i>  Source: Rios (2007); Sirdeshmukh, Singh & Sabol (2002); Suppehellen & Nysveen (2001); Yoo & Donthu (2001a).	1	It makes sense to buy [X e-tailer] instead of any other online business, even if they are the same
	2	Even if another online business has same features as [X e-tailer], I would prefer to buy from [X e-tailer]
	3	I consider myself to be loyal to the [X e-tailer] brand
	4	[X e-tailer] is my first brand choice in the book industry
	5	I do not buy from other places when I can find my product at [X e-tailer]
	6	I would replace [X e-tailer] products with cheaper alternatives
<i>Web Functionality</i>  Source: Abels, White & Hahn (1999); Suppehellen & Nysveen, (2001); Szymanski & Hise (2000).	1	I do not like [X e-tailer] because it is particularly slow in downloading pages
	2	I like [X e-tailer] because it is easy to navigate (i.e.content organised around user’s needs)
	3	I like [X e-tailer] because it offers consistent accessibility (i.e. it is up and running at all times)
	4	I have a preference for this [X e-tailer] (because it is easy to order products from)
	5	I like [X e-tailer] because it saves a list of purchases for returns and warranty repair
	6	I like [X e-tailer] because it offers consistent navigation (links on each web page)
	7	I have a preference for [X e-tailer] because it provides interactive, fun experience (graphics, 3-D images, animation, video and audio capabilities)
	8	I like [X e-tailer] because it remembers my preferences” and I prefer this [X e-tailer] because it saves shipping/billing information
<i>Customer Support</i>  Source: Burke (2002); Lennon & Harris (2002); Kleindl (2001).	1	I have a preference for [X e-tailer] because it responds quickly to customers
	2	I like [X e-tailer] because it offers alternative customer support (call centre, toll-free email, and “live” individuals).
	3	I have a preference for [X e-tailer] because it offers specialised customer support
	4	[X e-tailer] is good because it allows returns to be shipped back at retailer’s cost.
<i>Social Media**</i>	1*	I make use of social media
	2	I actively participate in [X e-tailer]’s social media
	3	I am aware of the social media presence of [X e-tailer]
	4	The social media promotions of [X e-tailer] help me to build a relationship with them
	5	[X e-tailer]’s social media influences my purchasing decisions
<i>Brand Equity</i>  Chaudhuri & Holbrook, 2001; Park & Srinivasan, 1994.	1	I am willing to pay a premium price of up to 10% when purchasing from [X e-tailer] as opposed to a less well-known online business
	2	I would definitely buy from [X e-tailer] again
	3	It makes sense to buy from [X e-tailer] instead of any other brand, even if they are the same
	4	Even if another brand has same features as [X e-tailer], I would prefer to buy from [X e-tailer]
	5	If there is another brand as good as [X e-tailer], I prefer to buy from [X e-tailer]
	6	If another brand is not different from [X e-tailer]in any way, it seems smarter to purchase from [X e-tailer]

**Appendix I. Questionnaire items and their origin:** The list of questionnaire items employed to test for each of the latent constructs under analysis. (\*) Note that items 5 and 6 under the *Value* construct were ultimately excised, as was item 1 in *Social Media*. (\*\*) No published scales for the *Social Media* construct exist and hence TNS Research Surveys was consulted for measures employed in this field.

# **SUCCESS GROUPS TO INVESTIGATE FACTORS CONTRIBUTING TO WOMEN'S CAREER ADVANCEMENT**

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## **ABSTRACT**

This paper suggests a method for categorising successful groups of professional women. To differentiate between levels of career success hierarchical level in the organisation, years in employment and age were discriminant categories. An empirical study of 301 professional women showed that there is a significant difference between success groups of women based on their demographics.

## **INTRODUCTION**

As women are not adequately represented in executive and decision making positions, comparing successful groups of women is regarded as a critical step in identifying factors which contribute to women's career advancement. This paper develops a method that can be used to differentiate between success groups of women. A formula is suggested for categorising career women in terms of success. The focus of the current paper is on demographic factors most likely to influence women's career advancement. Three items from the biographical scale of the survey instrument are identified and data from descriptive statistics is used to create the groups.

Success for the purpose of the paper is defined as "having progressed to an executive management or leadership position." The paper starts by outlining the problem definition, objective and hypothesis. Thereafter an overview of the literature on women's career progression is provided. The steps followed in creating success categories are demonstrated and a descriptive comparison of the demographic profile

of two identified success groups is presented through a number of figures and tables. To conclude, limitations of the current paper are identified and recommendations made for future research.

## **PROBLEM DEFINITION**

World-wide underrepresentation of women in executive and decision making positions has led to a proliferation of research on the topic. Research (BWA South African women in leadership 2010 census; BWA South African women in leadership 2011 census; Catalyst 2009, 2010a, 2010b, 2010c, 2010d) within the domain of women's underrepresentation suggests that women's career advancement remains obstructed. To investigate which factors contribute to the success of those women who conquer barriers and progress to the upper echelons in their professions, it is important to first understand how to group women according to success.

## **RESEARCH OBJECTIVE AND HYPOTHESIS**

The objective of this paper is to develop a method and formula whereby successful professional women in South Africa can be categorised into success groups. Based on this objective, the following hypothesis was formulated and tested in the empirical investigation:

- H<sub>1</sub>        There is a significant difference between success groups of women based on their demographics.

## **LITERATURE REVIEW**

Research on the career progression of women comprises a multitude of factors influencing women's ability to progress beyond the glass ceiling. 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 (Ramsay, 2000; Simpson and Altman 2000; Fels, 2004; Fox and Lawless, 2004; Kephart and Schumacher, 2005; Bickley, Lord and Thomas, 2006; De Vries, 2006; Ryan and Haslam, 2006; Bilimoria and Piderit, 2007; Kumra, 2007; Bolton and

Muzio, 2008; Cross and Armstrong, 2008), many women do progress to top positions in the business and professional sectors as is illustrated by Dyson (2001).

Limited published research to identify the characteristics of women who have progressed to positions where they influence decision making is available. Duffy, Fox, Punnett, Gregory, Lituchy, Monserrat, Olivas-Luján, Santos, and Miller (2006) conducted research on the characteristics of successful professional women in the Americas by comparing them to a student group. A formula whereby the researcher can categorise success groups was however not developed in this study.

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. Professional success could entail, amongst many other definitions, being an expert in one's profession, possessing skills which enhance employability or receiving recognition for one's 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 vary from women's perception of success two or three decades ago or of women at lower levels in the hierarchy.

For the purpose of this paper, as indicated in the introduction, professional success is delineated to career progress to an executive management or leadership level. Although the achievement of success is a progressive process and success is achieved at different levels, the top end of the hierarchy was considered to be an indicator of success which could be objectively determined from the biographical data provided by respondents in the empirical study.



## RESEARCH METHODOLOGY

The research design for this paper is quantitative and descriptive. Convenience sampling was employed to achieve the aim of selecting a representative sample of professional women from the South African population. Data collection was done by means of self-administered data gathering through an e-mail distribution of a link to a web-based online questionnaire. In the business and professional sectors, the Business Women Association of South Africa (BWASA), the South African Institute of Chartered Accountants (SAICA) and 13 doctorate-granting South African universities were included in the sample. Ethical clearance to conduct the study was obtained from all organisations included in the study. A total of 301 usable questionnaires were received from respondents by the closing date.

The empirical data collected was tested for significant relationships using Statistica 10. Cronbach's alpha was calculated to test for internal consistency reliability in both a pilot study and in the main study. The procedure for analysing the empirical data involved chi-square tests and Cramér's *V*.

### *Methodology employed to create success groups*

Three items from the biographical scale of the survey instrument were identified for the purpose of creating discriminant categories of success groups. These were:

- (i) Hierarchical level in the organisation (Q1-12);
- (ii) Years in current employment sector (Q1-15); and
- (iii) Age (Q1-16).

Data from the descriptive statistics was used to create the groups. Response options for each of the three questions were combined to reduce the number of categories, in particular, where percentages were low. The original and new categories are given in Table 1.

**Table 1: Original and new success categories created from descriptive statistics**

Question	Original categories	Percentage responses	New categories	Percentage responses
Q1-12 Hierarchical level	Executive Manager/	31%	Top	31%
	Professor		Middle	35%
	Middle Management/Senior Lecturer	35%	Lower	34%
	Professional Support/Lecturer	30%		
	General Support/Associate Lecturer	4%		
Q1-15 Years in employment sector	1-4	27%	1-4	27%
	5-9	25%	5-9	25%
	10-14	20%	10-14	20%
	15-19	13%	>15	29%
	20+	16%		
Q1-17 Age	<30	10%	< 30-39%	38%
	30 - 34	12%	40-49	36%
	35 - 39	16%	50+	27%
	40 - 44	21%		
	45 - 49	15%		
	50 - 54	12%		
	55 – 59	11%		
	60+	4%		

From Table 1 it can be seen that the number of categories for hierarchical level of respondents was reduced from five to three. After reducing the number of categories, respondents were categorised in terms of success. Based on hierarchical level (Q1.12), number of years in the industry (Q1.15) and age (Q1.16), the following formula was applied:

If Q1-12 = 1 (top) then success = 1 (successful)

If Q1-12 = 2 (middle) then:

If Q1-15 = 1 (<5 years) OR Q1-16 = 1 (<40) then success = 1 (successful)

If Q1-15 ≠ 1 (<5 years) OR Q1-16 ≠ 1 (<40) then success = 2 (pipeline)

If Q1-12 = 3 (lower) then:  
 If Q1-15 = 1 (<5 years) OR Q1-16 = 1 (<40) then success = 1 (pipeline)  
 If Q1-15 ≠ 1 (<5 years) OR Q1-16 ≠ 1 (<40) then success = 3 (possible pipeline)

Based on the above formula, respondents were initially divided into three groups, namely: successful, pipeline and possible pipeline. The characteristics of these groups are summarised in Table 2.

**Table 2: Characteristics of the three success groups**

Success Group	Characteristics
Successful	<ul style="list-style-type: none"> <li>All respondents at the top hierarchical level;</li> <li>Middle hierarchical level <b>and</b> &lt;5 years in the industry <b>or</b> &lt;40 years old.</li> </ul>
Pipeline	<ul style="list-style-type: none"> <li>Middle hierarchical level <b>and</b> 5 years or more in the industry <b>or</b> 40 years old or older;</li> <li>Lower hierarchical level <b>and</b> &lt;5 years in the industry <b>or</b> &lt;40 years old</li> </ul>
Possible Pipeline	<ul style="list-style-type: none"> <li>Lower hierarchical level <b>and</b> 5 years or more in the industry <b>or</b> 40 years old or older.</li> </ul>

As the scores of the latter two groups, indicated in Table 2, were very similar, it was decided to treat them as one group called not yet successful. Thus two groups were finally specified, namely: Successful (n=149) and Not yet successful (n=152).

Subsequent to categorising respondents in terms of success, a frequency distribution for success grouping was determined. This distribution is given in Table 3.

**Table 3: Frequency distribution for success groupings**

Two groups			Three groups		
Successful	149	49.5%	Successful	149	49.5%
Not yet successful	152	50.5%	Pipeline	115	38.2%
			Not pipeline	37	12.3%

There was no noteworthy difference in mean scores between the pipeline and possible pipeline groups, and it was decided to use the two groups, namely: successful and not yet successful, for the purpose of describing the groups and for further analyses. As can be seen from Table 3, there was a balanced distribution of respondents categorised as successful and not yet successful. Following the application of the formula, 18.5 percent more of the respondents were categorised as successful compared to the application of only the definition used for the study.

Chi-square tests were used next with each of the demographic items to determine whether there was a relationship between the success groups. Cramér's *V* statistics were obtained for the six items where significant p-values were indicated in order to test whether sample differences were big enough to have real meaning. Only the significant relationships are presented here. One large, three moderate and two small differences were found which were big enough to have meaning. The significant results should, however, be treated with caution as some cell frequencies were very low. Practical significance interpretation intervals for Cramér's *V* are provided in Table 4.

**Table 4: Practical significance interpretation intervals for Cramér's *V***

Cramér's <i>V</i>	Small	Moderate	Large
$df^* = 1$	.10 < <i>V</i> < .30	.30 < <i>V</i> < .50	<i>V</i> > .50
$df^* = 2$	.07 < <i>V</i> < .21	.21 < <i>V</i> < .35	<i>V</i> > .35
$df^* = 3$	.06 < <i>V</i> < .17	.17 < <i>V</i> < .29	<i>V</i> > .29

Significant relationships between the identified success groupings and their demographic profiles were found for the following items:

- Title ( $\text{Chi}^2(\text{d.f.} = 3, n = 301) = 65.69; p < .0005; V = 0.47$  Moderate);
- Hierarchical level ( $\text{Chi}^2(\text{d.f.} = 2, n = 301) = 191.63; p < .0005; V = 0.80$  Large);

- Hierarchical level aspiring to ( $\text{Chi}^2(\text{d.f.} = 1, n = 297) = 17.68; p < .0005; V = 0.24$  Small);
- Salary range ( $\text{Chi}^2(\text{d.f.} = 6, n = 301) = 58.06; p < .0005; V = 0.44$  Moderate);
- Extent to which respondents believe they have achieved career success ( $\text{Chi}^2(\text{d.f.} = 2, n = 301) = 27.09; p < .0005; V = 0.30$  Moderate); and
- Profession ( $\text{Chi}^2(\text{d.f.} = 3, n = 301) = 15.76; p = .001; V = 0.23$  Small).

## FINDINGS

Statistica 10 was employed to obtain descriptive statistics for the respondents in order to develop the formula to create the groups as discussed in the previous section. Table 5 outlines the demographic profile of the respondents.

**Table 5: Summary of respondents' demographic profile**

Demographic item	Response options	Number of respondents	Percentage responses
Nationality	South African	281	93
	Other	20	7
Title	Ms/Mrs	193	64
	Dr	48	16
	Prof	56	19
	Adv	4	1
Highest qualification	<Matric	1	0
	Matric	9	3
	Diploma/degree	36	12
	Post-graduate	255	85
Hierarchical level	Top	91	30
	Middle	106	35
	Lower	104	35
Hierarchical level aspiring to	Higher	211	71
	Same	86	29
Salary range	<R9000 - R14 999	32	10
	R15 000 – R20 999	49	16
	R21 000 – R28 999	89	30
	R29 000 – R35 999	50	17
	R36 000 – R45 000	26	9
	>R45 000	55	18

Demographic item	Response options	Number of respondents	Percentage responses
Years in employment sector	1-4	80	27
	5-9	76	25
	10-14	59	20
	15+	86	29
Age	<40	113	38
	40-49	106	35
	50+	82	27
Perception of success achieved	Great extent	92	31
	Reasonable extent	159	53
	Slight/none	50	17
Birth order	Only child	20	7
	Oldest	123	41
	Middle	73	24
	Youngest	85	28
Number of siblings	0	20	7
	1-3	235	78
	4+	46	15
Ethnicity	Asian	12	4
	Black	21	7
	Coloured	18	6
	White	237	79
	Prefer not to answer	13	4
Profession	Education sector: Academic	158	52
	Education sector: Non-academic	57	19
	Business and professional	86	29
Marital status	Single	63	21
	Married/permanent relationship	190	63
	Divorced	41	14
	Widowed	7	2
Number of children (n=298)	None	104	35
	1	49	16
	2	106	35
	3+	42	14
Age groups of children (n= 298)	n/a	104	35
	<3	25	8
	3-6	39	13
	7-12	58	19
	13-17	55	18
	18+	80	27

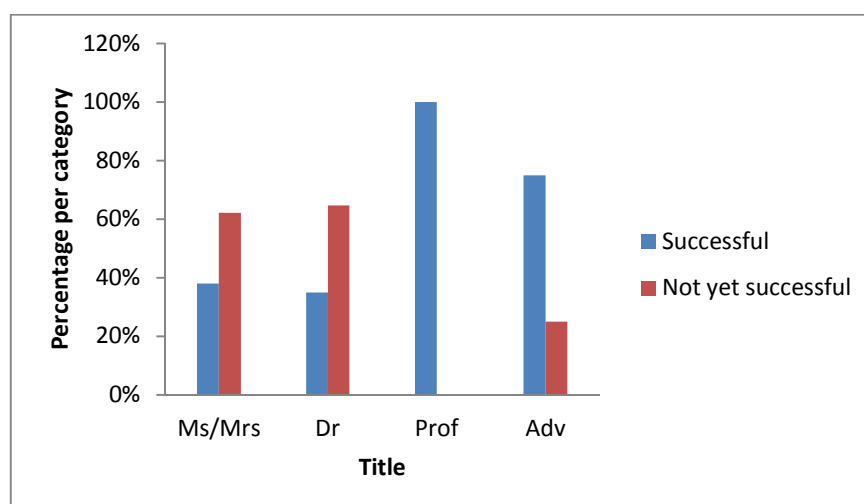
Demographic item	Response options	Number of respondents	Percentage responses
Parents' highest qualification: father; mother (n=299)	None/< matric	30; 27	10; 9
	Matric	107; 115	36; 39
	Diploma/degree	91; 118	30; 40
	Post-graduate	71; 37	24; 12

From Table 5 it is clear that the majority of the respondents (93 percent) were South African citizens, with 52 percent from the academic sector in higher education and the remaining 48 percent representing the non-academic educational sector, business sector and professional sector. The respondents were predominantly well-educated with 97 percent being in possession of a post-matric qualification. Despite the relatively short period in their employment sector, only 10 percent of respondents were under the age of 30, with the highest percentage between 35 and 49 years old.

### *Profile of success groups*

A descriptive comparison of the demographic profile of the two success groups is provided in the paragraphs that follow through a number of figures and tables. Figure 1 illustrates the relationship between title and success of the respondents in the two success groups.

**Figure 1: Respondents' title per success category**



The high percentage of women with doctoral degrees categorised as not yet successful could possibly be attributed to them aspiring to professorial positions as

most of them are likely to be employed in the higher education sector. As a result of family responsibility many women obtain their higher degree qualification at a later age and with more years in the employment sector. The reasonably high percentage of women categorised as successful but without a doctoral degree is likely to be employed in the non-academic sector. If that were the case, it would point to a difference in women’s perception of professional success in the academic versus the non-academic sector. This was, however, not probed.

Table 6 depicts the educational level of respondents in each of the two success groups.

**Table 6: Respondents’ education level per success category**

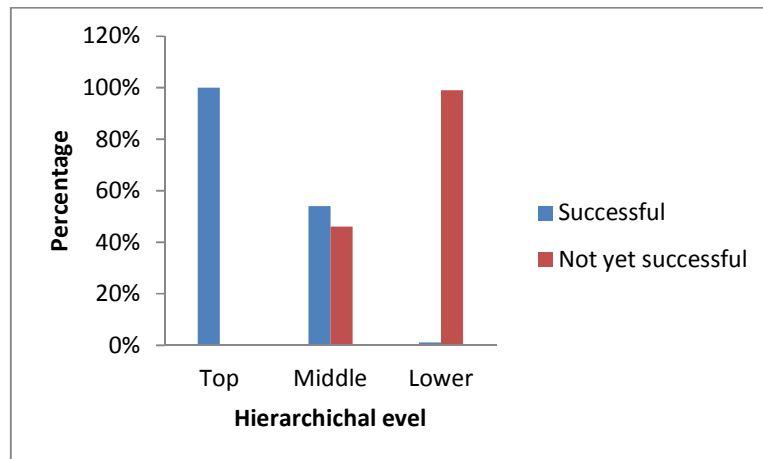
Education level	Successful		Not yet successful	
<Matric	1	100%	0	0%
Matric	6	67%	3	33%
Diploma	6	55%	5	45%
Degree	10	40%	15	60%
Post-graduate	126	49%	129	51%

From Table 6 it is clear that the majority of respondents in both success groups had obtained a post-graduate qualification. The higher number of respondents in the not yet successful group with degrees and post-graduate degrees represents those women who may benefit from support initiatives aimed at advancing their careers. Numbers are provided in Table 6 together with percentages, as percentages alone give a skewed profile. Only one respondent indicated that she had less than matric, which may have been an error or alternatively an exception. The highest qualification of only nine respondents was matric, of eleven a diploma and of 25 a degree.

The hierarchical level at which respondents in each success group are appointed is illustrated in Figure 2.

**Figure 2: Respondents’ hierarchical level per success category**





Respondents at the top level of the hierarchy, as indicated in Figure 2, are all categorised as successful. The majority of respondents at the lower end are not yet successful and there is a relatively equal representation of success groupings at the middle level.

The degree to which respondent aspired to a higher level of success than their current level was high and as could be expected, highest (82 percent) in the not yet successful category. However, of respondents who are already categorised as successful, more than half (60 percent) aspire to higher levels. It is evident from the results that the underrepresentation of women at the upper end of the hierarchy is not a consequence of women's lack of interest in management and leadership positions. Although the sample population has to varying degrees achieved career success, a notable number aspire to higher levels. As the majority are in possession of a post-graduate qualification (see Table 6) and nearly half (n=145) had more than ten years experience in their current employment (see Figure 5) sector, it is more likely that a glass ceiling at the higher end of the hierarchy may be obstructing their progress. It is also possible that a large number of respondents are highly ambitious and will continue to aspire to higher levels, despite level of success achieved.

The high percentage of respondents aspiring to higher levels of success could possibly be inflated by the large number of respondents from the academic sector. These respondents may want to improve their academic profile for promotion to

professorial level, in other words, academic success and not necessarily to management positions. This was, however, not determined in the current study.

Figure 4 illustrates the salary range of the successful and not yet successful groups of the respondents.

**Figure 3: Salary range per respondents' success category**

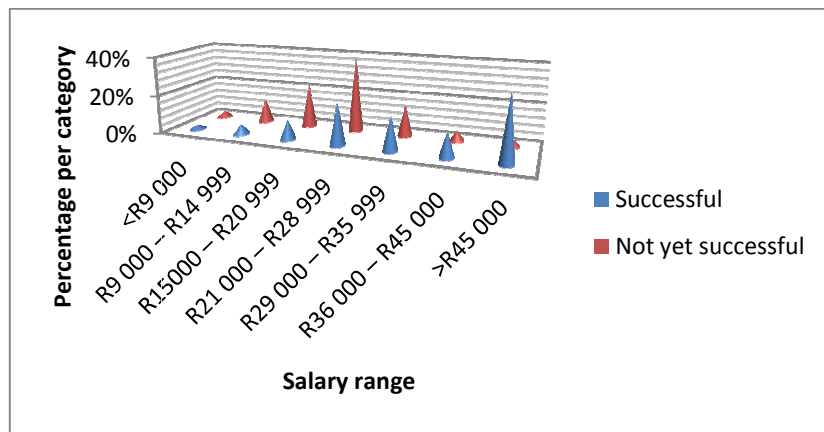
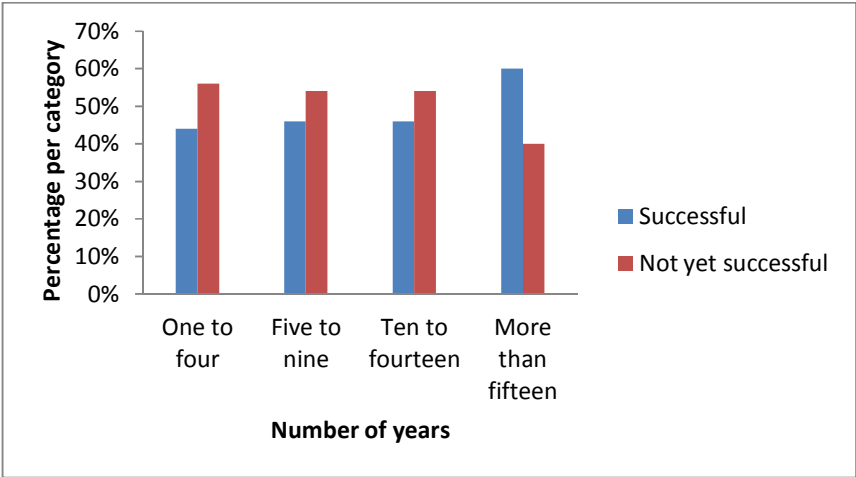


Figure 3 indicates that at the upper salary range successful women earned substantially higher salaries than the not yet successful group. In the R29 000 – R35 000 range distribution is almost equally split and below this range the not yet successful group appears to be earning higher salaries than the successful group.

Figure 4 illustrates respondents' years in their employment sector per success grouping.

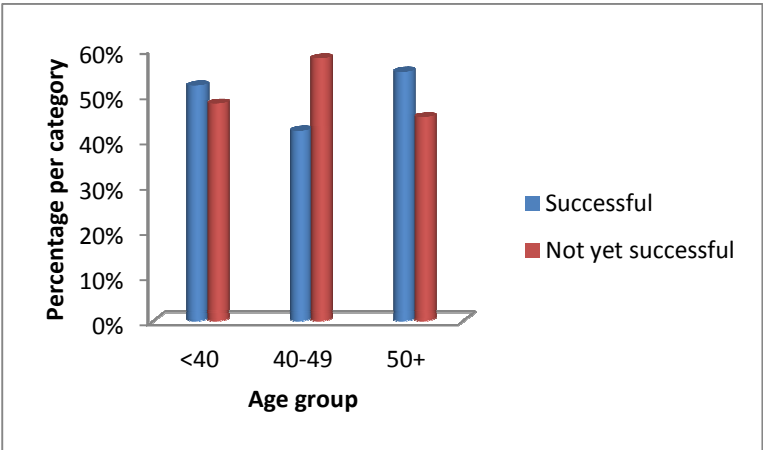
**Figure 4: Respondents' years in employment sector per success category**



Most of the respondents in the successful category have been in their current employment sector for more than 15 years, as illustrated in Figure 4. The reasonably high percentage (40 percent) of respondents categorised as not yet successful but with more than 15 years experience may point to the thickening of the glass ceiling towards the higher end of the hierarchy. It is also possible that these respondents did not receive sufficient internal and external support or that they do not demonstrate the personality characteristics associated with high achieving women.

The age distribution of respondents in each of the success groupings is presented in Figure 5.

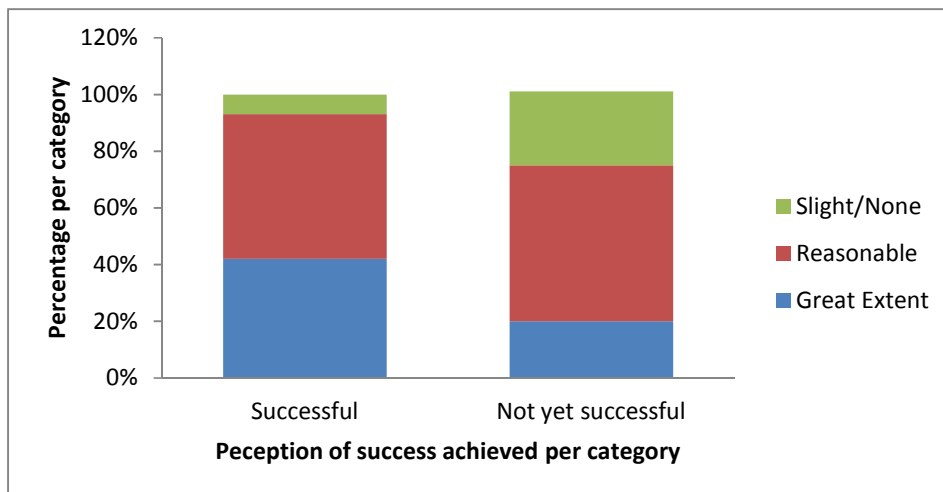
**Figure 5: Respondents' age per success category**



The highest percentage of successful women are 50+ (55 percent), followed closely, however, by those younger than 40 (52 percent). This is aligned to literature suggesting that the younger generation is more resilient to barriers to career progression.

Figure 6 presents perceptions of the two success groups of the extent to which they have achieved professional success.

**Figure 6: Respondents' perception of professional success achieved per success category**

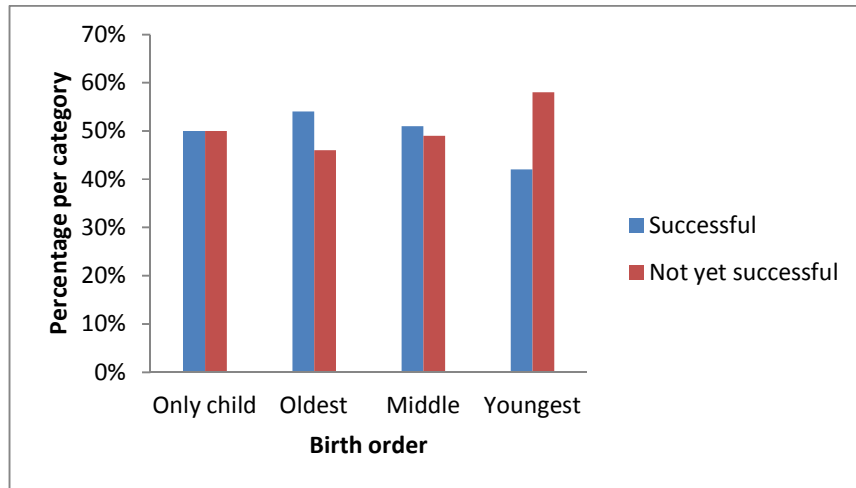


What is noticeable from the results in Figure 6 is that 7 percent of respondents in the successful group believe that they have not yet achieved success and 51 percent that they have achieved success to a reasonable extent only. A total of 58 percent of successful respondents, therefore, believe that they are equipped for higher levels of success.

The reasonably high percentage of not yet successful respondents who felt that they have achieved a great extent of professional success may be an indication that these respondents do not aspire to higher levels of success, but it is also possible that they perceive themselves as successful in relation to the number of years in the employment sector as 56 percent of the not yet successful group has been in their current employment sector for one to four years only. There is also a probability that

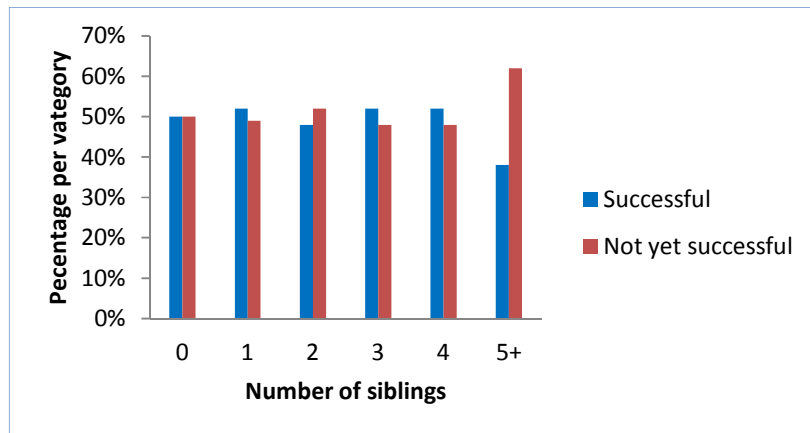
the 26 percent in the slight/none category may be those aspiring to high levels of success. Figure 7 gives the birth order of respondents in each of the success categories.

**Figure 7: Respondents' birth order per success category**



From Figure 7 it is evident that birth order had minimum relevance to success. The same percentage of respondents was only children in the success groups. The only notable discrepancy between the groups was for youngest child, where 16 percent more of the not yet successful group was the youngest. There were also a slightly higher percentage of successful respondents who were oldest children, which agrees with research (Eckstein, 2000; Dattner, 2011) indicating that first born children are generally achievement oriented and motivated, confident, assertive, and likely to exhibit leadership qualities. The findings for the number of siblings for respondents in each of the success categories are presented in Figure 8.

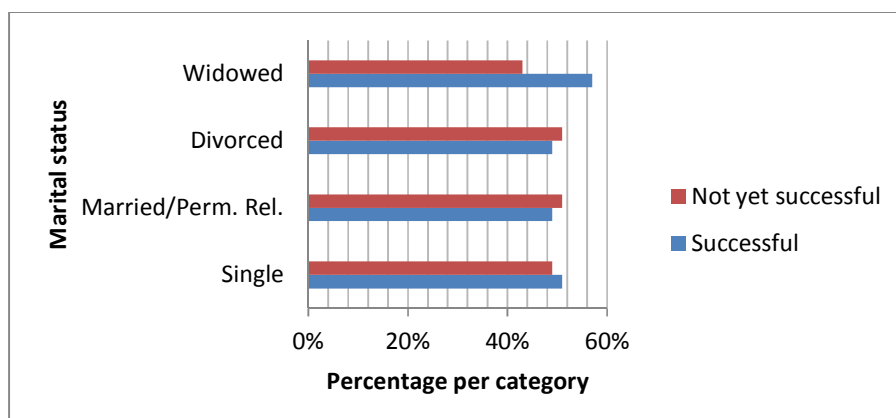
**Figure 8: Number of siblings of respondents per success category**



From Figure 8 it is clear that there were an equal number of respondents in each of the success groups with no siblings and an almost equal number who had two to four siblings. It was, however, notable that in the 5+ category, the not yet successful group escalated to 62 percent and the successful group is only 38 percent. It, therefore, appears that the number of siblings only discriminates between success groups when there are more than five siblings.

A comparison of respondents' marital status per success group is illustrated in Figure 9.

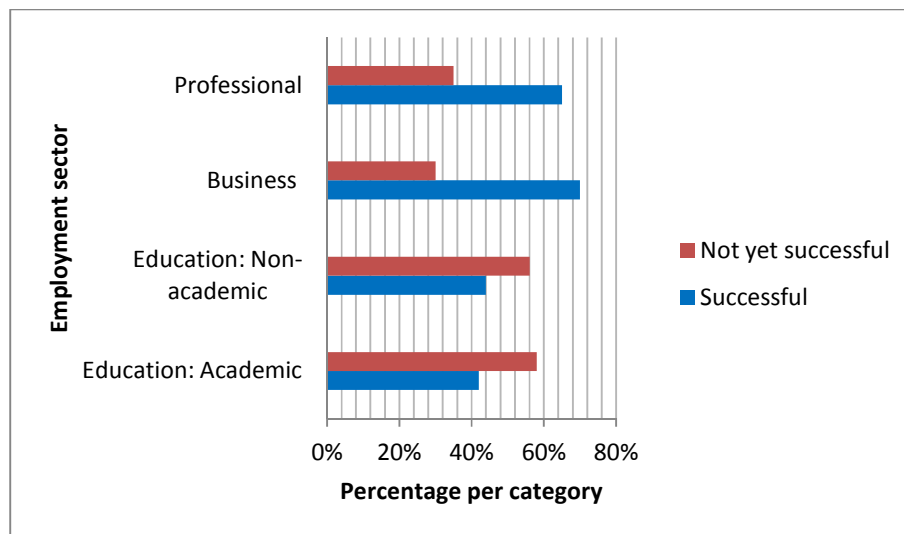
**Figure 9: Respondents' marital status per success category**



It is evident from Figure 9 that success groups had a similar marital status profile. It was only in the widowed category that there were slightly more (14 percent) successful women than not yet successful women. The current study, however, did not determine the reason for this.

The employment sector of respondents per success grouping is given in Figure 10.

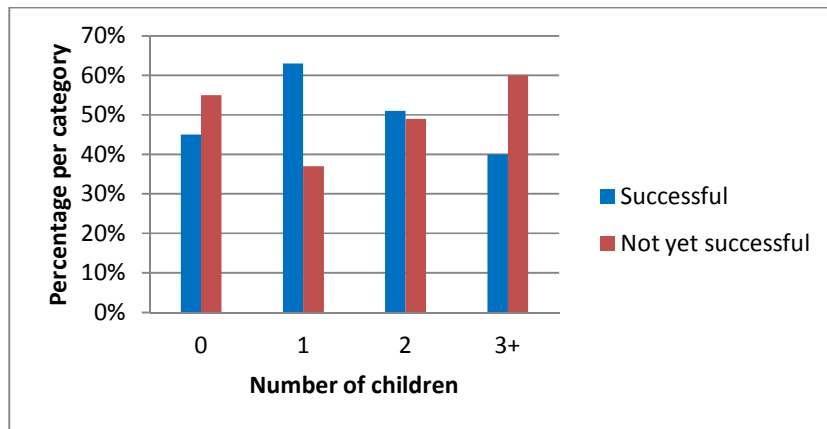
**Figure 10: Respondents' employment sector per success category**



The most notable variation between the success groups in the employment sector depicted in Figure 10 was in the business and professional sectors with, respectively, a 40 percent and a 30 percent differentiation between the groups in these categories. From these findings presented in Figure 10, it appears that there are less rigid rules in the business and professional sectors for the achievement of certain success levels. It is further evident that respondents from the business and professional sector were more successful than those from the academic sector.

Variation between success groupings in terms of number of children is given in Figure 11.

**Figure 11: Respondents' number of children per success category**



It is evident from Figure 11 that with the exception of respondents with two children, there is a reasonable variation between success groups in terms of number of children. Most notable is the event of having children, with as few as one child indicating a variation of 26 percent in success groups' achievement of success. This finding manifests the need of women with children for having external and internal support in order to pursue their careers.

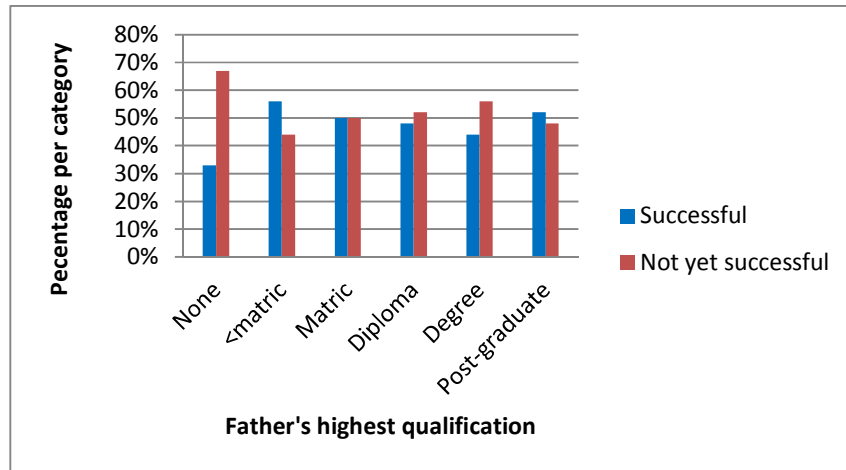
From Figure 11 it is clear that respondents with 3+ children were the most in terms of not yet successful in their career, while respondents with one child was the group that were the most successful.

There were no notable variations between the success groups with regards to the age groups of the children. Additional child care responsibilities associated with school-going children, however, appears to impact slightly on women's ability to progress in their careers. In the age groups between 7-12 and 13-17 there were, respectively, 18 percent and 10 percent more respondents in the successful group.

The highest qualification of fathers of respondents per success grouping is presented in figures 12 and of mothers of respondents in Figure 13.

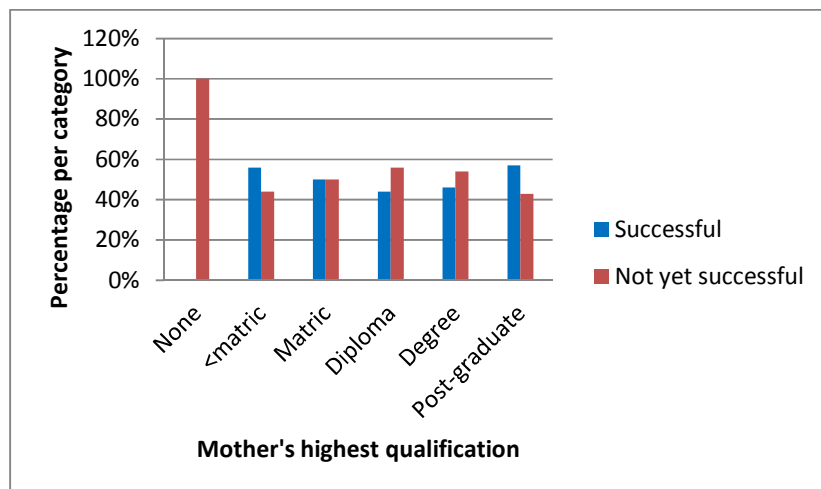


**Figure 12: Highest qualification of respondents' fathers per success category**



The high percentage of respondents in the not yet successful group, whose parents had no qualification, must be viewed in perspective. As shown in Figure 12, only 1 percent of respondents had a father in this category and as shown in Figure 13, only 0.7 percent had a mother in this category.

**Figure 13: Highest qualification of respondents' mothers per success category**



It is evident from Figures 12 and 13 that there were an equal number of respondents in each of the success groups whose parents had matric and only slight success group variations where parents had post-school qualifications. The only notable pattern is

that in the case of both parents' qualifications, a lower percentage of the not yet successful group's parents compared to that of the successful group had less than matric; a slightly higher percentage a diploma or degree; and where parents had a post-graduate qualification, percentages for the successful group were higher.

The empirical study of 301 professional and business women in South Africa showed that although there are similarities between the women, the formula succeeds in differentiating between Successful and Not Yet Successful women. The objective of the study to develop a method to discriminate between successful women was thus achieved.

To test the hypothesis that there is a significant difference between success groups of women the results showed that there are significant relationships between the identified success groupings and their demographic profiles in six areas namely title, hierarchical level, hierarchical level aspiring to, salary range, extent to which respondents believed they have achieved success and profession. The hypothesis was thus accepted.

#### **CONCLUSION, LIMITATIONS AND RECOMMENDATIONS FOR FUTURE RESEARCH**

Despite the homogeneity of the groups, the formula succeeded in identifying differences in the demographic profile of two success groups of women, namely Successful and Not Yet Successful. Identifying factors contributing to the career success of women has the potential to facilitate and promote the development of women as future business and professional leaders. This knowledge would determine the nature and extent of interventions required for the development of more women business leaders. Recommendations for the development of women have the potential to not only benefit women, but also organisations.

As no comparison group was included in the sample for this paper, it was not possible to compare respondents to discriminant groups like males or unsuccessful women in order to determine whether successful women in South Africa differed significantly

from any other population parameter in South Africa. Participants were further predominantly white women with the result that the sample was not sufficiently diverse to portray the South African female population.

There are a vast number of opportunities for expanding the current research. Recommendations for future research include:

- Extending of the current research on successful professional women to a comparison group. The sample population can be women at the lower levels of the hierarchy to determine whether they differ significantly from women employed at the upper end of the hierarchy.
- Extending of the current research on successful professional women to a more ethnically diverse sample to determine whether there are significant differences on the selected variables between ethnic groups who constitute the female population of South Africa.
- The development of other formulas to discriminate between success groups.
- Identifying and empirically testing other factors which contribute to women's career advancement.

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## **PERCEPTIONS OF SOUTH AFRICAN EXPATRIATE-ENTREPRENEURS OF NETWORKS: AN EXPLORATORY STUDY**

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### **ABSTRACT**

Losing highly skilled people to other countries is a worldwide phenomenon that could have a negative effect on the economic and socio-economic well-being of any developing country. The focus of this study is to establish whether expatriates have business or non-business networks and to what extent do international networks of South African expatriate entrepreneurs have networking and possible financial benefits.

The sample consisted of 163 skilled ex-South Africans living and working mainly in London, England who were either existing entrepreneurs or were contemplating an entrepreneurial venture.

One of the findings is that nearly 80% of respondents indicated that there are personal benefits in having networks. Sixty five per cent of the sample considers networks as beneficial for their family, relatives, friends or former colleagues. The most important reasons why respondents use networks were to share experiences and exchange ideas, to obtain knowledge on opportunities and markets and to better their career prospects.

**Keywords:** South Africa, Expatriate-entrepreneurs, Business networks, Networks



## INTRODUCTION

Entrepreneurship is indispensable for economic development and is an approach that can be applied in start-up situations as well as within more established businesses (Bayineni, 2005:39). Research indicates that South Africa needs skilled entrepreneurs that can make a contribution to the economy (Brown, 2000:107; Fourie, 2006:6-9; Kuznetsov & Sabel, 2006:6; Marks, 2004:4; Nasser, Du Preez & Herrmann, 2003:393).

It is important for South African business legislation and tax structures to stimulate entrepreneurship and to ensure that a strong and vibrant small and medium-sized business sector exists and thrives. Too much attention, however, is given to the search for entrepreneurs within the country itself and no attention to the wealth of knowledge, capital and expertise of expatriates currently working and living abroad. The reason for this is to promote entrepreneurship in South Africa.

South Africa is, however, not living up to its potential regarding entrepreneurial activity. A survey ranks South Africa 33rd from 59 countries in terms of the Total Early-Stage Entrepreneurship Activity (TEA) (Kelley, Bosma & Amoròs, 2010:24). TEA is defined as the prevalence rate of individuals who are actively involved in business start-ups, spanning 3½ years after inception of the firm. In South Africa 8,9% of the population are involved in TEA activities and South Africa is below the world average of 11,8% (Kelley *et al.*, 2010:23). However, it can be deduced that an entrepreneurial climate does exist in South Africa, but if it wants sustainable economic growth within the sector, the TEA will have to be improved significantly.

Expatriates have played a critical role in technology exchange and foreign investment in the economies of India, China and Israel especially through diaspora networks and therefore entrepreneurship (Kuznetsov & Sabel, 2006:6). Highly skilled expatriates are seen as a pool of potentially useful human resources for the country of origin and the challenge is to mobilise these brains (Brown, 2000:97).

The process where one country loses its highly skilled people to another country is referred to as brain drain, while brain gain is the mirror image of brain drain and a drain for one country is the gain for another (Fourie, 2006:6-9). Brain circulation happens when the migrant decides to return to the country of origin on either a temporary or permanent basis. Circulation is important for both skilled and unskilled workers mainly because it could counter the negatives of brain drain as well as illegal immigration (Weil, 2002:50). Circulation or returning home is not the only way in which the expatriate can contribute to the economic well-being of the home country, but they can invest their intellectual capital through social and entrepreneurial networks (Raihan, 2002:4).

## **PROBLEM STATEMENT**

Due to high unemployment and low economic growth in South Africa there is in need of various alternatives to stimulate the entrepreneurial climate in the country. No previous research on South African expatriates' participation in networking could be identified. Therefore, the reason for the study is to determine the perceptions of South African expatriate-entrepreneurs concerning networks.

## **RESEARCH OBJECTIVE**

The objective of this study is to establish whether current expatriates of South Africa living in London, England have business or non-business networks and to what extent do international networks have benefits for expatriate entrepreneurs.

## **LITERATURE REVIEW**

### **Diaspora networks**

Losing highly skilled people to other countries is a worldwide phenomenon that could have a negative effect on the economic and socio-economic well-being of any developing country (Fourie, 2006:40). The "brain drain" concept was first noted in the 1960s when it was used to describe the migration of British intellectuals and scientists to the United States (Gaillard & Gaillard, 1997:201).

Various strategies to counteract the brain drain are being used by governments (Crush, 2002:148). One strategy to counter the brain drain is the return option or brain circulation (Fourie, 2006:6-9). Brain circulation is one way the initial loss of skills could be countered (Robinson, 2003:1). This process in itself has the benefit for the home country because the migrant returns with newly acquired skills and knowledge (Fourie, 2006:6-9). The return option involves attempts made by countries to encourage their highly skilled expatriates to return home. Another strategy is the “diaspora network option” which acknowledges that the brain drain is not a loss, but a potential gain to the country of origin (Marks, 2004:4).

The process of mobilisation normally follows the route of *discussions* being turned into *transactions*. Discussions include websites, conferences, workshops, on-line communications and any other activities that will enable expatriates to know each other, connect and eventually define the ways in which they can contribute to the development of their home countries (Kuznetsov, 2006:225). Because people normally would like to see tangible outcomes, *transactions* in this context, could be a joint project in the home country.

Diaspora Knowledge Networks (DKN) originated in the 1990s in Colombia when a network of engineers abroad had been set up with the aim of mobilising, gathering and reconnecting expatriates with their home country (Meyer & Wattiaux, 2006:6). Diaspora networks today are being used by participants to stay connected with their countries of origin through e-mails, forums, blogs and collaborative websites that users can easily modify via the web (also called wiki's). Migrants who are successfully integrated into the working world of a receiving country often have a strong commitment to work for the well-being of their country of origin (Unesco, 2006:1). Over 150 Diaspora Knowledge Networks have been identified that are actively involved as instruments for home country involvement (Unesco, 2006:3). Diaspora networks can be very diverse in nature, but have the same premise, namely to be of benefit to the origin country. The nature of these networks could be scientific, technical, institutional, professional or financial (Meyer, 2007:7).

Even though diaspora networks have been met with a degree of suspicion and criticism on their ability to perform in a developmental context, there is convincing evidence that many of the networks have an outstanding positive effect (Meyer, 2007:3). One of the best examples where opportunities were seized outside the boundaries of a country, is the Chinese “bamboo network”. Ethnic Chinese businesses, based off the mainland of China, seized the opportunity and became so successful in their new host countries that selective trade restrictions are placed on them by host countries. As a major global power, these Chinese entrepreneurs are weaving a bamboo network in which they are tying together entrepreneurs, business executives, traders and financiers (Weidenbaum & Hughes, 1996:10). This network has become so powerful that it is commonly referred to as the “Chinese Commonwealth”. Chinese expatriate entrepreneurs in East Asia, the United States of America, Canada, and even further afield in Africa and Europe are considered as a major economic power after North America, Europe and Japan.

Countries such as Scotland and Chile, have also succeeded in maintaining a linkage with their emigrants and in the process mutual benefits for both the country and the expatriate have been accrued (Kuznetsov & Sabel, 2006:1). *Globalscot* is a good example of a network of about 800 high-powered expatriates from Scotland now residing all over the world, that use their expertise and influence as “antennas”, “bridges” and “springboards” to generate a variety of projects in Scotland (Kuznetsov & Sabel, 2006:7). Chile was inspired by this network and formed *ChileGlobal* which consists of 60 influential Chileans in the USA, Canada and Europe (Kuznetsov & Sabel, 2006:8).

### **Expatriates’ involvement**

In general, expatriates are by large sensitive to the home country’s situation (Meyer, 2007:9). From the expatriate’s perspective, involvement in the home country is often seen as paying back a debt to the country where they were born, raised and educated, leading to the idea that the real “brain gain” is in fact the sum of all these individual “payback” initiatives (Unesco, 2006:3). The following are examples of involvement:

- Remittances. Remittances, after foreign direct investment, are the most important source of external finance to developing countries. Remittances are higher than foreign aid and are

likely to be more stable than capital flows as portfolio investment and international bank credit (Solimano, 2003:1).

- Tourism, transportation and telecommunications. Apart from remittances, expatriates could also contribute to economic development in the form of tourism, transportation, telecommunications and trade (Orozco, 2003:3).
- Intermediaries. The expatriates' role as intermediaries between importing and exporting countries are seen as an indirect way in which they can create a demand for these products or services (Lowell & Gerova, 2004:3).
- Transfer of knowledge through networks. Transnational social networks are often seen as the most powerful mechanism of diaspora and as such shape the ability of expatriates to transfer knowledge and business opportunities (Lowell & Gerova, 2004:4).
- Supply of critical skills. Expatriates can also provide critical skills in the home country, whether it is in the field of political leadership or by the filling of public sector positions, as was done in Afghanistan and Nigeria or in the private sector, of which the information technology sector in India is acknowledged as a prime case study (Kuznetsov, 2006:226).

### **South African diaspora networks**

There have been quite a number of attempts to establish networks for the South African diaspora – some were successful and others had limited success. These networks ranged from social networks such as for the members of a church group (SA Congregation, 2008:1) to many other networks like:

- The South African Network for Skills Abroad (SANSA). The main objective was to facilitate the development and utilisation of networks for knowledge sharing (SANSA, 2007:1).
- SA Diaspora Network. The aim of this project was to mobilise a diaspora network to boost economic growth in the country especially between local South African businesses and well-connected and placed individuals in the United Kingdom (Marks, 2004:4).
- Homecoming Revolution. It was sponsored by First National Bank with its main aim to encourage and help South Africans living abroad to return home (Marsland, 2004:1). A monthly newsletter is published to inform its database about new developments in South Africa (Homecoming Revolution, 2008:1).

- Come Home Campaign – AfriForum. The civil initiative of the trade union Solidarity, aims to assist skilled expatriates to return to South Africa (AfriForum, 2008:1).
- Skills, Investment, Business in South Africa (SIBiSA). The aim is to equip and assist South Africans abroad to return to South Africa to start a business and they also mediate contact between expatriates as potential buyers of these businesses (SIBiSA, 2008:1).
- Global South Africans. This network of South Africans who live abroad, but still feel deeply attached to the country and who have the desire to contribute to the country's growth and success (Global South Africans, 2008:1). It is also an aim of this network to play a significant role in promoting South African entrepreneurs and innovators, and to give strategic advice and to help find partners and finance (Barber, 2007:1).
- Trade Point South Africa. It is a gateway to global networking with a strategic objective to increase the participation of small businesses in international trade. Trade Point South Africa is managed by the Small Enterprise Development Agency (SEDA), an affiliate of the Department of Trade and Industry (TradePoint, 2008:1).
- Endeavor South Africa. This global non-profit organisation identifies and supports innovative, high-growth entrepreneurs in emerging markets and assist high impact entrepreneurs to transform their industries and communities (Endeavor, 2009:1; Globalscot, 2009:1).

### **Entrepreneurial networks**

Successful entrepreneurs need viable opportunities, but also a thriving network of mentors, clients, investors and partners to help them start and grow their businesses. Entrepreneurial networks can be seen as those relationships in which entrepreneurs participate and which will be an important resource for their activities (Dodd & Patra, 2002:117). These relationships may be articulated through membership to formal organisations, links to suppliers, distributors or customers or even by the utilisation of social contacts such as acquaintances, friends, family or next of kin (Dodd & Patra, 2002:117).

Social networks, which can be part of entrepreneurial networks, are not only seen as a catalyst for the starting of new businesses, but they are also used when a business has moved to a solid

business concept. Dialogue with trusted business friends is an important part of the validation stage of successful entrepreneurs (Dodd, Jack & Anderson, 2006:110).

Family, community and business networks play an important role among refugee entrepreneurs. As these entrepreneurs struggle to succeed with their business ventures, it is mostly family and friends that offer the support, cooperation and generosity that might contribute to the ultimate viability of the venture (Fong, Busch, Armour, Heffron & Chanmugam, 2007:138).

### **Value networks**

The potential for “brain gain” or value exchange lies in the capacity of expatriate-entrepreneurs to mobilise not only the knowledge and skills available to them but also other resources such as capital, opportunities and social networks. In any network all the role-players should work together to co-produce value (Peppard & Rylander, 2006:132). This applies to both *knowledge networks*, where information regarding education, social interaction, culture and professional development is high on the priority list for the improvement of knowledge (Meyer & Brown, 1999:10), as well as *business networks*, where knowledge, information and business leads all contribute towards the improvement of entrepreneurial performance (Nijkamp, 2000:14-15). Value networks consist of the following components: a set of customers; some service the customers all use that will enable interaction between the customers; some organisation that provides the service; and a set of contracts that enables access to the service (Stabell & Fjeldstad, 1998:427).

## **RESEARCH METHODOLOGY**

### **Population and sample**

The study population consisted of skilled ex-South Africans living and working mainly in London, England, who are currently entrepreneurs or are contemplating an entrepreneurial venture. In view of the size of the population and the geographical area covered, this survey-based research design used a stratified sampling technique and was considered to be the most suitable for this study (O’Leary, 2004:108). The stratum used was “entrepreneurs” or “potential

entrepreneurs”. This sampling technique was complemented with snowball sampling, because the desired sample characteristic was deemed to be rare (O’Leary, 2004:110). This method resulted in a convenience sample of 163 ex-South African respondents.

### **Measuring instrument**

A survey administered through a web-based research questionnaire, was done to establish whether current expatriates have business or non-business networks and to what extent do international networks provide benefits to the participants, their businesses and/or their families. There were two sections of the questionnaire used in this study, namely biographical information and questions relating to networking.

In the section relating to networking the respondents were asked to indicate their frequency of contact with people from South Africa as well as their method of contact. Respondents were also asked to indicate their reason for interaction with their networks and whether an international network of South African entrepreneurs could be beneficial to both the participants and the broader business community in South Africa.

For the purposes of this study, anybody striving to be self-employed in whatever venture is considered to be a potential entrepreneur.

### **Data collection**

The databases of a number of institutions were used to elicit the population but because the researcher was prohibited by the Data Protection Act (1998:1) to have access to databases in the geographical area covered, it necessitated the additional use of snowball sampling. Managers of the databases requested the members on their databases to complete the questionnaire, which was based on a five point Lickert-scale. All communication from database managers was focussed on those individuals who were existing entrepreneurs or those who contemplated a business or entrepreneurial venture. It is estimated that a total number of close to 150 000 individuals from 10 databases were reached through these efforts.



The questionnaire was posted on a survey website hosted by Vovici ([http:// www.vovici.com](http://www.vovici.com)) for seven weeks, and the entry to this website was given as a website link in the different newsletters, newspapers and even “forwarded letters” to members of the specific databases. Respondents were prompted to click on the link which opened the questionnaire. Follow-up letters were sent to all the database managers which prompted their members on the database on two occasions to complete the questionnaire.

### **Data analysis**

The data collected were analysed using the Statistical Package for the Social Sciences Incorporated (SPSS Inc.) version 16 of 2008 (Field, 2008). T-tests were used to determine mean differences between the two groupings, namely the “most likely” candidates to engage in entrepreneurial activity, and the rest for the variables “An international network of South African entrepreneurs could have benefits for me personally” as well as “An international network of South African entrepreneurs could have benefits for my family, relatives, friends or former colleagues”. The tests were also carried out to determine the mean difference between the two groups and the importance of specified benefits that a network of South African expatriates could hold for the respondents.

Cross-tabulation for different variables was calculated to determine significance and means as well as standard deviations.

Effect sizes were calculated in order to determine the practical significance of difference in means. A cut-off point of 0.20 (small effect), 0.50 (medium effect) and 0.80 (large effect) was set for practical significance testing. An effect size, equal or larger than 0.50, can be considered as practically significant (Ellis & Steyn, 2003:51-53).

## **RESULTS**

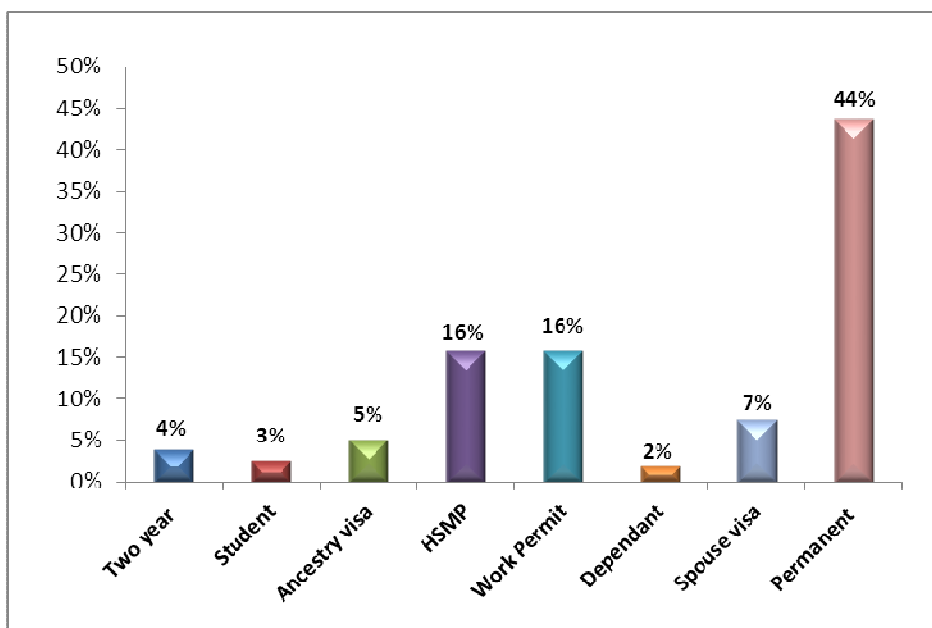
### **Demographic profile**

The majority of respondents were males (68%) and nearly 69% were younger than 40 years. Approximately 93% had a post-grade 12 qualification, while nearly 72% had a tertiary

qualification. Most of the respondents (88%) have been residing in the United Kingdom (UK) between 1 to 10 years and 47% between 6 to 10 years.

The largest segment of the respondents (44%) obtained permanent residence in the UK. The second largest group represented in the sample were those with work permits (16%), while those who obtained entry to the UK on a highly skilled migrant programme were the third largest (15.8%). In Exhibit 1 the type of residency (visa) is illustrated.

**Exhibit 1: Type of visa**



**Contact with people in South Africa**

Respondents were asked to indicate the frequency and mode of contact that they use to communicate with people in South Africa.

The contact was with immediate family, relatives, friends and current colleagues and the mode of communication was e-mails (40%), followed by telephone (29%), fax or SMS (15%) and Internet chat (11%).

**Type of residency**

From a network point of view, the type of visa, or the permanency of its international expatriate membership, can play an important role in the effectiveness of the value networks. Globalscot,

initially set out to establish a global network of high-profile expatriates (Kuznetsov & Sabel, 2006:7). It was through expatriates' contacts, relationships, knowledge and expertise built up over years, that Globalscot was able to benefit and create value, not only for its members, but also for Scotland in general.

## Networks

Table 1 lists the main reasons why respondents make use of a network, whether it is a business network or a non-business network.

**Table 1: Main reasons why respondents make use of networks**

Reason	Mean
To share experiences and exchange ideas	3.47
To obtain knowledge on opportunities and markets	2.98
To better my career prospects	2.93
To obtain access to new and additional technology	2.75
To obtain knowledge on new business processes	2.69
A method to communicate with potential interest groups	2.69
To obtain access to new or additional marketing channels	2.69
To make processes more efficient	2.68
To extend my value chain	2.66
To form strategic alliances	2.62
To obtain access to new or additional distribution channels	2.52
To launch a new product	2.33
To establish or reinforce a brand name	2.28
To obtain access to specialised skilled labour	2.06
A means of acquiring additional productive assets	1.98
A method to gain access to existing employees	1.95
To acquire capital or additional financial resources	1.77

From Table 1 it can be seen that the most important reasons why respondents used networks were: to share experiences and exchange ideas; to obtain knowledge on opportunities and markets; and to better their career prospects.

### **Network of South African expatriate-entrepreneurs**

Respondents were asked whether they see benefits for them personally in having networks. A total of 44% said “definitely” and 33% indicated “maybe”. The other 23% were either unsure (15%) or did not see any benefits (8%).

On the question whether they see benefits for their family, relatives, friends or former colleagues of having networks, respondents indicated it will definitely (33%), maybe (32%), unsure (25%) or not really/not at all (10%) have benefits.

It is clear that the respondents foresee benefits not only for themselves but also for the families, relatives, friends or former colleagues in South Africa.

### **Identification of respondents likely to engage in entrepreneurial activity**

Respondents that rated themselves high on their entrepreneurial ability, their entrepreneurial networks and their recognition of opportunities are more likely to engage in entrepreneurial activity (Foxcroft, Wood, Kew, Herrington & Segal, 2002:21-27). In total, 118 respondents were classified as “most likely” candidates to engage in entrepreneurial activity. The relationship between these two groups and particular elements of networking was investigated to determine the likelihood of these individuals making use of an entrepreneurial network.

In the previous section results were shown regarding the benefits that respondents see of having networks. Subsequently, t-tests were carried out to determine whether there are significant differences between the means of the groups, “most likely candidates to engage in entrepreneurial activity” (n=118) and the rest (n=44) and the benefits of having networks. The results are depicted in Table 2.

**Table 2: Benefits of international network of South African entrepreneurs**

Benefits	“Most likely” candidates			The rest			Effect size
	N	Mean	Standard Deviation	N	Mean	Standard Deviation	
Personally	118	4.19	1.032	44	3.84	1.077	0.33
Family, relatives, friends	118	3.94	1.058	44	3.61	1.032	0.31

❖ Cases with missing values were deleted

From Table 2 it is clear that respondents from both groupings are of the opinion that an international network of South African entrepreneurs would be more beneficial personally than for their family, relatives and friends. The “most likely” candidates are also more positive than the rest for both the personal benefits and for the family, relatives and friends in South Africa. The effect sizes on both counts indicate a medium effect.

Respondents were classified in either currently belonging to a business network and those not belonging to a business network and they were asked to rate the importance of certain benefits of a network. The difference in means was, however, marginal between the two groups.

The importance of the benefits of a network was also subjected to t-tests that were administered to determine whether there are significant differences between the means of the groups, “most likely candidates to engage in entrepreneurial activity” and “the rest”. Effect sizes were also calculated. Table 3 displays these calculations.

**Table 3: Importance of benefits of a network of South African expatriate entrepreneurs**

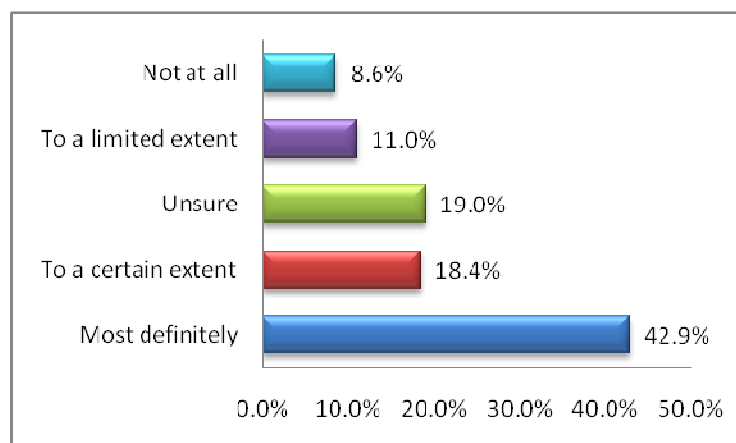
Benefits	“Most likely” candidates			The rest			Effect size
	N	Mean	Standard Deviation	N	Mean	Standard Deviation	
Accessibility of new knowledge and expertise	116	4.28	0.900	44	3.95	1.011	0.32

New business opportunities	116	4.40	0.843	44	4.00	0.915	0.43
New markets	116	4.34	0.874	44	3.95	2.022	0.38
Investment opportunities	116	4.30	0.878	44	3.82	1.147	0.42
Chance to bring change to family, relatives and friends in South Africa	115	4.03	1.099	44	3.86	1.153	0.14

❖ Cases with missing values were deleted.

Although the effect sizes indicate only medium effects, it is apparent that the “most likely” group is more positive than the rest of the respondents regarding the importance of the benefits of a network of South African expatriate-entrepreneurs.

**Exhibit 2: Extent to which Expatriate Entrepreneurs want to be involved with entrepreneurship opportunities in South Africa**



From Exhibit 2 it is clear that the majority of the respondents (61,3%) would like to be involved with entrepreneurial opportunities in South Africa with a further 19% who were unsure.

## **DISCUSSION AND RECOMMENDATIONS**

This study aimed to establish the perception of the respondents on entrepreneurial networks as a vehicle to create value exchange between South Africa and the expatriate entrepreneurial community staying and working in London in the UK. Since the majority of the respondents (61,3%) would like to be involved with entrepreneurial opportunities in South Africa, a entrepreneurial network could have mutual economic benefits for entrepreneurs in both countries.

Previous studies have shown that the potential for value exchange lies in the capacity of expatriate-entrepreneurs to mobilise not only the knowledge and skills available to them, but also other resources such as capital, opportunities and other networks (Kuznetsov & Sabel, 2006:7-9; Lowell & Gerova, 2004:4; MacRae & Wight, 2006:209; Meyer, 2007:7; Raihan, 2002:4).

Findings in this study reveal that the most important reasons why respondents used networks were: to share experiences and exchange ideas; to obtain knowledge on opportunities and markets; and to better their career prospects.

Among the thousands of South African expatriates staying and working abroad there are many entrepreneurs and potential entrepreneurs. It is recommended that an active website be established that could match South African entrepreneurs with South African expatriates where both parties are willing to explore business opportunities. South Africa's economy and its entrepreneurial sector in particular, need this "lost" brain power to stimulate and sustain higher levels of entrepreneurial growth.

Results indicate that many social networks exist between the respondents and their families, relatives and friends and even between current colleagues and former colleagues in South Africa. Communications with these networks are frequent and the mode of contact is mostly through the Internet, especially e-mails and Internet chat. The telephone is also used frequently.

There are also a number of the respondents that make use of business networks in South Africa, the UK as well as in areas outside South Africa and the UK, albeit not as popular as the non-

business networks. Most of the respondents (77%) are of the opinion that a network of South African expatriate-entrepreneurs can have benefits for them personally, while 65% are of the opinion that such a network could have benefits for their families, relatives and friends or former colleagues in South Africa.

Findings suggest positive perceptions of the value of an international network of South African entrepreneurs from respondents who are most likely to engage in entrepreneurial activity. The Department of Trade and Industry (DTI) could be involved with a possible value-exchange incentive scheme for expatriate-entrepreneurs. An entrepreneurial network for South African expatriates should have a support function as far as web-development and the registration and recognition of members are concerned. The benefits from such a network would not only include the accessibility of new knowledge and expertise for members of the network as well as the South African business community, but new business opportunities for all would come to the fore.

It is recommended that the government and private sector in South Africa should look at every avenue to involve the expatriate community in entrepreneurship development in South Africa. Some of the initiatives that could be investigated in more detail are:

- The viability of a database of expatriate-entrepreneurs and potential entrepreneurs, that would be interested to become involved in entrepreneurial activities in South Africa, even when staying abroad. This database can be used for further research in this field.
- Government should also investigate the possibility of introducing incentives and grants in exchange for business know-how and opportunities, especially where expatriates are involved. The expatriate entrepreneurs' contribution in mobilising knowledge and skills as well as other resources, such as capital and opportunities, should be recognised and remunerated. Through the Department of Trade and Industry (DTI), a similar incentive scheme to the Export Marketing and Investment Scheme (EMIA) can be introduced for expatriates wanting to be involved with South Africa's entrepreneurial endeavours.
- The private sector should also become involved with the process of value exchange. An entrepreneurial network for South African expatriates should be a-political and therefore a private sector initiative. The viability of this network should be investigated and when



introduced, it should be run independently from any political intervention. An infrastructure should be developed to build an international network of expatriates, to mobilise members and to maximise opportunities for network relationships, knowledge and expertise.

## **LIMITATIONS AND DIRECTIONS FOR FUTURE RESEARCH**

This sample is not representative of all South African expatriates and results cannot be generalised across the population. Future studies should also investigate expatriates in the United States of America, Canada, Europe, Australasia and Asian countries.

The findings indicate a positive attitude by respondents regarding entrepreneurial networks. This was only exploratory and future research could include the respondents' possible involvement in the development and implementation of a model of entrepreneurial networks.

The scope of the study did not include how entrepreneurial networks should be established or how a model should be developed and the respondents were only from one international metro-pole. It is recommended that a future study investigate how an entrepreneurial network model for South African expatriates can be developed and formally established. The scope should be extended to include all South African expatriates around the world. The phases and characteristics of previous successful networks around the globe could be used to establish value networks (Kuznetsov & Sabel, 2006:1-20; MacRae & Wight, 2006:201-220; Kuznetsov, 2006:221-237; Marks, 2004:1-38; Marks, 2006:171-186; Peppard & Rylander, 2006:128-141). Differences between a model for South African expatriates and existing models could also be investigated.

## **CONCLUDING REMARKS**

South Africa has lost many entrepreneurs and potential entrepreneurs over a sustained period and even if the situation in South Africa would change drastically, many entrepreneurs would still elect not to return to South Africa. This should not necessarily be seen in a negative context. Expatriates can still add value to their country of birth by re-investing intellectual capital through

social and entrepreneurial networks. They can also open up international markets through these networks as well as technological and monetary investments. Since the majority of respondents would like to be involved with entrepreneurial opportunities in South Africa, an entrepreneurial network could add value to all – South Africa as a country, as well as the expatriate-entrepreneurs staying and working abroad.

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# **A GUIDING FRAMEWORK FOR FOCUS GROUP RESEARCH PLANNING IN SOUTH AFRICA**

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## **ABSTRACT**

Lack of guidelines for the planning process of focus group projects was identified as a major quality challenge in South Africa, with implications for the misuse of the method and thus rendering research quality control difficult. The study sought to uncover the challenges that impede the quality of focus group research planning and develop a set of guidelines for redress by stakeholder organisations. A guiding framework was developed and its scientific viability and relevance were confirmed through an extensive quantitative study. A systematic probability sample of 600 respondents was drawn from identified clustered organisations. A CATI approach was used for data collection. The study revealed widespread lack of planning for focus group projects, resulting in compromised quality of research output. However, the guidelines on the scientific approach to focus group project planning will require education of practitioners and supervised enforcement in order to improve quality control.

**Keywords:** Framework; guidelines; planning

## **INTRODUCTION**

The varied approaches to the focus group research planning and the lack of industry stipulated guidelines 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 method in South Africa, and planning inadequacies abound. An in-depth literature review revealed that lack of streamlined focus group



research planning rendered quality control difficult to achieve or enforce in South Africa. Given this background, a set of logical guidelines for conducting focus group planning was developed on the basis of a quantitative study. The quantitative study provided empirical validation to focus group planning as described in the literature reviewed, and the guidelines formulated as part of a scientific process and guiding framework. In this regard, the study sought to determine the opinions of major industry stakeholders on how the choice of focus groups is decided upon, and the challenges impacting the quality of focus group planning. The objective was to optimise research quality control in focus group research planning in South Africa. Based on the findings of the empirical study, the guiding framework for conducting focus group research planning was confirmed not only as a solution to the lack of direction on planning, but also as scientifically relevant in the South African industry context. More importantly, the guiding framework was proved to be necessary for purposes of improving quality control in the execution of focus group research studies, as planning must be an on-going process. Based on the findings of this study, quick adoption and vigorous enforcement of the guiding framework by industry authorities are recommended. 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. For these reasons, an evaluative, follow-on study on the planning framework was suggested. The study is comprised of three phases, that is, the literature review, empirical and the proposed framework.

## **RESEARCH PROBLEM**

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. Lack of adequate attention to the planning of focus group projects was identified as a key challenge impacting the quality of focus group research. Instances of inadequate planning, lack of attention to detail, or cutting of corners in the rush for profit are evident within the South African practice of focus group research (Maree & Wagner, 2007; Green & Green 2005; Martin, 2006). As a result of inadequate planning, general misuse of the focus method has quality implications for decision making processes of organisations across the industry spectrum and for further research. To address the challenge of poor planning for focus group projects, a guiding

framework for improving project planning was deemed an imperative for local industry practitioners.

### **PURPOSE OF THE STUDY**

The purpose of this study was to develop a framework for guiding scientific research planning for focus group research projects in South Africa.

### **OBJECTIVES OF THE STUDY**

To achieve the purpose of the study, objectives of the study sought to:

- Determine how the choice of focus groups as the appropriate research method is informed and decided upon.
- Determine research quality problems and gaps stemming from the planning phase of the focus group research process.

### **HYPOTHESES TESTED FOR THE STUDY**

In line with the purpose and objectives set for the study, two null hypotheses were tested per construct measured, that is, the choice of method and planning in focus groups. Null hypotheses 1 and 3 were tested to determine the significance of associations in terms of perceptions on quality challenges across the research suppliers and research users, while null hypothesis 2 and 4 determined significance of differences of perceptions on quality challenges between the two groups.

**Ho 1:** There is no association between research suppliers and users on the choice of focus groups as the appropriate research method.

**Ho 2:** There is no difference between the means of focus group research suppliers and users on the choice of focus groups as the appropriate research method.

**Ho 3:** There is no association between research suppliers and users in relation to planning in focus group research.

**Ho 4:** There is no difference between the means of research suppliers and users in relation to planning in focus group research.

## **SIGNIFICANCE OF THE STUDY**

This study contributes to the field of marketing research in that it provides a unique framework for guiding focus group research planning and preparation, and offers a set of guidelines to streamline the focus group research planning process. A more streamlined planning process will aid implementation of quality control measures within the focus group planning 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 & Wagner, 2007:122; Green & Green 2005:1-9; Martin, 2006:2-4). The malpractices or misuse of the focus group method may be attributed to poor or inadequate planning, hence the need for a more streamlined approach. The guidelines on planning may enhance researcher focus and due diligence on planning in order to mitigate the challenges impacting quality of focus group research output in South Africa. This way, and in line with the conference theme of “managing in turbulent times”, the standard of focus group research may be improved, especially given that project planning should be a continuous process, for the benefit of stakeholders in South Africa and beyond.

## **RESEARCH METHODOLOGY**

The study used a sequential, mixed methodology approach, which was deemed critical for the attainment of the objectives of the study. The post-positivism paradigm governed the application of the qualitative methodology where in-depth interviews were used, given the investigation being focused on the planning stage when using the focus group method. The positivist paradigm was adhered to in the application of the quantitative methodology involving the questionnaire survey method. The sequential mixed methodology approach entailed the use of qualitative research findings to develop research constructs for the questionnaire survey. 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 units**

Sample size entails the number of elements to be included in a study (Malhotra, 2007:338). As such, a sample size of 600 potential respondents was considered large and adequate for purposes of achieving the stated objectives of the study, and was therefore used in this quantitative phase of the study. The use of a large sample, as emphasized by Aaker, Day, Kumar and Leone (2010:364), was also justified on the basis of the value of the information required and the accuracy level desired. The sample units or respondents were selected from identified business organisations of both research suppliers and users. Names of the focus group research user organisations were available on the SAMRA database, while some were gleaned from the Websites of some research supplier organisations within the South African marketing research industry, where they were posted for advertising purposes. Whereas 244 (40.7%) of the individual respondents were drawn from one hundred and eighty nine research supplier organisations, 356 (59.3%) participated as representatives of two hundred and twenty six research users organisations. Sample size was statistically determined and confirmed to be adequate based on a ratio of participants to items or variables measured, and a recommended ratio of 10:1 was achieved as advocated by Pallant (2010:183).

### **Sample unit selection criteria**

A standard form of respondent selection criteria was stipulated for execution as part of the research design for the study. Given the specialised nature of focus group research in South Africa, and in terms of the design of this study, only appropriately qualified respondents, that is, with the knowledge and experience on focus group research from both suppliers and users were considered. In terms of the sample selection criteria, each of the focus group research supplier and user organisations featured in the sample frame of the study was considered a research cluster, and was thus coded accordingly for sampling purposes. Aaker et al (2010:346) define cluster sampling as entailing dividing the population into subgroups, termed clusters, and a random sample of the clusters is selected and all members of the subgroup are selected. Cluster sampling was preferred because it is said to be cost effective, as it improves the sampling efficiency by decreasing the cost at a faster rate than accuracy. Reminiscent of probability sampling supported by Malhotra

(2007:337), the sample selection criteria entailed a systematic random selection of cluster organisations, which involved the selection of every second cluster organisation from the sample frame that were randomly ordered as guided by Malhotra (2007:346). With each organisation targeted constituting a cluster, all elements or respondents with knowledge and experience on focus group research and thus met the selection criteria within each cluster were identified, then selected to determine the research sample.

### **Research method**

The research method employed for the study was a questionnaire survey. The questionnaire survey was conducted using the Computer Assisted Telephone Survey (CATI) method, which facilitated the data collection process. The questionnaire survey method was preferred mainly because its effectiveness, efficiency and accuracy of data collection could be increased when used in conjunction with the CATI method, which is effective in preventing interviewer errors (Aaker, Day, Kumar & Leone, 2011:234). This way, valuable and complete data as well as consistency in the data collected were realised.

### **Research instrument**

A questionnaire was used as the research instrument for the study and was developed on the basis of findings of the preliminary qualitative study. The questionnaire was deemed appropriate as a formalised schedule for collecting information from respondents. This way, effective quality control owing to the use of the questionnaire was guaranteed, as it was administered through the CATI method. In order to identify and eliminate potential problems (Malhotra, 2010:354), the questionnaire was pre-tested on a small sample of 10 respondents, 5 drawn from research supplier organisations and another 5 from an equal number of research user organizations.

### **Measurement and scaling procedures**

An ordinal, 5-point Likert scale was used to measure the responses in the study. The 5-point Likert scale was preferred because of the few response options it offered, and thus proved easier to administer than when a broader scale could have been used. Apart from that, the rationale for using the Likert scale was to generate categorical data, which was appropriate for conducting tests for establishing frequency distributions, levels of agreement or disagreement and significance of associations or independence between variables among other things (Pallant, 2010:121).

### **Reliability of the scale and rationale for the approach used**

Malhotra (2010:318) defines reliability as the extent to which a scale produces consistent results if repeated measurements are made on the characteristic. However, the 2 constructs measured were developed from the literature reviewed as independent and non-homogeneous items. For this reason, testing the measurement scale for reliability in terms of establishing the Cronbach's Alpha values and internal consistency was not appropriate. In particular, because the research items under the 2 constructs measured were varied and unrelated. That is, "because these dimensions are somewhat independent, a measure of internal consistency computed across dimensions would be inappropriate" (Malhotra, 2007:285). However, face or content validity of the scale was achieved.

**Validity of the scale:** Aaker et al., (2011:269) assert that an attitude measure has validity if it measures what it is supposed to measure. Given the absence of complete internal consistency due to the theory grounded approach used in developing the constructs measured, the 5-point Likert scale used was validated based on evidence of face or content validity. As Zikmund and Babin (2010:250) posit, face validity is present when a scale's content logically appears to reflect what was intended to be measured. Also, face or content validity of the scale was enhanced on the strength of validation of the research items listed thereon, which were confirmed through the qualitative study prior to inclusion on the research instrument that was later pre-tested. This way, as Malhotra (2010:320) asserts, representativeness of the content of the scale for the problem at hand was achieved.

### **Data collection and method**

Data collection involved fieldwork where a team comprising the researcher and 6 other specialist interviewers including their research supervisor from a reputable, independent research firm specialising in data collection was involved. Team size was deemed adequate for execution of the data collection process over the envisaged period of at least 8 weeks. The questionnaire survey interviews were conducted through the use of the CATI method, which proved to be effective as it enhanced the quality of the research design and approach for the study in several ways. Essentially, the CATI approach entailed the interviewer taking the respondent through question by question, leaving no option for no responses nor refusals, especially as wide response options

were given and respondents were guided through the questions. On this basis, and as part of the approach supported by Aaker et al., (2011:359), CATI eliminated the potential for a low response rate, and the planned sample size of 600 respondents was thus achieved. For these reasons, neither missing values nor incomplete responses were realised in the data collected. Also, CATI offered increased speed, accuracy and instant recording of the data while being collected. Increased efficiencies of CATI in turn facilitated easier data organisation, processing and conducting analysis thereof, apart from revealing subgroup differences on the data collected that both Malhotra (2007:299) and Burns and Bush (2006:235) emphasise.

### **Data preparation and analysis**

The statistical data collected was subjected to an initial data preparation process for quality purposes (Malhotra, 2007:419). Once the data had been cleaned and was deemed free of errors as advocated by Pallant (2010:53), the descriptive statistical analysis and different tests were conducted on the data set.

Statistical and interpretive analysis of the data was conducted within the framework of content data analysis. Content data analysis was conducted on the statistical data set produced, in line with the quantitative research tradition, where content analysis is regarded as a technique that is systematic and objective. Also, because of its rigorous nature, content analysis is viewed as advantageous over other more subjective techniques for purposes of the study, as Segal, Hershberger and Osmonbekov (2009:70-82) emphasise.

Statistical analysis and processing of the data collected entailed the use of the latest version of the Statistical Package for Social Sciences (SPSS 18.0) package. The SPSS programme made it possible to unpack and understand various scenarios emerging from the data set, from the frequency distributions and descriptive statistics computed to tests for association and tests for differences conducted. Also, the SPSS procedures helped eliminate data analysis error and bias, and for these reasons, efficient analysis and interpretation of research findings was achieved (Malhotra, 2007:20, 95, 419).

## **PHASE 1: LITERATURE REVIEW**

Key aspects relating to focus group research planning are discussed in this section.

### **Importance of planning for focus group research**

Planning helps identify important issues to be addressed through focus groups (Courtois & Turtle, 2008:160-166). Across the different steps of the focus group research process, planning is key to the success of quality data generation through focus groups (Simon & Mosavel, 2008:63-81), as it provides the opportunity to examine of the objectives of a marketing research project. (Zikmund & Babin, 2010:13). This way, a correct decision on whether or not focus groups are the correct method may be determined, given the lack of evidence in the literature studied.

Also, the importance of planning in focus group research derives from the increasing popularity of the method. Marlotra (2007:146) posits that focus groups are the most important qualitative research method used in marketing research across fields, that is, business organisations in different industries and in academia. Zikmund and Babin (2010:106) describe focus groups as the predominant method by which marketing researchers implement exploratory research designs. Stokes and Bergin (2006:26-37) confirm that focus groups have emerged as important and the most frequently used method in research, over individual in-depth interviews and other methods. The popularity of the focus group method has led marketing research practitioners to consider the method as being synonymous with qualitative research, a field of scientific inquiry. The elevated status of focus groups is attributed to the dominance of qualitative research over the quantitative approach in marketing research since the 1990s, based on research budget sizes in the marketing research industry internationally (Marlotra, 2007:146; Stokes & Bergin, 2006:26-37). Evidently, a lot of qualitative research is undertaken using focus groups, owing to its increasing importance and popularity with both marketing researchers and decision makers (Kent, 2007:85).

Planning is important in the quest for the attainment of best practice in focus group research, given the numerous quality challenges inherent within the South African marketing research industry. The quality challenges include inadequate planning, general incompetence stemming from lack of attention to detail, or cutting of corners in the rush for profit (Green, 2003b:2-4). The provision of volumes of nice-to-know information that is not valuable for strategic business decision making purposes (Gordon, 2004:1-5). Ignorance of the fundamental marketing research



principles applicable to focus groups is evidently a major feature in the local industry, which implies guess-work when it comes to focus group planning. Ill-defined research objectives are another planning deficiency within the local practice of focus group research (Maree & Wagner, 2007:121-134). Besides, there is no evidence of any form of research planning framework in the literature reviewed.

### **Important considerations in focus group planning**

Planning for focus group research ought to incorporate 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 & Babin, 2010:13). The planned agenda for focus group research must be agreed upon by the researcher, research user or client and the moderator, particularly in terms of the specific objectives of the research, before the study is conducted (Aaker et al., 2007:198). As may be applicable to qualitative research in general, focus group planning may involve a thorough literature search and formulation of a research topic in order to delineate the study, and formulate a design of the research project.

### **Key decisions during the planning stage**

Key decisions at planning stage must be taken, particularly the rationale behind the choice of the focus group research method, as the most appropriate approach to achieving the objectives of the study. Also, inherent advantages and limitations of the focus group method as well as their influence on the focus process itself ought to be considered as a basis for choosing the focus group method (Zikmund & Babin, 2010:13). In addition, a decision to pursue either the scientific research option, which entails adherence to rigorous focus group research procedures for quality purposes or the non-scientific approach, which can be described as non-rigorous must be determined at this stage.

### **Approaches to planning in focus group research**

A key planning phase involves the compilation of a research proposal to guide the focus group research process (Welman, Kruger & Mitchell, 2005:274). Aaker et al., (2007:201) define the research proposal as a plan for conducting and controlling a research project, and stipulate that a research proposal must thus have the following important features.

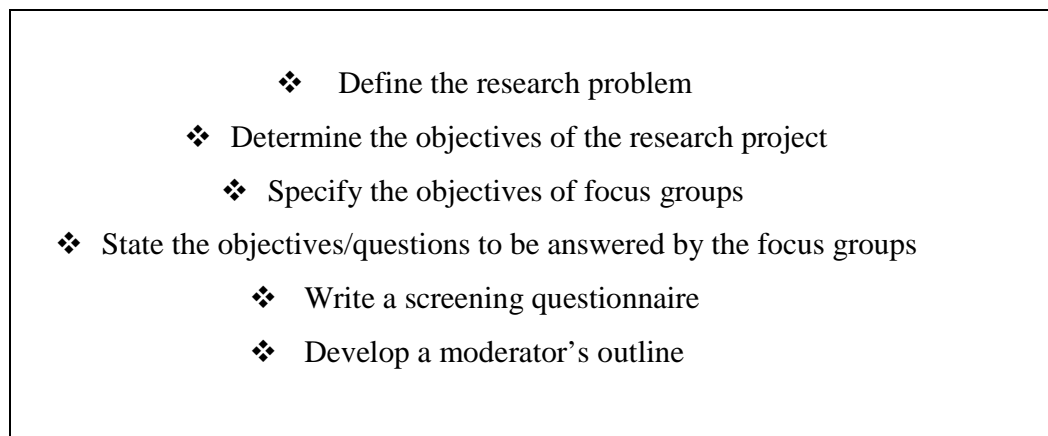
**Executive summary:** an executive summary must entail an overview of the contents of the project proposal.

**Research purpose and objective:** including a precise description of the research problem and the research question to be answered.

**Research design:** where the important features of the research methods to be used, and the strengths and limitations thereof are articulated, as well as quality control procedures among other things.

**Time frame and cost:** time-frame and estimated costs of the research project should be outlined. In addition, technical matters of interest to a small minority of readers should be attached at the back of the research proposal, as appendices (Aaker et al., 2007:201; Malhotra, 2007:49). The research proposal framework may thus describe the various components across the different steps of the focus group process as part of the research plan (Zikmund & Babin, 2010:13). The proposal may be obligatory in instances where funding or permission for the research is required (Welman et al., 2005:279). Similarly, other complementary planning procedures are normally followed within the focus group process and a widely used approach to planning focus group research is stipulated by Malhotra (2007:148), as depicted in figure 1.

**Figure 1: Approach to planning focus group research**



Source: Adapted from Malhotra (2007:148)

Figure 1 depicts the rather straight forward approach and procedure for planning of focus group research, which may also be relevant for other forms of qualitative research (Malhotra, 2007:148). The planning approach depicted in figure 1 can be explained as the following, firstly, determining the objectives of the marketing research project and defining the research problem entails the setting of the research objectives as derived from the purpose of the research study. Secondly, specifying the objectives of the research project involves designing and introducing the planned agenda for focus group research to both the research client and the moderator and must be agreed upon in terms of the specific objectives of the research, before the study is conducted. Thirdly, the research objectives may then be translated into a set of relevant research questions. The accepted objectives and research questions may be structured into topics to be discussed by the focus groups. Thirdly, writing a screening questionnaire serves the purpose of ensuring that only suitable and qualified respondents participate in the focus groups. Finally, a moderator's outline is developed, and this takes the form of a discussion guide to guide the focus group discussions (Aaker et al., 2007:198; (Malhotra, 2007:148). Topics or questions on the discussion guide must flow logically, and be guided by participants' responses (Simon & Mosavel, 2008:63-81). Considering this background on planning, it may be imperative that planning for focus group research should entail a holistic approach, per stage and across the various steps of the focus group process. In particular, given the lack of evidence of planning procedures in the literature reviewed. Accordingly, it may be appropriate focus group research practice for group sampling to be conducted immediately after the research planning stage.

### **Importance of quality considerations in planning**

The importance of different research quality considerations for project planning in focus groups or other projects can be ascribed to decision-making contributions and competitive advantages that may be gained by business organisations (Mehrjerdi, 2010:616-640). Further, Mehrjerdi (2010:616-640) cites the key benefits of quality assurance measures in general as including:

- Shortening of the production lifecycle including services, or time to market.
- Making tradeoffs between what the customer demands and what the research company can afford to provide.

- By taking customer requirements into consideration, quality management can increase customer satisfaction.
- May improve effective communication among divisions of the research or user organisation as focus on quality may be shared.
- Adherence to best practice is important, as qualitative findings of high quality improve the evidence base for marketing decisions (Dennis, Valacich, Fuller & Schneider, 2006:1-12).
- Benchmarking against best practice on planning as stipulated in the literature may demonstrate scientific objectiveness in order to have rigour, and thus quality in research (Doyle, 2008:232-233).
- Adoption of the ISO standard by SAMRA seeks to foster quality practices in planning and execution of marketing research projects including focus groups, and aid the pursuit for best practice. Evidence of better organisational performance for ISO certified compared to non-certified ones is abound (Hassan, 2010:641-657).

## PHASE 2: EMPIRICAL STUDY

### PRESENTATION OF RESULTS AND DISCUSSION

Results from the questionnaire survey conducted are presented and interpreted in this section, on a question-by-question basis. The questions reported upon are arranged according to the constructs measured, namely how the choice of focus groups is determined as part of the planning process, and the challenges that impact the quality of focus group planning. Each construct answers to a specific objective of the study. The results are discussed according to Tables 1 and 2.

**Table 1: Statistics relating to the choice of method in the focus group process**

Frequency Distribution Statistics			Choice of method					Independent Samples T-test statistics				
			Pearson Chi-square statistics			Suppliers		Users			Suppliers	
Mean	Std. Dev	N	N	Value	df	p-value	N	N	Mean	N	Mean	p-value
Q1: Whether or not to use the focus group method depends on the objectives of the study.												
4.46	.692	600	244	25.007	4	.000	356	244	4.61	356	4.35	.029
Q2: The final decision to use focus groups normally rests with the research supplier.												
3.01	1.142	600	244	11.788	4	.019	356	244	3.11	356	2.95	.244
Q3: Client insistence on the use of focus groups is not uncommon.												
3.67	.942	600	244	7.629	4	.106	356	244	3.65	356	3.64	.088
Q4: Focus groups are preferred because they produce quick results.												
3.26	1.105	600	244	14.144	4	.007	356	244	3.07	356	3.38	.315
Q5: Incorrect choice of focus groups is due to lack of knowledge about the method.												
3.84	.918	600	244	2.739	4	.602	356	244	3.82	356	3.85	.253

Table 1 depicts statistics derived from the frequency distribution, Chi-square tests for differences and the Independent samples T-tests which revealed the following insights:

**Q1.** The main finding is that the 94% of the respondents indicated that the choice of focus groups is decided upon depending on the objectives of the research study to be conducted. A Chi-square p-value of .000 and Cramer's V coefficient .204 confirm the significance and strength of association between the two groups on this question.

- Q2.** The main finding is that the 83.2% of the respondents were divided almost 50/50 on this question. A Chi-square p-value of .019 and Cramer's V coefficient .140 confirm the significance and strength of association between the two groups on this question.
- Q3.** The main finding is that the majority (66.2%) of the respondents indicated that indeed research users do insist that focus groups must be used, although it might not be the best method for the research problem at hand. However, no significant association between the two groups on this question was realised, given a Chi-square p-value of .106.
- Q4.** The main finding is that more than 50% of the respondents disagreed, many agreed that focus groups are preferred as a method of choice mainly because they produce quick results. A Chi-square p-value of .007 (with .154 Cramer's V) indicated a level of significance of association between the two groups on the reason for preference for focus groups, in that it produces quick results.
- Q5.** The main finding is that the most (75.3%) of the respondents indicated that indeed the incorrect use of the focus group method is due to lack of knowledge about the focus group method. However, no significant association could be established between the research suppliers and users on the incorrect use of focus groups due to lack of knowledge about the method based on Chi-square p-value of .602.

The following text-box captures the hypotheses tested for Q1 to Q5. Statement 1 denotes Q1 etc, while Prologue C refers to the main guiding principle or finding in Figure 2.

**Hypotheses 1 and 2:** The following null hypotheses were tested with respect to the choice of focus groups.

**Ho 1:** There is no association between research suppliers and users on the choice of focus groups as the appropriate research method.

Based on the Chi-square results, evidence of significance of association was presented through 3 statements tested in relation to choice of the method, thus: p-value .000 for statement 1; p-value .019 for statement 2 and; p-value .007 for statement 4. The Ho 1 was thus rejected.

The main finding (Choice of method): there is significant association between research suppliers and research users when it comes to choice of focus groups as the appropriate method. However, the following finding must also be taken into consideration;

**Ho 2:** There is no difference between the means of focus group research suppliers and users on the choice of focus groups as the appropriate research method.

Based on Levene's p-values per statement derived from the Independent samples T-test conducted, four of which are above .05 ( $p > .05$ ), the null hypothesis that there is no difference between the means of the two groups is therefore not rejected.

The main finding (Choice of method): the overall means reflecting the perceptions of research suppliers and research users when it comes to the determining the choice of focus groups as the appropriate method are not significantly different.

### **Major finding 1: Choice of method**

In relation to Figure 2, findings based on Ho 1 and Ho 2 provided the guiding principle (Prologue C), for guidelines on determining the choice of method.

**Main conclusion:** there is evidence of overall agreement on the major issues measured and tested within the choice of method construct, both on item level as indicated through the main findings C1 to C5 and proven through null hypothesis 1. Null hypothesis 2 proved a lack of significant difference between the research suppliers and users on the choice of method construct.

**Implication:** there is tested evidence to inform the formulation of a single framework for guiding both research suppliers and users on deciding on the choice of focus groups as the research method in South Africa.

**Recommendation:** the task of deciding on the choice of method is an integral part of the planning process and therefore must be incorporated into the focus group planning framework.

**Table 2: Statistics relating to planning of focus group projects**

Frequency distribution statistics			Step 1: Planning					Independent samples T-test statistics				
			Pearson Chi-square statistics			Supplier		Users		Supplier		Users
Mean	Std.Dev	N	N	Value	Df	p-value	N	N	Mean	N	Mean	p-value
Q1: Planning is important in focus group research.												
4.75	.440	600	244	24.871	4	.000	356	244	4.84	356	4.68	.000
Q2: Planning is largely the responsibility of the research supplier.												
3.87	1.076	600	244	68.553	4	.000	356	244	4.27	356	3.60	.000
Q3: Tight project timeframes complicate planning of focus group research.												
4.74	1.038	600	244	41.686	4	.000	356	244	3.95	356	3.59	.330
Q4: Lack of in-depth knowledge about focus groups impedes the planning process.												
4.70	.769	600	244	10.642	4	.031	356	244	4.04	356	4.09	.023
Q5: Unclear research objectives constrain the planning of focus group research.												
4.32	.762	600	244	9.299	4	.054	356	244	4.30	356	4.33	.006

In relation to Table 2, statistics derived from the frequency distribution, Chi-square tests for differences and the Independent samples T-tests are depicted, and revealed the following insights on planning in focus group research:

- Q1.** The main finding is that a large majority (99.8%) of the respondents indicated that planning is important for closing quality gaps in focus group research. A Chi-square p-value of .000 (with .204 Cramer’s V) highlights the significance of association between the two groups on the importance of planning for quality reasons.
- Q2.** The main finding is that most (75.9%) of the respondents indicated planning is largely the responsibility of the research supplier for quality reasons. A Chi-square p-value of .000 (with .338 Cramer’s V) highlights the significance of association between the two groups on this statement.
- Q3.** The main finding is that most (72.3%) of the respondents indicated that indeed there are complications experienced in focus group research practice, due to tight project time frames which create challenges of research quality. A Chi-square p-value of .000 (with .264 Cramer’s V) highlights the significance of association between the two groups.



**Q4.** The main finding is that most (88.5%) of the respondents indicated that indeed there is lack of in-depth knowledge about focus groups in South Africa. This position was affirmed through a significant of association Chi-square p-value .031 between the two groups.

**Q5.** The main finding from this question is that most (93.8%) of the respondents indicated that there are challenges arising from unclear research objectives followed in focus group research, which constrained project planning. A Chi-square p-value of .054 indicated no significance of association between the two groups on this statement.

The next text-box captures the hypotheses tested for Q1 to Q5. Statement 1 denotes Q1 etc, while Prologue P relates to the main guiding principle or finding in Figure 2.

**Hypotheses 3 and 4:** The following hypotheses were tested in relation to planning.

**Ho 3:** There is no association between research suppliers and users in relation to planning in focus group research.

Based on the Chi-square results, evidence of significance of association was presented through 4 tested statements relating to planning in focus groups, thus: p-value .000 for statement 1; p-value .000 for statement 2; p-value .000 for statement 3 and; p-value .031 for statement 4. The Ho 2 was thus rejected.

The main finding on planning (Prologue P) is that there is significant association between research suppliers and research users when it comes to planning in focus group research. However, the following finding must also be taken into consideration;

**Ho 4:** There is no difference between the means of research suppliers and users in terms of their perceptions on planning in focus group research.

Based on Levene's p-values per statement derived from the Independent samples T-test conducted, four of which are below .05 ( $p < .05$ ), the null hypothesis that there is no difference between the means of the two groups on planning is therefore rejected.

The main finding on planning (Prologue P), is that the means reflecting the perceptions of research suppliers and research users on planning in focus group research are significantly different.

### **Major finding 2: Planning**

In relation to Figure 2, findings based on Ho 3 and Ho 4 provided the guiding principle (Prologue P), for guidelines on planning for focus group projects.

**Main conclusion:** evidently, there was collective agreement on major research quality issues measured and tested within the planning in the focus group process, supported by main findings on P1 to P5 and the null hypothesis 2. However, as a matter of scientific prudence, the significant differences between the mean scores of the two groups supported by null hypothesis 4 must be given consideration in drawing up the framework for focus group practice, given the significantly different perceptions of the two groups if independently surveyed.

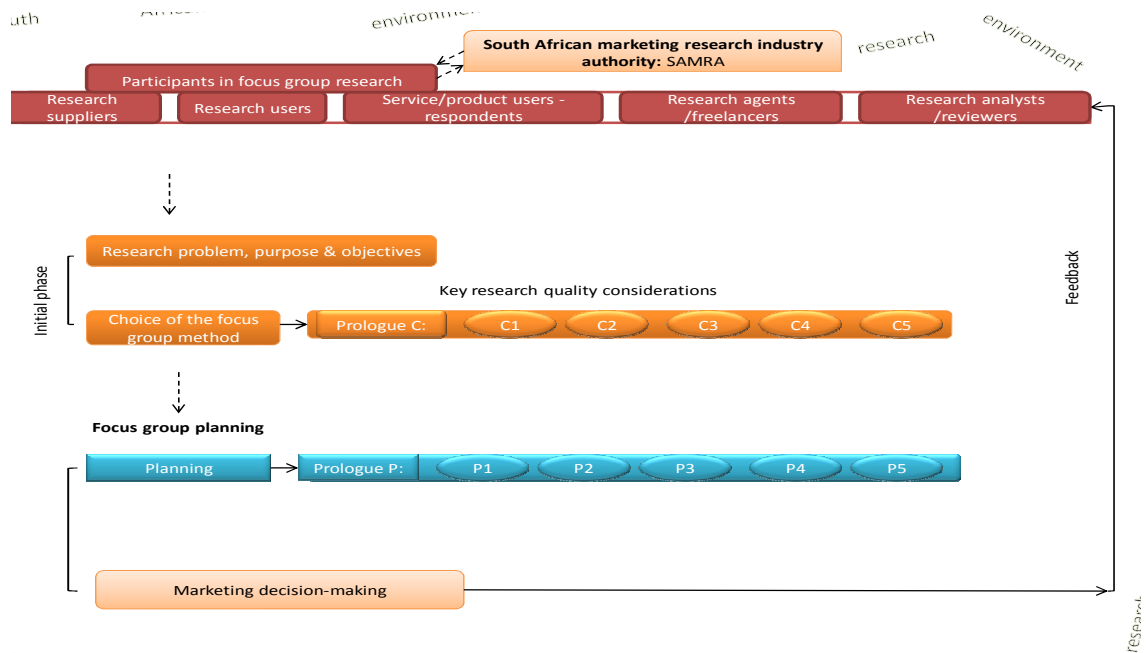
**Implication:** the overall evidence on planning provides support for a framework that ought to be developed in order to guide focus group research in South Africa, however, with due considerations for the differences of perception that are evident.

**Recommendation:** important, positive evidence on planning that must be considered in line with the recommended approach under major finding 1, when developing the required framework for conducting scientific focus group research planning in order to improve the quality of research in South Africa.

### PHASE 3: A GUIDING FRAMEWORK FOR FOCUS GROUP RESEARCH PLANNING

Figure 2 reflects guidelines relating to the choice of focus groups as an initial stage, and those on planning for focus group projects.

**Figure 2: A guiding framework on focus group planning**



Source: Developed for the study

#### Initial phase of focus group research

The initial phase may consist of the research problem and objectives, and decision making on the choice of focus groups as a research method.

**Research problem, purpose and objectives:** the initial focus group phase must begin with a clear definition of the problem, purpose and objectives to correctly inform decision at the planning stage, on whether or not focus groups are the most appropriate research approach or method.

### **Quality guidelines on deciding the choice of focus groups**

**Prologue (C):** collectively, and as independent groups, both research suppliers and users significantly concurred on the quality control measures guiding the approach to the choice of the focus group method.

- C1:** The choice of focus groups ought to be decided upon on the basis of research objectives of the study, rather than sheer preference, trendiness or increasing popularity of the method.
- C2:** The decision on the choice of focus groups must be led by research suppliers, because technical expertise and knowhow on research methods lie with them.
- C3:** Research users ought to contribute ideas and refrain from prescribing or insisting on focus group use, especially when expert advice indicates otherwise.
- C4:** Correct choice and usage of the focus groups requires fairly in-depth knowledge of the method, and thus must be executed on a scientific basis, not because they are less costly and produce quick results.
- C5:** Evidence indicated that the education level of focus group practitioners is crucial when deciding whether or not to use the method, and may enhance efficient and informed application of the method.

### **Quality guidelines on planning for focus group research**

**Prologue (P):** both research suppliers and users concurred significantly on the quality control measures guiding the planning process in order mitigate research quality challenges. However; it must be considered that a different set of views on focus group planning may be achieved if the two groups are categorised into separate, independent samples.

- P1:** Planning is key to closing quality gaps in focus group research, and must be conducted from the outset as a preliminary step. Planning must be continuous and focused on mitigation of quality impediments across research project stages.
- P2:** Planning is largely the responsibility of the research supplier for technical and quality reasons. Also, because suppliers ought to possess technical expertise on the relevant focus group project.
- P3:** Streamlined, reasonable and flexible project timeframes are essential for project quality

reasons, and thus focus group projects must be planned considering potential project quality challenges envisaged.

**P4:** In-depth knowledge of the focus group method, its capabilities, merits and demerits will inform better research project planning, thus participatory contribution of knowledgeable major stakeholders is crucial. Training of practitioners may equip them with the desired level of knowledge, which may aid efficient planning of focus group projects.

**P5:** Research objectives must be clearly defined for purposes of unconstrained focus group project planning. Proven competencies of research suppliers must be harnessed.

## **CONCLUSION**

The framework for guiding planning of focus group research projects can be confirmed as a systematic, scientifically relevant and an imperative for the South African marketing research industry at large, and focus group research practice in particular. The research activities involved in the planning of focus groups described in the literature reviewed were adequately investigated through this quantitative study, the major findings from which informed the guidelines on the framework developed. Essentially, the planning framework covered the entire aspects of focus group research activity on planning, as reported in the literature. Evidence on the need for the framework, and importance of planning for quality reasons and challenges thereof, derived from the literature reviewed were corroborated through the empirical study.

## **IMPLICATIONS AND RECOMMENDATIONS**

The implication for this study is that the confirmed importance and scientific relevance of the planning framework may enhance quality control and enforcement per step of the focus group process, given that planning impacts across the entire research project. However, in the light of the many impediments and transgressions on planning that relate 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. Also, it is recommended that a further study be conducted in order to evaluate the framework as a guiding tool in focus group project planning in South Africa.

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TRANSPORTATION RISK IN THE EQUINE INDUSTRY IN SOUTH AFRICA:  
A RISK ASSESSMENT

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**ABSTRACT**

Participation in any project involves risk. There has been a large increase in the acknowledgement of “risk” and the necessity of “risk management” within businesses over the last two decades. Equine transportation and its effects are unique when compared to most cargos due to the added risk of possible injury or even death. This highlights the need for effective risk management in animal welfare which takes potential risks before, during and after travel into account. The MITP (Medical, Infrastructure, Transport and Process) framework was developed based on the FIRM and PESTLE frameworks as well as through the use of a risk register. The intention of this framework is to provide an approach to effective risk management in equine transportation.

**INTRODUCTION**

Participation in any project involves risk (Hopkin, 2010b:134). For the purposes of this report, the project would be the transportation within the equine industry. The study will be delimited to road-based modes of equine transportation. Road transportation remains the most used mode of transport on a global scale. Very few countries, however, have risk management policies in place with regard to equine transportation (AATA, 2003:23).

The proposed field of research was chosen as the interest and recognition of equestrian sports, such as horse racing, eventing, polo, show jumping, dressage, vaulting and endurance, in South Africa has been increasing over the years and transportation is a critical facilitator in any such occasion (Farnham Stables, 2008; Kentucky Equine Research, 2011).

Equine transportation and its effects are unique when compared to most cargos due to the added risk of possible injury or even death (AATA, 2003:23). This results in the need for effective risk management in animal welfare (AATA, 2003:23), which takes potential risks before, during and after travel into account (Leadon, 2000:16).

The field of research is deemed important, as South African literature, relating to equine transportation and risk management, is difficult to obtain. The horse transportation industry is considered a small 'niche' that has limited information pertaining to the movement of horses from one location to another (Leadon, 2000:11). A study, related to the transportation of horses, was conducted by Dr. Keith Watkins, in Ireland, received high response levels, which may indicate that the amount of information available to advise trainers in this particular area of study is inadequate and of "the thirst that there is for it" (Leadon, 2000:12).

## **RISK MANAGEMENT**

A risk occurs when someone or something is exposed to danger (Oxford Advanced Learner's Dictionary, 1998:1015). In economic terms risk is a type of uncertainty where likely scenarios can be attached to possible outcomes even when the actual outcome is not known (Chernobai, Rachev and Fabozzi, 2007:15; The Oxford Dictionary of Economics, 2009:394).

There has been a large increase in the acknowledgement of "risk" and the necessity of "risk management" within businesses over the last two decades (Nocco and Stulz, 2006:8; Garlick, 2007:3). Changes have been implemented in the regulation of safety issues as well as the incorporation of new conditions to corporate governance. Both these examples have been taken from the UK but it is felt that they are analogous to the rest of the world (Garlick, 2007:3)

Risk identification is a method that is used to categorise risks that could be potential hazards to an organisation (Biosecurity Australia, 2009:44). Risk assessment involves a methodical procedure which measures the level of threat linked to a specific event and the resultant causes thereof (Abkowitz, 2002:4; National Treasury, 2010:35). This procedure allows an organisation to enhance its risk intelligence (National Treasury, 2010:35). It is not possible for an organisation to give the same amount of attention to each risk it is faced with and therefore the key purpose of the risk assessment is to assist the organisation to concentrate on the most important risks (National Treasury, 2010:34).

The National Treasury (2010:35) recommends that a process that consists of three stages should be used when a risk assessment is performed. The first stage is to determine what the level of the

inherent risk is without any actions in place to reduce this risk. This should be followed by an assessment of the residual risk to indicate the level of the risk that remains after management has put in place mitigations to control the inherent risk. Finally, the remaining risk should be assessed against the risk appetite of the relevant organisation. This will allow the relevant individual to determine whether further action is required (National Treasury, 2010:35).

A framework for risk management gives organisations or individuals the tools necessary to deal with and respond to the uncertainties they may face. A variety of tools and techniques are used in the risk management process and it allows one to approach the risk in a methodical and inclusive manner. The framework is not dependent on a particular industry and, if correctly implemented, should allow one to experience an improvement in business resilience, assist in increasing predictability and contribute to an improvement in returns. (Williams, 2010, cited in Hopkin, 2010b: xxiii).

Risks vary in nature and can be classified into control (to limit/prevent certain outcomes such as insurance), opportunity (positive gains such as gambling) and hazard risks (that can only have a negative outcome) (Hopkin, 2010b:2). This study will focus on hazard risks, as these are the risks that have the potential to prevent an organisation or individual from achieving their desired outcome (Hopkin, 2010b:3).

Enterprise Risk Management (ERM) is a concept that has been developed in the past two decades and is therefore a relatively new term. In its basic form, ERM is the term given for the overall management of the risks which are faced by an enterprise (D'Arcy, 2001:1, Dickinson, 2001:360; National Treasury, 2010:27). Within this management process, risks are managed together rather than individually and can be considered a means in which to make a profit rather than just as something that should be reduced or eradicated (D'Arcy, 2001:2-3; National Treasury, 2010:27).

A sound risk management framework consists of the architecture or the reporting and communication structure, the strategy to approach possible risks and the guiding principles and measures that have been put in place to deal with them. Apart from the framework, there are a number of support processes and these, combined with the framework, comprise a risk management standard. There are a number of standards of risk management available. (Hopkin, 2010b:3).

In an expansion of the benefits to risk management mentioned above, benefits include compliance, assurance, decisions, efficiency, effectiveness and efficacy. Compliance indicates the ability to fulfil the legal obligations required which an organisation faces. Assurance provides stakeholders with verification that suitable risk management procedures be in place for the identified risks.

Decisions indicate that the adequate risk management activities have been established in order to assist with decision making while efficiency relates to an improvement in the organisational operations. Risk management should ensure that the business processes are implemented effectively and an efficacious strategy occurs when an organisation can provide precisely what is required of it. (Hopkin, 2010b:4).

Should an organisation not manage the risks they are faced with in an adequate manner, it will be very difficult to analyse the magnitude of important risks and how to deal with them (Hopkin, 2010b:5). It is vital that an organisation understand the magnitude of the risk and that the manner in which the risk is dealt with is proportionate to this magnitude. It is essential that the risk activities adopted by the organisation are aligned to the other activities within the business and further, it is imperative that the risk management activities should not be allowed to become static in light of the ever changing business environment (Hopkin, 2010b: 5-6; Yeomans, 2011:71).

## **RISK CLASSIFICATION**

According to Hopkin (2010b:121), a risk assessment involves the identification of risks, rating these risks according to their impact, should they occur, and the likelihood of these risks occurring. The most widely used risk assessment techniques, listed by Hopkin (2010b:122), include:

- Questionnaires and checklists
- Workshops and brain-storming
- Inspections and audits
- Flowcharts and dependency analysis

The identification of risks and compilation of a management strategy will be facilitated with the use of a risk classification system (Hopkin, 2010b:134).

The PESTLE (political, economic, social, technological, environmental and legal) risk classification system was chosen as an appropriate structure for risk identification (Hopkin, 2010b:135). The PESTLE system is both easy to use and it provides the users with a better understanding of the larger business context. In addition, PESTLE will allow an organisation to identify potential threats that could arise and thus allow them to find ways to reduce or avoid them (Hopkin, 2010b:137). The PESTLE system focuses on the external environment (Hopkin, 2010b:134,136). Literature suggests that this system is most appropriate when focusing on hazard risks (Hopkin, 2010:136). For the purposes of this study, the PESTLE framework will be drawn upon in order to cover the “Legal”

and “Political” aspects which may be encountered during equine transportation (Hopkin, 2010b: 136).

It is necessary to be aware of the disadvantages attached to this system in order to counteract the problems when the risk management system is implemented. The PESTLE analysis must be undertaken on a regular basis in order to remain valuable. PESTLE can be both expensive and time consuming when trying to produce a good quality risk register. Furthermore, the environment is changing at a rapid pace and therefore it can be a challenge to anticipate issues correctly (threats and opportunities) which could be of importance to the organisation. (Hopkin, 2010b:137).

Another risk analysis tool available to classify risks is the FIRM (financial, infrastructure, reputational and marketplace risks) risk scorecard (Hopkin, 2010b:132; CFOWORLD, 2011) which looks at both internal and external risks. This classification system includes various elements such as the timescale of impact (whether the risk is short term, medium term or long term) and the nature of impact (whether it has a high impact, medium impact or low impact). (Hopkin, 2010b:137-138).

This study will be delimited to the FIRM and PESTLE frameworks. A ‘new framework’ that combines the specific aspects described above will be proposed and will be referred to as the ‘MITP’ (Medical, Infrastructure, Transport and Process) framework for future reference.

## **USING FIRM and PESTLE TO IDENTIFY RISKS IN EQUINE TRANSPORTATION**

### **FIRM risk classification system**

This classification system highlights the key dependencies of any organisation and presents a method in which to classify them (Hopkin, 2010b:134). Hopkin (2010b:134) states that the financial and infrastructure risks are risks which are internal to an organisation while the reputational and marketplace risks are external risks. It has been suggested however that all four areas can be faced with both internal and external risks (CFOWORLD, 2011).

#### **Financial**

All enterprises will find themselves faced with financial risks. These risks can be determined by both internal and external factors. Internal financial risks can be found related to investments, historical liabilities, cash flow, liquidity, fraud or internal control to name some examples. In terms of external financial risks, these can be related to foreign exchange, credit, funding or accounting standards (CFOWORLD, 2011). Hopkin (2010b:135) states that these risks are usually quantifiable and that the manner in which to measure their performance is by analysing the gains and/or losses from the internal financial control mechanisms. There is the possibility that the procedures used can fail to manage the financial risks and therefore careful monitoring and reviewing is required.

Control mechanisms that should be used here are internal controls, allocation of authority and CapEx standards (Hopkin, 2010b:135).

With regards to an equine transport company, there is the possibility that the company could face internal financial risks such as theft or, if they have invested for example, there is the possibility that these investments could fail. Liquidity and cash flow problems could pose serious risks to an organisation, especially if the business is still in its early stages. Fluctuations in fuel prices could affect not only transportation companies but also individuals (Horcher, 2005:35). This is an external risk to the particular party involved.

#### Infrastructure

Infrastructure risks are generally known as operational risks in various other risk classification systems (Hopkin, 2010:133). The internal risks found here are most likely to occur in areas such as recruitment, health and safety, IT systems, the premises and with people and their skills. External risks can be related to natural disasters, communications, supply chains and transport links or even terrorism and pandemics (CFOWORLD, 2011).

Infrastructure risks can be quantifiable at times and they are generally measured in terms of the level of competence displayed in the operations and processes. Performance issues can result when operations are not effective due to process malfunctions. Controls that should be put in place in order to prevent these malfunctions are risk and insurance financing as well as loss and process controls. (Hopkin, 2010b:135).

There are numerous risks within this category that could relate to the transportation of horses. These risks could range from poor road conditions, to problems associated with the vehicles or even incompetent staff.

#### Reputational

Reputation is of vital importance to any enterprise and therefore it is essential to consider factors that can cause damage to it. This indicates the need to consider reputational risks as a separate category and not to assume that reputational damage occurs as a result of other risks (Hopkin, 2010b:134).

The risks that could cause reputational damage will depend on the nature of the enterprise. Internal reputational risks could arise in the control environment, the board composition or they could be linked to brand extensions, to name a few. External risks could present themselves as a result of competition behaviour, public awareness, corporate social responsibility or product recall. (CFOWORLD, 2011).

Reputational risks are not always measurable. It has been suggested that a manner in which to determine whether reputational risk is present is to analyse the success of the marketing profile as well as to determine the nature of the publicity. Should an enterprise fail to recognise these risks, they face the possibility of failing to attain the intended perception of the enterprise. In order to prevent reputational damage, controls should be put in place in the areas of advertising, brand and reputation protection as well as in marketing. (Hopkin, 2010b:135).

Within the equine transportation industry, reputation will be critical. Valuable horses are transported on a regular basis to various sporting events. It is therefore of the utmost importance that these animals reach their destination in the safest way possible and in a way in which they will still be able to perform to the best of their ability. If an accident occurs or the horse's welfare is compromised, owners or trainers trust could be diminished. They could therefore be inclined to find new transporters and adverse publicity or unfavourable word-of-mouth could result in a loss of existing or potential clients as well as a decrease in the transporter's reputation that is linked to trust (Dasgupta, 2000:59).

#### Marketplace

Risks that arise in the marketplace are mainly external to an organisation however, there are certain risks that have been said to be internal. Such risks can arise in the area of contracts, research and design activities or intellectual property. External risks arise due to customer demand, regulations, competition, the economic environment or technological advancements. Within the equine industry, and specifically in the equine transportation industry, transporters need to ensure that they comply with the necessary regulations such as contracts or national road and traffic laws (CFOWORLD, 2011).

#### **The PESTLE risk classification system**

##### Political

PESTLE is used to identify external risks (Hopkin, 2010b:133). According to Schmit and Chao (2010:9), political risks are losses due to changes in the political environment, including subsidies, government policy, public investment, trade restrictions, tariffs, tax policy and so forth (Schmit and Chao, 2010:9). Political risks arise from the external environment, which is not wholly within an organisation's control, but actions can be taken to mitigate the risk (HM Treasury, 2004:15). It is important to identify political risks because their impacts can be severe to an organization and they have the potential to close an organisation down. Compared to the other risks identified in a

PESTLE analysis and depending on the political situation, size and influence of the organisation, political risks, in some cases, can be the most difficult to mitigate (Barker, 2011).

Animals that are transported by road remain a public concern and are a topic of political concern. This is because it is the circumstance under which the animal is transported rather than the actual transportation act itself, that can induce psychological stress that will have a detrimental effect on the animal's welfare. This could then lead to mortality, an increase in waste, a decrease in product quality and in general, a reduction may occur in the level of efficiency in the production process (Mitchell and Kettlewell, 2008:202).

### Legal

The 'L' in the acronym PESTLE stands for 'Legal' (Hopkin, 2010b: 133). These risks are relatively straight forward as they are generally associated with changes in legislation from governments, which is widely and easily available to organisations (Hopkin, 2010b: 136). Any changes in legislation are generally well known in advance, which allows organisations the time to adapt and prepare for these changes. Should any changes occur, with regards to legislation, the suggested framework in this paper could be used as a point of reference to help incorporate any risk management safety standards or possible mitigations.

### **RISK SIGNIFICANCE BENCHMARK TEST**

As previously discussed, organisations are faced with numerous risks. This is normal practice but it is not possible to manage all of these risks with the same level of effectiveness (Hopkin, 2010b:144; National Treasury, 2010:35) and therefore it is necessary to restrict the number of risks which will be focused on. This can be achieved by making use of a test for risk significance (Hopkin, 2010b:144). Benchmarks are used to determine risk significance and will allow for an indication of what level of risk is acceptable to the organisation. The type of risk will determine which benchmark test will be implemented (Hopkin, 2010a:13).

A risk register (refer to Appendix A) can be made use of as the risk significance benchmark test. This is a document that allows one to record the procedure that should be followed in order to manage the identified risks. It is important for organisations or individuals to be aware that, if this document is not continually updated, it could become out of date and no longer fulfil its purpose.(Van Wyk, Bowen and Akintoye, 2008:162; Yeomans, 2011:71). The National Treasury (2010:33) states that risk registers which are used for project risks should be assessed at least annually in order to recognise both new and potential risks. Annual assessments also provide an indication on the scale of current risks and whether these risks will require further attention



(National Treasury, 2010:35). Van Wyk *et al.* (2008:162) suggest that risks which are long term in nature and which can affect the long-term objectives of a business should be evaluated on an annual basis. They do however recommend that appraisals should be conducted on a monthly basis to ensure that the risk management is kept up to date. Hopkin (2010b:86) states that the risk register should be a dynamic document and therefore should be frequently updated as stakeholders could request to view this document on at least a quarterly basis.

The risk register will allow one to rate the current risks faced by the organisation in terms of the impact and likelihood of these risks materialising and to provide an overall rating on their significance (Kendrick, 2009: 328). The National Treasury (2010:35) confirms that risks should be evaluated on the likelihood of the risk arising and on the impact that the risk will have on the organisation.

### **RISK ASSESSMENTS FOCUSED ON ANIMALS**

Risk assessments which are focused on animals will cover a range of welfare aspects such as physiology, health and behaviour (Gavinelli, Ferrara and Simon, 2008:74; Dalla Villa, Iannetti, Di Francesco, Di Pasquale, Fiore and Caporale, 2008:188). As there are many other fields, which use quality and risk management to reduce risk and to ensure safety, the approach to animal risk management can be related (Dalla Villa *et al.* 2008:188). Over the years, the European Commission has compiled a general system that covers scientific considerations with regard to the different animal welfare aspects. The various scientific committees who have contributed have been combined to form the European Food Safety Authority (EFSA) and this body provides the interested parties with scientific, current information relevant to animal welfare (Gavinelli *et al.* 2008:74; Dalla Villa *et al.* 2008:190).

It is the duty of the EFSA to provide recommendations, which are based on scientific literature, in the risk assessment. It is seen as vital to have scientific backing in policy formulation as animal welfare involves controversy and, because animal welfare science is deemed to be a new area of research, there will be frequent and noteworthy developments to take into account (Gavinelli, *et al.* 2008:74). Animal behaviour complicates the risk assessment application in that behaviour cannot always be quantified (Dalla Villa *et al.* 2008:188).

A large majority of the countries do not have rules and regulations in place that meet the level of EU standards to ensure the safety and welfare of animals during transport. It is for this reason that the EFSA supports initiatives that aim to put in place improved welfare standards on animal transportation. One such initiative is the OIE (Office International des Épizooties) which provides

guidelines for animal transport by land and sea. This body has assumed two principles in 2005 on international transportation based on scientific information. These principles provide a good base on which to substantiate policies within this field however, they cannot predict the suitable tools to ensure implementation. It is currently seen as less risky to transport animals between countries within the EU where the EFSA legislation is adhered to than to transport horses to various countries in the Middle East and North Africa. (Gavinelli, *et al.* 2008:75).

The EU regulations have established structures to ensure that the quality of animal welfare is acceptable at all stages during transportation. Examples of these structures are systems for monitoring temperatures, driver education and training and geographic information systems or global communication technology. (Dalla Villa *et al.* 2008:188).

Risk factors that are associated with animals are related to poor animal welfare, disease or ill health and comprise of stressors and various disease determinants, which through intervention, can be altered to limit their damage. Risk management is practiced in order to alleviate or remove the risk factors and therefore it is applicable to the transportation of animals. It is important to have quality control measures in place as a part of the risk management process. Quality control consists of the ability to distinguish between whether issues which could arise during transportation are related to factors which occur randomly (common causes) or to extraordinary (assignable causes) factors such as heat stress. Common causes are related to unexpected, unanticipated events such as an animal having a heart attack. It is therefore the duty of quality and risk management staff to be able to recognise the different risk factors and to have a systematic process in place that will enable one to foresee and avoid assignable causes related to poor animal wellbeing. (Adams and Thornber, 2008:169; Dalla Villa *et al.* 2008:188).

The manner in which animals and humans interact as well as the environment within transport vehicles will determine the level of animal welfare quality during transportation. It is not only essential to consider the importance of the physical terms of transport but also to ensure that there is an acceptable level of good caretaker behaviour in the handling of the animals to be transported. The OIE states that it is more beneficial to have in place the correct procedures of animal handling that will decrease fear and allow one to approach them in an easier way, rather than relying on substances to change their behaviour such as tranquillizers. (Dalla Villa *et al.* 2008:188)

Two incidents, which had disastrous results, have emphasised the need for a formal risk management system to be merged with compliance to standards in order to make up the quality assurance process (Stinson, 2008:185). The first took place in 2002 when 569 cattle, which were

transported by ship, died from severe heat stress (Stinson, 2008:181). The second event occurred in 2003 when a shipment of sheep was not allowed to disembark in Saudi Arabia because of disease as expressed by Saudi Arabian government officials (Stinson, 2008:183). This indicates that the expected results for safe animal transport will not be obtained if risk management is not coupled with standards or conversely, if standards are not accompanied by risk management.

Stinson (2008:185) believes that risk management should be comprehensive and encompass the risk environment, identification and analysis, the assessment and how to treat the risk as well as the communication of the risk and the validation of it. He states that the risk receiver should take responsibility for the risk, as it is not considered feasible that regulators such as the government or different industry bodies will be able to take all risks into account or conduct a full risk management procedure.

With a formal risk management procedure and standards in place, there will be greater trust within the animal transportation industry as well as an improvement in animal welfare (Stinson, 2008:186). With greater trust, reputational risks can be reduced or eliminated (Dasgupta, 2000:59).

## **SOUTH AFRICAN ROADS**

According to the South African Road Federation (SARF), the state of the country's road structure is breaking down at disturbing rates (Beer, 2006; Davis, 2009). Sixty percent of the road structure has been categorised as "poor" or worse (Davis, 2009). The lack of funding to perform adequate road maintenance over the past quarter of a century is the main reason for this rapid deterioration. This has forced the road authorities to provide additional funding specifically for road maintenance and preservation purposes (Beer, 2006). According to the Financial and Fiscal Commission, the conditions of South African roads are still deteriorating despite an increase in spending (Davis, 2009). Roads that have not been completely neglected are also in poor states however, due to "patchy and haphazard" maintenance (Beer, 2006).

The results of poor planning and inefficient maintenance of the roads have lead to the major problem of potholes and other road deterioration, which has increased the risk of accidents and vehicle damage, as well as expenses on vehicle repairs and petroleum to motorists (Beer, 2006; Goldstone, 2008; Davis, 2009). Potholes are repaired at very slow rates in South Africa, usually six to nine months, but could take up to two or three years, compared to the more developed countries which are usually between 24 and 72 hours (Beer, 2006). The president of the SARF, Mutshutshu Nxumalo, states that is crucial to repair potholes according to best-practice standards. This would include determining the cause of the pothole and fixing it accordingly to ensure that the right repairs

are carried out. Planned repairs are more effective and less costly to road authorities (O'Leary, 2011:10).

## **ANIMAL TRANSPORTATION**

Animal transportation dates back far into history (Leadon, Waran and Herholz, 2008:151). In ancient times, animals were transported for two reasons, when they could not move by themselves without incurring harm or when it was necessary to move them across water, as was the case with valuable racehorses and other high-priced animals. The transport methods were very basic and consisted of land transport such as carts, carriages, chariots or wagons for heavy loads. These vehicles were mostly drawn by oxen, horses or donkeys (Blancou and Parsonson, 2008:20). Although horses are capable of long distance travel across land, could also be transported by ship because their wealthy owners did not wish them to be exhausted (Blancou and Parsonson, 2008:21).

Risk management was evident even in ancient times. In 1793, Captain William Wright Brampton put in place a management method in which to ship cattle from India without the occurrence of large losses that were commonplace at that time. Before then, most of the shipped cattle had died during the journey (Blancou and Parsonson, 2008:25).

Throughout the 18<sup>th</sup> and 19<sup>th</sup> centuries, the general method in which to transport animals was to escort them on foot. This applied to most animals, large and small and even over long distances (Blancou and Parsonson, 2008:27; Appleby, Cussen, Garcés, Lambert and Turner, 2008:188). Animals were transported in this manner to shows, markets or to the abattoir. The railroad became a new and more convenient mode in which to transport animals in the 20<sup>th</sup> century. There were, at this time, discourses written on animal transportation which covered aspects such as how many animals could be in one wagon, how the wagons were arranged as well as the best way to load them, the way in which to care for the animals during transportation and the responsibility of the company should an animal suffer injury or death during the journey (Blancou and Parsonson, 2008:27). This again highlights that risk management for animal transportation has been regarded as important throughout the ages.

Osinga (2008:43) states that the majority of animal transportation today occurs by road with only a small number of animals travelling by air, rail or sea. Transportation by foot is also still commonplace in a number of countries when animals are taken from their places of origin to the marketplace (Linhart, Adams and Voracek, 2008:52). Appleby *et al.* 2008, cited in Garcés *et al.* 2008:67) agree with Osinga (2008:43) and Linhart *et al.* (2008:52) but include forms of road transport such as lorries and trucks. They add that the animals can experience little or no

consideration for their welfare during transportation and that this transportation can be over extensive distances.

Linhart *et al.* (2008:52) supported by Leadon (2000:16) state that it is necessary to have sound, detailed preparation and risk management processes in place at all the stages that constitute the transport of these animals. Capable staff who have the correct training offered to them, vehicle design as well as the animals chosen and how they are prepared should be taken into consideration in the risk management processes mentioned (Leadon, 2000:16; Linhart *et al.* 2008:52). These authors go on to state that any mistakes which could occur will be carried by the animals involved and they advise that, should any new risks arise or if the risk management is incomplete, the transportation process should be delayed (Linhart *et al.* 2008:52).

According to Harris (2008:31) animals transported over large distances is a much larger business than most people envisage. The welfare of transported animals came into question in the late 1950's after problems with animals transported by air were noted in the United Kingdom. This led the British Standards Institute (BSI) to form a group that would investigate and then present standards to the industry. This group issued a variety of booklets that related to a range of animals transportation guidelines and regulations (Harris, 2008:32).

The most current regulation that relates to animals and their welfare during transport is the EC/1/2005. This is a European regulation that has been written in such a way to discourage interpretation by member states. Most of the regulation is already instated and was added to in January 2008 with a clause that requires that competence be necessary at every level of the transport of animals. (Harris, 2008:38).

## **EQUINE TRANSPORTATION**

The South African Pocket Oxford Dictionary defines the word equine as “relating to horses, or other members of the horse family” (2009: 297). Horses have played an integral role in society throughout history although this role has evolved significantly (Holderness-Roddam, 1988:15; Stull, 2008:221). The use of horses ranges from pack animal to, transport for hunting and war, as well as being used for slaughter, professional and recreation use. Horses have contributed enormously to enhance peoples' lives and make certain tasks easier; this is illustrated by the decorative friezes of Classical Greek architecture (Holderness-Roddam, 1988:15).

Between 1888 and 1902, 194,622 horses were transported from Europe, the Americas and Australasia to South Africa in the course of the Boer Wars (Leadon, 2000:4). Horses, therefore,

were in demand for military purposes and the demand for safe and effective transportation of these animals was created (Leadon, 2000:4; Blanco and Parsonson, 2008:21,23).

Equine transportation is the movement of horses from one place to another by the various modes, namely road, rail, water and air (Simon, 1996:6; AATA, 2003:23), and the various forms of transportation. Some horses, as described above, may be subject to travelling numerous times throughout their existence (Waran, Leadon and Friend, 2002, cited in Waran, 2007:215); European Commission, 2002:25).

Horses were once used as a mode of transport themselves, as well as for slaughter. Horses are still used for consumption, but, as has been seen in America, the number of slaughter plants has decreased to three due to laws and regulations that have been instated (Leadon, 2000:9; Pyle, 2006:12; Stull, 2008:221). In other countries such as Mexico and within the European Union, however, horse meat products are still used and therefore the transportation of horses could be seen to increase in the future (Stull, 2008: 221; EFSA, 2011:11).

Recently horses have become more popular for professional and recreational uses, in the form of competitive sports such as horseracing, eventing, showing or for non-competitive recreational uses such as breeding or ceremonial events. These uses, at some point, will most likely require the transportation of horses to the relevant destination (Holderness-Roddam, 1988:15; Stull, 1997:1; European Commission, 2002:25; Fazio and Ferlazzo, 2003:519; Pyle, 2006:12; Stull, 2008: 220; EFSA, 2011:11; FEI, 2011). There may be a time when horses need medical attention and thus, for example, may be transported to a veterinary clinic (Stull, 1997:3; EFSA, 2011:11). Leadon (2000:19) points out that a “*sick horse on*” will be a “*sicker horse when getting off.*” Therefore, it is vital that horses are not transported unless it is for medical reasons to transfer them to a veterinary clinic (Leadon, 2000:19).

## **FORMS OF EQUINE TRANSPORTATION**

Equine transport dates back to antiquity. It is thought that the first movement of horses was by ship in 480BC when Xerxes moved his entire army of horses and soldiers during a battle with the Ancient Greeks. The military was the main reason for the transport of horses and this was done mainly by sea. Race horses were transported by rail as were yearlings destined for sales. Today rail transportation is still used although it is much less popular than transportation by road, regardless of the distance to be travelled (Rose, 1972:102; Leadon, 2000:4; Leadon *et al.*

2008:151). The distance travelled can differ from a couple of hours to a number of days (Leadon, 2000:7).

The various forms of equine transportation could include trailers, motorised horse boxes, trucks, pickup trucks, ships, trains and airplanes for example, which have progressed over the years (Rose, 1972:102; Stull, 1997:1; Hermesen, 1998:296; Leadon, 2000:7; Leadon *et al.* 2008:153). In the 1800's racehorses walked to the racecourses or were transported in 'vehicles drawn by other horses' and later the utilisation of railways became more prolific as advances in motorisation developed. From the 1900's trailers and trucks were introduced and became indispensable in the equestrian field (Stull, 1997:1; Leadon, 2000:5). Between 1960 and 1970, the 'trailer age' was born as cars were used to tow horse trailers. Air transportation has been introduced to fly horses around the globe (Rose, 1972:102; Stull, 1997:1). As the transportation of horses has evolved, it has been noted by Stull (1997:1) that accidents, illness and stress linked conditions have increased. The researchers therefore deem this area of research important.

### **Trailer**

Trailers, known as or otherwise referred to as 'horseboxes', are the conventional means by which to transport horses and are generally more economical when transporting fewer horses (Rose, 1972:103; Hermesen, 1998:296). There are a variety of trailers on offer and the one selected will be dependent on the number of horses to be transported (Vernese, 1998:5; Leadon *et al.* 2008:153). Trailers can come in the form of a single berth (to accommodate one horse), one and a half berth (to accommodate one very large horse), two berth (to accommodate two horses) and three berth (to accommodate three horses). Stock trailers are used to transport a large number of loose horses (Hermesen, 1998:296; Leadon, 2000:7; Leadon *et al.* 2008:153). Two berth trailers are often used, even when transporting one horse, as they are considered to be more stable (Hermesen, 1998:296; Leadon, 2000:7). Horses generally face towards the direction of travel although, in certain trailers, horses face either diagonally or backwards (Leadon *et al.* 2008:153).

One way in which these trailers can be towed is by vans, trucks or cars, attached to them by a tow hitch. Trailers towed in such a manner are vulnerable to variable road conditions such as bends in the road. Gooseneck trailers that are attached over the back axle of the towing vehicle are considered more stable as they are less affected by vectorial changes (Leadon *et al.* 2008:153). It is thought that horses transported by trailers in general are subject to the ability of the driver and their competencies in handling the vehicle under different road conditions (Rose, 1972:103; Leadon, 2000:16; Leadon *et al.* 2008:153).

Proper maintenance of a trailer, for example keeping fastenings and hitches well oiled, is important to prevent injury. A frequent inspection of the floors and ramps could reduce the impact of accidents or unforeseen risks, especially injury to the animal or handlers. Time can be saved in an emergency if everything is in proper working condition. (Brock, 1980:128). (Appendix A: Risk 3,8).

### **Motorised Horse Boxes And Trucks**

Motorised horse boxes range in size and can generally transport between one and sixteen loose or tied up horses (Leadon *et al.* 2008:153). A truck is considered to be the preferred form of transporting horses as it provides more light and head room than a trailer. A truck also provides a steadier ride for the animal and is therefore more accommodating for young or nervous horses. It is common for a skittish horse, which refuses to travel in a trailer, to travel comfortably in a truck (Rose, 1972:103).

### **EQUINE TRANSPORTATION IN SOUTH AFRICA**

The South African Veterinary Foundation (SAVF) has raised concern for the lack of regulations or policies available in South Africa under existing law specifically related to the welfare of animals (SAVF, n.d.:2). Animal Transportation is an area that is considered to be in need of formal codes of conduct and guidelines of practice (SAVF, n.d.:4,6). Regulations would need to describe acceptable procedures and practices when handling animals. Animals included in the policy are those used for breeding, consumption, sport, recreation and cultural activities, domesticated and captive animals and working animals, all of which can be related to horses (Holderness-Roddam, 1988:15; SAVF, n.d.:5).

The equine transportation environment includes the various physical aspects that would affect the horse when traveling. These aspects would include space allocations and the surfaces that the animal could meet. Certain elements, however, could enhance the safety of the animal during transportation and could include floor bedding or feeders, for example. Without some form of flooring material, such as rubber mats on a loading ramp or within the vehicle, the surfaces may be slippery and could increase risk of injury should the animal fall (Appendix A: Risk 3). The risk of these potential accidents generally arises due to inadequate judgment, lack of controls or mitigations to prevent the risk event from occurring. (Stull, 1997:3).



## **Legal Requirements**

When transporting horses in South Africa it is important to ensure compliance with all legal requirements. These could include insurance, licensing (drivers license, vehicle license and trailer license), as well as keeping up to date with the rules and regulations pertaining to vehicles and trailers, such as roadworthiness and carrying a warning triangle for both vehicle and trailer (Appendix A: Risk 8) Another legal requirement, in South Africa, is that people are not allowed to travel in the trailer being towed (Poole, 2010b:2). According to the National Road Traffic Act 93 (1996:22), a motor vehicle may not be driven on a public road by any person without a valid driver's license or document (that authorises the person to drive a motor vehicle on such roads) in the vehicle. Trailer and vehicle licenses are to be renewed on an annual basis (Poole, 2010b:2). (Appendix A: Risk 10).

It is important to ensure that the vehicle towing the trailer has the capacity to do so by checking the stated legal towing weight of the vehicle (provided by the manufacturer) (Hermsen, 1998:296; Poole, 2010a:2) (Appendix A: Risk 9). Modifications to vehicles may cause warranties to fall away without manufacturers' written permission and finding a service provider approved by manufacturers to modify the vehicle may be difficult. Insurance may also be affected should the legal towing weight of a vehicle be ignored (Poole, 2010a:2).

## **Insurance**

Hazard risk management, such as insurance that provides financial protection, decreases the negative effect of a materialized risk (Hopkin, 2010b:51). Insurance policies can cover many aspects specific to the equine owners needs. This could be in the form of show risk policies, transportation risk policies or insurance coverage over a specified time-period such as a show season policy. Horses can be covered against transport risks when in a hired trailer by the carrier or owner of the vehicle who usually set their own insurance policies (Rose 1972:105; The British Horse Society, 1961:257).

Horses can be subjected to quarantine restrictions if transported beyond their home country in order to reduce the spread of disease. Health requirements, for example, can form part of an insurer's policy when an animal is to be transported. Equine transportation related insurance claims are often health related. Experienced animal handlers can greatly decrease the probability of these risks occurring, thus benefiting the animal being transported and decreasing the number of insurance claims (Appendix A: Risk 12). By focusing on the welfare of an animal during transportation risks are managed more effectively, horses remain comfortable and owners and insurers enjoy economic benefits. (AATA, 2003:23).

## **Behaviour of Horses**

The transportation of animals can require an adjustment to their behaviour and the way in which they function. This adjustment determines their ability to cope with stress due to the negative results that arise from exposure to an unfamiliar environment and the management thereof during travel. There are signs in a horse's behaviour and physical appearance which give insight as to what they may be feeling, such as stress, anxiety or fear (Appendix A: Risk 11). This can be demonstrated, for example, through excessive sweating, elevated heart rates or respiration rates, aggression, pawing or kicking. It is important to note, however, that elevated heart rates or respiration rates and sweating could be circumstantial and therefore assessment of the horse's wellbeing lies in the knowledge, experience and judgment of the handler. (Vetsweb, 2011).

Behavioural reactions to minor stress inducing events, such as a loud noise or being kicked or bitten, are easy to see in horses. These reactions usually take the form of a fleeing response (Stull, 1997:3) as horses are known as 'flight' animals (Adams and Thornber, 2008:169). Some horses, however, may not respond in the same manner and can develop unusual responses such as pawing, licking, shifting or weaving. These responses are induced by certain situations that could include isolation or the expectation of a stressful occurrence such as transportation after prior negative experiences related to travel. Poor road conditions or inappropriate driving abilities could also trigger abnormal behavioural reactions (Stull, 1997:3). (Appendix A: Risk 7).

Behavioural studies can be used to evaluate the welfare of animals whilst they are being handled and transported. This is as a result of animals not forgetting aversive circumstances. The animals' willingness or refusal to load or travel in future situations could be an indication of how unpleasant any previous experiences might have been (European Commission, 2002:9). This demonstrates that it is imperative to take the behaviour of animals during the transportation into consideration (CARC, 2001:2).

## **EFFECTS OF TRAVEL ON HORSES**

When people are exposed to some challenging short-lived event, the response is distinct, for example when crossing the road at a busy intersection, the response of elevated heart rates could be experienced. Recovery rates from this kind of response to such an event are generally very quick. The more familiar the event becomes, the quicker the adaption to it or accustomed to it people become. Horses tend to demonstrate similar patterns in behaviour (Leadon, 2000:10; EFSA, 2011:14). Transportation, therefore, could have an effect on the health and welfare of horses (Zanardi, Mussini, Ghidini, Conter and Ianieri, 2007:33).

The most critical issues that influence the welfare of horses who are transported over substantial distances are ventilation, temperature and humidity (European Commission, 2002:40). Horses nowadays travel more frequently, in varying distances and appear to have acclimatised well to the stresses involved in the transportation process. Adequate planning and preparation of the horse for longer trips (Appendix A: Risk 11), especially on roads that are in poor condition, such as in South Africa, should be necessary (Holderness-Roddam, 1988:135; Leadon, 2000:16). (Appendix A: Risk 7).

Fatigue, stress or illness may occur from the prolongation of transportation, as tolerance levels will eventually start to decrease. Horses, like people, have different tolerance levels towards certain events and some horses, for example, will be more tolerant of the transportation process than others (Leadon, 2000:10). Should horses encounter a bad incident during loading, unloading or during transportation; they often become bitter and resentful towards traveling (Rose, 1972:103; FEI, 2011).

### **Stress**

Stress is a term that identifies with comfort levels, physiological responses, the fight or flight reaction and acclimatisation (Adams and Thornber, 2008:169). When a horse needs to make unfamiliar or drastic changes in its behaviour or physiology, in order to deal with unfavorable aspects of its surroundings and management, stress arises. Therefore, identifying stress factors and managing them effectively increases the welfare of the animal (Stull, 1997:1; Leadon, 2000:10).

Reducing stress could be achieved by ensuring that horses are transported in sanitised environments, allowing enough space to minimise injury, maintaining proper management of waste and proper management of the horse's health status by keeping their vaccinations up to date to avoid disease (Appendix A: Risk 1). Stress is further reduced if the horse is in a fit and healthy state to begin with. The driver of the transportation vehicle can monitor their driving abilities to prevent accidents (Appendix A: Risk 10), ensure that horses are loaded safely by sorting them into their transit groups prior to loading, ensuring that the correct vehicle is used to account for the number of horses transported and that the loading area design is appropriate. (Stull, 1997:4). (Appendix A: Risk 3).

Stressors are the factors in the environment that produce stress to an animal. Stressors that horses could be exposed to include physical, behavioural, nutritional and disease related factors (Adams and Thornber, 2008:169). A horse's reaction to a stressor will depend on the duration of the

exposure to the stressor, the intensity of the stressor, past experience of exposure to the stressor, the environment the animal is currently in, the breed, age and gender of the animal, and the animal's health and physiological condition (Stull, 1997:3; Stull, 1999:2925; Adams and Thornber, 2008:169). Horses' responses can either be behavioural or physiological in nature, such as sweating, elevated heart rates or hyperventilation, however a combination of both is most common (Stull, 1997:3; EFSA, 2011:15).

Horses are naturally herd animals and therefore transportation in isolation can increase the risk of stress in these animals (Stull, 1997:3; Kay and Hall, 2009:238) (Appendix A: Risk 16). Behavioural responses caused by traveling alone can also develop, such as pawing, kicking, erratic movements, vocalisation or efforts in trying to turnaround in the vehicle. Horses may become stressed or anxious to the point where they refuse or become reluctant to eat due to isolation (Kay and Hall, 2009:238) (Appendix A: Risk 16). If horses are not provided with adequate water throughout the journey, the risk of dehydration increases, however some animals could be reluctant to drink when in transit due to stress (Rose, 1972:103; Leadon, 2000:16; Marlin, Kettlewell, Parkin, Kennedy, Broom and Wood, 2011:85). (Appendix A: Risk 19).

## **Injury**

Research conducted by Collins, Friend, Jousan and Chen (1999:175) indicates that the chance of injury and severity thereof increases as the load density of horses, in a truck, during transportation increases (Appendix A: Risk 14). Decreasing the load density for transportation would be more expensive, however, as additional journeys may need to be embarked upon. It was noted that horses in higher densities for transit found themselves in a constant situation of struggle. The struggle for space within the vehicle and to avoid risk of injury from aggressive behaviour made the journey more stressful to the animals. Lower densities for transit were said to be more comfortable for the animals as it allows them the freedom to adjust their orientation and to possibly rest when the vehicle is not moving (Collins *et al.* 1999:178). Injuries may occur due to various other reasons, for example the risk of slipping can be attributed to the type of flooring and the amount of traction that the horse is subjected to (Collins *et al.* 1999:178). (Appendix A: Risk 3).

The risk of injury can also arise through aggressive behaviour of horses towards one another during transportation (Stull, 1997:3). Aggressive behaviour could include biting or kicking. Due to the fight or flight nature of these animals, it would be less stressful and less dangerous to place each horse in their own stall within the trailer if possible (EFSA, 2011:12-13). According to the study, mentioned above, conducted by Collins *et al.* (1999:175) horses became aggressive in an attempt to

get nearby horses to move away. Horses would often kick out causing injury to surrounding horses in response to being bitten by an aggressive horse (Collins *et al.* 1999:175). According to Grandin, McGee and Lanier (1999, cited in EFSA, 2011:12) there were not many aggressive horses in a group of animals being transported, however, the one or few that were aggressive caused the most injuries to the other animals. (Appendix A: Risk 3).

Some livestock haulers support the statement that animals 'hold each other up' in higher density loads and this therefore improves their balance and decreases the chance of injury during transportation. Research has proved otherwise, however. For example, a study on cattle transportation concluded that injury was increased in higher load densities (Eldridge and Winfield, 1988, cited in EFSA, 2011:37).

Effective balance in the transportation vehicle minimises risk to the animal, which could include the risk of injuries or behavioural problems (Stull, 1997:5; Waran *et al.* 2002, cited in EFSA, 2011:19). The risk of vehicle damage could also arise due to the poor balance of an animal in the transportation vehicle and owners face financial risks by investing in horses that are not suitable for safe transportation in the competitive equine community (Stull, 1997:5). (Appendix A: Risk 13,17).

### **Disease**

Horses are exposed to an increased risk of disease when traveling (Oikawa, Hobo, Oyama and Yoshikawa, 2005, cited in EFSA, 2011:12). In most transportation instances, horses are tied in the vehicle and thus their head and neck movements are restricted. Without being able to lower their head or neck, the animal may accumulate bacteria in their respiratory tract and thus the risk of respiratory disease is increased. The concentration of bacteria levels and dust found within the transportation vehicle could be higher than those found in a horse's normal environment, which too increases the risk of disease (Stull, 1997:8). A horse's respiratory function can be compromised and risk of disease could increase if the animal is exposed to poisonous gases, either from exhaust fumes (carbon monoxide) or from animal waste (ammonia) for example, or from poorly ventilated or unsanitary vehicles (Stull, 1997:3).

Equine transportation is not only the movement of animals from one location to the next, but can also become the movement of diseases from one place and one animal to the next as well. Various factors, such as the animal's immunity level and the preventive health program administered to the animal, will determine the likelihood of contracting certain diseases. Only in an emergency should a diseased horse be transported. Common and easily spread equine diseases, such as African Horse Sickness, can be mitigated through the administration of vaccinations. (Stull, 1997:3).

Shipping fever, which is a form of pneumonia and causes pain when breathing, is a risk posed to horses during long distance journeys. When horses experience high levels of stress and poor traveling conditions, the risk of shipping fever is increased. Poor traveling conditions arise from a variety of sources such as the ventilation and humidity within the transportation vehicle. (Oikawa, Kamada, Yoshikawa and Yoshikawa, 1994, cited in Stull, 1997:9; Vetsweb, 2011). (Appendix A: Risk 1).

### **Ventilation and Thermal Stress**

Due to poor ventilation, which has been a concern since the late 19th century, horses are often exposed to poor air quality and heat stress conditions during transportation, thus posing a risk to the health of the animal (Purswell, Gates, Lawrence, Jacobs, Stombaugh and Coleman, 2006:193; FEI, 2011). Trailers generally depend on the forward movement of the vehicle to promote ventilation, as they as they are not provisioned with automated ventilation systems. Rises in air temperature are a sign of poorly ventilated trailers (Purswell *et al.* 2006:193). When temperatures increase horses may experience thermoregulation problems and therefore sweating or heat dissipation through respiration occurs (Stull, 1997:2; Marlin *et al.* 2011:81). (Appendix A: Risk 15).

Thermal stress can have a greater impact on younger or unhealthy horses (Stull, 1999:2929). Horses will need to be adequately managed depending on the temperatures that they will be exposed to. In general, the temperature inside a horsebox is approximately 6° C to 8° C higher than the ambient temperature. Depending on the type of thermal environment or conditions could affect horses' eating habits can be disturbed due to the exposure to different thermal environment or conditions. Hydration of a horse is vital when exposed to hot environments. Planning departure and arrival times could manage the risk of thermal stress by avoiding transportation at the hottest times of the day, as well as offering water to the animals on a regular basis, keeping continuous momentum to ensure improved ventilation, minimise long stops where the animal has to be kept in the vehicle, and, where possible, minimising the duration of the journey. (Stull, 1997:2). (Appendix A: Risk 4).

When transportation vehicles are stationary, the relative humidity and temperature increase at rapid rates. Therefore, it is important to ensure that horses are unloaded as soon as possible when they have reached their destination (AATA, 2003:23; Bott, 2011:3). (Appendix A: Risk 15).

### **Orientation in the Transport Vehicle**

Depending on whether a horse faces forward (in the same direction of travel) or backwards (away from the direction of travel) in a transport vehicle can affect of the levels of stress the animal will

experience during travel. Facing backwards in the vehicle allows for easier loading. Animals are nervous or fearful of dark, confined spaces, therefore backward loading of the animal is less frightening and reluctance to load is reduced (Stull, 1997:4).

Once in the transportation vehicle and facing backwards, horses are better able to cope with the impacts of acceleration and braking during the journey. This is due to the positioning of their hindquarters that absorb the impact (Stull, 1997:4). In this backward facing position, they are also able to rest their rumps more than they would if they were facing forwards (European Commission, 2002:31). It is more comfortable for a horse's neck and head position when facing backwards, as the horse has more freedom to use its neck and head to balance more effectively, compared to the elevated position it would be in when facing forwards. The animal's front legs are also able to improve effective balancing, as they will be in a better position to adjust to swaying movements and thus making the journey less physically stressful as well as providing better lateral support in the vehicle (Clark, Friend and Dellmeier, 1993:179-189; Waran, Robertson, Cuddeford, Kokoszko and Marlin, 1996:7; Stull, 1997:4). (Appendix A: Risk 13).

When facing forwards in the transportation vehicle it is more physically challenging for a horse to maintain its balance (Waran *et al.* 1996:7). The risk of injury to a horse's head and chest area increases in this position. Horses are forced to keep their neck and head up in an unnaturally elevated position that can become tiring (Stull 1997:6; Waran *et al.* 1996:8).

It has been found that horses' heart rates did not vary significantly between animals which faced different directions during transportation (European Commission, 2002:31) and it has since been discovered that certain horses are more adept than others in being able to keep their balance in a specific orientation (Toscano and Friend, 2001:286).

## **APPROACHES TO RISK WITHIN THE TRANSPORTATION PROCESS**

A typical road journey consists of loading, how the horse is confined within the vehicle; how the vehicle moves, the environment within the vehicle such as the physical environment and factors related to the design; the absence or presence of water, food and rest; unloading and finally the recovery. (Leadon *et al.* 2008:153).

### **Before Travel**

Handlers should be aware of any sudden noises that could frighten the horse (European Commission, 2002:27; CARC, 2001:3). Horses are herd animals and in order to keep social unity,

they rely on visual contact. They are also known to imitate one another and the handler can take advantage of this when they wish to keep nervous horses calm. This can be done, for example, by allowing a new traveller to follow a horse that is already well accustomed to being transported into the transportation vehicle. It is very helpful to allow horses to see others as this reduces their stress levels whilst isolation has been found to upset them (European Commission, 2002:27).

A horse can be brought under control in order to reduce the likelihood of risk in various ways. The use of ropes, which are positioned in different ways around the horse's body, is a means by which control of the animal can be gained for example. The most common method in which to control a horse is to lead it in hand by means of a head collar and lead rope. A chain shank can also be used in different ways on the horse's face. The shank works by applying pressure to sensitive areas on the face (European Commission, 2002:28). A twitch is another manner in which to control the horse but it has been suggested that this is a painful alternative that can induce instant distress (Canali, Ferrante, Mattiello, Sacerdot, Panerai, Lebelt and Zanella, 1996, cited in European Commission, 2002:28).

### **Loading**

Loading can be a stressful event for a horse and this can be seen by increases in heart rates for example (Waran *et al.* 1996, cited in Stull, 1997:5; Zanardi *et al.* 2007:33; European Commission, 2002:24). The physiological changes that occur because of stress when animals are loaded can remain present for the initial hours of transport. As the animal becomes used to the transport, the stress response will begin to decrease and this demonstrates that the major welfare issues that arise from transport occur as a result of loading and not from the journey itself. This can be deduced only when the conditions in which the animals are transported in are satisfactory and when the journey is not delayed in any way (European Commission, 2002:24).

Loading can have a large impact on animal welfare as a result of a mixture of stressors that invade the animal within a short space of time. One form of stressor occurs when the animal is moved into an unfamiliar area and this stressor is further elevated if the animal is placed with unfamiliar animals. Another stressor is the physical effort that is forced upon the animal when it is sent into the vehicle. This exertion has a greater impact when the ramp is particularly high. Human interaction can place further stress on the animal during loading, especially if the animal is not used to human handling (European Commission, 2002:24). It has been noted that differences in how individual animals in the same species act, can be found. The training of an animal for transport is significant as animals which have had prior transport exposure show considerably reduced stress



responses in comparison to animals which have had no previous loading experience (Brock, 1980:126; European Commission, 2002:24-25) (Appendix A: Risk 5).

A horse's eye is situated laterally on its head and it therefore has a wide visual field that allows it to see to both sides as well as forwards and backwards. This should be taken into consideration whilst handling the horse. The handler should be aware of where he/she positions himself in order to avoid the risk of injury or to avoid unsettling the horse. Grandin (1979, cited in European Commission, 2002:27) suggests that individuals should avoid positioning themselves within the 45-60° visual field of the horse as this can cause potential problems. It has therefore been recommended by Grandin (1987, cited in European Commission, 2002:27) that handlers should deal with the animal on the edge of its flight zone which is 300-360° in the majority of domestic animals. It is also important not to rush the animals whilst they are being loaded (CARC, 2001:3).

Horses are dependent on frontal vision and this can be restricted when they are tied up. They also have a certain level of colour vision and can therefore be hesitant to move from a brightly lit area into a dark area, such as a trailer (European Commission, 2002:27). A natural fear of the dark or confined spaces, which is instinctively perceived as a risk, is found in most horses. Transportation vehicles should therefore be equipped with adequate and diffuse lighting to increase the safety when loading the animal (Stull, 1997:3; Cross, Van Doorn, Versnel, Cawdell-Smith and Phillips, 2008, cited in EFSA, 2011:13). (Appendix A: Risk 2).

Horses that are not used to wearing head collars or being tied up by them should be left loose and therefore they should be transported in a horsebox that measures in the region of 1.5 x 2.0m (European Commission, 2002:30).

### **During Transportation**

Although stress levels tend to increase when a horse is loaded into a transit vehicle, it was found that heart rates decreased during the journey as the horses became accustomed to the motion of the vehicle (Waran *et al.* 1996:7).

Horses that are unfamiliar with the transportation process may be nervous and it is therefore important not to rush first time travelers. Frightened horses can be unpredictable, therefore it is important to remain calm and patient (Brock, 1980:124, Hermsen, 1998:297) (Appendix A: Risk 2). In order to avoid compromising on safety, a short journey should be undertaken for the first time. It is also recommended that a trainer with whom it is accustomed should handle the horse. This will increase the confidence of the horse (Brock, 1980:124). On a long journey, it is advisable to stop every few hours to ensure that the horse is comfortable. On hot days, there should be plenty of

ventilation in the trailer, and when the vehicle is at a standstill, it should be parked in the shade where possible. Conversely, if it is cold and windy, the vehicle should be parked in a sheltered area in order to prevent the wind from blowing directly into the trailer (Brock, 1980:127) (Appendix A: Risk 6).

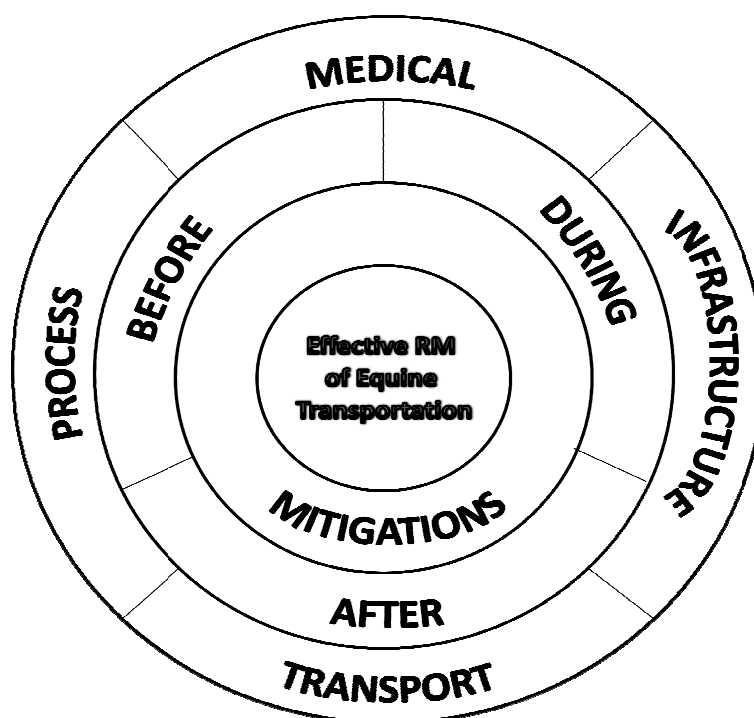
### **Unloading and After Travel**

Unloading can be a stressful event for a horse (Zanardi *et al.* 2007:33). An increase in heart rates was noted during a study conducted by Waran *et al.* (1996:10). Horses have a natural fear of dark or confined spaces and therefore transportation vehicles should be equipped with adequate and diffuse lighting to increase the safety when unloading the animal (Stull, 1997:3).

Risk management is, therefore, just as important when unloading an animal from the vehicle compared to when it was initially loaded. It is important to ensure that the horse is not restrained in any way when the ramp is lowered as the risk of injury is increased should the animal try to rush out while still tied up. The animal should also be trained not to rush out of the vehicle when being unloaded as this too will decrease the risk of injury (Brock, 1980:126). To avoid the risk of injury to handlers, the person who lets the ramp down should not stand directly behind it as they could be knocked over (Brock, 1980:127). Some trailers are equipped with unloading ramps in the front and are considered to be safer than backing the horse out of the trailer (Brock, 1980:128).

### **THE MITP FRAMEWORK**

The MITP framework, developed by the authors, encompasses Medical, Infrastructure, Transport and Process (MITP) risks that have been identified using FIRM and PESTLE as a point of reference. The transportation cycle consists of three stages, namely Before, During and After transportation which is incorporated into the framework. This framework has been developed as a tool to assist individuals or companies who wish to transport horses in a safe and effective manner. The framework can also be used and expanded upon in future research. The framework highlights the main risk areas that should be taken into account throughout the transportation process. A quick reference checklist has been developed to support the framework and provides further details of the main risk areas. A basic diagram the MITP framework can be seen below:



**Diagram 1:** The MITP Framework for Effective Risk Management of Equine Transportation

**EXPANSION ON THE DIAGRAM OF THE MITP FRAMEWORK**

		Areas of risk			
		Medical	Infrastructure	Transport	Process
Transportation cycle	Before	Horse Handler	Vehicle Roads Equipment	Driver Handlers Journey Length	Planning Loading
	During	Horse	Vehicle Roads	Horse Driver	Water Feeding
	After	Horse Handler	Vehicle Equipment		Unloading Water Feeding

As can be seen in the MITP framework, each risk area highlights important points to be taken into consideration.

**CONCLUSION**

There are many risks involved in the transportation of horses, and due to their negative impacts, they are classified as hazard risks (Hopkin, 2010b:13). Animal welfare is the main factor at risk when a horse is being transported. A horse could be exposed to welfare risks such as thermal stress, dehydration, exhaustion, diseases or illness, pain and injury as well as fear (EFSA, 2011:58). A

MITP framework has been suggested for use in further research, in order to anticipate and alleviate potential risks with regard to equine transportation in South Africa.

Efficient and effective management of horses, especially when encountering a problem or facing a risk, is important and is achieved by developing ways of handling them which foster good practices. It is important that the aim is to ensure that the welfare of the animal is not jeopardised (Stull, 1997:3; RIRDC, 2002:11). Safety, specifically with regard to the transportation of animals, cannot be overemphasised (Holderness-Roddam, 1988:66), especially considering the increasing number of horses being transported (Core, 2000, cited in Leadon, 2000:2).

## **RECOMMENDATIONS**

An extensive literature review was conducted within the field of equine transportation. It was found that limited literature was available that pertains to South Africa, however, countries such as Europe, America and Australia have had a number of standards and guiding practices in place for a number of years. The researchers believe that this identifies an opportunity for further exploration into the risk management of equine transportation in South Africa. The recommendation for further research is to collect data from the South African equine community. A suggested method for the data collection could be in the form of a questionnaire.

Suggested areas of focus for this future research could include:

1. To identify and evaluate the current modes of transportation of horses in South Africa
2. To identify and describe steps and procedures in preparing for travel, during travel and after travel that pertains to South Africa
3. To compare the risks identified from the questionnaire with the risks identified and described in this report
4. To compile a comprehensive risk register that relates to the current equine transportation practices in South Africa which includes the impact and likelihood of these risks
5. To suggest mitigations for a selected set of High Impact and High Likelihood risks

Suggested deliverable for future research:

1. To provide an enterprise risk management framework specifically focused on equine transportation in South Africa.

### **Suggested Data Collection**

Empirical data, which is data based on “real-world observations” (Kelley, Clark, Brown and Sitzia, 2003:262), could be collected electronically (via email) by means of a questionnaire from a sample population. The structure of the questionnaires could include demographic data, as well as both general questions and specific questions related to equine transportation. Formulation of questions could be drawn from the suggested framework “MITP”. Should questionnaires be used as the means of data collection in future research, the study would be positivistic in nature. Structured and closed questions could therefore be asked, either in the form of a multiple choice or Likert scale format (University of Sheffield, 2011: 1).

The questionnaires will also enable researchers to take a descriptive analytical approach which will allow observation and interpretation of the responses pertaining to equine transportation (an event) and the risks involved (a situation) and therefore provide mitigations to those risks (Babbie and Mouton, 2001:80).

A snowballing sampling technique could be used whereby the future researchers could request participants to provide names of other possible individuals or organisations who would be prepared to participate in the research. The sample size, therefore, could be increased based on this referral system (Ruane, 2005:117).

Each respondent could be sent an email describing the details pertaining to the research along with an attached questionnaire. It would be advisable that the future researchers request their participation and response before a specified date; this would ensure adequate time for data analysis. It is suggested that the sample be informed that participation in the research is voluntary and that the participants will be permitted to withdraw at any stage of the study. Data collected should remain confidential and this could be ensured by saving emails in a Word document before responses are read, the respondent names would be omitted and the document saved as an appropriate name such as “Respondent 1.”

Data collection by way of emails has been suggested as it gives the participant an opportunity to think about their responses, they can consult records should they need to or consult with others (Fowler, 2002:74). This method also saves time as many participants can be emailed instantaneously from one location, response rates are potentially more rapid and in general the response rate is found to be higher (Fowler, 2002:74).

Questionnaires could include check boxes and/or spaces in which the respondents can type in answers and so forth. The data processing phase would include the codification of typed in answers and the transfer of all information onto another computer program such as Excel or Statistica (Babbie and Mouton, 2001:101).

### **Suggested Data Analysis**

The respondents completed responses to the questionnaire could be used to find quantitative trends (University of Sheffield, 2011: 1). The 'MITP' framework can be used to collect data by identifying the risks facing the equine transportation industry. It is recommended that the research data be captured, checked and described in terms of patterns and relationships in a risk register. This will allow the future researchers to examine the magnitude, likelihood and impact of the identified risks. Recommendations could be provided, which will offer guidance on the risk management approach to response, control and mitigation of risks associated with equine transportation in South Africa.

The quality of the analysis could be assessed using a face validity technique that ensures that any measure or test used during the study is an accurate representation of what is actually being measured or represented (Collis and Hussey, 2003: 59). Assessing credibility (feasibility) ensures that the research is reliable, that is, if the research were replicated, similar results would be produced. Follow-up questionnaires and interviews could be considered to enhance clarity of respondent answers should the need arise.

The future researchers should be familiar with and ensure compliance with the research ethical considerations such as voluntary participation, confidentiality, non-disclosure, anonymity and the use of research data.

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## APPENDIX A: EQUINE TRANSPORTATION RISK REGISTER

Please note: Probability, Impact, Score and Owner have been omitted from the Equine Transportation Risk Register as this area of study has been recommended for future research.

<b>Risk No.</b>	<b>Risk</b>	<b>Risk Category</b>	<b>Risk Description</b>	<b>Mitigation</b>
1	Risk of disease	Before Transportation - Medical	Disease spread or contraction	<p>Ensure horses have relevant inoculations prior to transport</p> <p>If the animal shows sign of disease prior to transport seek veterinarian advice</p> <p>To minimize the risk of disease ensure a sanitized environment within the vehicle prior to travel</p> <p>Ensure the animal is fit to travel prior to transport unless transportation is for medical reasons</p> <p>Obtain prior knowledge/awareness of disease prone areas</p>
2	Risk of stress to the animal prior to transport	Before Transportation - Medical	Stress can arise from various sources and is a physiological state that can compromise animal welfare	<p>Ensure the animal is fit to travel prior to transport unless transportation is for medical reasons</p> <p>Ensure handlers are competent especially when handling young, nervous or first time travelers</p> <p>Ensure that the vehicle has adequate and diffuse lighting to minimize stress when loading</p>

Risk No.	Risk	Risk Category	Risk Description	Mitigation
3	Risk of injury prior to travel	Before Transportation - Medical	Injury could occur in many ways and should be avoided as best as possible	<p>Ensure handlers are competent especially when handling young, nervous or first time travelers</p> <p>Prepare and equip the horse for travel (if it is accustomed to wearing traveling gear), this could include hock boots, knee guards, over reach boots, poll guard, rug if needed, tail bandage, head collar, traveling boots</p> <p>Ensure the ramp is secure at the appropriate height and has a non-slip surface such as a rubber mat</p> <p>Inspect the inside of the vehicle prior to travel to ensure there are no dangerous objects within the vehicle</p> <p>Adequate judgment of what could be hazardous to the animal would be needed</p> <p>Ensure that horses transported in large numbers are sorted into the same social groups to avoid aggressive behaviour</p> <p>Provide separate compartments, sturdy divisions or grids between aggressive horses</p> <p>Number of horses to be transported will be dependent on the size of the vehicle</p> <p>Ensure that there is an appropriate designed loading area design</p> <p>Ensure that the vehicle height is appropriate for the size of animal being transported (adequate judgment)</p> <p>Ensure adequate flooring to prevent the animal from slipping within the vehicle (rubber matting/sawdust/straw)</p>
4	Risk of bad weather	Before Transportation - Transport	Bad weather could cause difficult driving conditions or unsettle horses	<p>Plan the journey adequately</p> <p>Ensure sufficient time to get to destination</p> <p>Close windows and the door flap above the ramp once the animal is loaded and driving through bad weather is unavoidable</p>



<b>Risk No.</b>	<b>Risk</b>	<b>Risk Category</b>	<b>Risk Description</b>	<b>Mitigation</b>
5	Risk of the horse not loading	Before Transportation - Transport	Risk of horse refusing to enter vehicle	<p>Acclimatize the horse to loading prior to the day of travel</p> <p>Select a place that is quiet with little distractions which could frighten the horse</p> <p>The use of blindfolds, lunging lines or a Monte Roberts blanket could be used to aid the loading process</p> <p>Try loading the horse's stable companion first if it refuses to enter the vehicle</p> <p>Be patient and calm</p> <p>Food can be used to encourage the horse to load</p> <p>Orientation can assist the loading process as backward loading has been found to be more effective.</p>
6	Risk of poor ventilation	Before Transportation - Infrastructure	Poor ventilation could lead to heat stress or respiratory disease	<p>An automated ventilation system could be installed into the transportation vehicle to optimize ventilation</p> <p>Ensure the vehicle houses at least one window or ventilation gap</p>
7	Risk of poor road infrastructure (prevalent in South Africa)	Before Transportation - Infrastructure	Accidents/late arrivals/damage to vehicle due to roads in poor condition could occur	<p>Adequate road/route planning</p> <p>Driver competency, avoiding reckless or negligent driving</p>
8	Risk of an unroadworthy vehicle or legal action	Before Transportation - Infrastructure/ Legal	The vehicle may be unsuitable for transportation or does not have a license for use on South African roads	<p>Comply with National Road Traffic Act 93 and get the vehicle checked, licensed and certified for road worthiness</p> <p>Perform a floor/ramp inspection</p> <p>Ensure proper maintenance of the vehicle and perform regular vehicle safety checks for metal fatigue</p>
9	Risk of exceeding maximum legal towing weight of vehicle	Before Transportation - Infrastructure	Overloading of a transportation vehicle could result in an accident or injury to the animal	<p>Check the stated legal towing weight of the vehicle provided by the manufacturer</p>

<b>Risk No.</b>	<b>Risk</b>	<b>Risk Category</b>	<b>Risk Description</b>	<b>Mitigation</b>
10	Risk of poor driver ability	Before Transportation - Process	The risk of employing a driver without a valid driver's license	Comply with National Road Traffic Act 93 Ensure that the driver has prior experience in towing trailers or driving trucks with live stock Place a "how is my driving" sticker and contact number on the vehicle Get the handler to travel with the driver to report back on the drivers competency
11	Risk of behavioural problems	Before Transportation - Process	The risk of stress/anxiety/fear and unpredictable behaviour in the animal	Familiarize the horse with the event/environment Keep a companion in eye sight if possible/ load with another horse that is calm and accustomed to travel
12	Risk of incompetent handler	Before Transportation - Process	An incompetent handler could cause injury to both himself and the horse	All handlers should have adequate equine training
13	Risk of balance loss	During Transportation - Medical	The horse could fall down or lose its balance when the vehicle is moving	Orientate the horse in a backward facing position as it will be better able to cope with movement of the vehicle In this position the rump absorbs any impacts Ensure that the driver is competent Accustom the animal to transportation
14	Risk of injury during travel	During Transportation - Medical	The animal could get injury when the vehicle is in motion	Lower the load densities in vehicles transporting more than one horse to avoid being trampled or even death Ensure that the driver is competent
15	Risk of poor ventilation	During Transportation - Medical	Inadequate airflow	Do not keep the vehicle stationary for long periods of time as the trailer relies on forward movement for ventilation Minimize journey time
16	Risk of self inflicted starvation	During Transportation - Medical	The horse may refuse to eat or drink during the journey	Avoid transporting a nervous horse in isolation where possible Stress to the animal should be avoided where possible
17	Risk of vehicle damage	During Transportation - Infrastructure	Should the horse lose its balance or control, damage to the vehicle could occur	Invest in horses suitable for transport

<b>Risk No.</b>	<b>Risk</b>	<b>Risk Category</b>	<b>Risk Description</b>	<b>Mitigation</b>
18	Risk of stress during transportation	During Transportation - Process	Stress can arise from various sources and is a physiological state that can compromise animal welfare	Ensure smooth process are followed Ensure competent drivers
19	Risk of a lack of electrolytes	During Transportation - Medical	A lack of electrolytes could lead to dehydration of the animal.	Administer electrolytes prior to travel Tubing horse before travel (in horses known to dehydrate easily/ especially completion horses) Offer the animal water during travel, especially on long journeys
20	Risk of frequent transportation	After Transportation - Medical	Increased physical demands placed on frequent travelers i.e.: fatigue, disrupted feeding patterns, restricted movement	Limit transport where possible Ensure that the horse fed and watered upon arrival Avoid placing the animal into a stable directly after transportation, rather put the horse in a paddock or walk it around to loosen the muscles
21	Risk of vehicle rusting	After Transportation - Infrastructure	Lack of proper vehicle maintenance and cleaning can result in rust and other damage	Ensure that the vehicle is cleaned after the journey as urine can cause rusting Post travel vehicle maintenance

# **PROJECT MANAGEMENT – THE SAVIOUR IN TURBULENT TIMES?**

## **A CROSS-SECTOR ANALYSIS**

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### **ABSTRACT**

Companies are forced to ask whether it's rational to deliver new initiatives through projects. Research was done in various industries to determine project success rates and factors that could influence project success. Results indicated similar success rates with communication as greatest influencer. In turbulent times, projects can be delivered successfully.

### **INTRODUCTION**

Companies must adapt or die in today's economic turmoil and everyone agrees that business in general is in turmoil. Companies will have to embark on new initiatives or ideas to survive and these initiatives will be implemented through projects. These projects will have varying degrees of success (Alderman & Ivory, 2011; Sauser, Reilly & Shenhar, 2009). Several studies have attempted to provide insight into project results (Eveleens & Verhoef, 2010; Glass, 2005; Labuschagne & Marnewick, 2009). While the results of these studies have proven useful as a starting point for debate or discussion, very few studies have been conducted that focus on South African industries in totality with a sector cross-analysis to determine whether one sector is more successful than another in delivering projects.

In the current economic turmoil, companies as well as investors need assurance that their investments will bear fruit. Although financial models do exist that can assist investors in these calculations, the unknown factors are the method of delivery, i.e. project management and project success specifically. Initiatives and/or new projects need to be implemented as soon as possible to derive the promised benefits. The longer it takes to deliver the project, the longer it takes to achieve the promised benefits and the smaller the return on investment. The significance of this research is twofold: it analyses project success rates within three major sectors in South Africa and secondly it provides insight into what is perceived as a successful project in a specific sector. Research regarding project success has been done in the information and communications technology (ICT) industry (locally and internationally),

but no research has been attempted to determine project success and the factors that contribute to it. Significant research has been done on project success rates and provides insight into what the ICT industry perceives as success rates as well as what constitutes project success (Glass, 2005; Eveleens & Verhoef, 2010; Sonnekus & Labuschagne, 2003; Labuschagne & Marnewick, 2009). These studies are longitudinal studies but do not address any other industry apart from that of ICT.

This article attempts to fill the current gap with regard to project success, success criteria and success factors. A cross-sector analysis was done between the ICT, industrial and services sectors. The results of this research can assist companies in better positioning themselves by focusing on how to influence the factors that contribute to project success and thus achieve better project success rates. Better project success rates in turn will have a direct impact on the promised benefits and curb the current economic turmoil. Resources will not be wasted on over-extending projects, but can be utilised for other new initiatives.

The structure of the article is as follows: the first section provides a literature review of the industry sectors, project success, the contributing factors as well as the way project success is measured. The second section focuses on the research methodology that was used, with section 3 providing detailed analysis of the results. Section 4 concludes the article with a discussion on what the results mean to researchers and practitioners.

## **LITERATURE REVIEW**

The Republic of South Africa is a country of 1.2 million square kilometres, bordered by Botswana, Lesotho, Mozambique, Namibia, Swaziland and Zimbabwe. With a population of about 50 million people and a purchasing power parity gross domestic product (GDP) of \$527.5 billion, South Africa is ranked as the world's 26th largest national economy. It is currently ranked at 54 out of 139 countries by the World Economic Forum (South Africa - The Good News, 2012) and is classified as a 'Stage 2' developing country along with 28 other countries such as Turkey, Malaysia, Jordan and China. Like many other countries, South Africa was hard-hit by the global financial crisis of 2008-2009, mainly through trade and financial channels. Although output growth was slowing from mid-2007, quarterly real GDP growth was positive up to and including the third quarter of 2008, and GDP fell nearly 2% in 2009 (Central Intelligence Agency, 2012). The biggest slow-down areas were in the industrial and services sectors with an approximate 3% growth in 2011 (Organisation for

Economic Co-operation and Development, 2012). The overall sector breakdown is agriculture 2.5%, industrial 31.6% and services 65.9%. The industrial sector is well-established and principal industries include vehicle assembly, metalworking, machinery, textiles, iron and steel, chemicals, fertilizer, foodstuffs and commercial ship repair (Central Intelligence Agency, 2012).

For the purpose of this article, three sectors were investigated: ICT, services and industry. The reason is that the services and industry sectors are the two dominant sectors. ICT was included because research has been conducted on the sector and can be used as a benchmark. The services sector accounts for roughly 62% of the national GDP, made up of wholesale, retail and accommodation services (12%), transport (9%), financial services (21%), general government services (13.6%) and personal services, such as medical (5.6%), according to one government source (Statistics South Africa, 2011). The Services Sector Education and Training Authority lists over 153 000 members (companies) of the services sector. This sector is recognised as being a potential area of significant future growth and employment (Tregenna, 2007) where the maturity of an economy is often associated with a transition from agricultural and industrial activities towards a knowledge economy, with a commensurate emphasis on delivery of a wide range of services as a growing component of overall economic activity (Toffler, 1990).

The industrial sector is the second largest sector in South Africa. South Africa holds the world's largest natural reserves of many minerals such as gold, platinum-group metals, chrome ore and manganese ore, and the second largest reserves of zirconium, vanadium and titanium. In 2009, the Chamber of Mines estimated that about R200 billion in value was added to the local economy through the intermediate and final product industries that use minerals produced by South Africa's mines. In the same year the sector accounted for approximately 500 000 direct jobs and many more indirectly through upstream and downstream activities. Total primary mineral exports sales accounted for 31.7% of South Africa's total merchandise exports. Within the industrial sector, mining accounted directly for 5.5% of South Africa's GDP in the last quarter of 2010 (Statistics South Africa, 2011).

With over four million landlines (98th global position) and 46 million mobile connections (73rd global position), South Africa has the most advanced telecommunications market in Africa in terms of technology deployed and services provided. The country also boasts the largest market in Africa in terms of revenue and, at about R100 billion, the sector contributes

approximately 5% of the country's GDP (Central Intelligence Agency, 2012). The mobile landscape is dominated by multinational companies Vodacom and MTN, with the smaller Cell C and 8ta coming in third and fourth position, respectively. South African mobile companies are also making inroads internationally, with MTN leading the way: the company has well over 100 million subscribers in more than 20 countries in Africa, Asia and the Middle East. The broad overview of the three sectors highlights the importance they play in the South African context. The turbulent times currently experienced world-wide has forced companies within these sectors to focus on the initiatives that they embark on. These initiatives must ensure that the companies are still industry leaders but also that resources are adequately and optimally applied.

These initiatives are normally implemented through project management principles. The project management discipline has matured through the publication of several standards (Project Management Institute, 2008; Ohara, 2005; Association for Project Management, 2006), best practices, research articles and significant growth in its community of professional practitioners (Smith, 2003; Leybourne, 2007). From this, it may be concluded that the majority of projects should be completed successfully. However, the literature suggests that this is not the case (Pellegrinelli, Partington, Hemingway, Mohdzain & Shah, 2007; Hyväri, 2006; Eveleens & Verhoef, 2010). It is important that the concept of project success be defined in general as well as specifically for a specific company within a specific sector.

The term “success” is defined differently by different people and stakeholders at different times. Camilleri (2011) states that to define a singular definition of project success negates the fundamental differences that exist across the spectrum of project types. Kerzner (2009) points out that project success originally was measured in technical terms only. In essence, defining project success dealt with the question of whether the product worked or did not work after execution of the project. As costs were managed more closely, success was later defined as completing the project on time, within cost constraints and at the required level of quality. This triple constraint definition did not measure the satisfaction of the project stakeholder's expectations (Ruuska & Teigland, 2009). Consequently, this internal definition of success, or the primary success factors, was later augmented by what Kerzner refers to as secondary factors, which implies acceptance of the product or service by the customer.

Two distinct dimensions of success are subsequently identified, namely the success of the project management process and the success of the product or outcome of the project management process (Cooke-Davies & Arzymanow, 2003; Bannerman, 2008):

- project management success focuses on the project management process and in particular on the successful accomplishment of the project with regard to cost, time and quality.
- project product success focuses on the effects of the project's end-product.

As such, project success = project management success + project product success, although the causal relationship between the two elements is not imperative. A project can typically be over budget and/or time, but the product can still be a resounding success. A typical example is the Sydney Opera House which went sixteen times over budget and took four times longer to complete than originally planned (Camilleri, 2011).

Through various literature references (White & Fortune, 2009; Dvir, Sadeh & Malach-Pires, 2006; Crawford, Hobbs & Turner, 2006; Bannerman, 2008) several factors that influence project outcome were identified: user satisfaction, quadruple constraint, met business requirements, met business objectives, delivery of business benefits, stakeholder satisfaction, sponsor satisfaction, system implementation, system use, triple constraint and steering group satisfaction.

The definition of success has evolved from purely technical completion of a product to a multidimensional interpretation of numerous factors, based on the direct linkage of project management to the organisational strategy. Project success is more than compliance with requirements; it deals with consequential benefits from a strategic perspective, for both the project manager (organisation) and the client.

The literature review raises the following research questions:

1. What is the current outcome of projects in the three sectors?
2. How is project success perceived based on the shift of measurement as highlighted by Ika (2009)?
3. What factors influence the outcome of a project and what is the correlation between those factors?



4. Is there a correlation between project outcome and the factors that contribute to project success?

The research methodology that was followed is explained in the next section.

## **RESEARCH METHODOLOGY**

Research designs are concerned with turning the research question into a testing project (Feilzer, 2010; Huizingh, 2007). The research design can be referred to as either quantitative or qualitative. Quantitative research refers to the systematic empirical investigation of quantitative properties and phenomena and their relationships (Balnaves & Caputi, 2001; Blaikie, 2003; Blumberg, Cooper & Schindler, 2008). The objective of quantitative research is to develop and employ mathematical models, theories and hypotheses pertaining to phenomena. The process of measurement is central to quantitative research because it provides the fundamental connection between empirical observation and mathematical expression of quantitative relationships.

The results of this study can be used in various ways. The major benefit of this longitudinal study is that it highlights trends and these trends can stimulate new research into the reasons for a specific trend. The results of this study can also be fully utilised by various organisations within a specific sector as a benchmark. The results are displayed in such a fashion that organisations can use them in two ways. The first is to benchmark against the global results. This provides an organisation with a view of its international standing with regard to maturity and project success. The second way is to benchmark within the organisation's specific sector. This provides a sector-specific view and allows the organisation to benchmark itself against its peers. Benchmarking against others helps organisations understand the various ranges of performance levels that are available and possible.

The results of the study highlight the factors influencing the successful delivery of projects. This allows organisations to determine which of the various factors they employ and focus on. Organisations can extract the various factors and again benchmark against them. Factors that are currently employed can be further harnessed and factors currently not addressed can be exploited to ensure more successful delivery of projects in the future.

The measurement of project success is slowly but surely moving from the triple constraint to the realisation of the benefits as anticipated in the business case. The implication is that project managers must start to take ownership of the usage of the project deliverables and not necessarily just the delivery of the project deliverables within the triple constraint. This implies that the line between project management and programme management becomes vague.

Qualitative research, on the other hand, is a method of inquiry employed in many different academic disciplines, traditionally in the social sciences. Qualitative researchers aim to gather an in-depth understanding of human behaviour and the reasons that govern such behaviour (Annechino, Antin & Lee, 2010; Denzin, 2010; Lewins & Silver, 2008). The qualitative method investigates the 'why' and 'how' of decision making and not just the 'what', 'where' and 'when' of quantitative research. Hence, smaller but focused samples are more often needed, rather than large samples.

Since the aim of this research was to investigate quantitative properties such the number of projects failed and, for example, the relationship between the success factors and project success, a quantitative approach was thus more applicable than a qualitative approach.

A structured questionnaire was developed based on the CHAOS Chronicles and the Prosperus 2003 and 2008 reports (Balnaves & Caputi, 2001; Blaikie, 2003; Labuschagne & Marnewick, 2009). Structured questionnaires are based predominantly on closed questions which produce data that can be analysed quantitatively for patterns and trends. The agenda is entirely predetermined by the evaluator and provides little flexibility for respondents to qualify their answers.

The researchers opted for a structured questionnaire because it ensures that each respondent is presented with exactly the same questions in the same order. This ensures that answers can be reliably aggregated and that comparisons can be made with confidence between sample subgroups or between different survey periods.

The questionnaire consisted of four sections with section 1 focusing on the locations where respondents managed projects as well as the industries in which they were practising project management. Section 2 focused on the maturity of the processes contained in the nine

knowledge areas of the PMBoK® Guide (Project Management Institute, 2008). Section 3 focused on the outcomes of the projects that respondents were involved in, while section 4 focused on gathering demographic information. The structured questionnaire consisted of 199 items placed under 25 questions.

Data collection depends on how much data a researcher plans to collect to draw sufficiently trustworthy conclusions. The challenge that was faced is that the researchers would have liked more responses from each sector to draw these trustworthy conclusions. Although enough responses were received, the researchers believe that only the tip of the iceberg of project managers responded.

A dualistic approach was taken to gather responses, namely a web-based survey as well as a manually distributed survey. Both these approaches used the structured questionnaire as a basis. The web-based survey was designed and hosted on SurveyMonkey ([www.surveymonkey.com](http://www.surveymonkey.com)). The web-based survey was open to the public while the targeted survey focused on specific individuals. The second approach made use of hard copies of the structured questionnaire and specific targeted individuals were asked to complete the questionnaires manually.

A total of 1 067 responses were received. Responses received from the website were exported into a Microsoft Excel spread sheet for easy analysis. The data collected via both approaches was imported into SPSS for further analysis and statistical manipulation. The use of direct individual contact using the questionnaire accounted for 39.5% of the responses, while the open-invitation web-based questionnaire yielded 60.5% of the responses.

The following statistical tests were performed on the data:

- Descriptive statistics describe the main features of a collection of data quantitatively. Descriptive statistics are distinguished from inferential statistics in that descriptive statistics aim to summarise a data set quantitatively without employing a probabilistic formulation.
- Correlation is any broad class of statistical relationships between two or more random variables or observed data values. Correlations are used to determine the statistical relationship between various factors and project success.

The mean and variance were devised from the data as they formed the basis for inferential statistical procedures.

Validity measures what it purports to measure (Cameron & Price, 2009). If a questionnaire does not measure what it is supposed to measure, then the conclusions and statistical analysis might also be invalid. There are three major types of validity: (i) construct validity, (ii) internal validity and (iii) external validity (Balnaves & Caputi, 2001). Triangulation and various sources of evidence enhanced the construct validity of this research.

Construct validity is assured by the use of different data sources (project managers from 10 industry sectors), improved content and known theory or models such as the PMBoK® Guide (Project Management Institute, 2008; Reich & Wee, 2006) and various project management maturity models (Jugdev & Thomas, 2002; Pennypacker & Grant, 2003).

Internal validity is the extent to which the questionnaire allows the researchers to draw conclusions about the relationship between variables. Internal validity was tested through various correlations.

External validity is the extent to which the sample is genuinely representing the population, in this case the project management population, from which it was drawn. In the instance of this research, the sample was representative as the respondents were all working and functioning within the bigger discipline of project management. Each researcher made use of his or her own network (alumni) representing different industries and provinces. These respondents represent people that had completed some form of formal education in project management. The involvement of PMSA and its members represents project managers that had not necessarily completed a formal education programme in project management and also represents different industries across all the provinces.

Another aspect is that the data must be reliable. Reliable data is evidence that can be trusted. It is important that the questionnaire provide reliable data since this is a longitudinal study and the questionnaire and data must be replicable. In other words, reliability is an indicator of the questionnaire's internal consistency (Zikmund, Babin, Carr & Griffin, 2010). Reliability is concerned with the consistency of measures. Equivalent-form reliability, similar to the test-retest method and item analysis, was used for judging the reliability of the

research design. In addition, peer-colleague examination and the method of submerging the researchers in the study were used, which enhanced the internal validity of the results (Hart, 1989; Bless & Higson-Smith, 2004).

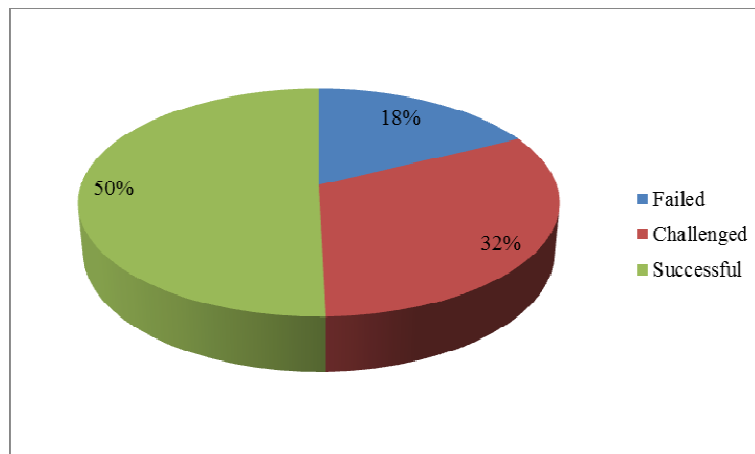
It can be concluded that a thorough and formal research approach was used to ensure the validity and reliability of the results.

## RESULTS AND FINDINGS

The results and findings are discussed for each of the three sectors and then finally a cross-sector comparison is made between the three sectors.

### *Industrial Sector*

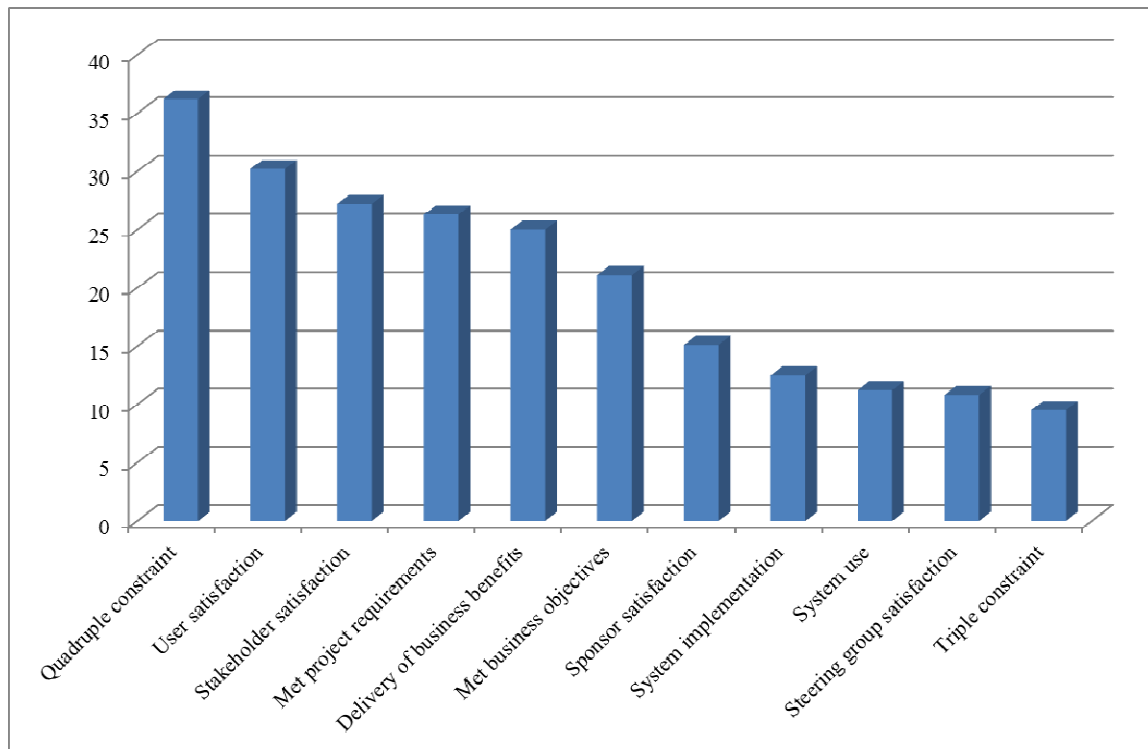
Respondents were asked to indicate how many projects failed, were challenged and were successful in the last two years. The definition of failed, challenged and successful was left open to interpretation. Figure 1 indicates the success rate of projects. It is evident from the analysis that 50% of all projects were perceived as successful.



**Figure 1.** Industrial sector project success rate

Thirty-two percent of projects were perceived as challenged (the project is completed and operational but over budget and over the time estimate, and offers fewer features and functions than originally specified) and only 18% of all projects were perceived as failures and not delivering any product. Of concern is still the fact that 50% of projects were not seen as successful and in the current turbulent times this is a concern that needs to be addressed.

Figure 2 illustrates how the respondents in the industrial sector perceived and measured project success within their respective companies.



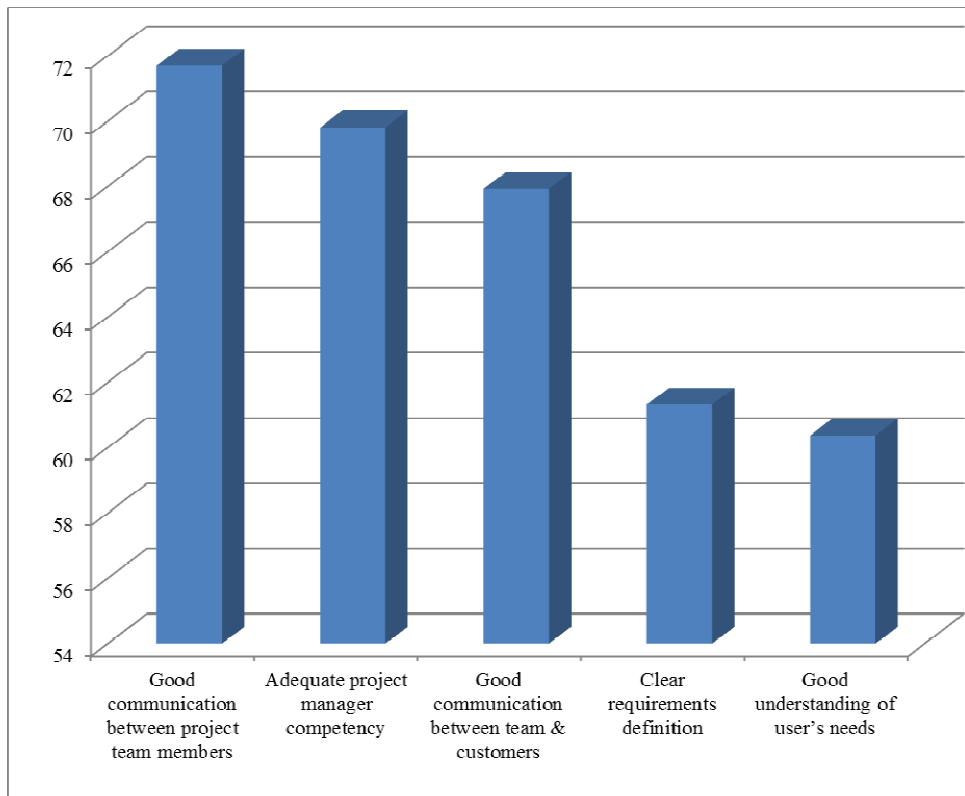
**Figure 2.** Industrial sector project success criteria

It is clear from the responses that the success of projects is measured across a wide range of criteria. This is in line with the literature where success is measured on the project itself but also on the product of the project.

Project success in the industrial sector was measured mainly against the following:

- The quadruple constraints of time, cost, quality and scope
- User satisfaction
- Stakeholder satisfaction
- Whether the project requirements were met
- Whether the business benefits would be delivered

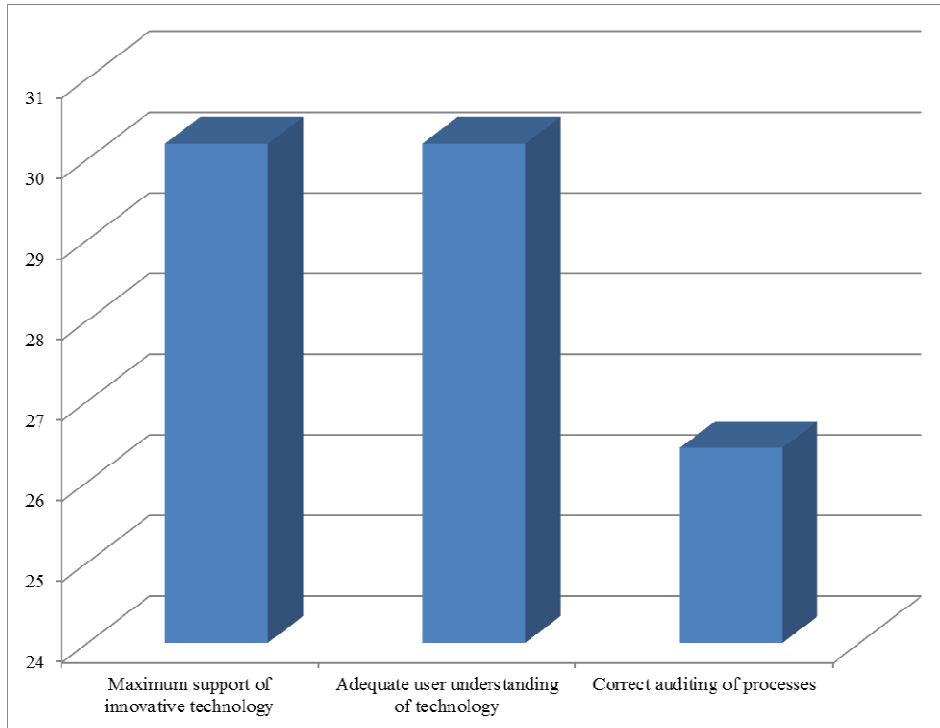
The top 5 factors that contribute to project success are shown in figure 3.



**Figure 3.** Industrial sector top 5 success factors

The industrial sector considers communication per se as the single factor that contributes to project success. This is highlighted by the fact the communication between team members and between team members and the customer are ranked number 1 and 3, respectively. Proper communication ensures that requirements are well defined through the understanding of the user's needs. As the industrial sector is highly technically geared, a project manager's competence becomes very important in completing projects successfully. However, communication skills seem to be critical in this sector in order to ensure user and stakeholder satisfaction.

Figure 4 highlights the three factors that the respondents believed did not contribute to project success at all.

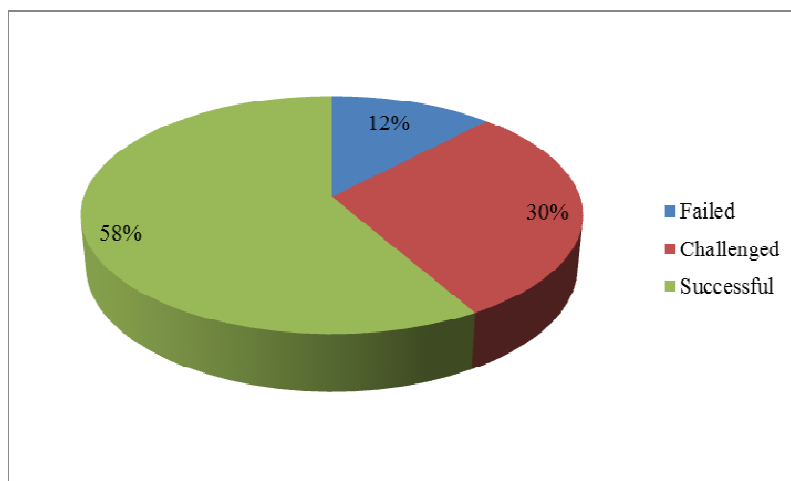


**Figure 4.** Industrial sector bottom 3 success factors

Maximum support of innovative technology and users' understanding of the technology used in the projects were not considered to be major contributors to project success by respondents. Correct auditing processes were considered the least important as a contributor to project success.

***Information and Communication Technology sector***

Respondents from the ICT sector indicated that 58% of projects were delivered successfully and only 12% were categorised as failed projects. This is illustrated in figure 5.

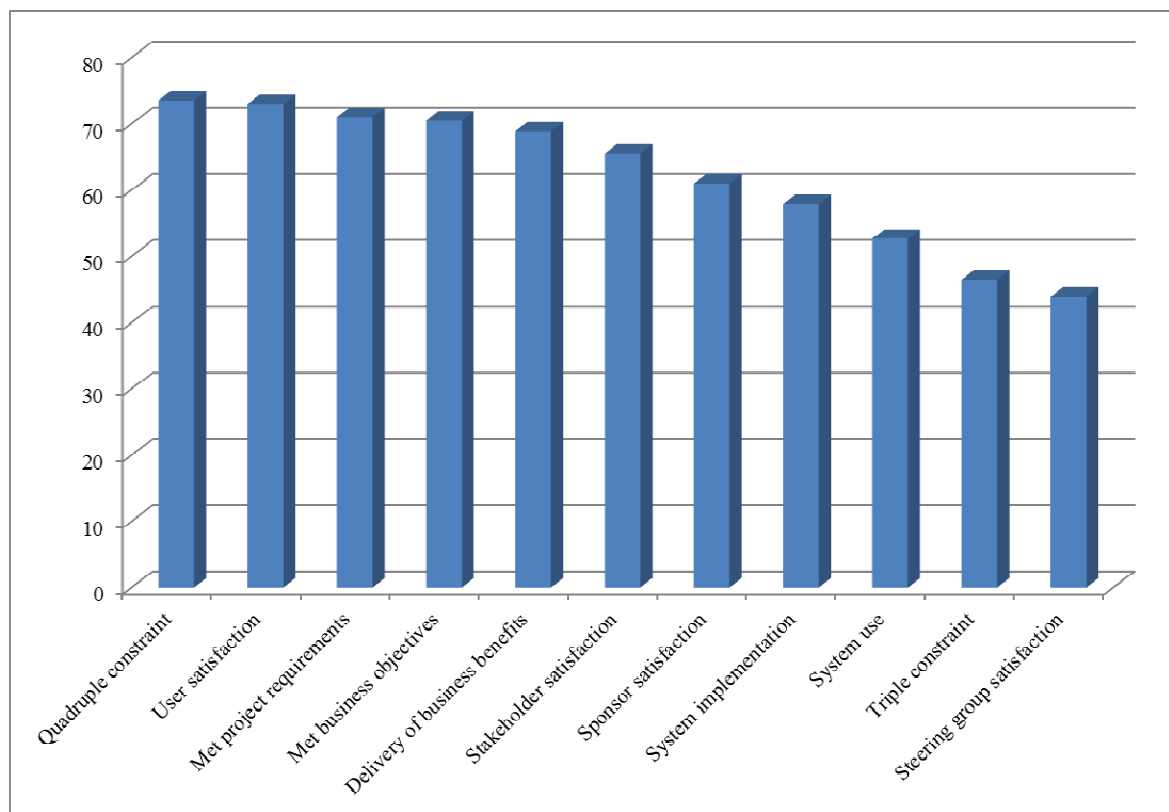


**Figure 5.** ICT sector project success rate



The success rate of 58% is quite high in comparison with previous studies in the ICT sector (Labuschagne & Marnewick, 2009; Eveleens & Verhoef, 2010). Previous research indicates a success rate of 37%.

This high increase (21%) in success rates can be attributed to the way that project success has been classified by the respondents. These responses are illustrated in figure 6.



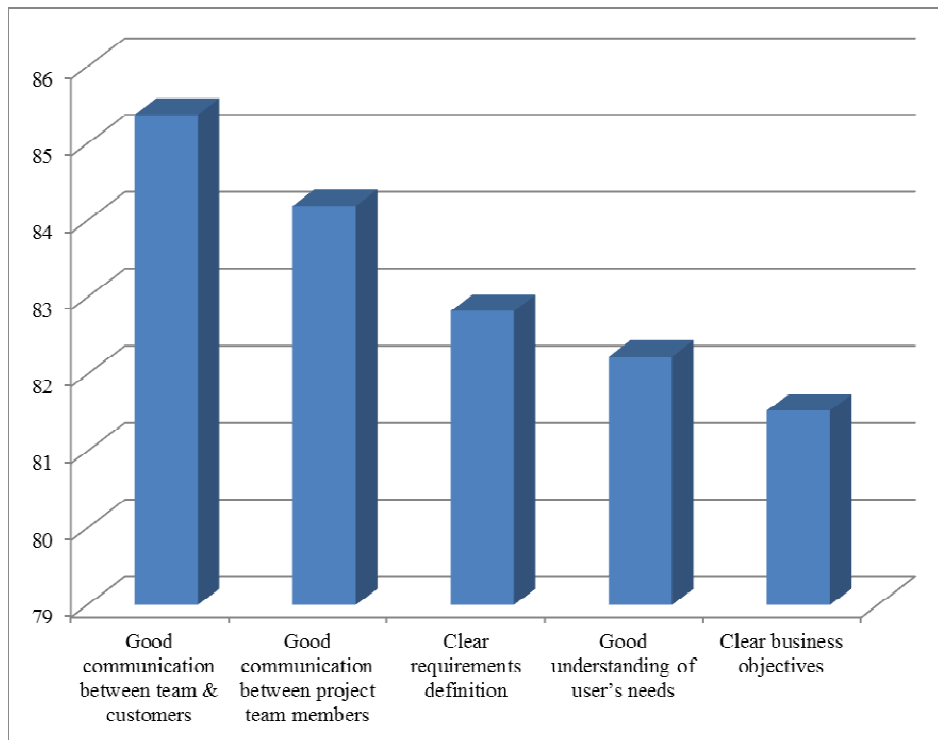
**Figure 6.** ICT sector project success criteria

The ICT sector mainly considered the following when determining whether a project was successful or not:

- The quadruple constraint
- User satisfaction
- Whether the project requirements were met
- Whether the business objectives were met
- Whether the project eventually delivered the expected business benefits

The focus of projects in the ICT sector is more long term than short term. Although projects must be delivered within the constraints of cost and time, the emphasis is more on the benefits that such projects deliver in the long term.

Figure 7 highlights the top 5 factors that contribute to project success in the ICT sector. The responses are almost the same as those of the industrial sector.



**Figure 7. ICT sector top 5 success factors**

Respondents from the ICT sector cited good communication between the project team members and communication with customers as the greatest contributing factors in achieving project success. The other three factors that contribute to project success are:

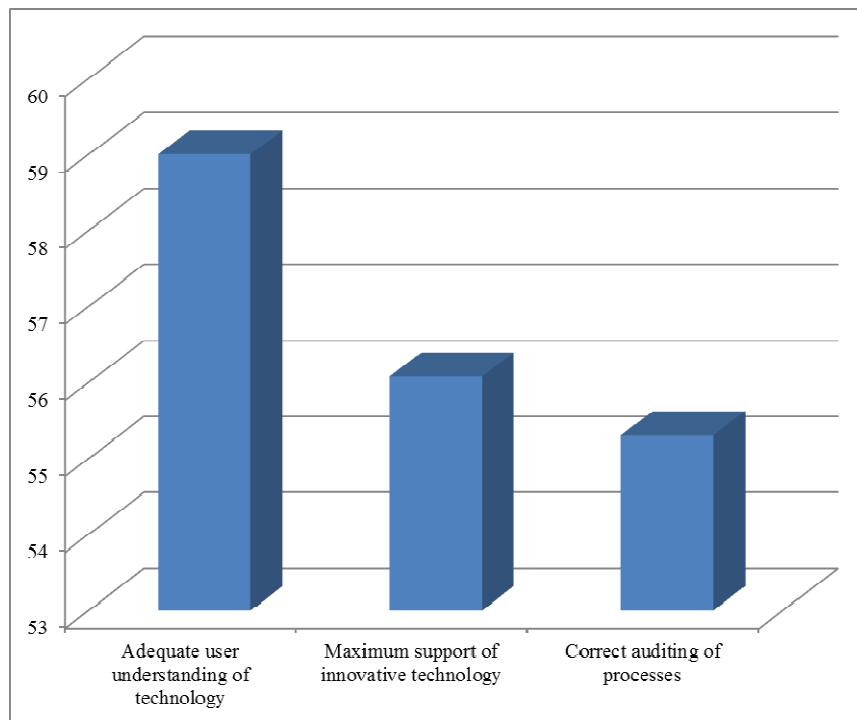
- Clear requirements definition
- Good understanding of user's needs
- Clear business definitions

It is imperative that good communication lead to the understanding of the user's needs and therefore the proper documenting of the requirements. If project teams can succeed in the proper documentation of requirements, then aspects such as cost and time overruns are also addressed.

The following factors were not rated as important in contributing to success:

- Adequate user understanding of technology
- Maximum support of innovative technology
- Correct auditing of processes

This is shown in figure 8.



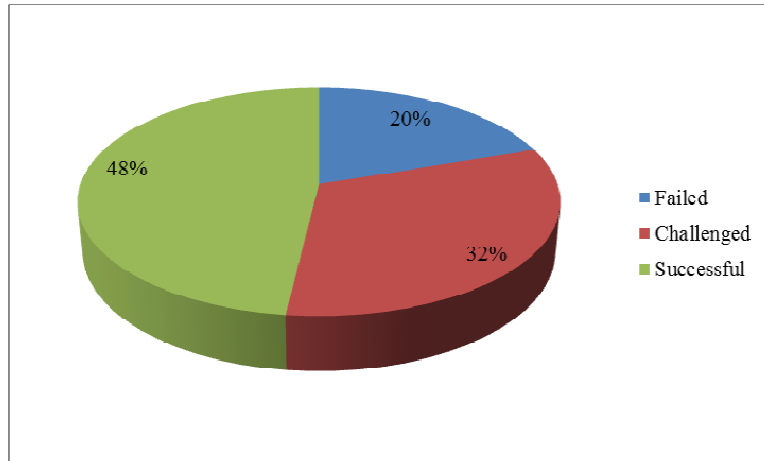
**Figure 8.** ICT sector bottom 3 success factors

Although projects are driven by technology in the ICT sector, respondents did not perceive technology per se as a contributing factor to success.

The last sector that is analysed is the services sector.

### *Services Sector*

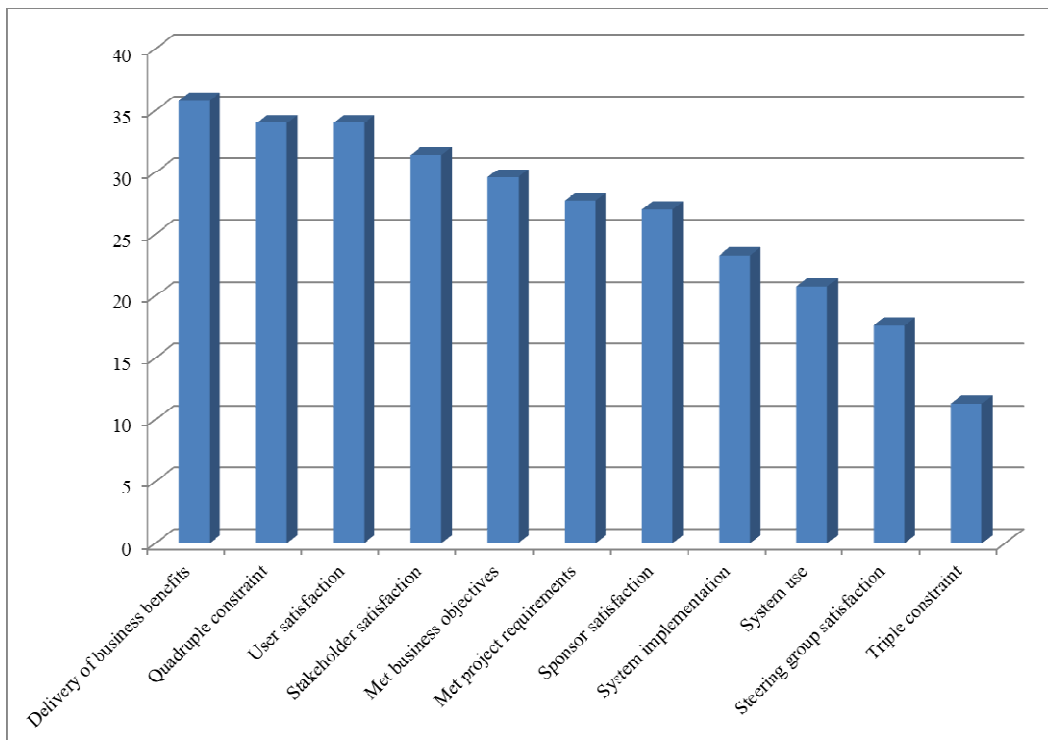
The success rates of projects within the services sector follow the same trend as the industry and ICT sectors. The majority of the projects were perceived as successful, as illustrated in figure 9. It must be noted that there are also concerns relating to the high level of challenged and failed projects. A total of 32% of projects were challenged, implying that something was not delivered.



**Figure 9.** Services sector project success rate

Respondents in the services sector reported an overall project success rate of 48% and an overall failure rate of 20%. This is the lowest success rate and the highest failure rate of the three sectors.

The services sector is also different from the other two sectors in the way that project success is measured.



**Figure 10.** Services sector project success criteria

The respondents within the services sector indicated that the main measurement of project success was whether the project had delivered on business benefits. Given the fact that the

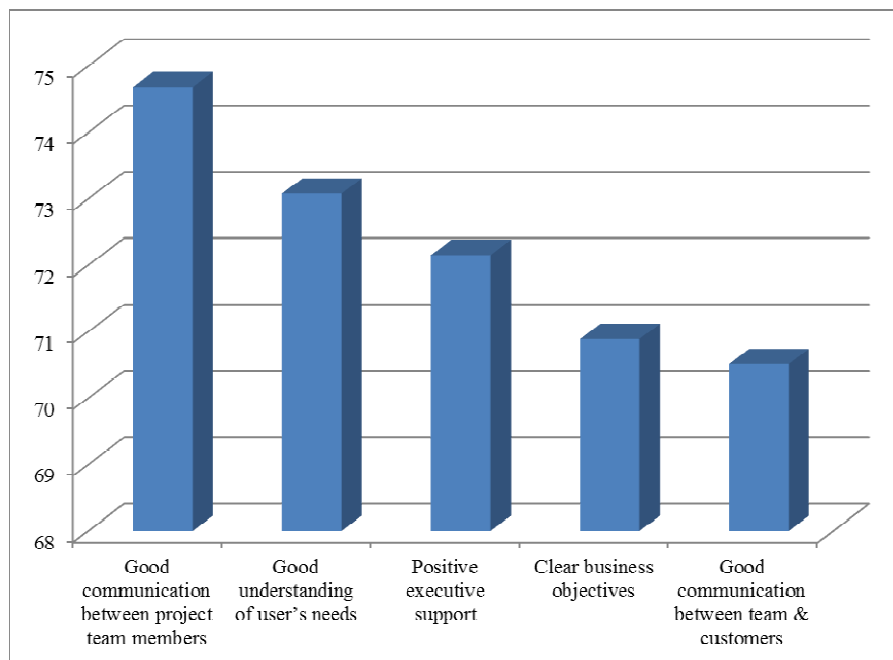
services sector has the lowest success rates amongst projects, it can be surmised that less than half of projects attempted deliver on the expected business benefits. It may also be posited that since business benefits may not be realised immediately after project completion, this may be the cause for the high failure and challenged rates for this sector.

The following were also indicated as being important measures of success for projects in the services sector:

- The quadruple constraint
- User satisfaction
- Stakeholder satisfaction
- Whether the project has met the business objectives

The triple constraints were not identified as an important success measurement probably because the quadruple constraints were indicated as a main method of determining project success. The additional constraint of quality delivered by the project as contained in the quadruple constraints may indicate that the quality delivered by services sector projects is also of high importance when measuring project success.

Figure 11 shows the factors that contribute to project success in the services sector.

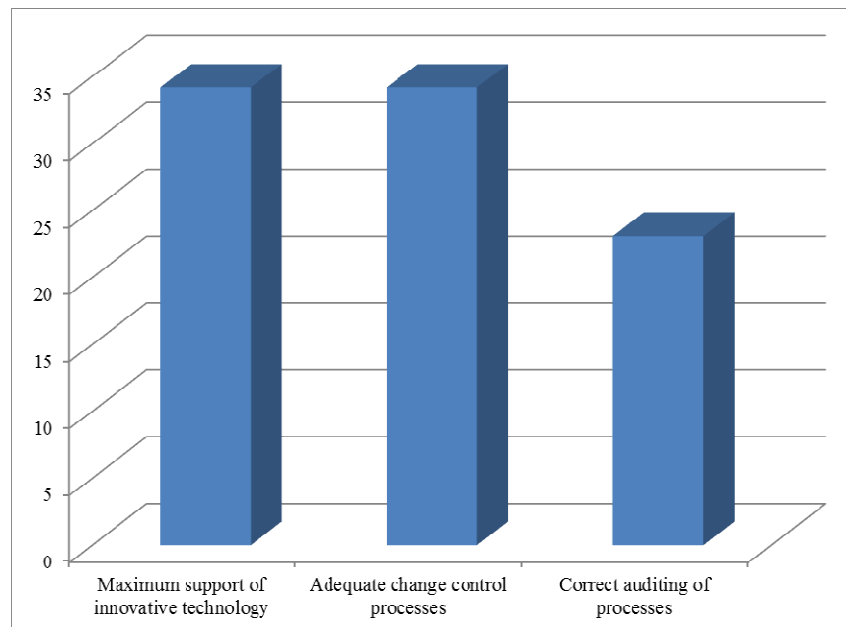


**Figure 11.** Services sector top 5 success factors

Respondents indicated that the following were the most important factors contributing to success:

- Good communication between project team members
- Good understanding of user's needs
- Positive executive support
- Clear business objectives
- Good communication between project team members and customers

Given the fact that the services sector project success rate is the lowest, it raises questions around the focus of the projects undertaken. It may indicate that the success factors identified, or the combination thereof, are ineffectual or not deeply focused on increasing project success. It may also indicate that the criteria by which project success is measured are misaligned with what the services sector respondents identified as contributing to project success. It must also be noted that no single success factor received a very strong indication as being very important to project success. This may indicate that there are other success factors preferred by this sector. However, the low success rate seems to be as a result of the fact that the success factors indicated are not strongly supported by this sector.



**Figure 12:** Services sector bottom 3 success factors

The factors that were not regarded as being important in influencing project success are:

- Maximum support of innovative technology
- Adequate change control processes

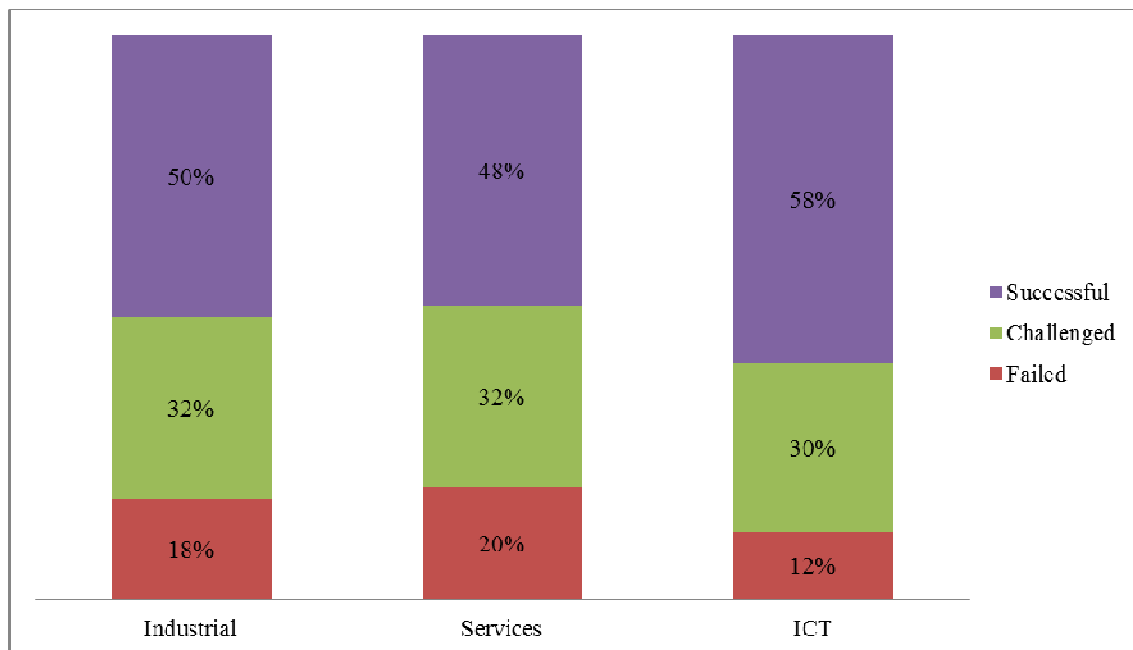
- Correct auditing processes

The fact that adequate change control processes are not considered as important to project success may assist in explaining why the project success rates are lower than other industries (Schwalbe, 2010).

The next section is a comparative analysis of the three industries.

### *Comparative analysis*

Project success rates between the various sectors do not provide much insight. The results indicate that all three sectors achieve success rates between 48% and 58%. The industrial sector and the services sector are very close with a 2% difference. The ICT sector achieved a 58% success rate. Figure 13 shows this clearly. Even the challenged and failed projects are very similar amongst the three sectors.



**Figure 13:** Success rates per sector

The ICT sector is seen as the most successful sector with only 12% of all projects deemed a failure. Although the three sectors on average maintain a success rate of 50%, the concern is that 50% of all projects across the three sectors are not delivering on the promised benefits.

The second comparison between the three sectors is how project success is measured. The comparison between the top 5 success criteria is provided in table 1.

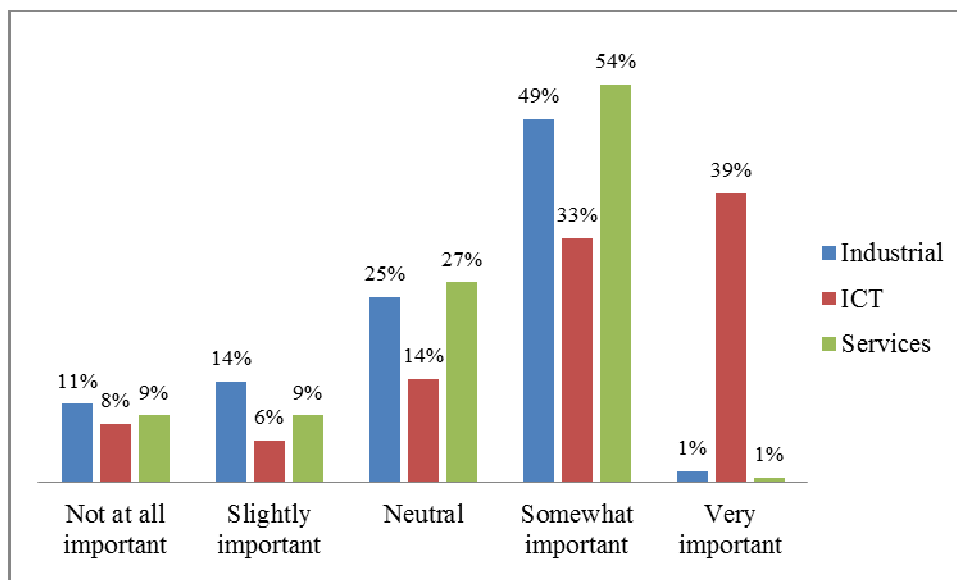
**Table 1.** Top 5 success criteria by sector

Rank	Industrial	ICT	Services
1	Quadruple constraint	Quadruple constraint	Delivery of business benefits
2	User satisfaction	User satisfaction	Quadruple constraint
3	Stakeholder satisfaction	Met project requirements	User satisfaction
4	Met project requirements	Met business objectives	Stakeholder satisfaction
5	Delivery of business benefits	Delivery of business benefits	Met business objectives

The results in table 1 show that companies are using both sides of the equilibrium to measure success. The quadruple constraint is used to measure the success of project management per se, but the product or service of the project is also taken into consideration. It is quite interesting to note that there is not a single criterion that only appears within one sector. Success criteria are either important to all three sectors or to at least two sectors.

There is at this point no difference between the three sectors and all the sectors are measuring project success in more or less the same way. That might be the reason why the success rates are also similar.

Although the top 5 success criteria are very similar, an analysis of the responses themselves raises some interesting points. Figure 14 indicates that the ICT sector has placed a much higher importance on all success factors compared with the other sectors.



**Figure 14:** Comparison of very important' success factors per sector comparison

The ICT sector is biased towards the 'Somewhat important' and the 'Very important' classification of success factors, with almost 80% of the responses within these two



categories. The other two sectors are more focused on the ‘Neutral’ and ‘Somewhat important’ categories.

The different emphases may indicate a greater focus on the success criteria on the part of the ICT sector. It might explain why the ICT sector has a higher success rate than the other sectors, but it still leaves the possibility that some highly important success factors specific to the other sectors may not have been included.

The next comparison is what factors contribute to project success and this is compared in table 2.

**Table 2.** Top 5 success factors by sector

Rank	Industrial	ICT	Services
1	Good communication between team members	Good communication between team and customers	Good communication between team members
2	Adequate project manager competency	Good communication between team members	Good understanding of user’s needs
3	Good communication between team and customers	Clear requirements definition	Positive executive support
4	Clear requirements definition	Good understanding of user’s needs	Clear business objectives
5	Good understanding of user’s needs	Clear business objectives	Good communication between team and customers

An analysis of the results provides some interesting food for thought. Only two factors were perceived by all three sectors as important. These two factors are both related to communication, i.e. communication between team members themselves and communication between the team and the users or customers.

It is, however, notable that the services sector did not rate customer communication or a clear requirements definition as high as the other two sectors, which enjoyed better project success rates.

The three success factors that are rated as having the least impact show more similarity between the three sectors than the top 5 factors. This is indicated in table 3.

**Table 3.** Bottom 3 success factors by sector

Rank	Industry	ICT	Services
12	Maximum support of innovative technology	Adequate user understanding of technology	Maximum support of innovative technology
13	Adequate user understanding of technology	Maximum support of innovative technology	Adequate change control processes
14	Correct auditing of processes	Correct auditing of processes	Correct auditing of processes

The data again indicates that there is very little difference between the three sectors in what they considered as low priority success factors. It is, however, notable that the services sector did not perceive adequate change controls as a factor that can contribute to project success. This is quite daunting since scope management is one of the quadruple constraints. The results do not correlate within the services sector and might need some further in-depth analysis.

### ***Correlations***

Research question 4 questioned whether there was one specific factor that contributes more to project success than another. Pearson correlations were done for each sector and, as demonstrated in tables 4 – 6, the top 5 success factors as indicated by the respondents correlate very weakly with each sector’s success rate.

**Table 4.** Industrial sector Pearson correlation

	Good communication between project team members	Adequate project manager competency	Good communication between team & customers	Clear requirements definition	Good understanding of user’s needs
Project success	.152	.043	.112	-.041	.170

Table 4 indicates very clearly that there is no correlation whatsoever between project success and the success factors that the respondents perceived as contributing to project success.

Table 5 indicates that the ICT sector has shown the strongest correlation, although weak, between its indicated success factors and the success rate. The third-ranked success factor for this sector, good communication between team members, displayed the highest positive relationship at 0.211, which is still a weak correlation.

**Table 5.** ICT sector Pearson correlation

	Good communication between team & customers	Good communication between project team members	Clear requirements definition	Good understanding of user’s needs	Clear business objectives
Project success	.195**	.211**	.186**	.152**	.163**

Table 6 indicates that the services sector has the weakest overall correlation between its identified success factors and its success rate. In fact one success factor, positive executive support, indicates a small negative relationship.

**Table 6.** Services sector Pearson correlation

	Good communication between project team members	Good understanding of user's needs	Positive executive support	Clear business objectives	Good communication between team & customers
Project success	.086	.053	-.230*	-.048	.002

The correlations do not shed any light on what factors really contribute to project success and this will have to form part of future research.

## CONCLUSIONS

The literature review indicated that the South African economy has two major sectors, i.e. industrial and services sector. Each sector plus the ICT sector was analysed and the contribution it makes to the GDP. The second focus of the literature review was project management and how project success should be measured. It is clear that how project success is measured has changed over the decades. The focus has moved from the processes themselves towards the satisfaction of the customer's needs. Although literature acknowledges this change in thinking, it does not clearly state how projects must be measured and neither does it identify the factors contributing to project success.

A synthesis of the findings indicates that there is not a major difference between the three sectors. Success rates are more or less the same and do not warrant further analysis. The second aspect of success criteria is also more or less the same and highlights once again the fact that project success is measured across a continuum.

The analysis of the factors that contribute to project success shows three interesting aspects. The first is that communication is seen as a factor that contributes to project success. Communication is divided into communication between team members and communication with the users and customers. The second aspect is that only the industrial sector believes that the competency of the project manager will have an impact on project success. It raises the question why the other two sectors do not perceive this as an important factor. It might be that the respondents within these sectors assumed that project managers must be competent. The third aspect is that only the services sector sees the importance of executive support. Executive support is normally perceived as a prerequisite to project initiating and if there is no executive support, it might lead to project failure.

Further research is needed to determine why projects are failing and this needs to be done with a qualitative approach. Answers to the questions raised will not be derived based on a quantitative approach alone.

## **MANAGERIAL IMPLICATIONS AND RECOMMENDATIONS**

The industrial, ICT and services sectors are the most important sectors within the South African economy. Any disturbance in these sectors would have a devastating impact on South Africa at large and also Africa for that matter. The question that needs to be answered by companies within these sectors is how we are going to manage projects in turbulent times. The answers to this question are in the detail with regard to project success criteria and what factors contribute to project success. Once companies understand the answers, then projects can be managed in turbulent times. Projects within the three sectors are fairly high with a success rate of 50% or more. If challenged projects are also taken into consideration, then the picture is even better and companies are faced with a 12% to 20% failure rate. This does not seem that bad but when the impact of these failures is translated into rands and cents, then the amounts are astronomical based on the GDP contribution per sector. This wasting of valuable resources cannot be tolerated in a developing country such as South Africa.

This article provides practitioners with real solutions on how to ensure project success in turbulent times. Companies must embrace the success factors that were provided and provide training where needed. This is specifically applicable to the soft skill of communication. It is a highly rated success factor and project managers and team members must be skilled in communication.

In conclusion, turbulent times should not be seen as any different from prosperous times. The challenges might be different but when companies are sticking to the basics, then turbulent times can be converted into prosperous times. Project managers must identify the factors that contribute to project success – these stay constant through turbulent and prosperous times.

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## **EMPLOYEE PERCEPTIONS OF SELF-EMPLOYMENT**

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### **ABSTRACT**

The primary objectives of this study are to establish the perceptions that employees have of self-employment, and to establish whether relationships exist between selected demographic variables and these perceptions. The findings show that the employees participating in this study agreed that all the work values investigated in this study would be realised in the context of self-employment. *Ethnicity* is the only demographic variable that is reported to have a relationship with perceptions of self-employment.

### **INTRODUCTION AND PROBLEM STATEMENT**

According to Zaidatol Akmaliah (2009), an attitude toward self-employment is an individual's perception of what being the owner of a business would be like, and one's attitude towards self-employment is associated with self-employment intentions (Kolvereid and Isaksen, 2006). Statements such as "my employees think that I make a lot of money" and "my employees think that I loaf around all day and they do all the work" are often verbalised by self-employed individuals. These statements reflect employee perceptions of self-employment. Whether employees actually have such perceptions of self-employment or not, is, however, not known. By investigating employees' perceptions of self-employment, this study attempts to provide insights into how self-employment is perceived among employed South Africans, and ultimately to shed light on why so few South Africans embark on such a career path. As such, an understanding of the reason why some people become self-employed and others do not could provide solutions on how to encourage business start-ups among all South Africans, and hopefully increase the levels of employment in the country.

The primary objective of this study is twofold, firstly to establish employee perceptions of self-employment, and secondly to establish whether relationships exist between selected demographic variables and the perceptions that employees have of self-employment. As such, the objective is to establish what employee perceptions of self-employment are, and whether

these perceptions are influenced by their demographic profile. For the purpose of this study, employee perceptions of self-employment will be investigated in terms of several work values. “Work values” are the outcomes that people desire, and feel that they should achieve through their work (Twenge, Campbell, Hoffman and Lance, 2010). According to Twenge *et al.* (2010), work values shape employees’ perceptions of preference in the workplace, and have a direct influence on employee attitudes and perceptions. In the present study, “self-employment” refers to *managing one’s own small business*, whereas a “small business” is a *business that is independently owned and managed, and employs more than 5 but fewer than 50 persons*.

## **THE NATURE OF SELF-EMPLOYMENT**

So what is it like to be self-employed? In seeking an answer to this question several literature sources were consulted, some of which are summarised in the paragraphs below. According to Chay (1993), running an own business is a demanding task, and the owner is responsible for the success or failure of the business. Self-employed people are required to carry the burden alone and have no-one to blame for the performance of the business (Rwigema and Venter, 2004). Similarly, Kuratko and Hodgetts (2007) assert that self-employed individuals are personally responsible for taking the initiative and leadership in solving any problems their enterprise may experience. According to Harris, Saltstone and Frabini (1999), self-employed individuals are subject to large amount of stress because of the heavy workload they carry and the role ambiguity they experience. Similarly, Blanchflower (2004) reports that self-employment is stressful and puts a strain on one’s family life. Self-employed people are expected to interact with and engage in constant communication with employees, customers, suppliers, regulators, lawyers and accountants, and are required to play multiple roles, all of which contribute to high levels of stress (Kuratko and Hodgetts, 2007).

According to Bosch, Tait and Venter (2011), being self-employed comes with the prospect of financial freedom and financial rewards. Self-employed people can expect to be compensated for the time and capital that they have invested in the business. However, Benz (2006) has found that self-employment is not particularly attractive in financial terms. According to Benz and Frey (2007), aspects such as pay, job security and opportunities for advancement do not account for the differences in job satisfaction observed between self-employed and employed persons. Bosch *et al.* (2011) contend that individuals who start up their own businesses are seen as achievers and are respected in their communities, and according to Co, Groenewald,

Mitchell, Nayager, van Zyl, Visser, Meyer, Emanuel, and Train (2007), being self-employed provides an opportunity to make a contribution to society.

In comparison with employed individuals, self-employed people usually have more flexibility in terms of working hours (Verheul, Carree and Thurik, 2009). For example, Bann (2009) points out that entrepreneurs can take holidays whenever they need to, and have a certain degree of freedom to come and go as they please. Similarly, DeMartino and Barbato (2003) suggest that self-employment is able to provide the flexibility and balance that other career choices may not. Bosch *et al.* (2011) are of the opinion that having one's own business provides a feeling of being in control of one's own destiny and being able to achieve what is important. The prospect of being one's own boss is one of the most highly valued characteristics of self-employment. One can enjoy the freedom of running one's own business in the manner one sees fit (Rogoff, 2009). In his study, Benz (2006) reports that self-employed individuals are more satisfied in their jobs because they have more autonomy, greater possibilities to use their skills and abilities, and a higher degree of work flexibility than in an alternative career.

According to Dorman (2008), self-employment can potentially lead to a very busy life, with the owner being fully occupied with the business, the employees and the customers. People who work for themselves work very hard, usually spending more than 50 hours a week at work (Chay, 1993). Similarly, Hill, Lawhorne and Philpott (2011) contend that entrepreneurs are compelled to work 12 to 18 hours a day. According to Bosch *et al.* (2011) entrepreneurs are "married to their businesses". They work long hours, leaving little time for recreation or activities outside the context of the business. However, Timmons and Spinelli (2009) claim that there is no evidence that all entrepreneurs work more than their corporate counterparts. They contend that some do and others do not, while some even report that they work less.

## **DEMOGRAPHIC VARIABLES AND PERCEPTIONS OF SELF-EMPLOYMENT**

Studies (Duffy and Sedlacek, 2007; Farrington, Gray and Sharp, 2012; Kakkonen, 2010) have found that the perceptions of self-employment that individuals hold vary depending on certain demographic criteria. For the purpose of the present study, the demographic variables gender, age, ethnicity and entrepreneurial parents are considered.

Most studies on entrepreneurs seem to suggest that few differences exist between male and female entrepreneurs (Mueller, 2004). However, research shows (Urban, 2010) that not only do

the entrepreneurial intentions of women differ from those of men, but work values help to explain why gender differences lead to different self-employment choices. For example, women experience more complexity in their career choices for the work value *time* than men do, given their need to balance their work and family roles (DeTienne and Chandler, 2007). In their study on gender differences concerning various work values, Kakkonen (2010) reports no significant difference between the perceptions of self-employment in terms of holding an esteemed position in society, having the chance to be independent, a job that is interesting and challenging, better income levels than in paid work, the time available for family and hobbies, responsibility, the amount of work needed to be done, independence, and earning potential. The only significant difference in perceptions between males and females in that study related to the quality of life one would have as an entrepreneur. Males perceived that being an entrepreneur would afford them a better quality of life than if they were in a paid job, more so than females did (Kakkonen, 2010).

Empirical studies (Bönte, Falck and Heblich, 2009) have reported an inverse U-shaped relationship between age and the decision to start a business. Evans and Leighton (1989), on the other hand, have found that the rate at which individuals participate in entrepreneurial ventures increases with age, and stays constant thereafter. Grilo and Thurik (2005) conclude that the likelihood of becoming an entrepreneur varies with age. The prospect of being one's own boss is one of the most highly valued characteristics of self-employment, especially for later-life entrepreneurs (Rogoff, 2009).

According to Köllinger and Minniti (2006), the gap in entrepreneurial propensity between Black and White individuals can partly be explained by individual perceptions. High levels of confidence and optimistic perceptions of self-employment suggest that the subjective perceptions of Black Americans tend to be biased towards over-optimism more than the perceptions of Whites (Köllinger and Minniti, 2006). Duffy and Sedlacek (2007) have found that African and Asian Americans were more likely to express extrinsic values (e.g. financial remuneration and job security), whereas Whites were more likely to express intrinsic values (e.g. independence, intellectual challenge and stimulation). Furthermore, Farrington *et al.* (2012) report that Black small business owners and Black student respondents produced higher mean scores than White respondents for the majority of work values investigated in their study.

According to Shane (2003), when parents are entrepreneurial, their children are also more likely to be entrepreneurial. Wang and Wong (2004) report a significant relationship between the

family having business experience and the entrepreneurial interests of students. Carr and Sequeira (2007) are of the opinion that prior family business experience can either positively or negatively shape a person's attitude and behaviour towards engaging in self-employment. Drennan, Kennedy and Renfrow (2005) have found that individuals, who had a positive view of their family's business experience, perceived starting a business as both desirable and feasible.

Against this background the following hypotheses are formulated and subjected to empirical testing in this study:

H<sup>01</sup>: There is no relationship between the demographic variables investigated in this study and employee perceptions of self-employment

H<sup>a1</sup>: There is a relationship between the demographic variables investigated in this study and employee perceptions of self-employment

For the purpose of this study, the perceptions that employees have of self-employment have been established in terms of 14 work values (*Time, Flexibility, Financial benefits, Challenge, Stimulation, Imagination, Security, Prestige, Autonomy, Interaction, Serving the community, Stress, Responsibility and Future prospects*). These work values were identified by Farrington, Gray and Sharp (2011) after analysing several studies (e.g. Andersen, 2006; Miller, 2009; Millward, Houston, Brown and Barrett, 2006; What students want, 2007) investigating the perceptions that individuals have of a variety of different careers.

## **METHODOLOGY**

### **Sample and sampling method**

Respondents were identified by means of convenience sampling, and a survey instrument was administered. The criteria by which respondents were identified and included in the study were as follows: the person had to be in the full-time employment of a small business operating in the Eastern Cape; the small business in which the person was employed had to have been in operation for at least one year and had to employ fewer than 50 persons. The sample frame consisted of 400 employees of small businesses in the Eastern Cape. In total, 184 usable questionnaires were returned, yielding a response rate of 46%.

## **Data collection and statistical analyses**

The 14 work values were investigated by means of a structured self-administered measuring instrument consisting of two sections. Section 1 consisted of 68 randomised statements (items) describing what it could be like to manage one's own business. The measuring scale developed by Farrington *et al.* (2011) was utilised to measure the 14 work values. The wording of these items was adapted accordingly. Using a 7-point Likert-type interval scale, respondents were requested to indicate the extent of their agreement with regard to each statement. The 7-point Likert-type interval scale was interpreted as 1 = *strongly disagree* through to 7 = *strongly agree*. Section 2 requested demographic information relating to the respondent as an individual and also the business in which the respondent was employed.

The data collected from 184 usable questionnaires was subjected to various statistical analyses. The software programme Statistica version 10.0 was used for this purpose. Factor analyses were undertaken and Cronbach-alpha coefficients calculated to assess the validity and reliability of the measuring instrument. Descriptive statistics relating to the work values, such as the mean and standard deviation, were calculated to summarise the sample data distribution. Lastly, an analysis of variance was undertaken to establish the relationships between selected demographic variables and the work values under investigation.

## **Describing the sample**

The majority of respondents participating in the study were female (71.74%) and most were between the ages 21 and 30 years (46.20%). Most respondents were Black (45.11%), followed by White (34.78%) and Coloured/Asian (20.11%). The majority (67.39%) of the respondents indicated that their parents did not own their own businesses.

Most respondents worked in retail (34.80%), services (30.98%) or hospitality and tourism businesses (21.74%). Most (42.39%) of the businesses in which the respondents worked employed between 1 and 4 people. The majority of respondents (86.41%) had been working in these businesses for 5 years or less. Among the different positions held by the respondents participating in the study, most (44.02%) occupied general staff positions.

## Validity and reliability

In order to assess the validity of the scales measuring the work values, exploratory factor analyses were undertaken. For the purpose of this study, the work values investigated were grouped into four categories which were named intrinsic-, extrinsic-, social- and freedom-related work values. The exploratory factor analyses were undertaken separately on each of the four categories of work values. Principal component analysis with a varimax rotation was specified as the extraction and rotation method. In determining the factors (constructs) to extract, the percentage of variance explained and the individual factor loading were considered. Items that loaded onto one factor only, and reported factor loadings of greater than 0.5 (Mustakallio, Autio and Zahra, 2002) for the factor analysis, were considered significant. Only factors with more than 2 items measuring that factor were considered for further statistical analysis. The exploratory factor analyses revealed that the original 14 factors (work values) did not load as expected, and only 11 factors emerged. Several items loaded onto factors that they were originally not intended to measure, and several items did not load onto any factors. The labelling and operationalisation of the work values concerned were adapted accordingly (see Table 1).

Cronbach-alpha coefficients (CAs) were calculated to assess the reliability of the measuring instrument used in this study. According to Nunnally (1978), Cronbach-alpha coefficients of greater than 0.70 are considered significant and deem a scale to be reliable. However, Hair, Black, Babin, Anderson and Tatham (2006) suggest that this lower limit may be reduced to 0.60 in certain cases. For the purpose of this study, CAs of less than 0.50 were regarded as unacceptable, those between 0.50 and 0.69 regarded as sufficient, and those above 0.70 as acceptable (Nunnally, 1978).

Based on the factor analyses, the operationalisation of several constructs was reformulated (Table 1). The reformulated operational definitions, the number of items, the minimum and maximum factor loadings, and the CAs for each of the constructs are summarised in Table 1. Factor loadings of  $\geq 0.5$  were reported for all factors, providing sufficient evidence of validity for the measuring scales. In addition, CAs of greater than 0.70 (Nunnally, 1978; Peterson, 1994) were reported for six of the factors, suggesting acceptable reliability for the scales used to measure these constructs. *Stimulating*, *Stability and advancement*, *Autonomy* and *Flexibility* all reported CAs of less than 0.70 but greater than 0.50, providing sufficient evidence of reliability.



**TABLE 1**  
**MEASUREMENT INSTRUMENT ANALYSIS**

Operationalisation of factors	Items	Factor loadings	CA
<b>Intrinsic related work values</b>			
<i>Challenging</i> : Requires prioritising and performing activities that are challenging and innovative.	4	Max: 0.761 Min: 0.559	0.727
<i>Stimulating</i> : Requires performing activities that are adventurous, exciting and difficult.	3	Max: 0.497 Min: 0.370	0.608
<i>Stress*</i> : Is a source of worry, tension and constant pressure.	5	Max: 0.792 Min: 0.511	0.700
<b>Extrinsic related work values</b>			
<i>Financial benefit and security</i> : Provides a rewarding income level, allows one to increase personal wealth and provides for retirement income and ensured employment.	6	Max: 0.7334 Min: 0.5459	0.812
<i>Future prospects</i> : Gives one the opportunity to grow personally and professionally.	4	Max: 0.8501 Min: 0.5680	0.742
<i>Stability and advancement</i> : Provides a regular income and stable future, and opportunities for advancement in a chosen field.	3	Max: 0.7114 Min: 0.5492	0.630
<b>Freedom related work values</b>			
<i>Freedom and time</i> : Allows for freedom to vary activities and regulate one's working hours, as well as to have time for friends, family and outside interests.	7	Max: 0.6917 Min: 0.5101	0.783
<i>Autonomy</i> : Allows for working independently and the making of all operational decisions.	3	Max: 0.8388 Min: 0.5361	0.577
<i>Flexibility</i> : Allows for being one's own boss, to operate a business in a manner that one sees fit, and to adapt to changing circumstances.	3	Max: 0.7973 Min: 0.5455	0.500
<b>Social related work values</b>			
<i>Interaction and approval</i> : Requires working closely with others, and allows one to make a contribution to society and gain recognition and approval of others.	3	Max: 0.7874 Min: 0.7448	0.7130
<i>Serving the community</i> : Provides the opportunity to help others, be of service to the community and make the world a better place.	5	Max: 0.7286 Min: 0.5564	0.700

\* Note: Stress is not considered to be a value, but being "stress-free" is. The reverse of this factor is considered a value for the purpose of this study.

## EMPIRICAL RESULTS

### Descriptive Analyses

Descriptive statistics were calculated to summarise the sample data distribution (see Table 2). These included the mean, standard deviation and frequency distributions. For the sake of

brevity, the frequency distribution response categories on the 7-point Likert type scale were categorised as *disagree* ( $1 \leq x < 4$ ), *neutral* ( $4 \leq x < 5$ ) and *agree* ( $5 \leq x < 8$ ).

The work values *Challenging* and *Stimulating* produced mean scores of 6.064 and 5.342. The vast majority of respondents (92.39%) agreed that running their own business would require performing activities that were challenging and innovative. The majority (73.91%) of respondents also agreed that self-employment would involve performing activities that were *Stimulating* (adventurous, exciting and difficult). The variable *Stress* reported a mean score of 4.750, with only 50.54% agreeing that running their own business would be a source of worry, tension and constant pressure. In this study the variable *Stress* was not considered to be a value as such, but being “stress-free” was. The reverse of this factor was considered a value for the purpose of this study.

**TABLE 2**  
**DESCRIPTIVE STATISTICS (N=184)**

<b>Factor</b>	<b>Mean</b>	<b>Std. Dev</b>	<b>Disagree%</b>	<b>Neutral%</b>	<b>Agree%</b>
Challenging	6.065	0.823	1.630	5.978	92.391
Stimulating	5.342	1.139	12.500	13.587	73.913
Stress	4.750	1.170	22.826	26.630	50.543
Financial benefit and security	5.284	1.107	10.326	22.826	66.848
Future prospects	6.189	0.882	4.348	4.891	90.761
Stability and advancement	5.607	1.069	7.608	15.217	77.171
Serving the community	5.725	1.036	3.804	16.848	79.348
Interaction and approval	6.170	0.754	1.630	4.348	94.022
Freedom and time	5.176	1.070	13.043	22.826	64.130
Autonomy	5.611	1.178	7.065	15.217	77.717
Flexibility	5.884	0.874	2.717	7.609	89.674

The work value *Future Prospects* reported a mean score of 6.189, with the vast majority (90.76%) of respondents agreeing that self-employment would give them the opportunity to grow personally and professionally. *Stability and advancement* returned a mean score of 5.607, while *Financial benefit and security* reported a mean score of 5.248. The majority of the respondents (77.72%) agreed that self-employment would provide them with a regular income and a stable future, as well as opportunities for advancement in their field, and 66.85% agreed that running their own business would provide them with a rewarding income, allowing them

to increase personal wealth, provide for retirement income, and ensure employment.

For the work values of *Freedom and time*, *Autonomy* and *Flexibility*, mean scores of 5.176, 5.611 and 5.884 respectively were produced. Of the respondents, 64.13% agreed that self-employment allows one the freedom to vary activities and to regulate working hours, while 77.71% agreed that being self-employed gives a person the ability to work independently and make all the operational decisions for business. In addition to these findings, the great majority of the respondents (89.67%) agreed that self-employment allows one to be one's own boss, to operate a business in a manner that one sees fit, and to adapt to changing circumstances.

The work values *Interaction and approval* produced a mean score of 6.170, and *Serving the community* a mean score of 5.725. The great majority of the respondents (94%) agreed that self-employment requires one to be people-orientated, work closely with others and gain their approval. Most of the respondents (79%) also agreed that self-employment could provide the opportunity to help others and be of service to the community.

### **The influence of demographic variables on the perceptions of self-employment**

In order to establish whether relationships exist between selected demographic variables and the perceptions of self-employment (described in terms of several work-values), an analysis of variance was undertaken. In addition, the post-hoc Bonferroni test was done to identify significant differences between the means scores of the various categories within each demographic variable. The practical significance of these differences was assessed by means of calculating Cohen's *d*. Cohen's *d* values of greater than 0.2 but less than 0.5 reflect difference of small practical significance; values of greater than 0.5 but less than 0.8 reflect difference of moderate practical significance; and values of greater than 0.8 reflect difference of large practical significance (Becker, 2000). The findings relating to the various work values investigated were grouped into four categories, namely intrinsic-, extrinsic-, social- and freedom-related work values.

### **Demographic variables and intrinsic-related work values**

As seen in Table 3, the results of analysis of variance revealed a significant relationship ( $p < 0.05$ ) between the demographic variable *Ethnicity* and the work value *Stress*. The post-hoc Bonferroni test revealed that White respondents ( $\bar{x} = 5.050$ ) scored significantly higher

( $p < 0.05$ ) mean scores than Black respondents ( $\bar{x} = 4.576$ ) for this factor. However, a Cohen's  $d$  value of 0.400 shows that the differences between these mean scores is of small practical significance. No significant difference was reported between White and Coloured/Asian respondents or between Black and Coloured/Asian respondents. No significant relationships were reported between the other demographic variables and *Stress*, or between the demographic variables *Age*, *Entrepreneurial parents*, *Gender* and *Ethnicity* and the variable *Stress*.

**TABLE 3**  
**DEMOGRAPHIC VARIABLES AND INTRINSIC-RELATED WORK VALUES**

<b>Dependent variable: Challenging</b>		
<b>Independent variables</b>	<b>F-value</b>	<b>Sig.(p)</b>
Age	0.9563	0.329487
Entrepreneurial parents	0.6733	0.569489
Gender	2.5174	0.114419
Ethnicity	0.5203	0.595254
<b>Dependent variable: Stress</b>		
<b>Independent variables</b>	<b>F-value</b>	<b>Sig.(p)</b>
Age	1.0748	0.301304
Entrepreneurial parents	1.0423	0.375265
Gender	0.0639	0.800704
Ethnicity	<b>4.0468</b>	<b>0.019160*</b>
<b>Dependent variable: Stimulating</b>		
<b>Independent variables</b>	<b>F-value</b>	<b>Sig.(p)</b>
Age	3.8148	0.052414
Entrepreneurial parent	<b>3.0093</b>	<b>0.031701*</b>
Gender	0.5432	0.462104
Ethnicity	<b>9.0162</b>	<b>0.000188**</b>

(\* $p < 0.05$ ; \*\* $p < 0.01$ ; \*\*\*  $p < 0.001$ )

The results of the analysis of variance reveal a significant relationship between the demographic variables *Entrepreneurial parent* ( $p < 0.05$ ) and *Ethnicity* ( $p < 0.01$ ), and the work value *Stimulating*. The Bonferroni test however, did not support a significant difference between the demographic variable *Entrepreneurial parent* and *Stimulating*. The Bonferroni test did reveal that a significant difference ( $p < 0.001$ ) exists between the mean scores reported by White ( $\bar{x} = 5.688$ ) and Black ( $\bar{x} = 5.024$ ) respondents for *Stimulating*. Cohen's  $d$  (0.603)

reveals this difference to be of moderate practical significance. No significant differences were reported for *Stimulating* between White and Coloured/Asian respondents or between Black and Coloured/Asian respondents.

The null-hypothesis stating that there is no relationship between the demographic variables and *Stress* is accepted for *Age*, *Entrepreneurial parent* and *Gender* but not for *Ethnicity*. The null-hypothesis stating that there is no relationship between the demographic variables investigated and *Challenging*, is accepted for *Age*, *Entrepreneurial parent*, *Gender* and *Ethnicity*. Furthermore, the null-hypothesis stating that there is no relationship between the demographic variables investigated and *Stimulating* is accepted for *Age*, *Entrepreneurial parent* and *Gender* but not for *Ethnicity*.

### **Demographic variables and extrinsic-related work values**

In Table 4 the results of the analysis of variance between the demographic variables and *Financial benefit and security* are presented. No significant relationships are reported between *Entrepreneurial parents* and *Gender* and this work value. By contrast, a significant relationship is reported between *Age* and *Financial benefit and security* ( $p < 0.01$ ) as well as between *Ethnicity* and *Financial benefit and security* ( $p < 0.01$ ).

The post-hoc Bonferroni test revealed that a significant difference ( $p < 0.01$ ) exists between the mean scores reported by White ( $\bar{x} = 4.810$ ) and Black ( $\bar{x} = 5.528$ ) respondents for the work value *Financial benefit and security*. The Cohen's  $d$  value (0.652) indicated that this difference is of moderate practical significance. Furthermore, the post-hoc Bonferroni test also revealed a significant difference ( $p < 0.01$ ) for this work value between the mean scores reported by White ( $\bar{x} = 4.810$ ) and Asian/Coloured ( $\bar{x} = 5.559$ ) respondents. The Cohen's  $d$  value (0.683) indicated this difference to be of moderate practical significance. The post-hoc Bonferroni test revealed no significant difference between the age of the respondent (*Age*) and the perception of *Financial benefit and security* applicable to self-employment.

No significant relationship is reported between the demographic variables *Age*, *Gender* and *Ethnicity*, and the work value *Future prospects* (see Table 4). However, a significant relationship did emerge between the demographic variable *Entrepreneurial parents* and the work value *Future prospects* ( $p < 0.05$ ). The post-hoc Bonferroni test did not, however, support this finding.

It can be seen that from Table 4 that no significant relationships are reported between the independent variables *Age*, *Entrepreneurial parents* and *Gender* and the work value *Stability and advancement*. A significant relationship ( $p < 0.01$ ) is, however, reported between the demographic variable *Ethnicity* and the work value *Stability and advancement* ( $p < 0.01$ ). This result is supported by the post-hoc Bonferroni test which revealed a significant difference ( $p < 0.01$ ) between the mean score reported by White respondents ( $\bar{x} = 5.302$ ) and those reported by Asian/Coloured ( $\bar{x} = 5.991$ ) respondents. A Cohen's *d* value of 0.667 indicates this difference to be of moderate practical significance. No significant difference is, however, reported between White and Black respondents or between Black and Coloured/Asian respondents.

**TABLE 4**  
**DEMOGRAPHIC VARIABLES AND EXTRINSIC-RELATED WORK VALUES**

<b>Dependent variable: Financial benefit and security</b>		
<b>Independent variables</b>	<b>F-value</b>	<b>Sig.(p)</b>
Age	<b>11.9237</b>	<b>0.000697**</b>
Entrepreneurial parents	0.6200	0.602941
Gender	0.0772	0.781519
Ethnicity	<b>9.9103</b>	<b>0.000084**</b>
<b>Dependent variable: Future prospects</b>		
<b>Independent variables</b>	<b>F-value</b>	<b>Sig.(p)</b>
Age	0.1006	0.751487
Entrepreneurial parents	<b>3.4441</b>	<b>0.018027*</b>
Gender	0.0756	0.783624
Ethnicity	0.9739	0.379672
<b>Dependent variable: Stability and advancement</b>		
<b>Independent variables</b>	<b>F-value</b>	<b>Sig.(p)</b>
Age	2.6722	0.103931
Entrepreneurial parents	0.8561	0.465139
Gender	0.0057	0.939796
Ethnicity	<b>5.0449</b>	<b>0.007422**</b>

(\* $p < 0.05$ ; \*\* $p < 0.01$ ; \*\*\*  $p < 0.001$ )

The null-hypothesis stating that there is no relationship between the demographic variables investigated and *Financial benefit and security* is accepted for *Entrepreneurial parent*, *Gender*

and *Age* but not for *Ethnicity*. Support is found for the null-hypothesis stating that there is no relationship between the demographic variables *Age*, *Gender*, *Entrepreneurial parent* and *Ethnicity*, and the work value *Future prospects*. Furthermore, the null-hypothesis stating that there is no relationship between the demographic variables investigated and *Stability and advancement* is accepted for *Age*, *Entrepreneurial parent* and *Gender*, but not for *Ethnicity*.

### Demographic variables and freedom-related work values

The results of the analysis of variance (see Table 5) show that no significant relationship exists between the demographic variables *Age*, *Entrepreneurial parents*, *Gender* and *Ethnicity* and the freedom-related work values. The null-hypothesis stating that there is no relationship between these demographic variables and the work values *Freedom and time*, *Autonomy* and *Flexibility* is thus accepted for all the demographic variables investigated in this study.

**TABLE 5**  
**DEMOGRAPHIC VARIABLES AND FREEDOM-RELATED WORK VALUES**

<b>Dependent variable: Freedom and time</b>		
<b>Independent variables</b>	<b>F-value</b>	<b>Sig.(p)</b>
Age	10.3464	0.101549
Entrepreneurial parents	2.1202	0.099431
Gender	0.9905	0.398634
Ethnicity	0.0035	0.952801
<b>Dependent variable: Autonomy</b>		
<b>Independent variables</b>	<b>F-value</b>	<b>Sig.(p)</b>
Age	3.4626	0.064469
Entrepreneurial parent	0.8306	0.478716
Gender	0.3236	0.808306
Ethnicity	0.0272	0.869244
<b>Dependent variable: Flexibility</b>		
<b>Independent variables</b>	<b>F-value</b>	<b>Sig.(p)</b>
Age	3.5236	0.062185
Entrepreneurial parents	0.1230	0.946445
Gender	0.7911	0.500399
Ethnicity	0.0074	0.931665

(\*p<0.05; \*\*p<0.01; \*\*\* p<0.001)

## Demographic variables and social-related work values

The analysis of variance revealed no significant relationships between the demographic variables *Age* and *Gender* and the work values *Serving the community* and *Interaction and approval*. A significant relationship ( $p < 0.05$ ) is reported between the demographic variable *Entrepreneurial parents* and the work value *Serving the community* but the post-hoc Bonferroni test did not support this finding.

**TABLE 6**  
**DEMOGRAPHIC VARIABLES AND SOCIAL-RELATED WORK VALUES**

<b>Dependent variable: Serving the community</b>		
<b>Independent variables</b>	<b>F-value</b>	<b>Sig.(p)</b>
Age	1.2775	0.259925
Entrepreneurial parents	<b>2.6991</b>	<b>0.047347*</b>
Gender	0.3015	0.583661
Ethnicity	<b>8.3582</b>	<b>0.000343**</b>
<b>Dependent variable: Interaction and approval</b>		
<b>Independent variables</b>	<b>F-value</b>	<b>Sig.(p)</b>
Age	0.292	0.589893
Entrepreneurial parents	1.748	0.267952
Gender	1.325	0.208413
Ethnicity	1.594	0.482399

(\* $p < 0.05$ ; \*\* $p < 0.01$ ; \*\*\*  $p < 0.001$ )

A significant relationship ( $p < 0.001$ ) is reported between the demographic variable *Ethnicity* and the dependent variable *Serving the community*. The post-hoc Bonferroni test revealed a significant difference ( $p < 0.01$ ) between the mean scores of White respondents ( $\bar{x} = 5.307$ ) in comparison to Black respondents ( $\bar{x} = 5.896$ ). The Cohen's d value (0.575) shows that the difference between these means scores is of moderate practical significance. In addition, the post-hoc Bonferroni test also revealed a significant difference ( $p < 0.01$ ) between the means scored by White respondents ( $\bar{x} = 5.307$ ) in comparison to Asian/Coloured respondents (6.063) with Cohen's d (0.713) indicating this difference to be of moderate practical significance.

Based on the analysis of variance, no significant relationships are reported between the demographic variables *Age*, *Entrepreneurial parents*, *Gender* and *Ethnicity* (see Table 6), and



the work value *Interaction and approval*.

The null-hypothesis stating that there is no relationship between the demographic variables investigated and *Serving the community* is accepted for *Age*, *Entrepreneurial parent* and *Gender* but not for *Ethnicity*. Furthermore, the null-hypothesis stating that there is no relationship between the demographic variables investigated and *Interaction and approval* is accepted for all the demographic variables investigated in this study.

## CONCLUSIONS

The primary objective of this study was twofold, firstly to establish employee perceptions of self-employment and secondly to establish whether relationships exist between selected demographic variables and the perceptions that employees have of self-employment. Perceptions were established in terms of several work values.

The results of this study show that mean scores of between 4.75 and 6.19 (7-point Likert-type scale) were reported for the work values under investigation. This finding indicated that respondents agreed that all the work values investigated in this study would be realised in the context of self-employment. The factor *Future prospects* produced the highest mean score, with the vast majority of respondents agreeing that self-employment would give them the opportunity to grow personally and professionally. The great majority of respondents also agreed that running their own business would require them to perform activities that are challenging and innovative (*Challenging*). *Stress* produced the lowest mean score, with only 50% agreeing that running their own business would be a source of worry, tension and constant pressure. This finding was somewhat surprising, given that it is well supported in the literature (Gholipour *et al.*, 2010; Kuratko & Hodgetts, 2007; Blanchflower, 2004) that running an own business can be very stressful. With the exception of *Stress*, the descriptive findings of this study appear to suggest that the perceptions that employees have of self-employment correspond with the description thereof in the literature.

An analysis of variance was undertaken to establish whether relationships existed between selected demographic variables and the perceptions of self-employment in terms of the various work values. Further to the analysis of variance, the Bonferroni post-hoc test was conducted to identify significant differences between the means scores of the various categories within each

demographic variable. Cohen's *d* was calculated to assess the practical significance of these differences.

No relationships were found between the perceptions of self-employment and the demographic variables *Gender*, *Age* and *Entrepreneurial parents*. As such no differences exist in the way males and females, young and old, or those with and without entrepreneurial parents, perceive self-employment. The findings with regard to *Gender* concur with those of Kakkonen (2010), whereas those relating to *Age* and *Entrepreneurial parents* contribute to the lack of theory on the relationships between these demographic variables and perceptions of self-employment.

The results of this study do, however, show that *Ethnicity* is related to the perceptions of self-employment held by employees. For example, a significant relationship between the demographic variable *Ethnicity* and the work value *Challenging* was reported. White respondents perceived self-employment as having to prioritise and perform activities that are challenging and innovative, more than Black respondents did. Furthermore, a significant relationship was found between the demographic variables *Ethnicity* and *Stimulating*. White respondents perceived self-employment as having the ability to perform activities that are adventurous, exciting and difficult, more than Black respondents did. These findings concur with those of Duffy and Sedlacek (2007) who reported that Whites were more likely to express values such as independence, intellectual challenge and stimulation than African or Asian Americans were.

The findings of this study demonstrate a significant relationship between the demographic variable *Ethnicity* and the work value *Financial benefit and security*. Other ethnic groups perceived that self-employment would offer a rewarding income level that allowed them to increase personal wealth and provide for their retirement, as well as providing ensured employment, more than White respondents did. This finding concurs with those of Köllinger and Minniti (2006) who found that Black Americans had more optimistic perceptions of self-employment than their White counterparts. The results also concur with the findings of Duffy and Sedlacek (2007), who reported that African and Asian Americans were more likely to express values such as financial remuneration and job security than Whites were.

The results of this study revealed a significant relationship to exist between the demographic variable *Ethnicity* and the work value *Serving the community*. Other ethnic groups perceived that self-employment would give them the opportunity to help others and be of service to the community, more so than White respondents did. These results concur with those reported by

Farrington *et al.* (2011) who found that in terms of the work value *Serving the community*, Black students perceived that self-employment would enable them to assist others and be of service to the community more than White students did. No significant relationships between *Ethnicity* and the work values *Freedom and time*, *Flexibility* and *Autonomy* were reported.

## IMPLICATIONS

Although the perceptions that employees have of what self-employment is like, appear to correspond with the description thereof in the literature, this finding does not imply that self-employment is a career option that they would pursue. Furthermore, the extent to which the perceptions that employees have correspond with how their employers experience self-employment has also not been established in this study.

As such, the findings of this study confirm the verbal concern expressed by many self-employed people, namely that their employees think that they make a lot of money. More than 68% of respondents perceived that self-employment would provide them with a rewarding income that would increase their personal wealth and provide for their retirement. It is interesting that employees of certain ethnic groups perceived this to be the case more than others did.

If a person perceives a certain activity to be challenging and stimulating, one would expect that person to be interested in engaging in that activity. Employers should take note of this finding because employees with perceptions that self-employment is stimulating and a challenge, are those that could potentially start up their own business in the future, and become possible future competitors. Future research could, shed more light on this topic.

Knowing something of the perceptions that employees have of self-employment could provide individuals who are self-employed with insights into why employees react or behave in certain ways when decisions are made, especially decisions relating to wages and bonuses. Employees with unrealistic perceptions of the profits being made are likely to react adversely when lower than expected wage increases and bonuses are announced. Similarly, unrealistically low perceptions of the responsibilities carried or stress experienced though self-employment could result in individuals not suited to self-employment embarking on such careers.

Realistic perceptions of self-employment are important if employees are going to remain satisfied with their positions as employees. It is important that realistic perceptions of what it is like to be self-employed be created among the inhabitants of a country. Unrealistically positive perceptions could lead to frustration, jealousies and dissatisfaction among employees, whereas unrealistically negative perceptions could discourage individuals from pursuing such careers.

## **LIMITATIONS AND FUTURE RESEARCH**

The entrepreneurial attributes *Stimulating, Stability and advancement, Autonomy* and *Flexibility* all reported CAs of less than 0.70. Although “sufficient” evidence of reliability is provided for the scales measuring these factors, future studies should attempt to improve these scales by eliminating redundant items. Given that convenience sampling was adopted to identify potential respondents to participate in this study, the findings cannot be generalised to the population as a whole. The results of this study should also be interpreted in light of the small sample size (184). More comprehensive databases from which probability samples can be drawn and a larger sample size should be sought for use in future studies. Investigating whether employees’ perceptions of self-employment differ from those of their employers could shed some light on the behaviour of employees as well as on their attitudes towards their employers. Furthermore, whether perceptions of self-employment influence intentions of employees to become self-employed, is also a research avenue worth further investigation.

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## **EMPOWER THE FUTURE: A CULTURE OF EMPOWERMENT – THE NEXT PHASE IN ORGANISATIONAL EFFECTIVENESS**

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### **ABSTRACT**

In a world where today's technology is yesterday's news, organisations will need to empower their employees to be nimble and to become organisational change enablers in order to ensure the organisation has the ability to manage and adapt to the huge competitive pressures. These pressures are further exacerbated by the rapid evolution of technological advances and the rapid deconstruction of global boundaries. Continued process improvement projects, business process re-engineering and escalating cost reduction pressures are now the normal cognitive activities which occupy senior managers in their day-to-day routines. This is a world which is moving too fast for traditional managers; managers who believe that the only way to manage employees is by enforcing discipline and setting clear boundaries to ensure strict control over them. The new world dictates that our future leaders evolve into transformational managers, where trust and freedom to act defines the manner in which employees work. It is not just gloom and doom for organisations and their employees. With the rapid technological changes comes the availability of information, new innovative management methodologies and radically enhanced 'out of the box thinking' that will provide the foundation for analysing customer needs and assist the organisation to respond quickly to customer demands and future pressures. This article aims to review how one potential solution for these growing pressures; Employee Empowerment Practices and Principles, could provide the answers on how to manage these challenges. This article will explore the notion of empowerment; the way in which management can regulate employee empowerment practices, its impact on workplace relationships and review different practical implementation models that could be utilized within an organisation.

## **Introduction**

Any organisation's competitive advantage will be a temporary one; determined only by its flexibility and ability to utilise innovative ideas on how to compete more effectively. Increased competitiveness is pushing organisations to ensure that they fully and optimally utilize all their resources, particularly their human resources. Human resources hold the key to speed, service quality and productivity which ultimately provide the organisation with its competitive advantage (Molleman, van Delft, and Slomp, 2001). Empowerment, a buzz word of the 90's, holds the answer (Cook and Macaulay, 1996). A culture of empowerment through which leaders can utilize their employee skills, knowledge, experience and innovative ideas can provide a future competitive advantage. This same culture of empowerment which is built on the fundamentals of organisational effectiveness has the potential to ensure an organisation's future successes. Why then have empowerment practices not been implemented and why has it merely remained a buzz word of the 90's? (Cook and Macaulay, 1996). The answer to Cook and Macaulay's (1996) statement could potentially be determined by the view that empowerment is complicated and that it is constructed from different elements within the organisation. Leadership styles, implementation methodologies and employee acceptance or rejection of these empowerment elements could lead directly to a successful or unsuccessful adoption of empowerment practices. Even a simple and accurate definition of what empowerment actually means to an organisation and its employees remains an enigma to most managers. Thus the first fundamental step in the process of solving the conundrum that surrounds empowerment would be to define and clarify what it actually is.

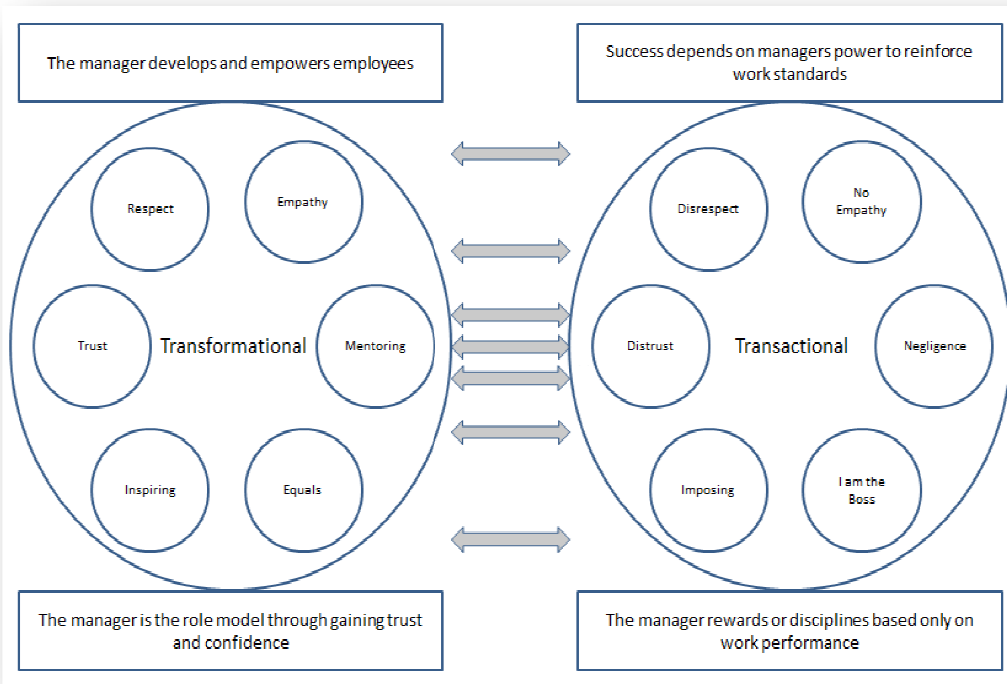
## **Empowerment**

Empowerment, as defined by Business Dictionary (2011), is a management practice through which management shares information, rewards employees and grants power to employees so that they can make decisions, solve problems and improve organisational service, quality and ultimately increase the overall business performance. This practice is based on a concept of improving employees' skills, providing them with the required authority and opportunities to become responsible and accountable for the outcomes of their own actions (Business Dictionary, 2011). These practices will entail process re-engineering, technology driven job related tool implementations, employee competencies, self-determination, job significance, job involvement and operational governance guides to create the framework in which employees can function with freedom and have the ability to act and respond to customer needs (Lashley, 1999). Empowerment essentially means having a sense of personal power and freedom to make certain business decisions and that management

supports and trusts the employees' decision-making abilities. Empowerment can be defined as a psychological empowerment which focuses on the personal emotional feelings which employees have experienced. Empowerment could also be a physical empowerment whereby employees feel empowered through the implementation of business processes and tools which improve work stream productivity. Empowerment practices demand that managers trust their employees and encourages that managers allow their employees to be more participatory and thus take ownership of their tasks (Velury, 2005). Employees should be the M.D. of their own jobs; fully responsible and accountable for the efficiency and completion of their daily tasks (Smith, 1997). Lashley (1999) clearly defines employee empowerment as a management technique which produces a win-win situation for all. It is the empowerment of the individuals and teams that will create the sense of ownership and ensure total commitment of the individuals towards achieving the organisational goals and objectives which will ultimately impact on the organisational effectiveness. To ensure that individuals succeed, they would need full autonomy with regard to decision making concerning job design elements, problem solution implementations, budget management, and future recruitments (TATA, 2000). This autonomy or sense of ownership must be granted by management, the organisational leaders, and it will be these leaders that must create the climate or culture which will support employee empowerment.

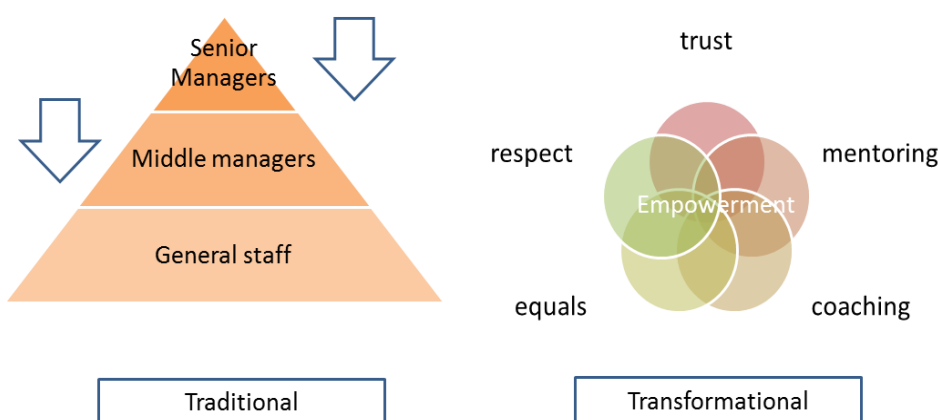
### **Leadership Styles and Empowerment**

The managers will be the key to the successful adoption of empowerment practices and it will be the managers who are challenged to change their old and outdated practices of control and discipline, a management style that they have relied upon to ensure their success. Jogulu and Wood (2007) stated that there are two basic types of leadership: transactional or transformational leadership styles. The belief is that if the manager utilizes a transactional style, they would prefer their employees to remain un-empowered, rewarding or disciplining them only on a work performance measurement. These managers perceive that success is only achievable through their own power to reinforce work standards and to ensure that employee focus remains within this predefined framework (Jogulu and Wood, 2007).



**Figure 1 - Leadership Styles (Adapted from Jogulu and Wood, 2007)**

The constructs which make up the two styles are, as seen in Figure 1, visibly represented as a huge paradigm shift for managers to be able to create the empowerment within their employees. The transformational managers set themselves up as role models by gaining their employee's trust and confidence in them as being good leaders. Transformational leaders believe in developing and growing their employees, empowering them to excel beyond their own abilities. The team dynamics visible in an organisation which employs transformational leadership styles, as seen in Figure 2, indicates the implementation of a matrix structure versus the more traditional hierarchical structure which focuses on the transactional style of management.

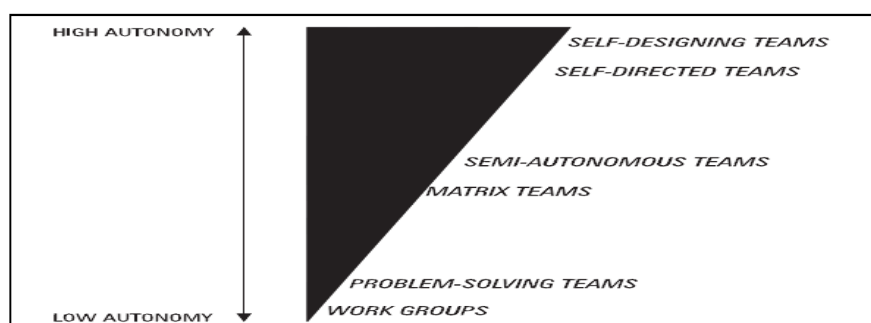


**Figure 2 - Traditional versus Transformational (author derived)**

Empowerment practices demand that managers trust their employees and encourages that managers allow their employees to participate more and take ownership of their tasks (Velury, 2005). Employees should be the Managing Director (M.D.) of their jobs and should thus be fully responsible and accountable for the efficiency with which they complete their daily tasks (Smith, 1997). Traditional or transactional managers manage by enforcing discipline and setting clear boundaries to ensure strict control over their employees. Future leaders must evolve into transformational managers where trust and freedom to act defines the manner of work (Jogulu and Wood, 2007). Managers have the authority to change processes and to ensure process improvements but they are blind to the real issues and barriers which exist. Empowerment practices challenge the ingrained manager’s beliefs and attitudes with regards to control and task execution. Managers must entrust the future organisational effectiveness and successes into the control of their employees. Organisational effectiveness can thus be increased by means of implementing employee empowerment practices which will also render an improvement in the quality of the work/life balance for employees (Molleman van Delft and Slomp, 2001).

### **Empowerment and Organisational Effectiveness**

The success of any organisation will depend on the levels of autonomy that each individual and team member is granted and, if correctly implemented, it will increase the team’s and employee’s effectiveness by increasing their sense of responsibility and ownership, (Tata, 2000). Figure 3, indicates the different levels of autonomy which should be reviewed when implementing employee and team empowerment practices.



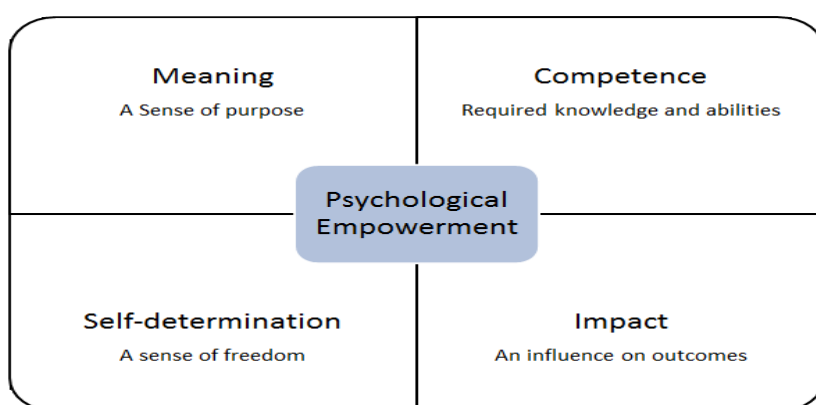
**Figure 3 - Levels of Autonomy (TATA, 2000)**

Molleman, van Delft and Slomp (2001) stated that the empowerment of employees is most often considered as an efficient way to improve organisational effectiveness whilst improving the quality of the working experience for the employees. Empowered employees will ultimately act as if they are self-employed thus becoming responsible for their results and careers. Organisational management must focus on psychological empowerment when implementing empowerment

practices (Stander and Rothmann, 2009). These practices will need to include process re-engineering, technology-driven job-related tool implementations, employee competencies, self-determination, job significance, job involvement and operational governance guides to create the framework within which employees can function with freedom whilst having the ability to act and respond to customers' needs (Lashley,1999). Employees have ideas and abilities to solve problems in the day-to-day execution of their jobs (Molleman, van Delft and Slomp, 2001). Employees must also feel empowered and be free to take opportunities without referral to management. Empowerment can unleash employee power and innovation which can lead to the generation of more ideas. The fundamental concepts of Six Sigma methodologies are to involve employees more regularly in their day-to-day processes and the redesigning of these processes in order to ensure that the processes become more effective and efficient. Employees ultimately have the knowledge to make improvements to processes and thus ensure organizational effectiveness. Employees must be psychologically empowered through practices which highlight the meaning and the impact which they have on the results of the organisation and on customer satisfaction (Coleman, 1996).

### Psychological Empowerment

Psychological empowerment leads to more committed and motivated employees through the creation of a sense of reason or meaning or purpose for why they do what they do. Spreitzer, 1996 defines four factors, as seen in Figure 4, which influence psychological empowerment in the individual and states that for an organisation to achieve psychological empowerment the organisation must address these factors.



**Figure 4–Four dimensions of psychological empowerment (Adapted from Spreitzer, 1996)**

The model defines psychological empowerment as a construct which is made up of four cognitions: meaning, competence, self-determination and impact. These four dimensions combine additively to create an overall construct of psychological empowerment. Kuo, et al. (2009) focused their study on

the psychological mindset of employees. Kuo, et al. (2009) defined employee empowerment as the ability of employees to find meaning in their work role, to feel competent, feel self-determined and finally the personal realization that they have an impact on the organisation business results. They stated that multiple research studies had focused on the psychological elements to determine if employees are empowered, but that these studies had not verified that when employees felt psychologically empowered they would display empowered behaviors. Kuo, et al. (2009) also stated that it was not the employee's cognitions that reflected their levels empowerment but that it was the employees understanding of their meaning, purpose, self-determination and impact which they have on the organisation that reflected the behaviors of empowerment.

The "meaning" dimension reflects a sense of purpose and provides the employees with the feeling of being connected to their jobs. The "competence" dimension indicates that individuals feel and believe that they have the required knowledge and abilities to complete their jobs successfully. The third dimension, "self-determination", reflects a sense of freedom; a freedom which the individual has in order to complete their jobs in the manner which they choose. The last dimension, "impact" describes a belief that the employee has an influence on the outcomes and results of the organisation. If the organisation wants to improve its chances of success in the implementation of empowerment practices, which will render optimal business results, they must ensure that the practices are well supported. In order to ensure that employees are able to act empowered, they will need job performance related information, be rewarded accordingly as well as have the skills and knowledge to make decisions (Duvall, 1999).

Kirkman and Rosen (2000) state that an organisation could achieve individual psychological empowerment through the implementation of team psychological empowerment dimensions. Figure 5 illustrates these team empowerment dimensions.

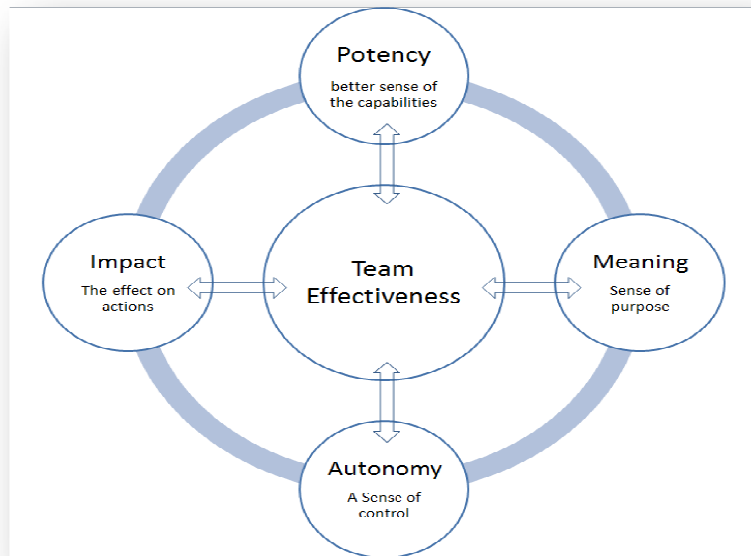


Figure 5- Four Dimensions of Team Empowerment (Adapted from Kirkman and Rosen, 2000)

An organisation could thus achieve individual empowerment through the implementation of these team effectiveness dimensions (Kirkman and Rosen, 2000). The four dimensions will provide the building blocks to render the individual with the feeling of psychological empowerment. The work team is defined as a group of individuals working towards a common goal and the individuals being mutually accountable for the outcomes (Kirkman and Rosen, 2000). The team members share information, support each other's weaknesses, share knowledge and ultimately enable each member to achieve their full potential. The team members will then achieve the first dimension; a sense of potency or personal confidence. The second dimension; a sense of meaning, will be evident in the team's strong collective commitment and focus to achieve their common goals. The team will now share the same understanding of their collective impact on the organisation and that the success of the team determines the successes of the organisation. Kirkman and Rosen (2000) highlight that it is the level of autonomy which ultimately shapes the team's sense of psychological empowerment. The team must have the ability and freedom to act and control their activities. Psychological empowerment is the next step in the evolution of an organisational culture of empowerment. The organisation might implement informal and formal empowerment practices but if the individual does not have the sense of personal empowerment, these practices will fail.



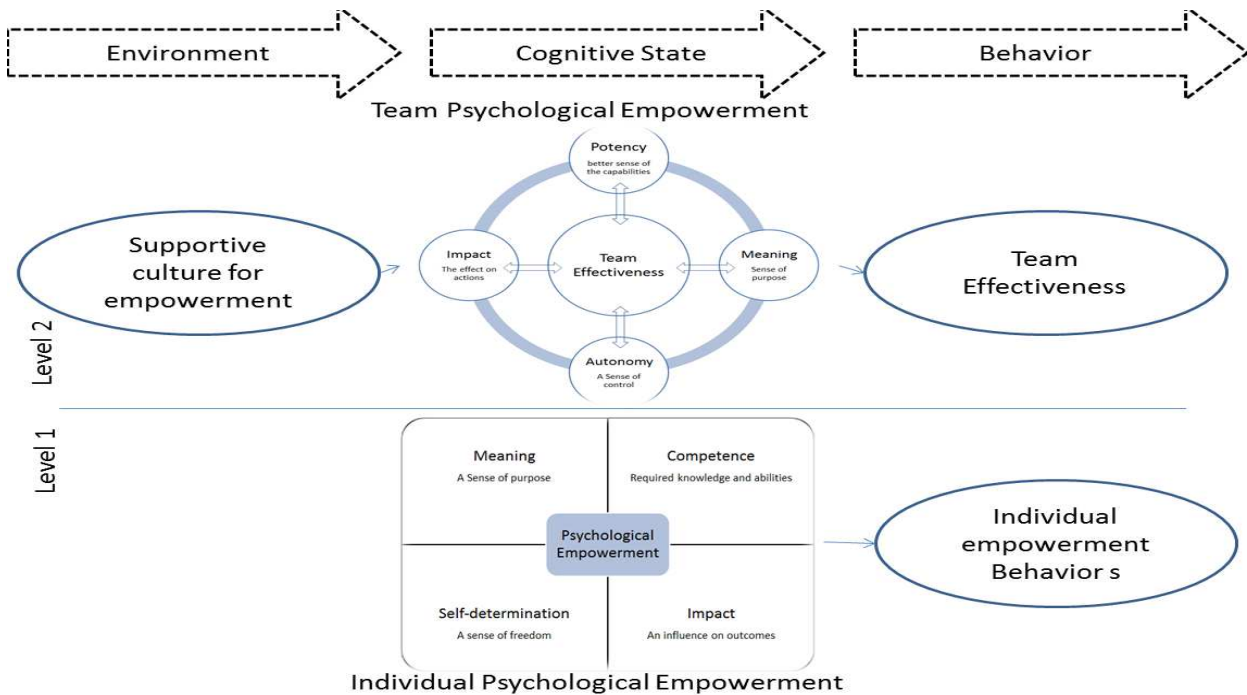
## **Implementing Empowerment Practices**

There is no magic formula that will ensure empowerment. The organisations will need to strategically review some fundamental organisational components to assist them with the successful implementation of empowerment practices; components such as job design, reward systems and the nature of management (Bhatnagar and Sandhu, 2005). Rewards systems are critical to ensure that employees will be challenged to become empowered. The organisation can change the employee's behaviour through recognising and rewarding them when they behave in an empowered manner. The next component critical for empowerment, is the organisations managers and how they motivate or support the empowerment practices. Employees cannot function in an empowered manner if the managers do not allow them the autonomy to do so. These managers are the future transformational managers and it will be they that will define the range of freedom, trust and individual levels of autonomy and ultimately create empowerment (Jogulu and Wood, 2007).

Blanchard, Carlos and Rando (1999) denoted 3 keys for empowerment to ensure that the employees succeed and achieve the goals set for them. These keys are also critical to ensure that empowerment practices are successfully implemented within the organisation. Sharing of information, autonomy of the employees and organisational structures are the implementation keys for empowerment practices and without these elements employees will not be able to be empowered. The process of defining the employee's competencies and the skills needed to be empowered must be based on their daily tasks and decision-making responsibilities. An organisation must focus on organisational development elements such as effective change management processes in order to succeed in implementing empowerment practices and initiatives. The organisation must ensure that their strategic business goals and objectives are aligned to the empowerment practices and programmes selected by them. The final element to ensure the successful implementation of these practices is to ensure that the correct framework is selected; a framework based on international best practices and relevant to the industry.

Pelit et al. (2011) states that organisations must implement and adopt necessary management techniques such as employee motivation, trust and communication to support employee empowerment. If organisations implement effective communication channels, this will lead to openness, honesty and ultimately trust; the cornerstone of empowerment. Trust will ensure that the organisation removes the old forms of control and creates the desired environment of empowerment. Seibert et al. (2004) provides a process (Figure 6) through which an organisation

could achieve empowerment. The framework consists of three multidimensional elements namely environment, cognitive state and behavior.



**Figure 6–Multidimensional Framework (adapted from Siebert et al. 2004, Kirkman and Rosen, 2000, Spreitzer, 1996)**

The complexities and multidimensional elements of empowerment are now simplified in the conceptual model (Seibert et al. 2004). The model incorporates the creation of a culture which will support empowerment then focuses on the achievement of psychological empowerment of the employees, teams and their managers which will ultimately create the behaviours which the organisation wants.

“Empowerment works best when there is an emphasis on organisational learning, incorporating the sharing of information and self-control according to performance feedback” (Coleman, 1996). Coleman (1996) also provides a framework through which an organisation could achieve the implementation of empowerment practices. Figure 7 critically starts by identifying the driving forces which have an impact on the organisation and its competitive advantage. The framework then indicates potential empowerment design concepts including organisational design, job design theories, and psychological empowerment practices. The framework completes the cycle by highlighting the importance of information, trust and collaboration with regards to the employees.



**Figure 7 - Implementing Empowerment (Adapted from Coleman, 1996)**

Empowerment according to Duvall (1999) must thus have the following components: the freedom to act, where the managers allow the employee to make their own decisions; then a level of commitment, where managers believe that the employees will be committed to their tasks and drive the successful execution of said tasks and lastly the sense of collaboration, whereby managers and employees must be simultaneously involved in ensuring the success of the processes. It will be through these components that the managers could create a supportive environment and ensure the successful implementation of empowerment.

### **A Supportive Empowerment Culture**

The first fundamental element is thus the creation of an environment or culture which will allow for the implementation of the empowerment practices. Brown and Harvey (2006) state that the organisation must define jobs which will support the new culture of empowerment and that the organisation must analyse the following 5 core job characteristics to achieve this new environment.

- Task identification – the task must be clearly defined: where does the task begin and where does it end? The employee must know the range and responsibilities relevant to the task.
- Task significance – what is the impact of the task on the lives of other employees and which other processes are affected by these task activities?
- Skill variety – define the types of skills and competencies required to complete the task.

- Autonomy – the power to manage and action the task without referring decisions back to the manager.
- Feedback – managers must provide feedback on a regular basis to guide employees with regards to what they are doing well and what would require improvements. The information must be relevant and focused on the measurements related to the tasks (Brown and Harvey ,2006).

Once the roles and jobs have been defined, the organisation must decide on the level of employee empowerment which should be implemented in order to support empowerment practises. Empowerment can be implemented on a suggestive, job involvement and ownership level (Brown and Harvey, 2006). Empowerment is not a quick fix for the organisation; it takes time, high levels of management commitment and it must be monitored. Empowerment does not mean that employees do whatever they feel like; it will need rules and governance. Brown and Harvey (2006) recommended that organisations establish employee empowerment and highlighted that a shared vision is critical to ensure the successful implementation of these empowerment practices. Brown and Harvey (2006) also focused on the human psychological elements such as; pride, self-respect, trust, responsibility and competencies.

The organisation should focus on creating a learning environment that focuses on developing their employees whilst creating an organisational culture that supports the empowerment practices (Sarkar, 2009). Sarkar (2009) states that the employee should be the judge and have the capabilities to make the right decisions without referring to top management. Organisations should see employee learning and education as an investment and not as an expense thus allowing the organisation the opportunity to utilise fully the potential power that individuals could provide. The employees must also receive the correct training and knowledge to be empowered. They must be given the necessary skills and competencies to be able to make the correct decisions and choices in their daily tasks. The success of an empowerment program will depend on how effectively the needs of employees are integrated into the organisational vision and goals. Brown and Harvey (2006) defined genuine empowerment as the result in concern, commitment, interest and responsibility that the employees reflect in their day-to-day tasks. An organisation can create this level of integration through the alignment of their empowerment practices to the organisational vision and strategic goals. If the organisation can achieve this supportive culture for empowerment through the re-engineering of the job characteristics, the implementation of continuous learning and effective

training interventions, the final step would be for the organisation to ensure alignment of these elements to their overall future vision and goals of the organisation.

### **Empowerment and the Organisational Goals**

There is no magic recipe that can be used to ensure successful implementation. An organisation will need to define a strategy and then slowly introduce the concepts and ideas of what empowerment means for the organisation and its employees. The implementation of autonomy is critical and focuses on the levels of trust that managers have in their employees and the managers willingness to let go. The traditional manager might find this very difficult to do as they were taught that control and discipline are critical for ensuring that employees do what is expected of them and that organisational goals are achieved (Duvall, 1999). The sharing of information is the most important element of empowerment. Employees must receive the information to analyse customer needs and to be able to make required decisions. The organisation must also review their rewards and recognitions system and ensure that these motivate and encourage their employees to take ownership (Kirkman and Rosen, 2000). Through these recognition practices, the organisation will thus ensure that employees remain focused on the organisational goals.

Employees must have the sense of being their own boss and feel that they are the CEO's of their jobs and responsible for the organisation results. The organisational structures must also be changed to reduce the hierarchical levels and de-layer the structure to support and enable the empowerment practices. An organisation must be aware of the risk of a 'big bang' approach. Empowerment is a cultural paradigm shift that requires time and a new way of thinking. Kirkman and Rosen (2000) stated that employees must have a high problem solving ability and the ability to think 'outside the box'.

In this instance, less is more. A clearly defined operational governance rule book must be provided and it must clearly indicate where employees' decision-making powers start and end with regard to each task which they are responsible for. The organisation must retain some form of constraint and guide employees in the decision-making processes to ensure alignment to the organisational goals (Lashley, 1999). The final point that the organisation must remember is that there is no half way; it is all or nothing, and an organisation must take a leap of faith. Now that the employees are empowered the organisation still needs to ensure that it meets the needs of the customers and shareholders. Any organisation that has implemented empowerment practices must monitor business results and survey the employees to ensure all is going well (Molleman, van Delft and

Slomp, 2001). The organisations can periodically survey their employees on a psychological level by using questionnaires to determine the employee job satisfaction and motivational levels. The organisation must also monitor and review customer satisfaction levels and ensure that employees achieve their set targets.

### **Measuring Empowerment Successes**

The final element that needs to be highlighted would be the motivational factors that would drive the organisation to implement the practices. Customer's satisfaction scores directly influence the business results and should therefore become the main measurement which will indicate positive or negative results of the empowerment practices. The organisation should also focus on measuring and monitoring elements such as employees' skills; experience and competencies must be well defined and monitored to ensure the correct supportive climate exists within the organisation. The organisation must also ensure that they support their employees and keep them well informed. It is thus relatively easy to measure the overall results of empowerment through the business results but the true difficulty is to measure the level or amount of empowerment which the employee experiences. The overall results which empowerment practices have on the organisation can be measured through defining clear and undisputed financial or customer satisfaction results that the organisation wants to achieve. The organisation must then measure and monitor these measurements to ensure that empowerment is not negatively impacting their organisational goals. Organisations will find it difficult to measure the actual empowerment felt by employees. How empowered are you? The measurement could be based on a perception or a feeling of empowerment. An organisation must implement an empowerment evaluation framework to determine firstly, the levels of perceived empowerment within an organisation and secondly, as previously mentioned, to measure the direct impact of these practices on the organisational results and effectiveness. All organisations strive to achieve outstanding employee performance and thus employee performance can be viewed as the most important success factor for any organisation (Meihem, 2004). Organisations have always struggled to implement the practices and processes that will enhance employee performance (Avis et al. 2002). The relationship between empowerment, conscientiousness and employee performance has not yet been researched in a South African work context, and even the best intended practices will not ensure the successful implementation of empowerment practices: (Sutherland, De Bruin and Crous, 2007). South African organisations must firstly investigate and understand the importance the relationship between employee performance, conscientiousness and empowerment and only through this knowledge can they become more

competitive (Sutherland, De Bruin and Crous, 2007). Employee performance could be defined as a multi-dimensional construct or behaviours related to the goals of the organisation. Employee performance can furthermore be conceptualized as an indication of how well employees complete their tasks, their level of innovation or creativity, and how they resolve work related problems (Sutherland, De Bruin and Crous, 2007). Two clear and distinct components exist within the concept of employee performance; contextual performance and task performance (Sutherland, De Bruin and Crous, 2007). Contextual performance is defined as the contracted activities that the employee must perform to ensure the achievement of the organisational goals and objectives; the defined financial goals and objectives (Sutherland, De Bruin and Crous, 2007). Elements such as helpfulness, adhering to rules and procedures, supporting organisational objectives and their willingness to cooperate define what employee contextual performance behaviours are. The second component, task performance, focuses on the specific job related activities such as the products and services produced by the employees. Task performance can thus be summarised as the cognitive variables and contextual performance as the personality of the employees. (Sutherland, De Bruin and Crous, 2007). Conscientiousness has been identified as the best trait predictor of contextual performance in the workplace (Sutherland, De Bruin and Crous, 2007). Conscientiousness can be measured in the individual's levels of perseverance, their levels of responsibility, accountability and how they organise themselves. Facets which define conscientiousness are elements such as order, self-discipline, effort, dutifulness and prudence. An employee with a high level of conscientiousness acts purposefully, is strong willed and detail oriented. If conscientiousness is defined by the levels of accountability and responsibility the next logical step would be to create an environment that allows the employee to pursue and act upon these inherent strengths; a culture of empowerment (Sutherland, De Bruin and Crous, 2007). Organisations should create a supportive culture which allows employees to increase their levels of conscientiousness and allow them to act upon these elements. Empower them to be more conscientiousness (Sutherland, De Bruin and Crous, 2007). Organisations could thus measure the levels of empowerment experienced by the employee by measuring the levels of conscientiousness which are displayed by the employees in their daily tasks. Successful empowerment practice will ensure a positive increase of employee accountabilities and responsibilities to their daily tasks, ultimately, increasing organisational effectiveness.

## **Conclusion**

The multi-faceted dimensions of empowerment are clear. The organisation must be willing to empower people and the employees must be willing to be empowered. It is this mixture of human

and business practices which provides the potential answer to the mystery around why empowerment practices are not implemented in more organisations. An organisation has clear goals and objectives and if the human resource elements are not supportive of these goals, failure is imminent. Employees must obtain a sense of psychological empowerment through the trust and freedom given to them by their managers.

The organisation must be the first to respond through its willingness to implement these practices. An environment which supports empowerment practices must be created; future managers must become transformational leaders and drive this change throughout the organisation. Once the culture is created, the cognitive state must be established. Employees must feel psychologically empowered. They must have the tools, managerial support and personal skills needed to make themselves feel empowered. Team effectiveness through a sense of team autonomy and a personal sense of self-determination must be established within the organisation. Empowerment practices do not simply mean that management can sit back and let the employee run the organisation. Clearly defined measurements and monitoring techniques are critical for success. Empowerment practices drive continuous process improvement initiatives and will provide the organisation with innovative ideas to ensure future success. Once the organisation has achieved the desired state of empowerment they need to institutionalise these practices through positive reinforcement. The organisation must implement new reward and recognition systems to create a supportive framework for empowerment. Organisations must ensure they drive the correct employee behaviours and that this creates the sense of “I am empowered” and not the sense of “I am in power”.

In conclusion, empowerment can be defined as a dynamic relationship between the organisation, its managers, its employees, its tools, its business processes and the common shared vision of the future. Empowerment is a relationship built through trust between all these elements within the organisation and if one element is missing, empowerment will fail.



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# **IMPACT OF LOW INTEREST RATES ON ASSET MANAGEMENT: THE CASE OF A SOUTH AFRICAN ASSET MANAGEMENT COMPANY**

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## **ABSTRACT**

This study is aimed at determining how an asset manager deals with the impact of low interest rates on the management of their portfolios and what measures can be implemented to maintain satisfactory returns for clients. The research objectives of this study were to understand the impact that low interest rates has on an Asset Management Company; to determine how the Asset Management Company manages to provide/maintain satisfactory returns to clients during a low interest rate period and how the Asset Management Company manages client expectations. The conclusions were that asset managers cautiously manage exposure of portfolios in the currently volatile investment environment. Although the existence of uncertainty is almost inevitable, clients need some form of reassurance especially in financially difficult times. Positioning and asset allocation remain as the prime focus for asset managers in order to maintain satisfactory returns for clients.

## **INTRODUCTION**

Economic history shows that world economies in the past have experienced high interest rate environments when most economies were in their growing stages (Miglietta 2010:1). However, in the 21st century most world economies have reached or passed their maximum growth levels and growth levels are starting to decline. Low interest rates are a way to stimulate spending especially after the ‘Great Financial Crisis’ that started in late 2007. In the case of low interest rates, asset managers can be the “losing party” as the returns that they are currently receiving from portfolios such as money market investments, bonds and even in some cases equity

portfolios, are less than ideal (Paine 2010:1). This study will attempt to add to the body of knowledge in terms of how asset managers can best deal with low interest rates in the 21<sup>st</sup> century by highlighting the alternative options that an asset manager can utilise for portfolio optimisation.

Info Trak (2012) reports that lower interest rates make it easier for citizens to borrow in order to buy motor vehicles and homes, and stimulate the demand for other items, such as furniture and appliances, thus providing an additional boost to the economy. Lower interest rates mean that consumers spend less on interest costs, leaving them with more of their income to spend on goods and services.

Interest rates in South Africa had declined by 6% since December 2008 to 2010 to their lowest level in decades (Du Preez 2010:7). A further decline of 0.5% to a repo rate of 5.5% was announced by the reserve bank at the July 2012 meeting of the Reserve Bank (Schnehage & Planting, 2012). Property achieved a return of 29.62%, equity 18.98%, bonds 14.96% and preference shares 13.6% in 2010 (Stokes 2011:1). Asset managers report that money market investors are likely to gain one percent real return and a further negative real return after paying tax on returns. According to Du Preez (2010:7), the expectation for another cut in interest rates appeared very minimal in 2010; however analysts felt that interest rates will remain at historically low levels in the short to medium term. The extent of economic improvement differs in various sectors during a low interest rate environment (Du Preez 2010:7).

Low interest rates reduces the return on conservative asset classes. The inflationary pressures are also experienced differently depending on an individual's socio-economic position, however for returns on savings socio-economic class is no differentiator. It is noted by looking at the 2010 asset returns in South Africa that property, equity, bonds and prime-linked preference shares are some of the best classes to invest in as opposed to cash investments. In the opinion of asset managers, investors have to take on higher risks to improve their gains on their cash investments, as cash investment returns tend to be inversely correlated with interest rates (Stokes 2011:1).

Lowering interest rates makes portfolio management services on fixed-income instruments less attractive and as a result reduces the portfolio managers' advantage (Vasudevan 2009:1). This further jeopardizes capital preservation because capital protecting schemes using fixed-income instruments to lessen losses do not serve as an efficient investment strategy in a low interest rate environment (Vasudevan 2009:1). Capital preservation is very important for clients who want certainty in the way that their assets are invested and low interest rates do not make it easy for asset management companies to perform optimally for their clients (Allan Gray 2011:24). Therefore, this study is geared towards finding out how an asset management company deals with the impact of low interest rates on its portfolio management, as well as determining the best investment alternatives to use in a low interest rate environment are.

This article aims to analyse the impact of the low interest rates on an asset manager's decision making and asset allocations. The researchers aim to observe the impact on asset managers' decisions in a low interest rate environment, whether the impact is positive or negative and what decisions the asset manager makes in order to maintain returns for clients and ultimately meet client's expectations.

## **RESEARCH OBJECTIVES**

The researchers aim is to determine how an asset manager deals with the impact of low interest rates when managing portfolios and what measures may be implemented to maintain satisfactory returns for clients.

To achieve this aim, the core objectives of this paper are:

- To analyse the impact that low interest rates have on the Asset Management Company
- To determine how the company manages to provide/maintain satisfactory returns to its clients in a low interest rate environment; and
- To determine how the Asset Management Company manages client expectations and the extent to which they believe educating clients assists in managing those expectations.

## **LITERATURE REVIEW**

Asset management is the practical administration of clients' assets which is directed at achieving high optimal returns as a result of risk taking (Van Zyl, Botha, Skerritt & Goodspeed, 2009:191). It is achieved by selecting and investing in the best asset classes available in the market or industry. "Asset management is implemented through an asset management program and typically includes a written asset management plan." (EPA 2008: 1). According to Lofthouse (2001:2), the core duty of investment management is to construct an optimum portfolio where the client gets a reasonable return for their capital invested in the portfolio. This task addresses various issues such as the investment objectives, the asset classes to include in the portfolio, the strategic weights to assign to those classes over the long term, the short term tactical weights to assign, the selection strategies to use within each class, as well as to evaluate how well the decisions that have been made have met the objectives set out. (Lofthouse, 2001:2)

The process of fixed income portfolio management is an exercise in constrained optimization. Duration is an adequate measure for a fixed-income only portfolio; however it is not an accurate measure of interest rate risk for a diversified portfolio (Chen & Tzang 2001:25). Furthermore, according to Chen and Tzang (2001:25), the basic factors that the fixed-income portfolio manager must examine include several factors, such as economic, political, historical and psychological variables as well as monetary and fiscal policies, investment products available, transaction costs, the impact of market movements on other investors, regulatory issues and the competitive advantages of other competing portfolio managers.

Portfolios which derive their yield from interest rates are under scrutiny to ensure that their yields are sustainable. Moreover, the interest on money market securities is currently miniscule and asset managers have to distribute this interest minus expenses to the clients. This figure could be zero or even negative in the current low interest rate environment (Waggoner 2009:1). Consequently, the industry is more likely to focus on capital preservation and liquidity rather than chasing after yields, considering the low interest rate environment that asset managers are exposed to globally (Mamudi 2009:1). In terms of low rates of return, asset managers find return out of short term cash and market securities. Issues such as liquidity, credit and structure are some of the key considerations when in pursuit of stronger returns (Holliday 2005:52). It is

however a consolidated opinion by treasury management consultants and financial services professionals that in any endeavour, a cautiously written investment policy for short term investment is a critical component. A responsive policy to changes in the economic environment will have embedded procedures and tactics that afford flexibility as well as policy statement (Holliday 2005:52). In other words investment policies should allow asset managers some flexibility to adjust to changes in the economic conditions.

In the South African market interest rates declined by 6% to their lowest in decades during 2010, which has made it a challenge to find yield for unit trust holders (Du Preez 2010:7). For many asset managers this would mean looking outside the conventional fixed interest vehicles, such as money market investments and bond instruments to look at alternatives such as listed property, preference shares or even dividends for favourable yields for clients (Paine 2010:1). The motor industry experienced a growth in sales of 25% whereas the household furniture, appliances and equipment grew by 20% and it was expected to maintain this growth throughout 2011. On the other hand home mortgages grew by between 6% and 7% and similarly credit performance was weak, growing by only 5% (Stokes 2011:1). Lowering interest rates makes portfolio management services on fixed income instruments such as bonds and money market investments less attractive and as a result reduces the portfolios managers' competitive advantage. This further jeopardizes capital preservation because capital protecting schemes using fixed income instruments to cap losses does not serve as an efficient investment strategy in the current low interest rate environment (Vasudevan 2009:1).

The incentive to lock away funds is minimal; therefore the question that may be asked is if clients are not saving, what are the clients then doing with their funds? This brings about an important aspect in terms of the aptitude of clients; how knowledgeable are clients in making the right investment choices when security returns seem to be highly volatile as a result of economic pressures. Besides investor performance, the individual advisor is also a critical constituent in determining the satisfaction of clients, especially in handling anxiety in a low interest rate environment. Adequate financial knowledge of options for clients is important as it places them in a better position to evaluate service offerings (Low Interest Rates Depress Savers, 2009:1). In a low interest rate environment, the non-equity side of a portfolio is what seems to be in the



minds of clients especially for fixed-income investors. Clients with their financial planners are focusing on preventing loss as opposed to gaining returns (Opiela 2003:55).

The asset manager is entrusted with the duty to exercise due care and diligence over the investors' assets. Objectives are set and must be met within a set period, a mandate/investment policy aids as a navigator for the asset manager to achieve these goals. The question of whether or not these mandates enable the manager to adjust to rapidly changing investment environments remains distinctive to each client-manger relationship (Stewart, Piros & Heisler, 2011:11-18). What is important to note is that asset managers are tasked with two major roles, finding the desired investment proportions and most importantly knowing when to change those proportions (Markowitz 1991:6).

According to Markowitz (1991:6), other considerations for investing include taxes, institutional considerations, legal restrictions, relationships between portfolio returns as well as costs of living. Each of these factors differs for each investor. Various asset classes possess different attributes some of which might be similar in how they react to economic and non-economic forces; which then asserts the importance of monitoring correlation of assets in a portfolio (Stewart, Piros & Heisler, 2011:11-18).

## **RESEARCH DESIGN AND METHODOLOGY**

This section explores the systematic and methodical research procedures and techniques used in this study. The study undertaken involved identifying the research paradigm, describing the data collection procedure, an analysis of the data that was collected by the researchers, ethical considerations, limitations and resources required.

### **Research paradigm**

A paradigm is a fundamental framework of reference. Paradigms provide logical frameworks within which theories are created (Babbie 2004:33). Qualitative research was the most appropriate research methodology to adopt for this study, because it allowed the researchers the opportunity to fully explore diverse human feelings, views, subjective positions and experiences (Bryman 1988:13-15).

Qualitative research methodology involves gathering information that is not in numeric form and is mainly expressed as the respondents' perspective (Zikmund 2003:111). Furthermore, qualitative research methodology is conducted in the natural setting and there is a great emphasis on the process of data collection, whose primary objective is to obtain in-depth descriptions and understanding of actions and events contextually. The strength of this form of methodology is that it allows the researcher to gain an in-depth perspective and understand the respondents' viewpoints (Babbie & Mouton 1989:270).

### **Data collection methods**

The key data collection methods included semi-structured interviews and in-depth interviews. A combination of semi-structured interviews and in-depth interviews with asset managers has focused on exploring the success of the measures that these managers have put in place to curb the impact of low interest rates in the asset management business. This is an effective type of data collection as it is useful for questions that are open ended but might also be complex. The order and logic of questions may be varied.

The investment company was asked to identify six interviewees that could be interviewed from different sections and whose portfolios had different asset allocations. The interviews were conducted in July 2011.

Semi-structured interviews with open-ended questions were the main research instrument used for the qualitative interviews. Semi-structured interviews are defined as interviews organized around areas of particular interest, while still allowing considerable flexibility in scope and depth (De Vos, Strydom, Fouche & Delport 2002:298).

The combinations of semi-structured interviews and in-depth interviews with managers were an effective approach in breaking ground for achieving the research objectives. Senior management were also interviewed to help the researchers gain an understanding of various business units, the performance of the organisation given the low interest rates prevailing in South Africa, as well as the aims and critical success factors of the organisation as a whole. This method allows for flexibility in asking relevant questions, giving a logical flow. Not all questions are pre-set;

therefore discussions were influenced by both the researcher and the interviewees without losing track of the central theme. This helped the researchers to broaden their understanding of the research topic and make considerations on aspects that were previously omitted.

### **Data analysis methods**

This section explains how the data is analyzed in order for the researcher to examine meanings, themes and patterns that may be manifest so that the researcher leads the reader to an understanding of the study (De Vos, *et al.* 2002:339).

The inductive method has no predetermined framework but rather, themes and issues arise as the study is in process (Saunders, Lewis & Thornhill 1997:353). This method is resource intensive and it is of an exploratory nature. The data is continually analysed as it is collected and develops a conceptual framework to guide the research work there after (Saunders *et al.* 1997:353). After conducting the interviews, the data of each participant is analysed separately. The data is analysed by using content analysis for open ended questions. The first step in this process is to listen to all the responses that were recorded and note patterns to each specific question that was addressed (Hageboeck n.d:1). This initial process might end up with several key phrases; however these phrases can be clustered. The data is further streamlined and then quantified, although quantifying is not always necessary. As patterns emerge, the research will identify the most important categories of data to focus on when reporting the findings (Hageboeck n.d:1).

This research is unique to one asset management company. The purpose is therefore not to produce a theory that can be generalised to all other investment companies in South Africa. It could however be tested for robustness on other appropriate settings.

The researchers attempted to minimize the flaws in the findings that may be attributed to research design. Instrumentation threat is a threat that affects internal validity produced by changes in the measurement instrument itself (Yu & Ohlund 2010:1). The use of a recorder was used to ensure validity of the interviews. Through the in-depth interviews the researchers will attempt to validate what has emerged as a result of documentary analysis in the literature (Yu & Ohlund 2010:1).

## **Ethical considerations**

Some of the ethical issues that the researchers in this study considered and how they were addressed include the following:

- The nature of the topic because of its potential sensitivity or because of concerns about confidentiality of the information which would be required. Interviewees identities have been kept anonymous.
- Grounds of confidentiality and anonymity have to be established with the participant Asset Management Company, as some company information is commercially sensitive. The company's identity have not been disclosed.
- Permission was sought and received to record the in-depth interviews

There are basically two limitations to the research design and these are availability of data and knowledge gaps. The amount of company information needed for this type of study is not available on public media such as the company's website, therefore researchers needed to visit the company and spend time on site to get information internally. As with knowledge gaps, the researchers who conducted the interviews were learning professionals that worked with experienced professionals and there was a potential knowledge gap in the field. The researchers embarked on a literature review and made regular consultations with the senior researcher to ameliorate any knowledge gap.

Some of the other factors that could have impeded the study included the following:

- Participants may have chosen to withdraw from interviews
- Perceptions about the researcher's credibility and competence may limit the quality and amount of data being given by the participant.

Official approval to gain access to company information was the main requirement to carry out this study. The researchers provided a clear account of the purpose and type of access required. The researchers used existing contacts and established researcher's credibility with the company to gain access. The company approved the research but asked to remain anonymous.

## **FINDINGS**

This section displays and explains the findings that were determined by analysing the data collected.

### **Summary of respondents**

A summary of the respondents can be seen in Table 1. Table 1 is made use of to provide details on the type of portfolio managed by each respondent, the type of client each respondent deals with, the normal investment horizon under each portfolio, the ideal changes in interest rates for each portfolio, short description of mandates for each portfolio and the use of benchmarks identified by each respondent.

### **Perceptions of the impact of the low interest rate environment**

Interest rates have an impact on most asset classes. Depending on which asset class an asset manager is managing, they are either making money or losing money in the current low interest rate environment. All the respondents reported that their portfolios are influenced by a change in interest rates regardless of whether they have domestic or international exposure.

The asset managers whose portfolios are predominantly equity portfolios tend to prefer the low interest rate environment as this environment is conducive to the appreciation of equities.

However, some of the respondents' views on the equity market are different as they believe that although equities tend to appreciate when interest rates are low the current global environment with European countries like Greece running the risk of defaulting on its debt payments had caused equity yields to reduce. Respondent C who is a multi-manager, reported that under normal circumstances that portfolio would be indifferent to changes in interest rates depending on how it has been positioned. This portfolio is mostly driven by the risk profile of the client and the current interest rates environment does not suit that portfolio as it is not generating enough income from a fixed-income perspective.

<b>TABLE 1</b>	<b>RESPONDENT A</b>	<b>RESPONDENT B</b>	<b>RESPONDENT C</b>	<b>RESPONDENT D</b>	<b>RESPONDENT E</b>	<b>RESPONDENT F</b>
<b>Type of Portfolio:</b>	Pure Equity Funds	Policy Holders Assets	Multi Manager Portfolio	Equity Funds	Hedge Fund	On Balance Sheet fund of the Life Company
<b>Description:</b>	98% equity and 2% cash	All annuity portfolios; includes third party assets	Balanced funds, Equity-type portfolios	Global Industrial funds and global financial funds	-	Local equities
<b>Clients:</b>	Institutional pension fund clients and retail clients	Policy holders and third parties	Institutional clients retail clients	Institutional clients and retail clients	Multi managers specifically tailored towards hedge fund	Policy holders
<b>Investment Horizon:</b>	Average 3 to 5 years, long term views	Long view 5, 10, 20 years reports every 6 months	Conservative client 1-3 years, Moderate client 3-5 years, Aggressive client 5 or more years	Generally a 3 year view, depends on when stock unlocks value	Based on Profit and loss not investment horizon	Long term in nature, reports quarterly
<b>Ideal change in Interest rates:</b>	Downwards	-	Upwards	Downwards	Agnostic to direction	Depends on state of economy; it's a matter of whether the change is expected or not
<b>Mandates/ Guidelines:</b>	Broad, flexible investment guidelines and policies for all portfolios	Investment management agreements and guidelines	Investments and mandates in place for all funds	Investment policy statement or mandate apply to all clients	Investment guidelines are unrestrictive; focuses on VAR exposure	Mandates in place for every rand invested
<b>Benchmarks:</b>	Not benchmark cognisant; Clients choose All Share Index, Swix or SteFi Index	Swix for local equities, All Bonds Index on local bonds, SteFi on cash, MSCI for international equities, Barclay's global aggregate index for global bonds, Hedge Fund of Funds return index for global hedge funds, A cash plus return for local hedge funds, the listed property index for property	Listed equities for JSE's All Share Index, Albi for listed bonds, SteFi for cash, Morgan Stanley Composite Index for global equities, Barclays Capital Index for global bonds, US Dollar for international cash	MSCI World index for industrial fund and financial fund	Cash benchmark	Depends on the mandate

Respondents with fixed-income investments as an asset class had different answers to that of the equity analysts. The low interest rate environment has negatively impacted their portfolios as the returns from bonds are going to be lower because of the inverse relationship bonds have to changes in absolute interest rates.

Respondent E who is a hedge fund manager, reported that a change in interest rates has a great impact on the portfolio's performance. It should however be noted that Respondent E would position for either an increase or decrease in interest rates, therefore it depends on how the portfolio has been positioned. For example, the low interest rate environment is not favourable for Respondent E's portfolio as it has been positioned for an increase in interest rates in the near future and did not look likely at the time of the interview. Ultimately, an investor can lose or gain money, depending on how the asset managers have positioned their portfolios even if they seem to be indifferent to changes in interest rates.

### **Perceptions of portfolio performance in the low interest rate environment**

The low interest rate environment for Respondent A has proven to be a very difficult investment period and very volatile. With much already happening around the globe, it is rather difficult to find significant value at the moment for pure equity funds. Value managers are valuation driven and aim to protect capital as much as possible; and the period between 2008 and 2010 showed very good returns for this portfolio as many shares were undervalued at the time. On the contrary, the current environment only offers limited opportunities even though in absolute terms positive returns are still being experienced.

Similarly, Respondent D who manages equity funds reported that there are periods when the portfolio underperforms mainly because the analysts take riskier chances mainly on stocks which have not been discovered and often where liquidity is a concern. Although very volatile, the nature of this portfolio is that it outperforms in the long run.

Respondent B manages policy holders' assets and pointed out that it is imperative to assess asset classes which will give the right return and afterwards position the portfolio correctly. Even though this is a low interest rate environment, inflation is under control. What this essentially

means for this asset manager is that there is need to adjust to this investment environment and make changes in asset allocation accordingly.

Respondent C elicits that ultimately the low interest rate environment forces people to rethink the way portfolios are managed and the way risks are evaluated. Despite the outperformance for Respondent E in hedge funds the absolute level of return was still quite low for clients. Unlike in many portfolios, Respondent E can make good returns whether the market is in an upward cycle or a downward cycle. The current low interest rate environment affected the portfolio performance of off-balance sheet funds by Respondent F relatively to its benchmark. This portfolio has particular funds in absolute return, but in most instances it compares its performance relative to the benchmark which has been good thus far.

### **Perceptions of maintaining returns for clients in the low interest rate environment**

Clients' rationality changes in times of financial distress which means their risk aversion also changes. This means maintaining constant returns for clients in a low interest rate environment is important to keep them satisfied. Asset managers use different strategies in order to maintain returns for their clients. As an example, when interest rates are low asset managers may invest in emerging markets due to the perceived higher returns involved.

Respondent F reported that nothing is guaranteed in the market regardless of the environment that one is operating under; therefore it would be best to be less conservative and allocate more funds to growth equities in an environment where there is economic growth. Other respondents felt that the 'right asset allocation' at the initial stage is important. Managing the downside is also vital and it can be carried out by keeping clients informed at all times.

Respondent E has been innovative in maintaining returns for clients by creating a new product. This product basically ports the alpha where the clients can have any benchmark/index they desire. In other words, if the client wants equity exposure they are able to obtain this, with Respondent E's alpha and therefore saving on transactional costs. Essentially by doing this the client is able to achieve improved returns relative to other indices where the alpha compared to the risk is actually greater than in the equity market. The measures that have been put in place to



maintain returns for clients have both been proactive and reactive, yet yielding results. One has to choose assets that create value and this specific factor is a balance between science and art.

### **Perceptions of managing client expectations**

Respondent A indicated that the only way to manage expectations is to be very open with clients. When clients are aware of what is happening they are then able to take proactive stances. This attitude is validated by Respondent C and F, in that timing is everything. Clients must be knowledgeable about their investment products; therefore communication with clients must be intensified in financially difficult times. Sometimes an asset manager has clients that differ quite significantly from one another, in terms of their investment aptitude or knowledge of financial matters in the investment industry. For instance, professionals would provide Respondent B with a benchmark which can be quite quantitative, whereas non-professional clients would normally require a CPI related return. Due to the fact that performance fees are dependent on beating the benchmark, Respondent B must ensure that value has been added. Similarly, when a benchmark has been selected, Respondent E's only concern is to beat the benchmark which then makes it easy to manage client expectations.

In addition, how the asset manager performs relative to peers is more important than the absolute level of performance for some clients. Some funds are quite volatile due to the fact that they do not have benchmarks; such as in the case with Respondent D, equity funds tend to outperform in the long run, therefore clients need to understand firstly that they need to be holders for at least five years in order to see and receive the expected returns from the fund through various interest rate and business cycles. Respondent D's team visits clients, encouraging them to remain loyal to the fund and in turn a long term gain is promised. This team has also proven to have comparatively excellent share picking abilities.

### **Perception of educating the client**

For both institutional pension fund clients and retail clients, Respondent A and Respondent D make use of every opportunity to educate them during meetings. The quarterly reports that are sent out to clients contain views from the asset manager and information on purchased stocks.

There are often trustee trainings and presentations that are given on a fairly regular basis, which highlights portfolio positioning in the market.

Similarly Respondent C elicits that the investment process should not be about just selling products to clients, instead it should focus on understanding the clients' needs and explaining how best to fund the set objectives. On the contrary Respondent E and F's clients are relatively sophisticated which means they are able to understand the impact of particular scenarios as they develop in the industry and therefore are not educated like ordinary retail clients; although when something out of the norm occurs it is clearly communicated to those clients. Total transparency into the fund by asset managers is maintained to enable fund brokers to compile daily risk reports to clients and ensure integrity in the process.

Should a client request some form of training, presentations are provided to give a thorough understanding of how strategies are employed for given products. Unlike many of the portfolios already discussed, educating clients (policy holders and third parties) for Respondent B does not seem to translate into any tangible result. This is mainly due to the fact that there is an intermediate party between the clients and the manager, therefore some of the clients are misinformed and for this reason it becomes more challenging to build a relationship with them. Respondent B's team runs training courses, hosts conferences, seminars and helps sponsor principal officers associations. This is an exercise that needs to be done continuously in order to remain competitive.

## **CONCLUSION AND RECOMMENDATIONS**

In this section the conclusions and recommendations of this study will be discussed.

### **The impact of the low interest rate environment**

There is a need for asset managers to rethink the way they invest, due to shifts or changes that have taken place in global markets. For instance, the 'Global Financial Crisis' in 2008, the 'European Sovereign Debt Crisis', political revolution in countries like Libya, Syria and Egypt. This would require a shift in mind-set in terms of the expectations that clients of asset managers have. Integrity towards the investment house and the industry as a whole also plays an important

role in terms of how asset managers invest clients' assets. Integrity towards the client rests mainly on delivering expectations and should the asset manager fail, it must then be communicated to the client.

The global economy certainly is not an efficient market and as the world gets more synchronized, the globe's economies are also moving as one which means what happens in one economy results in a ripple effect on other economies. In 2012 the South African market is largely driven by foreign investments and if interest rates were to get even lower, foreign investors would take their money and invest it in other emerging markets like Russia or Brazil. The low interest rates that the world is experiencing are quite a unique phenomenon which requires intensive further study and not much has been documented about the phenomenon. This factor has brought about a few limitations to this study in terms of the literature review.

#### **Portfolio performance in the low interest rate environment**

The low interest rate environment affects portfolios either positively or negatively, depending on the asset classes that the portfolio consists of. It is therefore noted that a portfolio that predominantly consists of equities would be positively affected and fixed-income assets would be negatively affected in a low interest rate environment. Portfolio returns is however also dependent on whether a portfolio has been rightly positioned for a change in interest rates. For example, if an equity portfolio has been positioned for an increase in interest rates prior to the decrease in interest rates, the portfolio would be negatively impacted regardless of the fact that equities tend to appreciate when interest rates are low. Nonetheless, the impact would not be as great as when a portfolio consists of fixed-income assets.

Portfolio positioning is also relevant for portfolios which predominantly consists of fixed-income assets. If the portfolio has been positioned for a decrease in interest rates and a decrease takes effect, the findings show that even though low interest rates have a negative impact on fixed-income assets. The impact on a portfolio with the right positioning would be less than for a portfolio that had positioned for an increase in interest rates and the opposite transpires.

Asset managers form expectations and these expectations influence decision making or rather their strategies on how to construct portfolios. This means that asset managers need to put more time and effort into analysing the validity of their expectations and to what extent they will be able to meet them in the future. Closer monitoring of a portfolio's positioning is required to keep abreast as to why some decisions are better than others and when the portfolio's positioning has to be changed. Asset managers need to be constantly aware of their offshore exposure and the intricacies of merging or converging markets.

### **Maintaining returns for clients in a low interest rate environment**

Asset managers play the critical role of finding the desired proportions of asset classes for clients and most importantly knowing when to change those proportions. Portfolios should provide the client with both protection and opportunities. Asset managers also provide cautious and expert judgments relating to the opportunities and limitations of securities. Consequences of both economic and non-economic forces can cause a change in the value of securities; therefore the existence of uncertainty is almost inevitable.

In a low interest rate environment, the non-equity side of portfolios is what seems to be on the minds of clients more especially for fixed-income investors. To be successful an asset manager needs to understand this and assess the environment carefully. After assessing the environment the asset managers have to operate under, there are many factors that need to be considered going forward. In order to forecast the future asset managers often use historical data. Solely using this source of data would be a myopic way of trying to predict the future especially in these turbulent times that the world economy is facing. Going forward, asset managers would have to consider other sources of data in order to try and predict the future. This leaves room for further study in order to determine what these sources of data would be. Asset managers also need to continuously invent new products that achieve returns in order to stay competitive and relevant in the market. It is however noted that this continuous innovation always needs to be within the constraints of organisational and industry regulations.

## **Managing client expectations**

There are different factors that are considered when managing client expectations and the degree of importance for each factor varies depending on the type of portfolio being managed. Several of these factors though are a commonality across most of the portfolios or are highlighted in the opinion of most asset managers. These include the aspect of total transparency, dealing differently with professional and non-professional clients, regular communication with timing being a priority and also understanding client expectations. The best way to make knowledgeable decisions is to stay informed.

The asset manager is entrusted with the duty to exercise due care and diligence over the client's assets. Objectives are set out and must be met within a set period. A mandate or investment policy is used as a navigator for the asset manager to achieve these goals. Whether or not these mandates enable the manager to adjust to rapidly changing investment environments remains distinctive to each client-manager relationship. Transparency is one of the key principles in managing client expectations and so is regular communication in building a strong relationship with the client.

It is worth noting that irrespective of how often the asset manager may keep in contact with the client and even maintain high levels of transparency, this does not change the fact that the client's main interest is still in the asset manager's ability to provide returns on the investments as agreed. The client wants to know that the asset manager has outperformed not only the benchmark, but also achieved a better performance relative to peers. One of the ways that asset managers can manage client expectations is through ensuring that the client understands the product or portfolio philosophy upfront. Essentially the client needs to come to grips with the positioning and views that the portfolio has, as well as the average duration it takes to realise returns.

Understanding the portfolio philosophy however might not be the biggest difficulty to overcome. It is possible that a portfolio philosophy can turn out to be redundant over time and asset managers should not lose sight of that. The real challenge is for asset managers to rigorously test their philosophy in the short and long run, as well as look for possibilities of merging some

products to create synergies and disposing of other products. Managing client expectations is crucial in the asset management business. As much as it is the business of the asset manager to ensure transparency and regular communication with clients, it is also in the best interest of the client to be upfront about their objectives and expectations. This kind of liaison not only satisfies the client expectations, but also keeps the asset manager in business.

### **Educating the client**

Clients have expectations and the duty of the asset manager is to identify and measure those expectations; effectively measuring how realistic those expectations are and ascertain how they can be met. With a low interest rate environment the incentive to lock away funds in savings is minimal for clients. This brings about an important aspect in terms of the aptitude of clients; clients need to be knowledgeable in making the right investment choices when security returns seem to be far lower than expected as a result of economic pressures. If not for the sake of winning client trust, asset managers have the moral imperative to ensure that their clients have the full knowledge of what the investment process entails, understanding of how the portfolio is constructed and positioned, as well as the potential outcomes thereof.

Educating clients seems to be vital in the asset management business. The extent to which clients are taught depends mostly on the investment aptitude of clients. Nonetheless, providing this kind of education should lead to tangible results. An asset manager can have different objectives in educating their clients, for instance education efforts could be purely aimed at upgrading the knowledge that clients have or the sole aim can be to get clients to buy into the products; or it could be a matter of trying to achieve a balance of both.

Various measures have been espoused by asset managers to educate clients. These measures include face to face presentations, simple client-manager discussions, the use of reports, training sessions, conferences and seminars. However, it is not a guarantee that these educational efforts will always translate into tangible results as desired by the asset manager.

With the development of technology, asset managers could look into translating traditional education methods such as report writing and presentations to using information communication

technologies (ICT's). The use of these mediums can prove to be cost effective, timely and interactive. These are certainly not intended to replace the valuable face to face interactions with clients; they could however ease up the communication process and deliver information timeously even to overseas clients. The bottom line is that whilst the asset manager may educate clients to improve their investment aptitude, ultimately there needs to be some business that materializes from these efforts. Educating clients is to mainly enable them to better understand the products offered by the business and provide clarity on how products will help achieve their objectives.

This paper gave some insights into the views of asset managers in a specific asset management company in South Africa regarding the low interest rate environment currently being faced. The conclusions were that asset managers cautiously manage exposure of portfolios in the currently volatile investment environment. Although the existence of uncertainty is almost inevitable, clients need some form of reassurance especially in financially difficult times. Positioning and asset allocation remain as the prime focus for asset managers in order to maintain satisfactory returns for clients.

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**LOCAL RESIDENT PERCEPTIONS OF PRE AND POST MEGA EVENT IMPACTS:  
THE CASE OF A HOST CITY OF THE FIFA WORLD CUP 2010**

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**ABSTRACT**

The event sector of the tourism industry has shown resilient growth over past few years. The development of the sector has resulted in a multitude of different types of events. One such type, mega events, has become a major accolade for host cities and countries. The main pull factor in this regard is the promotion of investment, infrastructure development and a host of other positive economic, social, and environmental impacts. This study focused on determining whether there were differences between the pre and post perceptions of the impacts of the FIFA World Cup 2010 according to local residents in the Tshwane Metropolitan Municipality. The study was undertaken in 2010 and 2011 in nine areas around the city and involved 2 095 respondents. Data was analysed using descriptive statistics and ANOVA's. Findings indicate that in general the respondents perceived the impacts of the event positively, however this perception decreased in the period after the hosting of the event. This study provides future mega event planners and managers with insight into the hosting of mega events in order to maximise the positive legacy of these events in the eyes of local residents.

**Keywords:** Mega events, World Cup, impacts, ANOVA.

**INTRODUCTION AND RESEARCH PROBLEM**

The hosting of events is not a new phenomenon as it has existed for thousands of years. Today events are considered an important motivator for the development of tourism as an economic activity. Events are now part of the marketing and developmental plans of most destinations

(Getz, 2007). Destination managers have identified the importance of adding events to supplement their attraction portfolio which is aimed at providing a level of differentiation in an increasingly competitive tourism market (Dickinson, Jones & Leask, 2007).

The event sector of the tourism industry consists of a variety of different subsectors. These subsectors are differentiated by the type and scale of different events. Mega events, which will be the focus of this paper, are considered one of the largest types of events in terms of scale, these events are 'large-scale cultural events, which have a dramatic character, mass popular appeal and international significance' (Roche, 2000). As a result of their scale they do not take place often, but they are known to take place at least once a year somewhere in the world (Getz, 2005). Mega events such as the FIFA World Cup are sought after by countries for numerous reasons in particular to boost their image as tourism destinations (Getz, 2005; Hall & Page, 2009), to promote investment and to gain benefit from their associated positive economic impacts (Briedenhann, 2011:25). The process of hosting mega events start off with a bidding process which is considered by some (Hiller, 2000; Hall, 2006; Torisu, 2006) as a means of urban destination entrepreneurialism as cities and countries seek to gain advantage of the global economy.

These events are attracting an increased global audience and media interest and they have also lent themselves to the shaping of world tourism patterns, highlighting new tourism destinations and creating supposed lasting legacies in the cities or countries in which they are hosted (Horne & Manzenreiter, 2004). Ohmann, Jones and Wilkes (2006) support this statement by indicating that all sporting events have impacts upon the community within which they take place, with large scale mega events, these impacts could be amplified.

The beneficiary of these impacts, the host cities and countries, include a number of resident stakeholders. Efforts focused on identifying residents' perceptions on the impacts of mega-events have been relatively limited (Kim & Petrick, 2003; Lorde, Greenidge & Devonish, 2010). These studies are additionally predominantly focused within the sphere of developing countries (Lorde, Greenidge & Devonish, 2010).

The FIFA World Cup of 2010 as a mega event was associated with a number of encouraging economic, social and environmental impacts which was aimed at leaving a positive legacy for the event. Literature and research into the impacts of mega events on host communities within South Africa and the continent is limited and fragmented. For this reason a gap exists for the expansion of research into such events in the region. In order to better understand the potential impacts of mega events on host communities it may be necessary to investigate existing literature available within the events sector.

## **LITERATURE REVIEW**

Mega events assist in the achievement of economic and cultural requirements of local citizens, should these events be successful then the legacy for tourism, industrial relocation and incoming investments may be expected (Roche, 1994). The hosting of these large scale events often require significant investment in human, physical and economic resources from the host community (Haxton, 1999). Host communities need to be incorporated into the planning process of hosting mega events as a lack of coordination and cohesion within the host community may compel political leadership to reactively utilise specialised negotiation skills in order to develop a unified front (Haxton, 1999).

The underestimation of the power of public debate and public support for large events may result in time-consuming, battling over costs, which are likely to be fuelled by media criticism, as was the case with the Montreal Olympics and Edmonton Commonwealth Games (Haxton, 1999). It is important to measure specifically the residents' perception of the event in order to identify the tangible and long-lasting benefits (Bob & Swart, 2009). If residents' perceptions are not measured, a phenomenon known as the loss of support for tourism development may occur. This could imply an unwillingness to work in the tourism industry and hostility towards tourists can be perceived (Kim & Petrick, 2005). For this reason, the impacts of these events need to be identified and studied.

Ritchie and Aitken (1985) and Ritchie and Lyons (1987) provide an insight into resident perceptions of the Olympic Games of 1983-1984 and 1988 respectively. Both these studies indicate that residents in the vicinity or within the host city perceived the impacts of the event more positively compared to those residents living further away. A study by Mihalik and

Simonetta (1998) found that resident perceptions of the Olympic Games improved over time with the prospect of gaining employment being the main driver. In comparison a study conducted by Waitt (2003) on the pre and post perceptions of the Sydney 2000 Olympic Games found that resident perceptions of the economic impacts of the event declined over time as a result of fading employment prospects. This is supported by Tien, Lo and Lin (2011) who note that the positive perception of the economic impacts of the Olympic Games tend to be short term resulting from decreasing prospects of employment and the contribution of the event to the GDP. These studies all predominantly focussed on economic impacts and social, environmental and political impacts seem to be lacking. For this reason Table 1 below provides a generic indication of the impacts of events on host communities.

**Table 1: Various positive impacts of events on local communities.**

<b>Sphere</b>	<b>Impact</b>	<b>Source</b>
<b>Socio cultural impacts</b>	Urban revival and production of ideas Improvements in education, experience and know-how	Preuss (2006)
	Collective sharing of the event, unity and the enhancement of local quality of life through urban regeneration	Ohmann, Jones and Wilkes (2006)
	Cultural exchange between tourists and local residents Preservation and development of local culture and natural resources	Kim, Gursoy and Lee (2006)
	Civic pride, community cohesion and a sense of positive atmosphere	Bull and Lovell (2007)
	Events invite people of a host community to take new identities as citizens of the world	Horne and Manzenreiter (2006)
<b>Economic impacts</b>	Improvement of welfare through increased employment	Preuss (2006)
	Promotion of tourism	Fredline and Faulkner (2000)
	Skills development and cash injections for local businesses	Jago et al (2010)
	Increased public spending for sports	Ntloko and Swart (2008)
	Generation of economic externalities such as the development of companies and organisations directly or indirectly serving the event	Lamberti <i>et al.</i> (2010)

<b>Environmental impacts</b>	Development of new facilities and general infrastructure	Preuss (2006)
	Maintenance and improvements of existing infrastructure	Fredline and Faulkner (2000)
	Restoration of historical buildings	Kim and Petrick (2005)
	Tourism infrastructure development Large scale urban development	Malfas, Theodoraki and Houlihan (2004)

Although mega events provide numerous positive impacts for a host community, there are related negative impacts that might also occur. Brief outlines of generic negative impacts are provided in Table 2 below.

**Table 2; Various negative impacts of events on local communities.**

<b>Sphere</b>	<b>Impact</b>	<b>Source</b>
<b>Socio cultural impacts</b>	Loss of permanent visitors The creation of temporary tourism	Preuss (2006)
	Increased levels of criminal activity	Ohmann, Jones and Wilkes (2006)
	Noise, overcrowding and traffic congestion	Fredline and Faulkner (2000)
	Rowdy and poor behaviour Hooliganism Excessive drinking	Deery and Jago (2010)
	Vandalism and property damage	Dwyer et al (2000)
	Only some people benefit from the event	Ntloko and Swart (2008)
<b>Economic impacts</b>	High construction costs The construction of non essential infrastructure Underutilised infrastructure	Preuss (2006)
	The creation of temporary employment	Fredline and Faulkner (2000)
	Increased prices due to increased demand	Deery and Jago (2010)
	Waste of tax payer money	Ntloko and Swart (2008)
	Increased cost of living	Malfas, Theodoraki and Houlihan (2004)
<b>Environmental impacts</b>	Litter and parking problems	Fredline and Faulkner (2000)
	Damage to the environment	Deery and Jago 92010)
	Pollution and damage to natural areas	Ntloko and Swart (20008)



The above literature findings refer to previous studies relating to the social, economic and environmental impact of events in general as well as mega events on host communities. It was found that limited research exists relating to these impacts within South Africa, Africa or the developing world. It therefore becomes imperative for such a study to be conducted which will provide a platform for the future planning and hosting of other potential future mega events. For this reason the primary objective of this study was to determine the perceptions of local residents within the Tshwane (Greater Pretoria) Metropolitan Area prior to the hosting and post hosting of the FIFA World Cup 2010 and to do a comparison between these two findings. This should support the supposition that this mega event of 2010 has left behind a legacy for local residents.

## **METHODOLOGY**

The primary method of data collection was in-person survey (i.e., questionnaire) intercept. Data collection was conducted among residents during April, 2010 and again in April 2011. In order to reach the target goal of N=2 000 surveys, a trained team of nine fieldworkers (B-Tech students-TUT) and a field coordinator (Lecturer-TUT) administered the surveys at major areas within the host city. Pretoria (within the Tshwane Metro) acted as a host city during the FIFA World Cup 2010. This city is the administrative capital city of South Africa (The metro has an estimated population of 2.2 million) situated in the Gauteng province and a number of games were played in the Loftus stadium during the tournament

The respective site selections within the city were to ensure a true representation of the population and demographics of each area. If a site had multiple entry and exit points, interviewers rotated and included all possible entries. A stratified random sample of residents by age, gender, area of the city, and race were identified. At each respective location, a random sample of residents were intercepted and requested to complete a questionnaire. Every fifth person or group was targeted and only one adult from each travel party was identified (alternating male and female) and requested to participate at the designated site.

A screening question was asked of potential respondents to assess if they were a resident of the city. If so, they were requested to complete the questionnaire which took approximately 15 minutes. In the event, residents were not able to read or write, respondents requested the field

member to complete the responses based on an oral interview. Data collection began at 9 a.m. and ended at 6 p.m. with a total of N=2 095 responses (961 for 2010 and 1134 for 2011).

### **Research instrument**

Fixed choice self-administered questionnaires were used across all areas of the host city. All of the questionnaires were divided into sections containing items measuring demographic profile of residents and forty statements measuring economic, social and environmental aspects (economics aspects are the focus of this paper) on a 5-point Likert scale (1 = strongly disagree and 5 = strongly agree). Most of the items were measured at nominal or ordinal levels. These types of questions are commonly used in surveys of sports events and more widely in the tourism literature on events and festivals as such questionnaire items provide information about the activities, motives, and other tourism related behaviours of visitors and residents.

Microsoft© Excel© was used for data capturing while SPSS (SPSS Inc, 2010) was used for the analysis of data. This study comprised two stages. Firstly, a general profile of respondents was compiled. Secondly, two-way frequency tables and Chi-square tests as well as ANOVA comparisons were utilised to determine any significant differences between the perceptions of local residents prior to the event and the perceptions of residents after the event. Cross tabulations with Chi-square tests were furthermore employed to profile these groups demographically. The results of the statistical analyses will be discussed in the next section.

## **FINDINGS**

This section provides an overview of the profile of the respondents during 2010/2011, and discusses the results of the ANOVA comparisons and cross tabulations with Chi-square tests.

### **Profile of respondents**

The general profile of respondents is indicated in Table 3. The respondents that took part in the study were predominantly male during both years (2010 and 2011 respectively). In terms of ethnicity the respondents were generally representative of the geographical area of the study. In order to achieve a representative ethnic response, surveys were distributed in all major areas of the municipality. The majority of respondents were of African ethnicity followed by other

groups. The majority of respondents were between the ages of 20 to 29 years followed by the age bracket of 30-39 and 16-19 respectively.

**Table 3: Profile of respondents**

	2010			2011		
Gender	Male 60.4% (N=580)			Male 55% (N=621)		
	Female 39.6% (N=381)			Female 45% (N=508)		
Ethnic group	African	77.7%	N= 747	African	72.7%	N= 784
	Caucasian	7.8%	N= 75	Caucasian	6.8%	N= 73
	Asian	5.1%	N= 49	Asian	13.4%	N= 144
	Coloured	9.4%	N= 90	Coloured	7.1%	N= 77
Age	16-19 yrs	12.5%	N= 120	16-19 yrs	14.3%	N= 159
	20-29 yrs	44.8%	N= 431	20-29 yrs	37.9%	N= 422
	30-39 yrs	23.5%	N= 226	30-39 yrs	25.5%	N= 284
	40-49 yrs	10.6%	N= 102	40-49 yrs	14.4%	N= 160
	50-59 yrs	6.1%	N= 59	50-59 yrs	5.8%	N= 65
	60+ yrs	2.4%	N= 23	60+ yrs	2.2%	N= 24
Were they planning on attending or did they attend a World Cup match	Yes 58.6% (N=562) No 41.4% (N=397)			Yes 39.3% (N=437) No 60.7% (N=675)		

Respondents were asked whether they were planning on attending a World Cup match during the event in 2010 and in 2011 they were asked if they had attended a match. Replies to this answer differed considerably between the two years. The majority of respondents indicated that they were planning to attend a match (58.6%) in 2010, the following year fewer (only 39.3%) respondents indicated that they had actually attended a match. This finding may be attributed to respondents blaming ticket prices as a reason for not attending. Apart from the previously mentioned finding and an increased response from Asian respondents in 2011, the general demographic profile of respondents did not differ considerably.

**Results of ANOVA comparisons**

ANOVAs were employed to determine the differences between the impacts of the World Cup between 2010 and 2011, based on the perceptions of local residents. As shown in Table 4, there are statistically significant differences between various factors.

**Table 4: Comparison between pre and post event perceptions.**

		N	Mean	Std. Deviation	Std. Error	95% Confidence Interval for Mean		ANOVA F Ratio	ANOVA Significance level
						Lower Bound	Upper Bound		
<b>Increased Investment</b>	<b>2010</b>	961	4.26	.882	.028	4.21	4.32		
	<b>2011</b>	1121	3.97	1.089	.033	3.90	4.03	46.411	<b>.001</b>
<b>Destination promotion</b>	<b>2010</b>	961	4.33	.819	.026	4.28	4.38		
	<b>2011</b>	1120	4.24	.923	.028	4.19	4.30	4.655	<b>.031</b>
<b>Public transport</b>	<b>2010</b>	961	3.88	1.106	.036	3.81	3.95		
	<b>2011</b>	1110	3.66	1.204	.036	3.59	3.73	18.368	<b>.001</b>
<b>Pride in city</b>	<b>2010</b>	961	4.01	1.031	.033	3.94	4.07		
	<b>2011</b>	1112	3.86	1.065	.032	3.79	3.92	10.719	<b>.001</b>
<b>Preservation of culture</b>	<b>2010</b>	961	3.73	1.046	.034	3.66	3.79	19.631	
	<b>2011</b>	1106	3.52	1.065	.032	3.46	3.58		<b>.001</b>
<b>Traffic congestion</b>	<b>2010</b>	961	4.36	.912	.029	4.31	4.42	123.64	<b>.001</b>
	<b>2011</b>	1109	3.85	1.166	.035	3.78	3.91		
<b>Waste of Public funds</b>	<b>2010</b>	961	3.57	1.136	.037	3.50	3.64		
	<b>2011</b>	1099	3.36	1.164	.035	3.30	3.43	15.828	<b>.001</b>
<b>Employment creation</b>	<b>2010</b>	961	3.79	1.189	.038	3.71	3.86		
	<b>2011</b>	1110	3.17	1.334	.040	3.10	3.25	119.42	<b>.001</b>
<b>Increased Prostitution</b>	<b>2010</b>	961	3.92	1.221	.039	3.84	4.00		
	<b>2011</b>	1108	3.28	1.293	.039	3.20	3.36	132.40	<b>.001</b>
<b>Support for Football</b>	<b>2010</b>	961	4.29	.857	.028	4.23	4.34		
	<b>2011</b>	1105	4.19	.982	.030	4.13	4.25	5.436	<b>.020</b>
<b>Increased Crime</b>	<b>2010</b>	961	3.62	1.383	.045	3.53	3.70		
	<b>2011</b>	1118	2.92	1.345	.040	2.85	3.00	133.34	<b>.001</b>
<b>New facilities</b>	<b>2010</b>	961	4.01	1.033	.033	3.94	4.07		
	<b>2011</b>	1123	3.84	1.100	.033	3.78	3.91	12.178	<b>.001</b>
<b>Increased Litter</b>	<b>2010</b>	961	3.61	1.211	.039	3.53	3.69		
	<b>2011</b>	1111	3.07	1.214	.036	3.00	3.14	103.79	<b>.001</b>
<b>Price increase</b>	<b>2010</b>	961	4.17	1.074	.035	4.11	4.24		
	<b>2011</b>	1112	3.74	1.243	.037	3.67	3.81	70.769	<b>.001</b>
<b>Increased</b>	<b>2010</b>	961	3.56	1.235	.040	3.48	3.63		

<b>Hooliganism</b>	<b>2011</b>	1117	3.94	1.057	.032	3.88	4.00	57.601	<b>.001</b>
<b>Improved</b>	<b>2010</b>	961	4.30	.904	.029	4.24	4.35		
<b>Tourist arrivals</b>	<b>2011</b>	1118	4.21	.991	.030	4.16	4.27	3.924	<b>.048</b>
<b>Sufficient electricity</b>	<b>2010</b>	961	3.45	1.266	.041	3.37	3.53		
	<b>2011</b>	1118	4.07	1.133	.034	4.00	4.14	138.82	<b>.001</b>
<b>Environment degradation</b>	<b>2010</b>	961	2.84	1.356	.044	2.75	2.93		
	<b>2011</b>	1112	2.58	1.259	.038	2.51	2.66	20.029	<b>.001</b>
<b>Increased Trade</b>	<b>2010</b>	961	3.90	1.021	.033	3.84	3.97		
	<b>2011</b>	1118	3.59	1.108	.033	3.53	3.66	44.603	<b>.001</b>
<b>Conservation natural resource</b>	<b>2010</b>	961	3.58	1.025	.033	3.51	3.64		
	<b>2011</b>	1113	3.39	1.002	.030	3.33	3.45	17.864	<b>.001</b>
<b>Restoration of historical buildings</b>	<b>2010</b>	961	3.65	1.063	.034	3.58	3.71		
	<b>2011</b>	1117	3.50	1.041	.031	3.44	3.57	9.466	<b>.002</b>
<b>Waste of money</b>	<b>2010</b>	961	3.56	1.231	.040	3.49	3.64		
	<b>2011</b>	1112	3.43	1.244	.037	3.36	3.50	6.054	<b>.014</b>
<b>Expensive match tickets</b>	<b>2010</b>	961	4.04	1.208	.039	3.96	4.12		
	<b>2011</b>	1117	3.88	1.239	.037	3.81	3.95	8.680	<b>.003</b>
<b>Bid for Olympic Games</b>	<b>2010</b>	961	4.14	1.089	.035	4.07	4.21		
	<b>2011</b>	1126	4.26	1.081	.032	4.20	4.32	6.667	<b>0.01</b>

A total of 24 factors were identified as having a significant periodic change utilising the ANOVA comparison between 2010 and 2011. These factors represent various impacts associated with events that were put forward to respondents. These factors range between economic, social and environmental impacts. The factors that presented a significant difference ( $p < 0.05$ ) are presented in Table 4 above.

The findings from the ANOVA comparison indicate a general decrease in the perceptions of the World Cup over time. These factors signify both negative and positive impacts therefore a decrease in perception does not necessarily mean a negative response. Only 3 of the 24 significant factors indicated an increase in 2011 compared to the previous year.

The factor that achieved the highest changes between the two years was Eskom's ability to provide power during the tournament ( $F=138.82$ ,  $P=0.001$ ). Respondents believed that the power utility did provide sufficient power during the event, this is a marked increase from the previous year.

Increased criminal activity and increased prostitution also indicated significant changes. In terms of crime, significantly fewer people believed that crime increased during the World Cup compared to the previous year ( $F=133.34$ ,  $P=0.001$ ). The perceptions of local residents towards the potential for increased levels of prostitution during the event also improved. Fewer people believed that there was an increase in prostitution ( $F=132.40$ ,  $P=0.001$ ).

Other three main findings above provide a general positive improvement in local resident perceptions; however there were some factors that indicated a generally negative response. The ability of the World Cup to provide employment achieved a decreased support during 2011. Fewer people supported this statement compared to the previous year ( $F=119.42$ ,  $P=0.001$ ). According to respondents, the World Cup additionally failed to increase levels of investment with fewer people rating this factor positively during 2011 ( $F=46.41$ ,  $P=0.001$ ).

The three factors that achieved improved ratings during 2011 include, Power provision (which has already been described), increased hooliganism, and South Africa's bid to host the Olympic

Games. Respondents indicated that the South African Police Service had sufficient capability to deal with hooliganism during the tournament. Although the respondents generally provided lower ratings for the period 2011, the possibility of South Africa bidding to host a future Olympic event achieved improved ratings during this period. This factor additionally achieved a high mean score of  $M=4.26$ . This finding may provide an indication of the general sentiment among respondents. Although there were problems with the World Cup, the respondents tend to support future mega events.

In order to provide a more detailed understanding of the underlying changes in perceptions between the two years, the factors that achieved the most significant change are depicted in Table 5 through Chi-square tests.

According to Table 5, there were statistically significant differences in perception of employment creation, increased prostitution, increased levels of crime, Eskom's ability to provide power during the event and South Africa's bid to host the Olympic Games ( $p = 0.001$ ). The Chi-square test provides an indication as to the effect size of the significant change that has been identified. The factor with the largest effect size was increased crime levels during the tournament (phi value 0.286). This signifies a medium effect size. All other factors apart from Olympic Games have a similar effect size. Resident support for the possible future bidding for an Olympic Event, although it achieved significant support, did not indicate a large effect size (phi value 0.091).



**Table 5: Chi-square test results**

<b>Factor</b>	<b>Scale</b>	<b>Year 2010</b>	<b>Year 2011</b>	<b>Chi-square value</b>	<b>DF</b>	<b>Significance</b>	<b>Phi Value</b>
<b>Employment</b>	Strongly agree	5.6%	10.9%	161.07	4	0.001	0.227
	Agree	12.9%	16.9%				
	Neutral	15.8%	17.2%				
	Disagree	33.2%	30.9%				
	Strongly disagree	32.5%	24.1%				
<b>Prostitution</b>	Strongly agree	4.6%	10.8%	232.3	4	0.001	0.273
	Agree	10.3%	19.3%				
	Neutral	17.0%	23.9%				
	Disagree	22.3%	24.1%				
	Strongly disagree	45.95	21.9%				
<b>Crime</b>	Strongly agree	10.1%	14.1%	256.19	4	0.001	0.286
	Agree	13.7%	19.9%				
	Neutral	14.8%	19.5%				
	Disagree	22.3%	20.3%				
	Strongly disagree	39%	26.2%				
<b>Eskom</b>	Strongly agree	10%	6.8%	239.57	4	0.001	0.277
	Agree	7%	10.9%				
	Neutral	21.7%	16.4%				
	Disagree	28.2%	29.2%				
	Strongly disagree	24.1%	36.7%				
<b>Olympics</b>	Strongly agree	4.1%	4%	25.85	4	0.001	0.091
	Agree	5.7%	4.7%				
	Neutral	11.9%	10.5%				
	Disagree	29.9%	23.6%				
	Strongly disagree	48.4%	27.2%				

**MANAGERIAL IMPLICATION AND CONCLUSION**

The main findings of this study indicate that residents within the Tshwane Metropolitan area had mixed responses to various mega event impacts. These economic, social and environmental impacts were either negative or positive. All impacts that were tested showed changes in the way that local residents perceived the World Cup of 2010. Five significant changes were

encountered, the first indicates that an increased number local residents believed that Eskom, the national power provider, met capacity requirements and provided sufficient power during the event. Secondly, although local residents believed that crime would be a problem in 2010, a fewer number of residents felt so in the year after the event. As a result it can be concluded that local residents did not believe that this mega event contributed to increased levels of criminal activity. Thirdly, local resident perception that prostitution would increase as a result of the World Cup was reduced in the period after the event. Significantly fewer people believed that the event contributed to increased levels of prostitution. However, the response achieved generally neutral mean scores, which may either indicate that respondents did not associate prostitution with mega events or that there are other factors relating to increased prostitution. Fourthly, local residents appear to support the notion that mega events provide increased job opportunities. Although the number of people supporting this belief decreased in the period after the event, there was still an intermediate support for this statement. Lastly, local residents provided a positive perception of the management of the event from local government, and security enforcement, this relates to the management of safety, litter, traffic congestion and hooliganism.

These results provide an uncomplicated insight into the experience of local residents towards a mega event. South Africa was the first country in Africa to host an event of this magnitude and the successful hosting of such events may provide the platform for the future hosting of similar events. The Tshwane Metropolitan area was one of only nine host cities during the tournament, but the perceptions of the local residents here may provide a barometer of perceptions for other host cities around the country. In general the residents were positive about the event, but there were signs of decreased support for a number of factors after the event. It is imperative for managers and mega event planners to support their decision making by acquiring and scrutinising all relative knowledge of mega event impacts. This knowledge will ultimately result in improved decision making which when done from a sustainable management point of view should result in a long-lasting positive legacy and a reserve of support for future events.

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# **ROLE PLAYERS' PERCEPTIONS ON THE IMPLEMENTATIONS OF HEALTH AND SAFETY REGULATIONS AT A SELECTED MINE: A COMPARATIVE STUDY BETWEEN EMPLOYERS AND EMPLOYEES**

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## **ABSTRACT**

The purpose of this study was to investigate employer and employees' perceptions on the implementation of OHS regulations at selected platinum mine. Data was collected from 22 employers and 153 employees at the selected platinum mine. Findings indicated that even though employers and employees have a positive perception on implementation of OHS regulations, there is still a mismatch between implementation and execution of the policies. Consequently, many suggestions are not always turned into actual action to maintain the OHS of employees

**Acronyms:** *OHS* (Occupational health and safety)

**Key words:** Perceptions, Implementation, Safety and Health

## **INTRODUCTION**

Few would challenge the need for regulation of occupational health and safety in the mining industry. Gunningham (2006) notes that the industry is hazardous, and its long history of preventable industrial accidents and mining disasters suggests that voluntary approaches alone will be insufficient to achieve an acceptable level of occupational health and safety. The mining sector is one of the industries that are exposed to many hazards. Saleh and Cummings (2011) note that these hazards include explosions (methane, coal dust, or other), fires, rock and roof falls, landslides, blackdamp and toxic gases outbursts, and water inrush/sudden inundations.

Eweje (2005) also noted that the mining industry has a long reputation for being negligent with respect to health and safety issues. Due to many fatal accidents in the mining sector, the role of multinational companies (involved in mining) in promoting health and safety is put into question. In recent years there has been increasing public interest in the subject of health and safety in relations to employee rights. The right of employees to be informed about health hazards in the workplace has become a major issue in occupational health policy, especially in developed countries. Leger (1990) contends that many workers have an intuitive feeling that to work in South African factories and mines is dangerous. For effective action against hazardous work, accident statistics can be very useful to help focus campaigns on the most dangerous industries and jobs. They are vital for analyzing trends and for making comparisons with other countries and can assist unions in their negotiations around specific health and safety issues.

With the economic recession that hit industries and resulted in job losses and a fall in commodity prices, the priority was on making it through tough times. Employees are made to work in unfamiliar conditions because the job can be given to someone else who is willing to work under the prevailing conditions. Accidents can be prevented if there are effective safety and health regulations to be complied with in different industries considered as most hazardous.

## **RESEARCH PROBLEM**

Accidents seem to happen all around the mining industry regardless of the mineral under extraction. Many stakeholders have insufficient knowledge of the provisions of health and safety legislation, while others see them as burdensome and a source of administrative work and red tape. Mischke and Garbers (1994) highlight that occupational health and safety can only be addressed in the full light of knowledge; it is only when one knows what legislation does that the provisions of the legislation can be realized in actual workplace policies and practices. Lilić, Obradović and Cvjetić (2010) add that published studies on mine safety are usually based on research related to accident statistics and hazard identification with risk assessment within the mining industry.

The aim of the research is

- to assess the knowledge and practice of mine workers relative to occupational health and safety regulations in their place of work, and
- To investigate whether employers follow up on proper procedures pertaining to safety in the mine.

## **HYPOTHESIS**

Considering the statement of the problem it was hypothesised that

- Employees are not well informed on health and safety regulations
- Employers do not abide by the provisions of health and safety regulations.

## **LITERATURE REVIEW**

Very little literature, if any, can be found on employer and employee perceptions concerning the implementation of health and safety regulations in the platinum mining industry. In all fields of human activity accidents will occur unless appropriate action is taken to reduce or prevent it. Pyoos (2008) notes that much safety research has been conducted in industries such as nuclear, air transport, marine, construction and automobile.

Paul and Maiti (2007) highlight that traditional approaches to the prevention of accidents or injuries in mines reached their limit of effectiveness in improving safety performance and a fresh approach is required. The South African mining industry faces the unique challenge to the successful implementation of mechanization. There are many examples of failures but very few examples of outright success. Willis *et al.*, (2004) add that to increase the success rate, which is essential to the long-term sustainability of the mining industry, new thinking in technology transfer practice is required.

Maiti, Chatterjee and Bangdiwala (2004) argued that in spite of stringent regulations and a focus on reducing risks in the physical environment, the mining industry continues to be associated with high levels of accidents. Prevention is appropriate unless coupled with focused attention to the attitudes and behaviours of the mineworkers in coping with the inherent physical, technical



and situational risks. Bailey (1997) as quoted by Vinodkumar (2010) showed that in plants that had low injury rates, the employees' perception of management commitment to safety is highly positive. On the other hand, in plants where injury rates were high, the employees' perception of management commitment to safety was negative there the major focus of management's safety efforts was on Occupational Health and Safety Act compliance with limited employee involvement. O'Toole (2000) conducted a two year study evaluating the effectiveness of a managerial training program to enhance corporate compliance with statewide safety and health regulations. The findings were that there is little information about the effectiveness of statewide initiatives in promoting occupational safety and health. Employees' perceptions of management's commitment to safety, of fellow employees' participation in safety, and of the effectiveness of education and training efforts on the part of management have demonstrated a positive impact on safety outcomes.

## **RESEARCH METHODOLOGY**

A quantitative research approach using questionnaires was used to solicit data to understand the knowledge and practice of employers and employees relative to health and safety regulations in the platinum mining sector at selected platinum mine in Mpumalanga province of South Africa. A quantitative methodology abstracts data from the participants into statistical representations rather than textual pictures of the phenomenon. Babbie and Mouton (2003) contend that the entire research process is objectively constructed and the findings are usually representative of the population being studied). The researcher utilised a quantitative approach because, as noted by Leedy (2001), quantitative research design allows the researcher to answer questions about the relationships between measured variables with the purpose of explaining, predicting and controlling certain phenomena

## **THE SAMPLE**

The sample consisted of 153 employees and 22 employers of a selected mining company. Based on the merits of the sampling frame and sampling unit described above, a simple random sampling was employed. Simple random sampling gives each member of the population an equal chance of being chosen. Each element in the sampling frame was given a number (e.g. give everyone on the Electoral register a number) and then use random numbers to select the required sample. Random numbers were obtained using a Stat Trek's Random Number Generator.

## **MEASURING INSTRUMENT**

Questionnaires were used to collect data. Alexander (2010) defines questionnaires as research instruments to source primary data associated with both positivistic and phenomenological methodologies. Often they are the only feasible way to reach a number of reviewers large enough to allow statistical analysis of the results justified the use of a questionnaire to collect data from the sample employers and employees.

Two instruments were administered: one for employers (management) and the one for employees.

The research instrument for employees comprised of the following sections:

Section A provided a served to acquire demographic information and determined the age, sex, level of education, nationality, years in office and position occupied in the organizational hierarchy. Section B consisted of questions relating to perceptions on management commitment to safety issues in the workplace. Section C consisted of questions relating to aspects pertaining to risk identification, training and communication in the place of work. Section D consisted of questions relating to employee behavior on safety related matters.

A second questionnaire was distributed to employers (management) and it was comprised of the following sections:

Section A served to acquire demographic information and determined the age, sex, level of education, nationality, years in office and the position they occupied in the organizational hierarchy. Section B consisted of questions relating to management on employee involvement in health and safety regulations in the workplace. Section C consisted of questions relating to the creation of a safe and healthy workplace. Section D consisted of questions relating to the employee behavior on safety related matters. Section E consisted of questions relating to risk identification, training and communication in the place of work. Section F consisted of questions relating to management safety commitment, perceptions of management commitment to safety issues in the workplace.

## **DATA ANALYSIS**

De Vos (2005) analyses that the assumption of quantitative research is that if a quantitative method of data collection is used, then a quantitative method of analysis should be used. The

researcher used descriptive statistics for demographic data to assess the knowledge and practice of mine workers on occupational health and safety regulations in the place of work. Further analysis employed inferential statistical methods to investigate whether the employers follow up on proper procedures pertaining safety conduct in the mine. A T-test of independent samples was used to test whether employers and employees had similar attributes on the implementation of health and safety regulations. The researchers also used analysis of variance (ANOVA) to find out the difference between distributions and to measure any statistical significance between the means and distributions of samples. A pilot study was deemed necessary to ensure operational administration, validity and reliability of the questionnaire. Cronbach's alpha coefficient was computed to assess internal consistency.

#### Cronbach Coefficient Alpha

Variables	Alpha
Raw	0.885463

## **ETHICAL CONSIDERATIONS**

Mining management was informed and consent obtained. Informed consent was obtained from the respondents who were to participate in the study. Confidentiality was maintained by omitting names and personal identification while the information obtained from this research is strictly used for academic purposes. Ethical clearance was obtained from Higher Degrees Committee of the University of Fort Hare.

## **EMPIRICAL RESULTS**

### **T TEST**

A T-test of independent samples was used to determine whether employers and employees shared the same perception on the implementation of health and safety regulations. An Alpha level of 0.05 was set to test if there was a significant difference between the mean scores of respondents. When the p-value is less than 0.05 the mean groups are said to be statistically different. Where data was normally distributed the Equal-Variance T-Test was used and while Mann-Whitney U or Wilcoxon Rank-Sum Test for Difference in Medians was adopted when data was not normally distributed.

**Table 1**

<b>T Test</b>				
<b>Variable</b>	<b>Mean employer</b>	<b>Mean employee</b>	<b>T value</b>	<b>P value</b>
Promotion	4.0625	4.111888	0.1861	0.057
Involvement	4.0625	4.034965	-0.1042	0.051
Progress	3.9375	3.895105	-0.1701	0.053
Resources	3.6875	4.167832	2.0552	0.067916
Corrective Action	4.0625	3.972028	-0.4161	0.069809
New Technology	3.75	3.895105	0.5993	0.091539
Training New Employees	4	4.132867	0.5367	0.083057
Discussion Of Health and Safety	3.875	3.909091	0.1424	0.052296
Equipment	3.75	3.846154	0.3618	0.064936
Risk Taking	1.9375	2.706294	-2.0291	0.042755*
Protective Equipment	4.25	4.265734	0.0730	0.051

The results as shown in **Table 1** indicated that the difference in means was statistically insignificant for employers and employees. Due to the minor difference in the mean values results of this study indicated that employees are well informed on health and safety regulations, and that employers do abide by the provisions of the health and safety regulations. Thus in light of the objectives of the research mine employees know and practice occupational health and safety regulations in their place of work. However the result for often taking risks taking the job done revealed means that was significantly different. The p value of 0.042 and the mean values were 1.9375 vs. 2.706294 for employers and employees respectively. The null hypothesis for a difference  $\neq 0$  was rejected (1.9375 vs. 2.706294,  $t=-2.0291$ ,  $p= 0.042755$ ). The difference in means is therefore statistically significant. This difference was attributed to acquiescence which was a weakness note by the researcher.

It should be recalled that the second objective of the research was to determine whether employers following up on proper procedures pertaining to safety in the mine. From this

objective, it was hypothesized employers do not abide to the provisions of health and safety regulations. As indicated in **Table 1** the difference between employers and employees was not statistically significant. Employers' were involved in the implementation of health and safety regulations (4.0625 vs 4.034965,  $t=-0.1042$ ,  $p= 0.051$ ). Corrective action was carried out quickly and putting effective and permanent solutions into place (4.0625 vs 3.972028,  $t=-0.4161$ ,  $p= 0.069809$ ). Training needs were being systematically analysed with the introduction of new technology (3.75 vs 3.895105,  $t=0.5993$ ,  $p= 0.091539$ ). Employers' were achieving progress in the implementation of health and safety regulations (3.9375 vs 3.895105,  $t=-0.1701$ ,  $p= 0.053$ ).

Resources were readily available and allocated to ensure health and safety (3.6875 vs. 4.167832,  $t=2.0552$ ,  $p= 0.067916$ ). Equipment was kept in a safe operating condition and was easily accessible (3.75 vs. 3.846154,  $t=0.3618$ ,  $p= 0.064936$ ). Employees discussed on how to improve health and safety and was supported by management (3.875 vs. 3.909091,  $t=0.1424$ ,  $p= 0.052296$ ). The difference in means was therefore statistically insignificant.

## ANALYSIS OF VARIANCE TESTING ON EMPLOYEES

**Table 2**

Perception	Mean	P value	df	Decision
<b>Race vs attributes</b>				
Race perception on training	4.26 vs 3.63	0.0016	150	Reject H0
Race perception on communication	4.21 vs 3.78	0.0075	150	Reject H0
Race perception on reaction to incident	4.22 vs 3.67	0.0019	150	Reject H0
<b>Years in organisation vs attributes</b>				
Effective meetings on health and safety regulations	4.03 vs 3.43	0.033	149	Reject H0
Training with introduction of new technology	4.24 vs 3.73	0.027	149	Reject H0
<b>Occupation vs attributes</b>				
Employer involvement in promoting health and safety regulations	4.17 vs 2.4	0.009	137	Reject H0
Employers focusing on productivity	4.29 vs 2.1	0.042	137	Reject H0
Health and safety regulations effective and well implemented	4.33 vs 2.4	0.027	137	Reject H0
Management supports programs to improve health and safety regulations	4.12 vs 2.6	0.005	137	Reject H0
Equipment is kept in safe operating condition and are easily accessible	4.6 vs 2.4	0.025	137	Reject H0

Risk taking on job	4 vs 1.2	0.009	137	Reject H0
<b>Level of study vs attributes</b>				
Supervisor encouragement to improve and safety	4.15 vs 3.12	0.014	169	Reject H0
Hazard identification risk assessment reviewed With people who do the work	4.37 vs 2	0.036	169	Reject H0
Training needs systematically met introduction of new technology	4.08 vs 2	0.024	169	Reject H0
New employees trained to do the job Safely	4.5 vs 2	0.016	169	Reject H0

Table 2 indicates the ANOVAs testing done on employees against the attributes and significant differences are highlighted.

### **Race vs. Attributes**

White employees (33) had a higher mean on perception as to whether new employees were trained in a timely and effective manner so that they could do the job safely (mean 4.26 vs. 3.63 DF=150 MSE=0.7799487 Critical Value=3.3477 p-value 0.0016). Black employees had a higher mean on perception on the availability of health and safety information. The null hypothesis for a difference  $< 0$  was rejected, as indicated by a significance level of 0.0075 (mean 4.2 vs 3.78 DF=150 MSE=0.461457 Critical Value=3.3477 p-value 0.0075). Black employees (118) had a higher mean on how well they were trained to respond to incidents that occur in the workplace. The null hypothesis for a difference  $< 0$  was rejected as indicated by a significance level of 0.001946 (mean 4.22 vs 3.67 DF=150 MSE=0.6277025 Critical Value=3.3477 p-value 0.001946). The difference in means was statistically significant.

### **Years in organisation vs. attribute**

Using the number of years employed in the organization, the employees were required to indicate if employers had effective meetings on health and safety regulations (mean 4.03 vs. 3.43 DF=149 MSE=0.7463276 Critical Value=3.6745 p-value 0.033001). Employees who were employed for more than 10 years had a higher mean, (4.03 vs. 3.43) indicating that employers and supervisors were effective at running meetings and presenting information on health and safety regulations. Group 1 (less than 1 yr) had a higher mean, on training needs were being met with the introduction of new technology. The null hypothesis for a difference  $< 0$  was rejected

as indicated by a significance level of 0.027027 (mean 4.24 vs 3.73 DF=149 MSE=0.7518066 Critical Value=3.6745 p-value 0.027027). The difference in means was statistically significant.

### **Occupation vs. Attributes**

Shop stewards, miners and belt attendants' perception on employer involvement in promoting health and safety regulations differed from that of the other occupational groups. The null hypothesis for a difference  $< 0$  was rejected as indicated by a significance level of 0.009 (mean 4.17 vs. 2.4 DF=137 MSE=1.077234 Critical Value=4.9368 p-value 0.009390). Operators, Fitters and belt attendants were asked if employer focused on productivity than health and safety regulations. The null hypothesis for a difference  $< 0$  was rejected as indicated by a significance level of 0.042 which is less than Alpha of 0.05 (mean 4.29 vs. 2.1) DF=137 MSE=1.424242 Critical Value=4.9368 p-value 0.042215). The difference in means was statistically significant.

Shop steward perception differed from that of engineers, miners, operators, belt attendant and environment officers who agreed that health and safety regulations were effective and well implemented. The null hypothesis for a difference  $< 0$  was rejected this is indicated by a significance level of 0.027 (mean 4.33 vs. 2.4 DF=137 MSE=0.7846335 Critical Value=4.9368 p-value 0.027012). A significant difference was noted from Shop stewards, miners, operators and belt attendants on whether management supports programs to improve health and safety regulations. The null hypothesis for a difference  $< 0$  was rejected as indicated by a significance level of 0.005 (mean 4.12 vs. 2.6 DF=137 MSE=0.9517252 Critical Value=4.9368 p-value 0.0052113). The difference in means was statistically significant.

Shop stewards were not of the same opinion as miners, operators and belt attendants who agreed that equipment was kept in safe operating condition and is easily accessible. The null hypothesis for a difference  $< 0$  was rejected as indicated by a significance level of 0.025 (mean 4.6 vs 2.4 DF=137 MSE=0.9613867 Critical Value=4.9368 p-value 0.025330). Shop Stewards were not of the same opinion as Pipes Tracking Ventilation, Drill Rig operators, LDV Drivers, Supervisors on that they often take risks to get the job done. The null hypothesis for a difference  $< 0$  was rejected as indicated by a significance level of 0.009 (mean 4 vs. 1.2) DF=137 MSE=1.711049 Critical Value=4.9368 p-value 0.009545). The difference in means was statistically significant.

### Level of study Vs Attributes

Employees with a degree were not of the same opinion that their supervisors encouraged them to make changes to improve employee health and safety as to those with a pre matric qualification. The null hypothesis for a difference  $< 0$  was rejected as indicated by a significance level of 0.014 (4.15 vs. 3.12 DF=169 MSE=0.8521103 Critical Value=4.0768 p-value 0.014246). Employees with a pre-matric qualification had a lower mean, (4.152 vs. 3.12) than individuals who had a degree. Degreed employees agreed that hazard identification, risk assessment was regularly reviewed with people who do the work, whilst those with other qualifications such as certificates did not agree. The null hypothesis for a difference  $< 0$  was rejected as indicated by a significance level of 0.036 (4.37 vs 2 DF=169 MSE=0.8195524 Critical Value=4.0768 p-value 0.035863). Employees with other qualifications such as a certificate had a lower mean (4.37 vs. 2) as than individuals who had a degree. Employees with other qualifications such as certificate had a lower mean, (4.089 vs. 2) than individuals who had a degree as to whether their training needs were being analysed with the introduction of technology. The null hypothesis for a difference  $< 0$  was rejected as indicated by a significance level of 0.024 (mean 4.088608 vs. 2 DF=169 MSE=0.7418883 Critical Value=4.0768 p-value 0.024334).

### ANALYSIS OF VARIANCE EMPLOYERS (ONE WAY)

**Table 3 Analysis of Variance Employers**

Perception and Attribute	mean	P value	df	Decision
<b>Age:</b> Employees informed after investigating incidents for root causes and improvement control	4.33 vs 3	0.0005	17	Reject H0
<b>Years in org;</b> Plant being checked daily	4.42 vs 3.16	0.021	18	Reject H0
Focus on Productivity than Doing Job Safely	4.28 vs 2.67	0.025	18	Reject H0
Support of programs to improve health and safety	4.42 vs 3.5	0.032	18	Reject H0
<b>Race:</b> Race on employees aware of risks involved in their Work	4 vs 3.9	0.0005	19	Reject H0
Noise control	5 vs 3.63	0.027	19	Reject H0



Noise control effective	4.2 vs 3.45	0.019	19	Reject H0
Management support for programs to improve health and safety	4.4 vs 3.72	0.022	19	Reject H0
Management involvement in promoting health and safety regulations	4.5 vs 3.72	0.025	19	Reject H0
Management involvement in implementing health and safety regulations	4.4 vs 3.81	0.031	19	Reject H0

### **Age vs. Attributes**

On employees being informed after investigating incidents for root causes and improvement control. The null hypothesis for a difference  $< 0$  was rejected as indicated by a significance level of 0.0005 (mean 4.33 vs. 3 DF=17 MSE=3.921569E-02 Critical Value=4.3027 0.000587). This was because the perception of managers older than 56 years differed from the other age groups.

### **Years in organization vs. Attributes**

The null hypothesis for a difference  $< 0$  was rejected as indicated by a significance level of 0.021 (mean 4.42 vs. 3.16 DF=18 MSE=0.5859789 Critical Value=3.9970 0.021010). From the responses it appeared that mobile plant was checked daily, and in a good condition, well maintained and met all standards of health and safety. The perception of those with less than one year was different from that of those with 6-10 years in the organization. Managers with less than one year was not sure while response of others were normally distributed for whether management support programs to improve employee health and safety. The null hypothesis for a difference  $< 0$  was rejected as indicated by a significance level of 0.032 (mean 4.42 vs. 3.5 DF=18 MSE=0.3382936 Critical Value=3.9970 0.031743). Management was asked whether they focus on productivity rather than doing the job safely. The perception of those with less than one year was different from that of those with 6-10 years in the organization. Management with less than one year disagreed. The null hypothesis for a difference  $< 0$  was rejected this is indicated by a significance level of 0.026 (mean 4.28 vs. 2.67 DF=18 MSE=0.9242725 Critical Value=3.9970 p-value 0.025776). The difference in means was statistically significant.

### **Race vs. Attributes**

Black managers strongly agreed that employees were aware of the risks involved in their job; White managers were not sure while coloured managers agreed. The null hypothesis for a difference  $< 0$  was rejected as indicated by a significance level of 0.00050 (mean 4 vs 3.9 DF=19 MSE=4.736842E-02 Critical Value=3.5928 p-value 0.000508). On whether the noise control measure was comprehensive, coloured managers had a higher mean indicating that they strongly agreed. Black managers were not sure while white managers agreed. The null hypothesis for a difference  $< 0$  was rejected as indicated by a significance level of 0.027980 (mean 5 vs. 3.636364 DF=19 MSE=0.323445 Critical Value=3.5928 p-value 0.027980).

On whether the noise control measures were effective, coloured managers had a higher mean indicating that they strongly agreed. Black managers were not sure while white managers agreed. The null hypothesis for a difference  $< 0$  was rejected as indicated by a significance level of 0.019689 (mean 4.2 vs. 3.454545 DF=19 MSE=0.4382775 Critical Value=3.5928 p-value 0.019689). The null hypothesis for a difference  $< 0$  was rejected as indicated by a significance level of 0.022 (mean 4.4 vs 3.72 DF=19 MSE=0.3464115 Critical Value=3.5928 p-value 0.022387) indicating a difference in perception on management support for programs to improve health and safety. The perception of Black managers was different from that of white while that of coloured managers was normally distributed. Black managers were not sure and white management agreed that there was support for programs to improve health and safety. The null hypothesis for a difference  $< 0$  was rejected as indicated by a significance level of 0.025835 (mean 4.5 vs. 3.727273 DF=19 MSE=0.3516746 Critical Value=3.5928 p-value 0.025835) indicating a difference in perception between black and white managers. White managers strongly agree that they are actively involved in promoting health and safety regulations while black employers are not sure.

The null hypothesis for a difference  $< 0$  was rejected as indicated by a significance level of 0.031 (mean 4.4 vs. 3.81 DF=19 MSE=0.2124402 Critical Value=3.5928 p-value 0.031005) indicating a difference in perception between black and white managers. White managers were positive that they are actively involved in implementing health and safety regulations while black employees are not sure. This was computed by a mean 4.4 vs. 3.81.

## CONCLUSION

Hypothesis 1 stated employees are not well informed about the regulations of health and safety, Burke *et al.*, (2006) found that as training methods became more engaging (i.e., requiring trainees' active participation), workers demonstrated greater knowledge acquisition leading to reductions in accidents, illnesses, and injuries. All methods of training produced meaningful behavioural performance improvements they concluded. Training involving behavioural modelling, a substantial amount of practice and dialogue is generally more effective than other methods of safety and health training. Real (2008) developed a theoretical frame that provided practical directions as to what shapes the safety behaviors and communication patterns of workers in dangerous jobs are and offers insights for safety information-seeking and workplace safety. He found that those respondents with greater efficacy beliefs displayed more positive safety outcomes than those with lower efficacy beliefs. Griffin and Neal (2000) distinguished perceptions of the work environment from perceptions of performance related to safety. Perceptions of knowledge about safety and motivation to perform safely influenced individual reports of safety performance and also mediated the link between safety climate and safety performance. The results support conceptualizing the safety climate as an antecedent to safety performance in organizations. Chaves *et al.*, (2009) showed that the degree of implementation is associated with the employees' level of health/safety knowledge and training and communication between the occupational safety and the health team. These findings remain unchanged after adjustment for levels of education among managers and employees.

However it is to be noted from the findings of this research that the difference in perception is with the union representatives. Shop stewards had a lower mean on equipment being kept in safe operating condition and being easily accessible, employers' involvement in promoting health and safety regulations and management's supports programs to improve health and safety regulations. Union representatives had a negative perception, indicating that they were not happy with how equipment was being kept with lack of employer involvement in promoting programs on health and safety and with a lack of managements support. Is this to say employers and unions disagree about the safety policies and why is it that the other groups could not note it? Is it that,

as representatives of employees they are their spokesman and believe that more can be done to improve the health and safety of their representatives or it is a case of ignorance on the part of employees? Liu (2011) found that China's frequent coalmining accidents highlighted legislative defects that disabled enterprise unions from exercising their statutory functions effectively in regard to occupational safety. Are South African trade unions trying to avoid this or do they seek to empower workers on health and safety?

Based on the findings of the study Hypothesis 1 is rejected because employees had a positive perception indicating that they are well informed on the health and safety regulations.

Hypothesis 2 sought to find out if employers do not abide by the provisions of the health and safety regulations and the safety objectives. As indicated in the literature management of health and safety is an area that every organization needs to take seriously. This research focuses on issues of leadership associated with the role management plays with regard to safety. It is therefore expected that if there is a strong level of management or employer involvement in matters of health and safety regulations it will be reflected by a positive response on the perception to health and safety regulations. The results suggest that the perception of the groups under study were not significantly different in perception except on risk taking (mean score 2.706294 vs. 1.9375,  $t=-2.0291$ ,  $p\text{-value } 0.042775$ ). This means that employers are involved in the implementation of health and safety regulations.

However, the findings of this research reveal significant differences in perception from the respective races. White employees had a higher mean on management support for programs to improve health and safety; Management involvement in promoting health and safety regulations; Management involvement in implementing health and safety regulations showing a positive response for all these. Black employees had a higher mean on; employees being aware of risks involved in their work.

Is this to say that there are different training structures and that employees are treated differently along racial lines? Strong management commitment to safety can only be shown if management has the same perception. Questions need to be asked on the difference in perception between black and white employers in dealing with health and safety matters.

## **RECOMMENDATIONS FOR THE EMPLOYER**

Although the results of this study cannot be generalised, the results can create an awareness of the areas that employers or managers and employees may have to focus on in order to enhance the effective implementation of health and safety regulations in the work. Turnley *et al.*, (2003) highlights that the extent to which employees feel that their employers meet obligations regarding pay and interpersonal treatment is also related to in-role and citizenship performance. Similarly, Hoffmann, Morgeson and Gerras (2003) note that leader-member exchange has been found to be related to safety citizenship behavior. In general, these results suggest that when employers are perceived to meet their obligations, treat employees fairly, and provide valued services and benefits, employees will reciprocate with higher levels of commitment and performance. Management needs to be more involved and if an incident occurs, corrective measures, not punitive ones to be are put in place so that the root cause can be identified and resolved if possible.

In order for the employer to achieve health and safety goals it is essential that perceptions be regardless of race the same that and relations between unions and management must improve as have the same goal: to keeping the workplace incident free. The employers must also equip the employees with power to say no to unsafe working environment. Employees need to be more involved in matters that relate to their work environment so that when new technology or measures are put in place they are met with minimal resistance.

## **RECOMMENDATIONS TO THE EMPLOYEES**

This research has implications for employees. They need to understand the value of regulations that are in place so as to keep the working environment safe. It highlights the importance of knowledge for it is only when one knows what health and safety regulations do that they can be realized in actual workplace policies and practices. Kitson, Harvey, and McCormack (1998) argued that successful implementation of research into practice is a function of the interplay of three core elements--the level and nature of the evidence, the context or environment into which the research is to be placed, and the method or way in which the process is facilitated.

## **LIMITATIONS**

This research had its limitations, among them: Financial and time constraints hindered the research from being a nationwide one as it only focused on one platinum mine. The researcher was not familiar with the mining language (Fanakalo), causing challenges in the translation of terms respondents were not familiar with. A larger sample size would have provided a more stringent research design, thus allowing results to be more generalisable and providing greater insight into the perceptions of the groups under study. Due to practical operational requirements, only a third of the workers and management staff were available at one any time to receive the perception survey.

## **FUTURE RESEARCH**

Financial and time constraints hindered the research from being a nationwide one as it only focused on a single mine. A larger sample size would have provided a more stringent research design, thus allowing results to be more generalisable and providing greater insight into the perceptions of the groups under study. Due to practical operational requirements, only a third of the workforce was available at one any time to receive the perception survey.

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# **EMPLOYER PERCEPTIONS OF COMMERCE GRADUATE COMPETENCIES: AN EXPLORATORY STUDY**

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## **ABSTRACT**

The problem statement of this study is vested in the continuum of praise and criticisms of Commerce graduates and the Commerce curriculum and the reported imbalances between higher education institutions's and the needs of the labour market. The purpose of this study was to obtain the opinions of Commerce graduate employers on the overall perception of the management competencies of Commerce graduates produced by a prominent higher education institution in the Eastern Cape Province in South Africa

## **INTRODUCTION**

The role of higher education in developing human capital and contributing to economic growth, competitive advantage and societal progress of any country has been well documented (for example, Griesel & Parker, 2009: 2). Higher education institutions (HEI) play a fundamental role in making a country more competitive by advancing the knowledge-based aspects of an economy. A knowledge-based economy is established, in part, by developing high level human resources – a fundamental role of HEIs. In developing high level human resources, the contribution of HEIs pertains to the development of management competencies which are comprised of knowledge, skill, attitudes and values. The development of high level human resource and management competencies is imperative to the development of “South Africa as a developmental state and young democracy” (Griesel & Parker, 2009: 3). Renewed attention on the development of skills required by the South African economy and the role of HEIs in doing so has been the focal point of the Joint Initiative for Priority Skills Acquisition (Griesel & Parker, 2009: 2). Accordingly, it is expected that HEIs would proactively contend with the skills needs of the South African economy by addressing the identified skills gaps through “research, knowledge generation and innovation” (Griesel & Parker, 2009: 3).

Furthermore, the demands of a growing economy, governmental pressure and the competitive international business environment have put pressure on South African businesses. As the business world becomes increasingly sophisticated and challenging, so does the need to continuously review and assess the business qualifications that equip managers to cope with the challenges facing them, such as developing higher order meta-competencies (Louw, 1999:4). This is aggravated by a “skills crisis” and the need to deliver more goods and services to increasingly more diverse customers (Griesel & Parker, 2009:3). There is consensus amongst experts that the shortage of skills and high-level managerial human resources in South Africa constitute a major threat to the country’s future economic development and productivity growth (Horwitz, 2006:56; Kraak, 2004:70; Pretorius & McKenzie, 2007:56; RSA Department of Education 1996). According to Louw (1999:2), “the availability of an adequate, competent and dynamic management corps is a prerequisite for the economic development, productivity growth and wealth creation of any country. It is generally acknowledged that there is a direct link between the economic performance of a country and the level of education of its citizens (Louw, 1999:2): Within this context, the importance of the managerial competencies developed by degree in Commerce comes to the fore.

Despite the importance of a degree in Commerce there are some criticisms (Borland, 2007; Kruss, 2004:675, 673-689; Mbeki, 1996; Mlambo-Ngcuka, 2006) as highlighted below:

- Graduates are not adequately equipped through their studies to cope with or meet the challenges of a dynamic global business environment.
- A skills revolution is required in the Commerce curriculum of HEIs.
- Many courses are too theoretically inclined.
- The graduates lack entrepreneurial skills.
- Lecturers at HEIs often lack relevant business experience.
- Graduates have not acquired the level of interpersonal and decision-making skills required to work in a diverse and multicultural campus environment.

The gap between the outcomes of higher education (in terms of quality, type and quantity of graduates) and the needs of the economy in South Africa has a widespread cause of concern for employers (Yorke & Knight, 2006: 10). Against this backdrop and in the same vein, the

employability of Commerce graduates is further questioned. Commerce graduates are required to have relevant and applicable knowledge derived from the core courses as well as the necessary skills and attributes such as technical, functional, interpersonal, emotional intelligence and the ability to adapt to constantly changing environments. The knowledge, skills and traits, as acquired by Commerce graduates from HEIs, are combined to represent “graduate competencies and attributes”. Given the concern of employers and the criticisms levelled against Commerce degrees, it is questioned to what extent HEIs have met the needs and expectations of business practice and whether HEIs adequately prepare South Africa’s youth for the various challenges they face when making the transition from the learning environment to the work environment.

### **PROBLEM STATEMENT AND PURPOSE OF THE STUDY**

Against the background of importance of competent Commerce graduates in the South African economy, the continued criticism of Commerce graduates, and the competencies they possess and the role of HEI’s in developing management competencies which ensure successful job performance and growth, the main purpose of this study is to contribute to the body of knowledge pertaining to commerce and business education by gathering the opinions and perceptions of employers of Commerce graduates from a selected HEI in the Eastern Cape Province. To achieve the purpose of this study, it was necessary to assess the opinions of Commerce graduate employers on: the importance of core courses required for managing a business and successful job performance; quality of tuition received in the core courses; the importance of management skills and traits which are essential in the work environment and the extent to which the tuition received developed these abilities; and to make recommendations towards the development of the Commerce graduate at the selected HEI.

### **RESEARCH DESIGN AND METHODOLOGY**

#### **Methodology and hypotheses**

Given the purpose and quantitative nature of this study, a positivistic research paradigm was adopted (Collis & Hussey, 2003:55). Based on previous research by Louw (1999) and the literature study, a questionnaire was further refined and adapted for the purpose of this study. The questionnaire consisted of five-point Likert scale items and an open question. The questionnaire was tested in a pilot study consisting of 25 employers and electronically

administered to 85 human resources practitioners who employ Commerce graduates from the selected HEI and who provided the HEI's Career Centre with their human resources practitioners' electronic mail addresses. Non-probability sampling comprising of a combination of convenience sampling and purposive sampling were used in this study (De Vos, Strydom, Fouche and Delport, 2005:198-200; Terre Blanche & Durrheim, 1999:276). A total of 47 completed questionnaires were received electronically, all of which were usable for statistical data analysis. A response rate of 55.3 per cent was regarded as acceptable for exploratory research purposes (De Vos et al., 2005:195) and is representative of more than half of the sample selected and at least 25 per cent of all the potential employers on the HEIs Career Centre database at the time of this study.

To gauge the employer's perception the relative importance of core courses for running a business and the proficiency of Commerce graduates from the selected HEI in these core courses, the following null hypothesis  $H_0^1$  was stated:

- $H_0^1$ : There are no statistically significant differences between employers' perception of the relative importance of core courses for running a business and the proficiency of Commerce graduates in these core courses from the selected HEI.

To gauge the employer's perception of the relative importance of management skills and traits as required in the work environment and the proficiency of Commerce graduates from the selected HEI in these skills and traits, the following null hypothesis  $H_0^2$  was stated:

- $H_0^2$ : There are no statistically significant differences between employers' perceptions of the relative importance of management skills and traits as required in the work environment and the proficiency of Commerce graduates from the selected HEI in these skills and traits.

### **Data Analysis**

For the purpose of this research, the descriptive statistical analyses included measures of central tendency (mean scores, median and frequency distributions) and dispersion (standard deviation). Accordingly, the following intervals were used to interpret respondents' importance scores (Gravetter & Wallnau, 2009: 278-302):

- $1.0 \leq \text{score} < 1.8$ : **very low importance**
- $1.8 \leq \text{score} < 2.6$ : **low importance**
- $2.6 \leq \text{score} \leq 3.4$ : **medium importance**
- $3.4 < \text{score} \leq 4.2$ : **high importance**
- $4.2 < \text{score} \leq 5.0$ : **very high importance**

The upper and lower limits of the 95% confidence interval for core course, as shown, for example, in Table 2, Panels 1 and 2 are calculated by respectively adding and subtracting the 95% confidence offset to and from the mean score. In Panel 1 the relative importance of core courses and in Panel 2 the respondents' perception on the proficiency of Commerce graduates (in their organisations) in the core courses was ranked according to the mean sample scores for each course, while in Panel 3 the level of satisfaction of the respondents is given. The level of satisfaction is calculated as the difference between the sample scores of the knowledge proficiency of the Commerce graduates from the selected HEI in the selected core courses (Panel 2) and the importance of core courses (Panel 1) for running a business, namely Panel 2 minus Panel 1. As can be seen from Panel 1, 2 and 3 in Table 2, the 19 core courses were ranked according to the mean sample score into categories of significance which resulted in four ranking categories for the importance of courses and five categories for the proficiency of Commerce graduates in these courses and one category for the level of satisfaction. The categories of significance were determined by means of one sample matched pair t-test and Cohen's *d* statistic. Because multiple comparisons were made for the same data, for example the relative importance of Accounting with: Economics; Strategic Management; Human Resource Management, and Human Resource Management with: Theory of Finance, Auditing, Legal Theory and so forth, it was necessary to make Bonferroni adjustments for the p-value for each iteration within each ranking category (Gravetter & Wallnau, 2009: 278-302). All items that are not statistically different from each other (p-value greater than the Bonferroni adjusted alpha value) or having no significant Cohens's *d* statistic were grouped together into one category. For example, all the courses included in the ranking "category 1" are not statistically significantly different from each other (p-value greater than the Bonferroni adjusted alpha value) or the Cohen's *d* statistic was not significant. However, as soon as the matched pair t- test and Cohen's *d* statistic are significant, (p less than Bonferroni adjusted p-value and Cohen's *d* statistic > 0.2) the next ranking category would be formed, for example, between Accounting and Human Resource Management. Human

Resource Management would signify the first item in the second ranking category. The same statistical procedure would result in the second ranking categorisation of Theory of Finance, Auditing, Legal Theory, Financial Management and so forth shown in Table 2. In Panel 3 of Table 2 the p-values for all the core courses in terms of the “level of satisfaction” were greater than the Bonferroni adjusted alpha, implying that there were no statistically significant differences between the items and all the items were ranked into the same category.

In terms of the statistical procedures followed, the following phases are relevant; firstly the reliability of the research instrument was assessed by means of determining the Cronbach’s alpha coefficients for relevant sections. Threshold values were the recommended 0.50 minimum for basic exploratory research (Nunnally & Bernstein, 1994) and 0.70 for general purposes (Hair, Anderson, Tatham & Black 1998:449). Secondly, matched pairwise t-tests (with Bonferroni adjustment of significance level  $\alpha$ ) were conducted and Cohen’s *d* statistics calculated to determine the statistical and practical significance respectively for:

- The *ranking categorisation* of the relative importance of core courses and the proficiency of Commerce graduates in core courses.
- The differences between the relative importance of core courses for running a business and the employers’ perceptions of the proficiency of Commerce graduates in these core courses.
- The *ranking categorisation* of the importance of skills and traits in the work environment, and the proficiency of Commerce graduates in skills and traits.
- The differences between the relative importance of skills and traits required in the work environment and the Commerce graduates’ proficiency in these skills.

Due to the large number of variables in the research instrument in terms of core courses and management skills and traits, it was necessary to Bonferroni adjust the significant p-values (Hair et al., 1998) in order to rank the variables according to categories. This approach is used for adjusting the selected alpha level to control for the overall Type 1 error rate. The technique used was to divide the significance level,  $\alpha = 0.05$ , by the number of t-tests conducted for a specific variable. For example if variable X1 was compared with four other variables X2 to X5 in a series of one-sample t-tests, the significance level was divided by four

for the fourth test, i.e. to be significant at the  $\alpha = 0.05$  level, the p-value for the fourth test had to be less than 0.05 divided by four which implies that the p-value had to be less than 0.0125.

Cohan's  $d$  statistic provides an indication of whether the statistically significant differences are also practically significant. The practical significance of Cohan's  $d$  statistic has a small effect when  $0.2 \leq d \leq 0.5$ ; medium effect when  $0.5 \leq d \leq 0.8$ ; and large effect when  $d > 0.8$  (Gravetter & Wallnau, 2009: 278-302). An effect size assists in determining whether a statistically significant difference is a difference of practical concern.

The hypotheses were tested using matched-sample pairwise t-tests on the mean differences Cohan's  $d$  statistic. The matched-sample pairwise t-test indicated whether differences are statistically significant ( $p \leq 0.05$ ), while the Cohan's  $d$  statistic provides an indication of whether the statistically significant differences are also practically significant.

The qualitative information gathered was analysed by means of a thematic analysis, a conventional practice in qualitative research that involves searching through data to identify any recurrent patterns (Terre Blanche et al., 1999:141).

### **Measurement instrument analysis**

In this study, content (or face) validity was assured in the following ways; the appropriate selection of categories and item measures was made; measurement was done with enough measurement items; the questionnaire were designed so that respondents do not give biased answers or try to guess what they should say. Furthermore, professionals proof-read the wording and structure of the research instrument during pilot testing and in addition the research was benchmarked against a previous study by Louw (1999). The 19 core courses included in the research instruments are representative of the courses offered to Commerce students at the selected HEI. In terms of management skills and traits the 43 items based on previous research were classified into five classifications, namely, the technical and administrative skills, interpersonal and communication skills, conceptual, diagnostic and critical thinking, emotional intelligence and knowledge and wisdom classification criteria.

From Table 1, it can be seen that the Cronbach's alpha scores for the classifications of management skills and traits were greater than the threshold value of 0.70 except for the



Knowledge and Wisdom proficiency, with a score of 0.59. The Cronbach's alpha scores as shown in Table 1 suggest that all the items in this research instrument are reliable for general research purposes with the Knowledge and Wisdom being reliable for exploratory research purposes. Knowledge and Wisdom proficiency has a slightly lower internal consistency compared to the other scales in this research instrument.

**Table 1: Cronbach's alpha scores for management skills and traits**

Skills and Traits	Cronbach's alpha		
	Importance	Proficiency	Proficiency-Importance
Technical and administrative skills	0.92	0.71	0.78
Interpersonal and communication	0.94	0.83	0.93
Conceptual, diagnostic and critical thinking (decision making skills)	0.93	0.81	0.92
Cognitive intelligence and mental ability	0.87	0.66	0.83
Emotional Intelligence	0.91	0.83	0.90
Knowledge and Wisdom	0.91	0.59	0.81

## PRELIMINARY FINDINGS

### Sample description: Respondent biographical information

A large number of the respondents, (66%) were from the services (including financial services) sector of the economy. Whilst, manufacturing (18%), wholesale and retail (9%) and ICT (7%) were the other major industry groups. Most of the employers' (between 94 and 96 %) recruitment at the undergraduate degree the four year professional degree and honours degree levels. Seventy four percent of the employers recruited at the masters degree level and 70% of the employers recruited at the post-graduate diploma level. The employers' other focus in terms of level of education are, BTech Degree (38%), undergraduate diploma (43%), and PhD's (32%). In terms of the preferred areas of recruitment, most of the respondents (96%) preferred to recruit Commerce graduates, largely due to the nature of their business. However, 38 per cent of the respondents (n = 18) indicated that they also recruited graduates from Law and Science and Technology. Thirty six per cent of the respondents (n = 17) recruited graduates from Social Sciences 34 per cent (n = 16) from Humanities 17 per cent (n = 18) from Education (n = 8) and Engineering.

### **Core courses**

The responses pertinent to core courses are reflected in Table 2. Panel 1 of Table 2 shows the relative importance ratings of core courses as required for running a business, while Panel 2 indicates the relative perception of the Commerce graduate's proficiency. The number of respondents, as shown in Panel 3 varied between 16 and 34, depending on whether the respondents were exposed to a Commerce graduate who had prior exposure to the specific course. In order to establish the level of satisfaction, the differences between the mean scores (Panel 2 minus Panel 1) were calculated, as shown in Panel 3.

### **The most prominent findings on the ranking of the importance of core courses (Panel 1, Table 2) were as follows:**

- Almost all (18 of the 19) courses had a mean score of greater than 4.37 indicating a very high importance rating even though courses have been ranked in four different categories.
- Panel 1 shows that Accounting obtained the highest mean assessment score of 4.91 and respondents believed it was the most important course to be successful in the workplace.
- Other courses ranked in the first category in terms of importance were Economics (mean score of 4.83) and Strategic Management (mean score of 4.77).
- Even though Psychology was ranked in third category with a mean score of 4.38, it is regarded as being of high importance (mean score greater than 3.4). This indicates that the respondents believed that 18 of the courses were very important in order to be successful in business practice.
- Philosophy was ranked in the last rank (fourth rank), with a mean score of 3.06. This could be due to most of the respondents being representative of the Commerce and Business field, and not regarding Philosophy as being most important to Commerce graduates.

### **The most prominent findings on proficiency of the Commerce graduates from the selected HEI (Panel 2, Table 2) are as follows:**

- Of the 19 courses, the perceived proficiency of Commerce Graduates in nine courses had a mean score of greater than 4.30 indicating a very high rating. In order of proficiency, these courses included Legal theory, Accounting, Economics, Information Systems,

**Table 2: Relative importance of core courses, proficiency of Commerce graduates and the level of satisfaction**

Core courses	Panel 1: Relative importance of core courses				Panel 2: Proficiency of Commerce Graduates				Panel 3: Level of satisfaction				
	Ranking	95% Conf. Interval	Mean	SD	Ranking	95% Conf. Interval	Mean	SD	Ranking	N	95% Conf. Interval	Mean Diff.	SD
Accounting	1	4.86 4.97	4.91	0.41	1	4.35 4.74	4.55	0.56	1	33	-0.60 -0.19	-0.39	0.61
Economics	1	4.77 4.88	4.83	0.43	2	4.32 4.71	4.52	0.57	1	33	-0.55 -0.05	-0.30	0.73
Strategic Management	1	4.69 4.84	4.77	0.56	2	4.16 4.55	4.35	0.55	1	31	-0.67 -0.17	-0.42	0.72
Human Resource Management	2	4.65 4.80	4.72	0.58	2	4.24 4.63	4.44	0.56	1	32	-0.59 -0.10	-0.34	0.70
Theory of Finance	2	4.64 4.81	4.72	0.65	3	3.91 4.36	4.13	0.63	1	30	-0.97 -0.36	-0.67	0.84
Auditing	2	4.62 4.78	4.70	0.62	2	4.11 4.52	4.31	0.59	1	32	-0.69 -0.06	-0.38	0.91
Legal Theory	2	4.61 4.80	4.70	0.75	1	4.54 4.94	4.74	0.53	1	27	-0.30 0.38	0.04	0.90
Financial Management	2	4.59 4.77	4.68	0.73	4	3.52 4.00	3.76	0.71	1	33	-1.25 -0.56	-0.91	1.01
Marketing	2	4.60 4.77	4.68	0.66	5	2.95 3.68	3.31	1.06	1	32	-1.92 -0.96	-1.44	1.39
Information Systems	2	4.59 4.77	4.68	0.69	2	4.23 4.71	4.47	0.71	1	34	-0.52 0.11	-0.21	0.95
Commercial Law	2	4.58 4.78	4.68	0.75	4	3.49 4.03	3.76	0.74	1	29	-1.34 -0.52	-0.93	1.13
Ethics	2	4.58 4.74	4.66	0.64	3	3.81 4.26	4.03	0.65	1	32	-0.90 -0.22	-0.56	0.98
Statistics	2	4.56 4.76	4.66	0.81	3	3.65 4.09	3.87	0.62	1	31	-1.23 -0.70	-0.97	0.75
Management Accounting	2	4.52 4.71	4.62	0.74	3	3.84 4.29	4.06	0.63	1	31	-0.88 -0.15	-0.52	1.03
Computer Science	2	4.51 4.72	4.62	0.82	2	4.08 4.63	4.35	0.81	1	34	-0.67 0.02	-0.32	1.04
Mathematics	2	4.47 4.68	4.57	0.80	3	3.64 4.17	3.90	0.75	1	31	-1.11 -0.38	-0.74	1.03
Taxation	2	4.44 4.66	4.55	0.85	2	4.13 4.51	4.32	0.54	1	31	-0.49 0.10	-0.19	0.83
Psychology	3	4.29 4.47	4.38	0.71	4	3.20 4.01	3.61	0.99	1	23	-1.22 -0.17	-0.70	1.29
Philosophy	4	2.90 3.23	3.06	1.28	4	2.80 4.32	3.56	1.55	1	16	-0.34 0.59	0.13	0.96

Human Resource Management, Strategic Management, Computer Science, Taxation and Auditing.

- Legal theory obtained the highest mean score of 4.74 indicating that respondents believed the Commerce graduates they were exposed to were most proficient in this course. Accounting was also in the first category and had the second highest mean score of 4.55. Even though there were slight differences in the mean scores, the perception of the proficiency of Commerce Graduates in these courses is not statistically significantly different, implying that the proficiency of Commerce Graduates in these two courses would be regarded as being of equal standing.
- Marketing was ranked last (rank 5) and had the lowest mean score of 3.31 indicating a neutral attitude towards the proficiency of Commerce Graduates in this course (mean score less than 3.4). This is in tally with the findings of the quality of tuition where marketing was also ranked the second lowest and if the employers and graduates are in complete agreement then this is a cause for concern.

The difference scores, shown in Panel 3, was calculated for each item by subtracting the corresponding importance mean score (Panel 1) from the item's proficiency mean score (Panel 2). Negative scores imply that respondents were not satisfied with the knowledge proficiency of the Commerce graduates from the prominent HEI in core courses.

**The most prominent findings on the differences between the proficiency of the Commerce graduates and importance (level of satisfaction) in core courses, as shown in Panel 3 of Table 2, include:**

- All mean difference scores were negative; except for Philosophy (mean difference of 0.13) and Legal Theory (mean difference of 0.04). A positive score means respondents were satisfied with the proficiency of the graduates to some extent, whilst, negative mean scores imply that respondents were not satisfied, relative to the importance in core courses, with the knowledge proficiency of the Commerce graduates from the selected HEI they were exposed to.
- The respondents were least (mean difference score of greater than -1.00) satisfied with the knowledge proficiency of Commerce Graduates relative to the importance, in Marketing (mean difference score of -1.44). As mentioned before this is a cause for concern as the graduates' findings yielded the same results with the same course.

- The following courses also had relatively high mean difference score Statistics (mean difference score of -0.97), Commercial Law (mean difference score of -0.93) and Financial Management (mean difference score of -0.91).

### Testing of first hypothesis: Relative importance of core courses and proficiency of Commerce graduates

To determine whether statistically significant differences exist between the relative importance of core courses for running a business and the proficiency of Commerce graduates from the selected HEI in these core courses, the null hypothesis  $H_0^1$  was tested. From the statistics for testing hypothesis  $H_0^1$ , as shown in Table 3, it is evident that all the mean difference scores were significant at the 95 percent confidence level ( $p \leq 0.05$ ), except for Philosophy (p-value = 0.609), Legal Theory (p-value = 0.832), Taxation (p-value = 0.206), Information Systems (p-value = 0.214), and Computer Science (p-value = 0.078). Based on this finding, it can be stated that the null hypothesis  $H_0^1$  is rejected in all instances except for Philosophy, Legal Theory, Taxation, Information Systems, and Computer Science. In terms of Cohen's  $d$  statistics, large practically significant ( $d > 0.8$ ) differences were observed for Financial Management, Commercial Law, Statistics and Marketing. This implies the "gap" between the overall level of satisfaction with the proficiency of Commerce graduates in these courses relative to the importance of these courses for running a business is large.

**Table 3: Statistics of testing the first hypothesis**

Courses	t-value	d.f.	p-value	Cohen's d
Philosophy	0.52	15	.609	n.a.
Legal Theory	0.21	26	.832	n.a.
Taxation	-1.29	30	.206	n.a.
Information Systems	-1.27	33	.214	n.a.
Economics	-2.39	32	.023	0.42
Computer Science	-1.82	33	.078	n.a.
Human Resource Management	-2.78	31	.009	0.49
Auditing	-2.34	31	.026	0.41
Accounting	-3.71	32	.001	0.65
Strategic Management	-3.24	30	.003	0.58
Management Accounting	-2.79	30	.009	0.50
Ethics	-3.24	31	.003	0.57
Theory of Finance	-4.33	29	.000	0.79
Psychology	-2.58	22	.017	0.54

Courses	t-value	d.f.	p-value	Cohen's d
Mathematics	-4.00	30	.000	0.72
Financial Management	-5.16	32	.000	0.90
Commercial Law	-4.43	28	.000	0.82
Statistics	-7.16	30	.000	1.29
Marketing	-5.85	31	.000	1.03

### **Core courses: Qualitative Data**

The following courses, in addition to the core courses, were regarded as being important namely, Project Management; Enterprise Management; Financial Markets; and Industrial Sociology.

### **MANAGEMENT SKILLS AND TRAITS**

Panel 1 of Table 4 shows the relative importance mean scores of management skills and traits for required in the work environment and for running a business, while Panel 2 indicates the proficiency of the Commerce graduates whom the respondents are exposed to in these management skills and traits. Panel 3 of Table 4 indicates the level of satisfaction of the employers in respect of the proficiency of Commerce graduates in management skills and traits, calculated as the difference between the perceived proficiency (Panel 2) and perceived importance (Panel 1) scores. Similar to core courses, the descriptive data and one-sample matched t-tests were conducted and Cohens *d* statistics calculated as well as Bonferroni adjustment of significant p-values were used in determining the ranking classification of management skills and traits. All the respondents responded to this section.

### **The most significant findings on relative importance of management skills and traits (Panel 1, Table 4) are as follows:**

- All the 43 management skills and traits had a mean score rating of greater than 4.61, indicating a high importance rating; hence all the items were ranked into one category of significance.
- The item '*Ability to collaborate across cultures*' obtained the highest mean score (4.87). This skill was also perceived by Commerce Graduates to be the most important competency for successful job performance.
- In addition to the above it is interesting to note that, *Business ethics and integrity* (mean score of 4.85), *Trustworthiness* (mean score of 4.81) and *Accountability* (mean score

4.79) were all ranked in the top ten of the most important management skills and traits to possess to be successful in business practice.

**The most significant findings on the proficiency of the Commerce graduates from the selected HEI in the management skills and traits (Panel 2, Table 4) are as follows:**

- The extent to which tuition, primarily received in the Faculty of Commerce at the selected HEI, developed the management skills and traits of Commerce graduates to whom the employers were exposed to were grouped into three ranking categories. This implies that the differences in perception of the proficiency of the Commerce graduates in the management skills and traits in each ranking classification were not statistically significant. In other words, the proficiency of the Commerce graduates in the management skills and traits as listed in each ranking classification were all regarded as being equally important.
- The proficiency of the Commerce graduates in the following management skills and traits was regarded as being excellent (highly satisfied with a mean score greater than 4.2) Time Management (mean score of 4.30), Leadership (mean score of 4.23), Computer Literacy (mean score of 4.21), Social skills and sociability (mean score of 4.21), and Teamwork and collaboration (mean score of 4.21).

**The most significant findings on levels of satisfaction (differences in perceptions) in respect of the relative importance and proficiency of the Commerce graduates in the management skills and traits (Panel 3, Table 4) are as follows:**

Even though all the mean difference scores were negative, the respondents were least dissatisfied with the proficiency of Commerce graduates in the following management skills and traits, ranked in the first category of significance, namely Leadership (mean difference score of -0.45), Computer Literacy (mean difference of -0.49), Social skills and sociability (mean difference score of -0.53), Time Management (mean difference score of -0.53), Teamwork and collaboration (mean difference score of -0.60), Decision making skills (mean difference score of -0.72) and Interpersonal (networking) skills (mean difference score of -0.81).

**Table 4: Relative importance of and proficiency of Commerce graduates in management skills and traits, and the level of satisfaction.**

Skills and Traits	Panel 1: Relative importance of skills and traits				Panel 2: Proficiency in skills and traits				Panel 3: Level of satisfaction			
	Ranking	95% Conf. Interval	Mean	SD	Ranking	95% Conf. Interval	Mean	SD	Ranking	95% Conf. Interval	Mean diff.	SD
Ability to collaborate across cultures	1	4.70 5.05	4.87	0.61	2	3.70 4.13	3.91	0.75	2	-1.22 -0.70	- 0.96	0.91
Negotiating skills	1	4.78 4.97	4.87	0.34	2	3.36 3.75	3.55	0.69	3	-1.57 -1.07	-1.32	0.89
Analytical thinking and problem solving	1	4.73 4.97	4.85	0.42	2	3.53 3.92	3.72	0.68	2	-1.36 -0.89	-1.13	0.82
Business ethics and integrity	1	4.71 5.00	4.85	0.51	2	3.41 3.82	3.62	0.71	3	-1.50 -0.97	-1.23	0.94
Time Management	1	4.68 4.98	4.83	0.52	1	4.08 4.52	4.30	0.78	1	-0.78 -0.29	-0.53	0.86
Entrepreneurial skills	1	4.67 4.95	4.81	0.50	2	3.27 3.80	3.53	0.93	3	-1.57 -0.98	-1.28	1.04
Planning skills	1	4.68 4.94	4.81	0.45	2	3.47 3.93	3.70	0.81	2	-1.36 -0.85	-1.11	0.89
Teamwork and Collaboration	1	4.67 4.95	4.81	0.50	1	4.01 4.42	4.21	0.72	1	-0.82 -0.37	-0.60	0.80
Trustworthiness	1	4.65 4.96	4.81	0.54	2	3.44 3.96	3.70	0.91	2	-1.43 -0.78	-1.11	1.13
Accountability	1	4.67 4.91	4.79	0.41	2	3.49 3.87	3.68	0.66	2	-1.36 -0.85	-1.11	0.89
Holistic (systems) thinking	1	4.65 4.92	4.79	0.46	2	3.41 3.78	3.60	0.65	3	-1.44 -0.94	-1.19	0.88
Sensitivity to business environment	1	4.62 4.96	4.79	0.59	2	3.43 3.88	3.66	0.79	2	-1.45 -0.81	-1.13	1.12
Driving force, motivation and resilience	1	4.61 4.93	4.77	0.56	2	3.37 3.78	3.57	0.71	2	-1.46 -0.92	-1.19	0.95
Pro-activity	1	4.61 4.93	4.77	0.56	2	3.43 3.85	3.64	0.74	2	-1.39 -0.86	-1.13	0.92
Self-confidence and decisiveness	1	4.57 4.97	4.77	0.70	2	3.50 3.86	3.68	0.63	2	-1.38 -0.79	-1.09	1.02
Ability to convey a strong sense of vision	1	4.58 4.91	4.74	0.57	3	3.22 3.59	3.40	0.65	3	-1.62 -1.06	-1.34	0.98
Ability and willingness to learn	1	4.58 4.91	4.74	0.57	2	3.45 3.83	3.64	0.67	2	-1.38 -0.83	-1.11	0.96
Decision making skills	1	4.59 4.90	4.74	0.53	1	3.81 4.23	4.02	0.74	1	-0.97 -0.48	-0.72	0.85



Skills and Traits	Panel 1: Relative importance of skills and traits				Panel 2: Proficiency in skills and traits				Panel 3: Level of satisfaction			
	Ranking	95% Conf. Interval	Mean	SD	Ranking	95% Conf. Interval	Mean	SD	Ranking	95% Conf. Interval	Mean diff.	SD
Developing others	1	4.57 4.92	4.74	0.61	2	3.42 3.81	3.62	0.68	2	-1.38 -0.87	-1.13	0.90
Enquiry and Research skills	1	4.58 4.91	4.74	0.57	2	3.65 4.09	3.87	0.77	1	-1.12 -0.63	-0.87	0.85
Impact and influence on others	1	4.58 4.91	4.74	0.57	2	3.29 3.65	3.47	0.62	2	-1.53 -1.02	-1.28	0.90
Interpersonal (networking) skills	1	4.56 4.93	4.74	0.64	2	3.66 4.21	3.94	0.96	1	-1.11 -0.51	-0.81	1.06
Oral presentations and use of visual aids	1	4.61 4.88	4.74	0.49	2	3.60 4.02	3.81	0.74	2	-1.22 -0.65	-0.94	1.01
Organisational awareness	1	4.57 4.92	4.74	0.61	2	3.46 3.82	3.64	0.64	2	-1.39 -0.83	-1.11	0.98
Social skills and sociability	1	4.56 4.93	4.74	0.64	1	3.97 4.46	4.21	0.86	1	-0.82 -0.24	-0.72	1.02
Stress Management	1	4.58 4.91	4.74	0.57	2	3.35 3.80	3.57	0.71	2	-1.47 -0.87	-1.17	1.05
Diversity Management	1	4.57 4.88	4.72	0.54	2	3.50 3.82	3.66	0.56	2	-1.32 -0.81	-1.06	0.89
Motivating skills	1	4.53 4.92	4.72	0.68	2	3.36 3.75	3.55	0.69	2	-1.45 -0.89	-1.17	0.99
Organising skills	1	4.57 4.88	4.72	0.54	2	3.36 3.75	3.55	0.69	2	-1.45 -0.89	-1.17	0.96
Computer Literacy	1	4.51 4.89	4.70	0.66	1	3.98 4.44	4.21	0.81	1	-0.77 -0.21	-0.49	0.98
Conceptual thinking (big picture)	1	4.50 4.91	4.70	0.72	2	3.44 3.79	3.62	0.61	2	-1.34 -0.83	-1.09	0.88
Creative thinking and initiatives	1	4.53 4.87	4.70	0.59	2	3.45 3.83	3.64	0.67	2	-1.35 -0.78	-1.06	0.99
Emotional stability and self-control	1	4.51 4.90	4.70	0.69	2	3.47 3.89	3.68	0.73	2	-1.31 -0.73	-1.02	1.01
Empathy	1	4.48 4.92	4.70	0.78	2	3.37 3.82	3.60	0.80	2	-1.41 -0.81	-1.11	1.05
Ability to follow and construct logical argument	1	4.47 4.89	4.68	0.73	2	3.43 3.80	3.62	0.64	2	-1.33 -0.79	-1.06	0.94
Controlling skills	1	4.45 4.91	4.68	0.81	2	3.36 3.79	3.57	0.74	2	-1.38 -0.83	-1.11	0.96

Skills and Traits	Panel 1: Relative importance of skills and traits				Panel 2: Proficiency in skills and traits				Panel 3: Level of satisfaction						
	Ranking	95% Conf. Interval		Mean	SD	Ranking	95% Conf. Interval		Mean	SD	Ranking	95% Conf. Interval		Mean diff.	SD
Intellectual flexibility and adaptability	1	4.51	4.85	4.68	0.59	2	3.38	3.69	3.53	0.55	2	-1.41	-0.89	-1.15	0.91
Leadership	1	4.46	4.90	4.68	0.78	1	3.98	4.49	4.23	0.89	1	-0.71	-0.19	-0.45	0.90
Ability to delegate	1	4.45	4.83	4.64	0.67	2	3.41	3.74	3.57	0.58	2	-1.31	-0.82	-1.06	0.84
Ability to act independently	1	4.38	4.90	4.64	0.92	2	3.40	3.87	3.64	0.82	2	-1.32	-0.68	-1.00	1.10
Conflict Management	1	4.38	4.89	4.64	0.90	2	3.28	3.74	3.51	0.80	2	-1.45	-0.80	-1.13	1.13
Interest and studiousness	1	4.44	4.84	4.64	0.70	2	3.41	3.83	3.62	0.74	2	-1.37	-0.68	-1.02	1.21
Ability to apply knowledge to new situations	1	4.40	4.84	4.62	0.77	2	3.29	3.65	3.47	0.62	2	-1.45	-0.85	-1.15	1.04

- The respondents were most dissatisfied with the Commerce graduates' proficiency in the following management skills and traits, ranked in the third category of significance with mean difference scores between -1.19 and -1,34, namely *Holistic thinking, Business ethics and integrity, Entrepreneurial skills, Impact and influence on others, Negotiating skills and the Ability to convey a strong sense of vision.*
- The skill, '*Ability to collaborate across cultures,*' was ranked first (Panel 1) (mean score of 4.87) in order of importance for successful job performance. It was ranked in the second category (2) in terms of the proficiency of the Commerce graduates in these skills and traits (Panel 2) (mean score of 3.91). Lastly, considering the differences between the respondents' perception of importance and their perception of Commerce graduates' proficiency, this competency was ranked in the second category with a negative (mean difference of -0.96) (Panel 3).

### **Summated scores for the factors pertaining to management skills and traits**

From the findings pertaining to the summated scores it can be stated that very high relative importance ratings were assigned to all the management skills and traits ranging between a mean score of 4.76 for Conceptual, diagnostic and critical thinking (decision making skills) to a mean score of 4.69 for Knowledge and wisdom. It is also noted that there is a relatively small range of mean sample scores in both the ranking classifications. Conceptual, diagnostic and critical thinking (decision making skills) were regarded as being the most important management skill and trait, supported with a very high importance rating by 87 per cent of respondents.

In terms of the summated scores pertaining to the proficiency of Commerce graduates' in terms of management skills and traits, three ranking categories emerged with a relatively small variation in mean scores, ranging from Technical and administrative skills (mean score of 3.87) to Emotional intelligence (mean score of 3.63). However, none of the mean scores were greater than 4.2 indicating that the respondents were not highly satisfied with the proficiency of Commerce graduates in all the factors pertaining to management skills and traits. Respondents were most satisfied with the Commerce graduates' proficiency in management skills and traits in terms of Technical and administrative skills and least with Emotional intelligence.

The ranking of the differences between the proficiency in and relative importance of management skills and traits (level of satisfaction). Three ranking categories emerged with variation in mean scores, ranging from -1.12 to -0.88, implying that the Commerce graduates' skills and traits required in business practice were not fully met as required in the work environment.

**Testing of second hypothesis: Relative importance of management skills and traits and the proficiency of Commerce graduates**

To determine whether statistically significant differences exist between the employers' perceptions of the relative importance of management skills and traits as required in the work environment and the proficiency of Commerce graduates from the selected HEI in these skills and traits, the null hypothesis  $H_0^2$  was tested. As shown in Table 5, it is evident that all the mean difference scores were significant at the 95 per cent confidence level ( $p \leq 0.05$ ). Based on this, it can be stated that the null hypothesis  $H_0^2$  is rejected in all instances. This finding implies that respondents were not satisfied with the proficiency of Commerce graduates from the selected HEI in the management skills and traits relative to the importance rating of Commerce graduates.

**Table 5: Statistics of testing the second hypothesis**

Skills and Traits	t-value	d.f.	p-value	Cohen's d
Leadership	-3.39	46	.001	0.49
Computer Literacy	-3.44	46	.001	0.50
Social skills and Sociability	-3.58	46	.001	0.52
Time Management	-4.26	46	.000	0.62
Teamwork and Collaboration	-5.12	46	.000	0.75
Decision Making Skills	-5.82	46	.000	0.85
Interpersonal (networking) skills	-5.25	46	.000	0.77
Enquiry and Research skills	-7.04	46	.000	1.03
Oral presentations and use of visual aids	-6.36	46	.000	0.93
Ability to collaborate across cultures	-7.23	46	.000	1.05
Ability to act independently	-6.21	46	.000	0.91
Emotional stability and self-control	-6.93	46	.000	1.01
Interest and studiousness	-5.80	46	.000	0.85
Ability to delegate	-8.64	46	.000	1.26
Ability to follow / construct logical argument	-7.74	46	.000	1.13
Creative thinking and initiatives	-7.39	46	.000	1.08
Diversity Management	-8.15	46	.000	1.19
Conceptual thinking (big picture)	-8.45	46	.000	1.23

Skills and Traits	t-value	d.f.	p-value	Cohen's d
Self-confidence and decisiveness	-7.31	46	.000	1.07
Ability and willingness to learn	-7.89	46	.000	1.15
Accountability	-8.52	46	.000	1.24
Controlling skills	-7.89	46	.000	1.15
Empathy	-7.24	46	.000	1.06
Organisational awareness	-7.71	46	.000	1.13
Planning skills	-8.52	46	.000	1.24
Trustworthiness	-6.73	46	.000	0.98
Analytical thinking and problem solving	-9.38	46	.000	1.37
Conflict Management	-6.81	46	.000	0.99
Developing others	-8.59	46	.000	1.25
Pro-activity	-8.37	46	.000	1.22
Sensitivity to business environment	-6.93	46	.000	1.01
Ability to apply knowledge to new situations	-7.56	46	.000	1.10
Intellectual flexibility and adaptability	-8.67	46	.000	1.26
Motivating skills	-8.14	46	.000	1.19
Organising skills	-8.33	46	.000	1.22
Stress Management	-7.65	46	.000	1.12
Driving force, motivation and resilience	-8.62	46	.000	1.26
Holistic (systems) thinking	-9.33	46	.000	1.36
Business ethics and integrity	-9.02	46	.000	1.32
Entrepreneurial skills	-8.44	46	.000	1.23
Impact and Influence on others	-9.71	46	.000	1.42
Negotiating skills	-10.19	46	.000	1.49
Ability to convey a strong sense of vision	-9.34	46	.000	1.36

In terms of Cohen's *d* statistics, the following practical significance is evident from Table 5:

- Medium practically significant ( $0.5 \leq d \leq 0.8$ ) differences were observed for five management skills and traits, namely Computer Literacy ( $d = 0.50$ ), Social skills and sociability ( $d = 0.52$ ), Time Management ( $d = 0.62$ ), Teamwork and Collaboration ( $d = 0.75$ ), and Interpersonal (networking) skills ( $d = 0.77$ ). This implies the “gap” between the overall level of satisfaction of the proficiency of Commerce graduates in these management skills and traits relative to the importance of these abilities as required in the work environment is moderate.
- The remaining 37 management skills and traits, from decision making skills ( $d = 0.85$ ) demonstrate a large effect size ( $d > 0.8$ ). By implication the “gap” between the overall

level of satisfaction of the proficiency of Commerce graduates in these management skills and traits relative to the importance of these abilities as required in the work environment is large.

### **Responses to the Open-ended question**

In this section the opinions and recommendations of respondents toward improving the education and development of Commerce graduates at the selected HEI were requested. The responses to this question will be included in the conclusion section of this paper.

## **CONCLUSION**

The purpose of this exploratory study is to shed some light on what appears to be different positions in respect of the competency of Commerce graduates as required in the work environment, perceived by the Commerce graduate employers from selected HEI in the Eastern Cape Province in South Africa. Also considering the widely held notion that HEIs are expected to prepare graduates to meet the societal and economic demands rather than simply preparing graduates for employment (Griesel & Parker, 2009:3). Therefore, it was important to establish the perceptions of employers with regard to the selected HEIs Commerce related qualifications, which comprise relevant curricula, to develop high-level human resources to meet the needs of society and business practice; and human resources that possess management competencies that meet the current and future needs of society and business practice in an increasingly challenging business environment. A concluding overview of the employer perceptions with regard to the competencies of Commerce graduates will subsequently be given.

### **Core courses**

Based on the main findings with regard to core courses, representing the knowledge component of the Commerce curriculum, the following concluding statement can be made.

In terms of the *importance of core courses*, all courses except *Philosophy* had a mean score greater than 4.2, with the lower limit of a very positive interval. This implies that all courses obtained very high ratings which substantiates the universal view that a broad array of core courses are indispensable in providing students with the holistic background knowledge they will require as practising business leaders and managers. This finding supports the notion that

the Commerce programme ought to contribute to the widening of students' intellectual capabilities, educating them to think holistically and become independent and self-sufficient also contribute to the development of human capital and economic growth. *Accounting, Economics and Strategic Management* were ranked the most important by the employers.

Of the 19 courses, the ***perceived proficiency of Commerce Graduates*** in nine courses had a mean score of greater than 4.30 indicating a very high rating. In order of proficiency, these courses included *Legal theory, Accounting, Economics, Information Systems, Human Resource Management, Strategic Management, Computer Science, Taxation and Auditing*. All mean difference scores were negative; except for *Philosophy* and *Legal Theory*. This finding implies that the employers were not satisfied, relative to the importance in core courses, with ***the knowledge proficiency of the Commerce graduates*** from the selected HEI.

The employers indicated the following “other” courses as being important in business practice namely, “Project Management”, “Enterprise Management”, “Financial Markets” and “Industrial Sociology”.

The ***null hypothesis Ho<sup>1</sup>*** stating that there are no statistically significant differences between employers' perception of the relative importance of core courses for running a business and the proficiency of Commerce graduates in these core courses from the selected HEI in these courses, was rejected in all instances except for *Philosophy, Legal Theory, Taxation, Information Systems, and Computer Science*. This implies that respondents were satisfied with the proficiency of Commerce graduates in these mentioned exceptions. Large practically significant differences ( $d > 0.8$ ) were observed for *Financial Management, Commercial Law, Statistics and Marketing*. This implies the “gap” between the overall level of satisfaction with the proficiency of Commerce graduates in these courses relative to the importance of these courses for running a business is large.

### **Management skills and traits**

Based on the main findings with regard to management skills and traits, representing the skills, attributes and attitudinal component of the Commerce curriculum, the following concluding statement can be made.

All the 43 management skills and traits had a mean score rating greater than 4.61, indicating a high *importance* rating, hence all the items were ranked into one category of significance. This supports the general assertion that all management skills and traits are relevant and important in the business environment. The item '*Ability to collaborate across cultures*' obtained the highest mean score (4.87). This could again be attributed to South Africa's multi-racial society and the diverse cultures of the country and the different people encountered in the work environment.

The *proficiency of the Commerce graduates* in the *Time Management, Leadership, Computer Literacy, Social skills and Sociability, Teamwork and collaboration* was regarded excellent (highly satisfied with a mean score greater than 4.2). A very prominent finding is that the employers perceived that the Commerce graduates were very proficient in *Leadership*. This is significant as the selected HEI has a maxim of "*where leaders learn*" and it is truly living up to this motto according to the perceptions of the employers.

The most significant findings on *levels of satisfaction (differences in perceptions) in respect of the relative importance and proficiency of the Commerce graduates in the management skills and traits* indicate that the mean difference scores were negative, implying that the employers were not satisfied with the proficiency of Commerce graduates from the selected HEI in management skills and traits relative to their importance ratings. By implication the management skills and traits should be more fully developed through tuition as required by business practice. In this regard, the employers were least dissatisfied with the proficiency of Commerce graduates *Leadership, Computer Literacy, Social skills and sociability, Time Management, Teamwork and collaboration, Decision making skills and Interpersonal (networking) skills*. On the contrary, the employers were most dissatisfied with the Commerce graduates' proficiency in *Holistic thinking, Business ethics and integrity, Entrepreneurial skills, Impact and influence on others, Negotiating skills and the Ability to convey a strong sense of vision*.

With regard to the **summed scores for the factors pertaining to management skills and traits**, it can be concluded that very high relative *importance ratings* were assigned to all the management skills and traits ranging between a mean score of 4.76 for Conceptual, diagnostic and critical thinking (decision making skills) to a mean score of 4.69 for



Knowledge and wisdom. It is also noted that there is a relatively small range of mean sample scores in both the ranking classifications. *Conceptual, diagnostic and critical thinking* (decision making skills) were regarded as being the most important management skill and trait,. This supports the view that conceptual, critical thinking and decision making skills and techniques are the hallmark of all aspects of management.

In terms of the *summated scores* pertaining to the *proficiency of Commerce* graduates' in terms of management skills and traits, none of the mean scores were greater than 4.2 indicating that the respondents were not highly satisfied with the proficiency of Commerce graduates in these classifications of management skills and traits. Respondents were most satisfied with the Commerce graduates' proficiency in *Technical and administrative skills* and least with *Emotional intelligence*.

Based on the ranking of the *summated score* differences between the proficiency in and relative importance of management skills and traits (*level of satisfaction*), it can be concluded that the Commerce graduates' skills and traits required in business practice were not fully met as required in the work environment. Even though the mean difference scores were negative, respondents were the least dissatisfied with the development of *Technical and administrative skills* and most dissatisfied with the development of *Emotional intelligence* and *Conceptual, diagnostic and critical thinking*.

The *null hypothesis Ho<sup>2</sup>* stating that there are no statistically significant differences between employers' perceptions of the relative importance of management skills and traits as required in the work environment and the proficiency of Commerce graduates from the selected HEI in these skills and traits, is rejected in all instances. It can thus be concluded that respondents were not satisfied with the extent to which Commerce Graduates from the selected HEI are proficient in the management skills and traits relative to the importance rating. All items have Cohen's *d* statistics above 0.2, implying that all differences are practically significant.

**Open question: Employer recommendations toward improving the education and development of Commerce graduates at the selected HEI can be summarised as follows:**

- As with most research regarding education and business, the *practical theme* was dominant in most responses, with comments such as “the degrees from most Universities

in SA are too technical and theoretical” and “while the corporate world does value the degree, the work we do often just uses the theory we learnt as a reference, but it is the practical experience that helps the most in my day-to-day job” and “combine learning with real world issues using current business publications like Finweek and Financial Mail as part of the learning process.”

- Most respondents also advocated that *guest lecturers* from industry be invited to lecture with responses such as “Get in guest lecturers from the particular industries being studied, in order to get more current case studies and real life examples” and “invite business leaders and speakers to give lectures on career development and the value of the Commerce degree”.
- *Engaging the Commerce Alumni* from the selected HEI was also suggested in several responses such as “Discussions with local and international Commerce Alumni on their views and experiences and the weight of their degrees in the business environment” and “feedback and opinions from the Commerce graduates from the selected University will also be invaluable towards the development of the future Commerce graduate”.
- Respondents also encouraged more of an *international business* focus – “the global business world is becoming more relevant and connected in every aspect and students need to learn how to operate within it” and “establish a relationship / partnership with a respected, international business school.”
- The *quality of lecturers* was mentioned by a few respondents with suggestions of having stringent recruitment and selection, in the same vein, respondents also highlighted on the *quality of students* who are admitted into the Faculty. They emphasised that there should be no compromise in admission requirements and standards.

## **RECOMMENDATIONS AND PRACTICAL IMPLICATIONS**

The concern expressed by employers about the disparity between the needs of the South African economy and the graduates from HEIs, in terms of quality, type and amount of graduates, is well documented (for example Yorke & Knight, 2006: 10). In this regard it is recommended that there be a closer synchronisation between the needs and expectations of employers and the competencies developed by HEIs, given the demands of an every changing working environment and the South African societal demands. In synchronising the needs of business practice with the roles of HEs it should be cautioned that HEIs are responsible for producing high-level competent graduates who, while serving the needs of business practice,

are also competent in serving the needs of society in general rather than simply producing graduates with the required job-related skills (South African Qualifications Authority, 2007). While these two perspectives, from the employers and HEIs, might appear to be on two opposite ends of a continuum, both the employer expectations and the HEI mandate to develop high level competent human resources are mutually inclusive. It is thus recommended, based on the findings in this study, that while HEI strive to meet the skills need of business practice, they concurrently focus on building the Commerce graduates' who are: intellectually well-balanced individuals; able to think critically; create new knowledge; and responsive to the changes in the complex business and societal environment (Boughey, 2012; Harvey, 2001; Liston, 1998; Louw, 1999; Meade & Andrews, 1995). In doing so, HEI would be able to fulfil the needs of business practice while developing the higher order conceptual (meta-competencies), decision making and emotional intelligent competencies required by business practice. It is further recommended that the HEI develop meta-competencies through the use of case studies, application exercises, methods of teaching, business games (develop critical thinking), international exchanges and collaboration with organisations. In this regard, the selected HEI should pay particular attention to the courses and management skills and traits as highlighted as developmental areas in this exploratory study.

In terms of improving the education and development of Commerce graduates at the selected HEI, it is recommended that: (a) a stronger link be established between theory and practice by including real world challenges, appropriate case studies in teaching and learning and inviting guest lecturers from industry who should focus on explaining career development and the value of the Commerce degree; (b) feedback from Commerce alumni be sought; (c) it is imperative that a global perspective in teaching and learning be maintained; (d) quality students and lecturers be recruited.

While the findings of this exploratory study are pertinent to a particular HEI in the Eastern Cape province in South Africa, the Faculties of Commerce or Business and Economic Sciences from other HEIs in South Africa could learn from the "lessons highlighted" in this study. It is envisaged that this exploratory study would form the basis of further discussion and interest from other HEIs in South Africa to facilitate engagement with business practice and to ascertain whether there are patterns of employer perceptions that are common across

the country. It is lastly recommended that this study be replicated in other HEIs, focusing on larger employer samples, thereby gaining a national perspective on employer perceptions and opinions. A national study of this nature could serve as a benchmark against which periodical reviews could be undertaken considering the super-complexity of the business environment and the role of HEI in developing high-level Commerce graduates.

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**THE INFLUENCE OF CUSTOMER ORIENTATION AND LEARNING  
ORIENTATION ON SALES PERFORMANCE: THE MEDIATING ROLE OF  
ADAPTIVE SELLING BEHAVIOUR**

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**ABSTRACT**

Customer orientation and learning orientation have been identified as two key sources of competitive advantage. Their direct influence on sales performance, however, has been the topic of much debate. Researchers have suggested that salesperson's behaviours have a significant influence on whether these orientations directly influence sales performance. Therefore the main aim of this study was to explore the relationship between salesperson behaviours, orientations and their effect on the performance of salespeople operating in the business-to-business (B2B) market in the Western Cape. In particular, this study aims to extend the understanding of the customer orientation-performance and learning orientation-performance relationships by evaluating the mediating effect of adaptive selling behaviour on these two relationships. An online survey was conducted on B2B salespeople in the Western Cape. The mediating role of adaptive selling was tested through the use of partial least squares based structural equation modelling through SmartPLS. The results indicated that adaptive selling behaviours need to be present in order to maximise the influence of learning orientation and customer orientation on performance. The study ends with a number of managerial recommendations and ideas for future research.

**INTRODUCTION**

For decades, sales managers have been interested in identifying the most effective orientations salespeople can adopt to guide their behaviours and sales approaches in order to achieve higher performance levels. Therefore, customer orientation, learning orientation and

adaptive selling behaviour and their respective relationships with salesperson performance has been the focus of a large body of personal selling marketing research (see Baker & Sinkula, 1999; Franke & Parke, 2006; Pelham, 2008; Spiro & Weitz, 1990; Sujan, Weitz & Kumar, 1994).

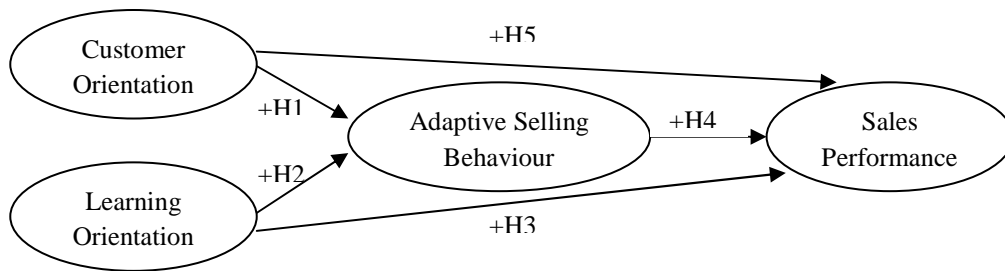
Customer orientation and learning orientation are excellent sources of competitive advantage for firms. A customer orientation focuses the entire firm and sales force towards satisfying their customer's needs in order to build long-lasting, mutually beneficial relationships (Shapiro, 1988). A learning orientation encourages managers and employees to consistently question how they are using and interpreting their market information to draw implications for future company actions (Baker & Sinkula, 1999). In doing so, a learning organization is created which exemplifies Hunt and Morgan's (1996) notion of using the "right information" and using "information right." This results in a more effective sales force that has better quality information and knowledge to utilize in their selling situations. Therefore, the findings of earlier research are in agreement that firms can gain the competitive advantage that arises from a better performing sales team, by encouraging a customer and learning orientation.

However, an area that remains to be investigated is if the concepts of customer orientation and learning orientation influence performance directly, or whether the relationship works through another variable such as adaptive selling behaviour. Adaptive selling is defined as "the altering of sales behaviours during a customer interaction or across customer interactions based on the perceived information about the nature of the selling situation" (Weitz, Sujan & Sujan, 1986:175).

Therefore the main aim of this study was to explore the relationship between salesperson behaviours, orientations and their effect on the performance of salespeople operating in the B2B market in the Western Cape. In particular, this study aims to extend the understanding of the customer orientation-performance and learning orientation-performance relationships by evaluating the mediating effect of adaptive selling behaviour on these two relationships. The following conceptual model was consequently tested:



Figure 1: Conceptual Model



This paper will first explore the theory underpinning this conceptual model. Thereafter, the methodology, findings and recommendations and conclusions are discussed. Last, the limitations of the study, as well as directions for future research are discussed.

## LITERATURE REVIEW

### The Business-to-Business Market in South Africa

The term business-to-business (B2B) is used to describe transactions between two businesses' (WebFinance, 2011). The business-to-business market can be further explained by dividing it into two subgroups; reseller markets and industrial markets (Arens, Arens & Weigold, 2009). Reseller groups buy products with the intention to resell these goods, whilst industrial markets buy products to be used in the manufacturing of other products (Arens *et al.*, 2009). The term B2B has become synonymous with business markets and for the purpose of our study we will refer to business markets as B2B.

The B2B market differs from the more familiar business-to-consumer market (B2C). In the B2C market transactions take place between businesses and individual consumers, also termed the end user (Arens *et al.*, 2009). It is important that a clear distinction is made between B2B markets and B2C markets. Lilien (1986) suggests this distinction is made between the two markets since they differ "in the nature of the market, the products, the demand and, more importantly the motives and buying behaviour of organizations acting as buyers and, compared to the motives and buying behaviour characterizing individuals." Drawing from distinctions made by previous researchers, we will characterise transactions in the B2B market as being; between many highly knowledgeable consumers that demand a complex product that can completely satisfy their organizations needs and wants, the value and size of the transaction is typically large in both quantity and monetary value and the

length of the relationship is typically long and characterized by a continuous cycle of repeated purchases (Arens *et al.*, 2009; Lilian, 1986; Solomon (2010).

The B2B environment has been a well-liked context for many previous researches on the concept of market orientation (Avlonitis & Gounaris, 1997, Human & Naude', n.d; Pelham, 2008). Market researchers are in agreement that B2B firms that have a market orientation have engaged in a company-wide philosophy that places emphasis on identifying and understanding its customers' individual needs and thus organises its activities, products and services around the needs of its customer (Avlonitis & Gounaris, 1997; Baker, 1989; Drucker, 1954;). Different orientations a firm can adopt are product orientation and sales orientation (Avlonitis & Gounaris, 1997). A product-orientated firm focuses on the product they produce or supply and the firms systems to support that product (The Times100, 2011). A sales-orientated firm focus their activities on pushing the sales of their product through extensive promotion and pricing strategies (WebFinance, 2011). These two orientations thus place the needs of the customer secondary to their respective focuses. Previous research findings have suggested that B2B firms that place the needs of its customers at the core of its activities and objectives (i.e. market orientation) have benefited from increased customer satisfaction and firm performance (Pelham, 2008). One such study by Avlonitis and Gounaris (1997) even went further to find that market orientation adoption has a greater impact on the performance of B2B firms than on the performance of B2C firms.

It is therefore posited that B2B firms need to shift their focus to a market orientation in order to enhance their performance and customer satisfaction. This study will go on to look at market orientation; what this means for a business, what changes a business will need to make in order to a adopt a market orientation and what benefits adopting a market orientation can bring to the business.

## **Market Orientation**

The marketing concept was first announced amongst marketing academicians in the late 1950's (Elliot, 1987). McNamara (1972: 51) provides a broad view of the marketing concept by defining it as "a philosophy of business management, based upon a company/wide acceptance of the need for customer orientation, profit orientation, and recognition of the important role of marketing and communicating the needs of the market to all major

corporate departments". Therefore companies that focus all departments' objectives and goals towards satisfying their customers' needs and wants are implementing the marketing concept. These companies have been termed market orientated, since their actions are consistent with the marketing concept (Kohli & Jaworski, 1990). Two terms are used to label the orientation of companies implementing the marketing concept; "marketing orientation" and "market orientation" (Kohli & Jaworski, 1990). This study will use the latter term based on the suggestion from Shapiro (1988) that "market orientation" explicitly suggests that it is not only the function of the marketing department but rather a companywide focus of all departments on satisfying the customers' needs.

Prior to 1990, there were two prevailing views on the definition of market orientation. One regarded market orientation as a company philosophy/culture/attitude whilst the other regarded it as a company behaviour (Avlonitis & Gounaris, 1997). For instance Felton (1959) defined it as a way of thinking in doing business that is based on the integration and coordination of all marketing activities which, in turn, will integrate with the rest of the other activities of the company in an effort to maximise long term profitability" (Felton, 1959 cited in Avlonitis & Gounaris: 386). A different view was suggested by Kohli and Jaworski (1990: 3) when they defined market orientation as "the organization wide information generation, dissemination and appropriate response related to current and future customer needs and preferences." Although the contrasting views are not overtly obvious, the subtle difference lies in that Felton (1959) regards market orientation as a way of thinking (philosophy) whereas, Kohli and Jaworski (1990) regard it as a way of doing (behaviour). The debate surrounding the definition of market orientation is further shown by the number of studies which held the view that market orientation was primarily a company philosophy (Baker, 1989; Drucker, 1954; Hooley, Lynch & Shepherd, 1990) and those studies which held the view that it was primarily a company behaviour (Elliot, 1987; Trout & Ries, 1985).

As a result of the debate surrounding the market orientation definition, no valid measure of the construct had been developed prior to 1990 (Narver & Slater, 1990). A possible reason for this may be that marketing academicians could not develop a valid measure for the construct, which could be used widely, if uncertainty surrounding the definition still existed. From this, Narver and Slater (1990) identified that there was a definite need for a valid measure of market orientation. Together with their review of existing literature on market orientation, they performed an exploratory study on 140 strategic business units (SBU's)

which provided them with information they needed to conceptualize the construct. They proposed that market orientation is a one-dimensional construct consisting of three behavioural components namely; customer orientation, competitor orientation and inter-functional co-ordination (Narver & Slater 1990). Customer orientation and competitor orientation involve obtaining information on the customers and competitors in the target market and disseminating this information to all departments in the company. Inter-functional co-ordination refers to how the departments jointly use this information to create superior value for their customers. (Narver & Slater,1990). The results of Narver & Slater 's (1990) exploratory study attempted to dispel the debate on the two contrasting views of market orientation by suggesting that it is one-dimension (a philosophy/culture/attitude) with behavioural components (information generation, dissemination and response). Avlonitis and Gounaris (1997) support this suggestion. They propose, "market orientation is about developing both a set of attitudes and practises that aim to maximise the company's adaptability to the market (Avlonitis & Gounaris, 1997: 388).

Subsequently, researchers appear to agree with Narver and Slater's (1990) conceptualisation of market orientation. Pelham's (1997) study used this suggestion that market orientation is split into three equally important components. He more appropriately named inter-functional co-ordination as customer satisfaction orientation (Pelham, 1997). Although over time, there have been no new developments in defining market orientation, there has been a change in the way marketing researchers view the construct and it is now a common school of thought that market orientation is both a company philosophy and behaviour. They are "related and inseparable" (Avlonitis & Gounaris, 1997: 388) in the sense that philosophy cannot be implemented without the behavioural components and conversely the behavioural components stem from the philosophy. Following this school of thought, this study will view market orientation as both a company philosophy/culture/attitude and behaviour. It is therefore posited that a genuine market orientation requires adjustment of both company attitudes and behaviours (Avlonitis & Gounaris, 1997).

Extending the idea of market orientation being a companywide philosophy and behaviour, extent literature suggests that certain attributes must exist in order for a company to be effective in adopting a market orientation (Payne, 1988). These attributes were summarized in a framework developed by McKinsey & Co, termed the "Seven S's" (Payne, 1988).

A review of previous research on market orientation indicates that numerous researches share similar thoughts with regards to what attributes a market orientated company must possess (Felton, 1959; Pelham,2010; Kohli & Jaworski, 1990; Stone & Van Bentum, 2005). The comparable thoughts are summarised in Table 1.

Table 1: Comparable thoughts on market orientation attributes

<b>Mc Kinsey's Seven Attributes</b>		
Shared Value	Felton (1959)	“A way of thinking of doing business that is based on the integration and coordination of all marketing activities which, in turn, will integrate with the rest of the activities of the company”
Style	Kohli and Jaworski (1990)	“Senior managers must themselves be convinced of the value of a market orientation and communicate their commitment to junior employees.”
Structure		
Skills/Staffing	Pelham (2008)	“Managers seeking to foster sales-force customer oriented, consulting behaviour’s must develop sales training, evaluation and motivation programs that are consistent with those behaviours.”
Systems	Pelham (2010)	“Market-oriented norms would tend to discourage sales management pressure on salespeople to push customers for short-term sales, to the detriment of long-term relationships and customer satisfaction.”
Strategy		

The first valid measure of market orientation was developed by Narver and Slater (1990) which was then further explored by Kohli and Jaworski (1990), whose findings were in agreement with Narver and Slater’s (1990) measure. This has led to further researchers, Pelham (2008) drawing on the scales from Narver and Slater (1990) and Kohli and Jaworski’s (1990) studies in order to measure market orientation. Thus, this study will also utilize these previously validated scales in order to measure market orientation. In particular,

this study will utilize the seven-point Likert agree/disagree scale used in Pelham's study (2008).

To conclude, market orientation is a companywide philosophy and behaviour that has its grounds on satisfying its customers' needs and wants. It does this through encouraging a customer-orientated focus amongst all departments. Therefore, in order for its objectives to be met, the employees directly involved in creating value for its customers, the sales force, must also be implementing this market orientated approach. Adaptive selling has been recognised as an approach to selling salespeople can adopt in order to support their companies market orientation. This brings the review to the topic of adaptive selling.

### **Adaptive Selling**

Adaptive selling is defined as "the altering of sales behaviours during a customer interaction or across customer interactions based on the perceived information about the nature of the selling situation" (Weitz, Sujan & Sujan, 1986:175). Weitz (1978) developed the ISTEAM (impression, strategy, transmission, evaluation and adjustment) model, which conceptualised the behaviours and activities taken by sales people during the sales process. Following from the definition cited above, this "altering of sales behaviours" (Weitz, Sujan & Sujan, 1986: 175) is the adjustment stage, which follows from the evaluation stage in Weitz's (1978) ISTEAM model. What this means is that an adaptive salesperson will, during a sales interaction, ask questions to gauge the opinions and observe the reactions of the customer with regards to the product or service that is being offered by the company. From this information they gather during the sales interaction they formulate a decision on whether or not to adjust their message, communication style, selling strategy or entire product/service to effectively meet the customers' needs (Weits, 1978). This process continues until both buyer and seller are satisfied. In other words the sales process is cycled through the adjustment stage multiple times during an interaction (Spiro & Weitz, 1990). Contrasting this approach would be a non-adaptive salesperson that will not change their selling approach during or across customer interactions (Weitz et al, 1986).

Spiro and Weitz (1990) developed and validated a measure of the degree to which salespeople practise adaptive selling. This they termed the adaptive selling scale (ADAPTS). Up until then, companies did not have an easy measure that they could use to determine how

adaptive their sales force was (Spiro & Weitz, 1990). Spiro and Weitz (1990) identified that the tendency for a salesperson to use adaptive selling practises consisted of five facets. These include:

- 1) Recognition that each customer is unique and therefore require a selling approach tailored to their specific needs and wants.
- 2) Confidence in their ability to adapt their selling approach for different customers.
- 3) Confidence in their ability to adjust their approach during a sales interaction.
- 4) Collecting information through probing questions and gauging reactions of customers to assist in adapting their sales approach.
- 5) Actual use of different approaches when appropriate.

The ADAPTS scale used 16 items to assess these five facets (Spiro & Weitz, 1990). Subsequent to its introduction, researchers have further explored how to measure adaptive selling (Marks, Vorhies & Badovick, 1996; Robinson, Marshall, Moncrief and Lassk, 2002). This resulted in a shortened version of the ADAPTS scale, appropriately termed adaptive selling scale shortened version (ADAPTS-SV), being developed by Robinson et al (2002). ADAPTS-SV reduced the original 16-item scale down to a 5-item scale that was still able to asses 4 out of the 5 original facets proposed by Spiro and Weitz (1990). Therefore, recommendations have been made that ADAPTS-SV scale provides a more usable and compact scale that should be utilised in further research (Robinson et al, 2002; Chakrabarty, Brown, Widing II, Taylor, 2004). Following these recommendations, this study will utilise the ADAPTS-SV scale in order to measure the degree to which adaptive selling is being adopted by salespeople in the B2B market in South Africa.

Existing literature suggests that there are certain antecedents of market orientation that enhance a company's adoption of the marketing concept (Kohli & Jaworski, 1990; Narver & Slater, 1990). With the core focus of both adaptive selling and market orientation being satisfying customers' needs it is intuitively appealing to explore if adaptive selling is one such antecedent of market orientation. This leads our review into the discussion of the relationship that exists between market orientation and adaptive selling.

## **The Relationship between Adaptive Selling and Market Orientation**

Franke and Parke (2006) explored the relationship between market orientation and adaptive selling, paying particular attention to the direction of influence. Franke and Parke (2006) suggested that because adaptive selling involves focusing on the customer's specific needs and preferences, it will lead to a customer-oriented salesperson which in turn leads to an effective market-orientated firm. A different viewpoint is that market orientation involves satisfying customers' unique needs which require gathering information and adapting to these needs Bodkin (1989). Therefore, Franke and Parke (2006) suggest that the direction of influence goes from adaptive selling to market orientation, whilst Bodkin (1989) suggests the reverse that the direction of influence goes from market orientation to adaptive selling. Franke and Parke (2006) tested both of these propositions and their results led them to conclude that the direction of influence goes from adaptive selling to market orientation. Therefore, adaptive selling should be viewed as "a cause rather than an effect" (Franke & Parke, 2006: 700). Pelham followed this argument in his studies of market orientation and adaptive selling (Pelham, 2008, 2010).

Therefore, a benefit of adaptive selling is that it enhances a company's ability to adopt a market orientation. Other benefits that have been cited include an increase in salesperson job satisfaction and performance, which can lead to an increase in overall company performance (Franke & Parke, 2006; Pettijohn, Pettijohn, Taylor, 2007; Spiro & Weitz, 1990). However, in order for these benefits to be received by companies the beneficial aspect of adaptive selling needs to outweigh its cost perspective (Bodkin & Stevenson, 1996). These "costs" refer to the cost of selecting, training and motivating salespeople to practise adaptive selling, as well as the cost of gathering information (Frank and Parke, 2006). According to Weitz et al (1986) the nature of the selling environment and the capabilities of the salespeople are two determinants of this cost/benefit aspect of adaptive selling. They suggest that the benefits will outweigh the costs when salespeople encounter customers with varying needs, the sale typically involves large orders, the salesperson has the necessary resources to adapt in sales interactions and when the salespeople have the necessary skills to adapt effectively (Weitz, Sujana & Sujana, 1986). Similarly, learning orientation can be linked to sales performance.



## Learning Orientation

Although many studies have looked at the relationship between market orientation and performance, fewer studies have looked at the influence that learning orientation has on performance (Baker & Sinkula, 1999). Previous studies have confirmed that learning orientation does have a direct impact on performance (Baker & Sinkula, 1999; Park & Holloway, 2003; Sujan, Weitz & Kumar, 1994). However, few studies have looked at the mediating role of adaptive selling on this relationship in the sales context, specifically the B2B sales context. However, before this relationship is discussed, a brief overview of learning orientation is provided.

Learning is an intangible organisational asset and learning processes play a significant role in literature regarding competitive advantage. Learning becomes a long-term competitive advantage when it allows a company to continuously improve its market information processing at a rate faster than competitors. Baker and Sinkula (1999) state that these are the debates that ultimately allowed (or forced) researchers to differentiate market orientation from learning. Day (1994, in Baker and Sinkula) noted that organisational success not only depends on acquiring market information in a timely manner, it also depended on managers' ability to question the organisational norms that are used by the firm to determine what information is important and ultimately how information is interpreted. This suggests that there is an adaptive component that naturally accompanies organizational learning.

Learning orientation, specifically, concerns itself with how well the organisation is at critically evaluating bad practices, norms and perceptual filters amongst others. Baker and Sondag (1999) state that while market orientation reflects *knowledge-producing behaviours*, learning orientation reflects *knowledge-questioning values*. It goes beyond a marketplace focus and encompasses a set of values that questions whether an organisation is satisfied with its theories in use, mental models and dominant logic (Baker & Sinkula, 1999). This suggests that, on an organisational level, both market orientation and learning orientation promotes change based on the information that one gets from the market (market orientation) as well as the information that one gets from questioning oneself (learning orientation). However, one can also apply this to the individual level, in this case, the sales level.

It suggests that good salespeople, i.e. salespeople that exhibit both a learning and a market orientation, will have a natural ability to adapt based on the information they receive from their environment. From this perspective, these two orientations are theoretically linked to adaptive selling. However, few studies have looked at the influence of adaptive selling on the market orientation-performance link and the learning orientation-performance link.

The nature of the selling environment can be extended to describe the type of customer a salesperson encounters, namely a consumer or a business. It is important that a distinction is made between business-to-consumer (B2C) and business-to-business (B2B) transactions since they differ in nature, product and demand (Lilien, 1986).

Saxe and Weitz (1982) suggest that a correlation exists between a salesperson use of adaptive selling and their ability to help satisfy their customers' needs together with the degree to which the customer-salesperson relationship is long-term and cooperative. As stated in the B2B section above, firms in the B2B market are characterised by long term, repeated relationships that offer a high opportunity to satisfy the customer's needs. Therefore, in following Weitz et al (1986) suggestion, the B2B market provides the necessary selling environment for the benefit of adaptive selling to outweigh the cost. Thus, adaptive selling is both useful and effective in the B2B context. Our study uses the correlation found by Saxe and Weitz (1982) to justify why we have chosen to investigate the relationship between adaptive selling, learning orientation and market orientation in the South African B2B context instead of the B2C context.

## **METHODOLOGY**

First, the sample frame and research method is discussed, whereafter the measures used in the study are provided. After this section, the findings of the study, as well as the recommendations and conclusions are provided.

## **Sample Frame and Research Method**

A convenience sampling method was used in this study. The sample frame is composed of salespeople from industries that ranged from pharmaceuticals, to software development, and suppliers of digital media solutions, communication solutions, office furniture and computer consumables. A request to participate in this study was sent via email to the companies' respective sales managers. Those who agreed to participate gave the contact details of the members of their sales team who then formed our sample. An online questionnaire panel operated by Qualtrics facilitated the data collection and a link was distributed via email to the salespeople in our sample pool. Included in the e-mail was a brief description of the purpose of the study and who was conducting the study. It also assured participants that their individual responses would not be revealed and responses would be used solely for the purpose of this study.

Data collection took place over 2 weeks. One week after the initial request for participation, a follow up e-mail was sent to all salespeople in the sample. This e-mail served to (1) remind salespeople to complete the questionnaire or (2) thank them for participating. Of the 64 online surveys that were distributed, 50 were returned in a usable form resulting in a response rate of 78%. The respondents were predominantly male (62%). On average they were 35 years of age and had 8 years sales experience.

## **Measures**

Appendix 1 contains the items that were subjected to tests of reliability and validity. All items were derived from scales validated in previous research. These scales all used a 7-point Likert scale. The adaptive selling construct was measured using the five-item ADAPTS-SV scale (Robinson, Marshall, Moncrief & Lassk, 2002). This study followed the recommendation that ADAPTS-SV should be utilized due to its usable and compact form (Robinson et al, 2002; Chakrabarty, Brown, Widing II & Taylor, 2004). Learning orientation was measured using the nine-item scale developed in Sujan *et al* (1994) study. Customer orientation was measured using the five-item scale that Pelham (2010) utilized in both of his 2008 and 2010 market research studies. Performance was measured via an adaption by Sujan *et al* (1994) of the Berham and Perreault (1982) salesperson job performance scale. This study used the seven-item self-rated performance scale since little consensus exists in the

salesperson literature on whether job performance should be measured using subjective or objective performance measures (Churchill et al, 1985). Robinson *et al* (2002) also used this adaption of the Berham and Perreault (1982) salesperson self-rated performance scale.

## **FINDINGS**

### **Descriptive Statistics**

Table 2 indicates the mean and standard deviation values for the constructs. The mean value for adaptive selling is 5.63. This indicates that on average the majority of respondents were found to be adaptive in their selling approach. Customer orientation has a high mean of 6.50 indicating that on average most respondents continually strive to satisfy their customers' needs and wants in all selling situations. The relatively high mean value for learning orientation suggests that respondents enjoy challenging selling situations and enjoy learning from their job and sales environment. Performance has a moderately high mean of 5.33. Therefore, on average respondents have found themselves to be confident with their selling achievements and make an above average effort to increase company profits.

The standard deviations for the first three constructs in table 1 suggest that there is a relatively high amount of agreement in the respondents' answers to these measures. The standard deviation of Performance, is 1.033, suggesting there was more variation in respondents answers to this measure. A possible reason for the variance in the performance construct is the diverse industries from which the sample of salespeople was drawn from. Increasing the sample size would also help to reduce this variation.

Table 2: Means and Standard Deviations

<b>Variable</b>	<b>Mean</b>	<b>Standard Deviation</b>
<b>Adaptive Selling</b>	5.63	0.643
<b>Customer Orientation</b>	6.50	0.572
<b>Learning Orientation</b>	6.05	0.581
<b>Performance</b>	5.33	1.033

## **Measurement Model**

Each construct was first tested for reliability using Cronbach's coefficient alpha and composite reliability.

### **Scale Reliability**

The results in Table 3 show that the cronbach alpha scores for the constructs; learning orientation, customer orientation and performance exceed the recommended standard of 0.7 that has been suggested by Nunnally (1978). Therefore, these constructs scale item display good *internal consistency reliability*. *Composite reliability* is another measure for assessing internal consistency. Composite reliability is a less stringent measure than Cronbach alpha therefore Nunnally (1978) suggests that 0.8 or 0.9 is an acceptable score for well tested model. The same three constructs, learning orientation, customer orientation and performance, demonstrated good internal consistency with composite reliability scores greater than 0.8.

Adaptive selling behaviour is the only construct that is demonstrating lower reliability scores in this study. The final adaptive selling behaviour scale removed item 3, since it was loading significantly lower than the other items on the construct. Reverse coding item 3 did not improve the reliability of the scale, however when the item was removed the reliability did improve. Although the corresponding cronbach alpha score still remains below the acceptable standard of 0.7 (Nunnally, 1978), the composite reliability score is 0.7472 suggesting that the ASB construct does demonstrate some internal reliability. In addition, possible reasons for the lower reliability scores on the ASB construct could be the diversity of salespeople used in the sample as well as the small sample size utilized in this study. Furthermore, the ADAPTS-SV scale utilized in this study was both developed and validated in the developed market of the United States of America. Therefore, further research should be conducted on the reliability of the ADAPTS-SV scale in measuring adaptive selling behaviour amongst salespeople operating in a developing market such as South Africa. The low reliability of the ASB scale is acknowledged as a limitation of this study.

Table 3: Composite reliability and Cronbach alpha scores of the constructs

<b>Internal Consistency Reliability</b>		
<b>Variable Constructs</b>	<b>Composite Reliability</b>	<b>Cronbach Alpha</b>
Learning Orientation	0.856	0.8146
Customer Orientation	0.8429	0.7642
Adaptive Selling Behaviour	0.7472	0.5636
Performance	0.8965	0.8666

The *indicator reliability* was assessed by looking at the item loadings for each latent variable. The item loading score indicates the proportion of each indicator’s variance that is being explained by the respective latent variable. Therefore, it is an indication of how well an item is correlated with the latent variable it is loaded onto. Table 4 shows the item loadings of the items used in this study as well as their cross loadings, which will be discussed later in this report. The results shown in table 2 indicate that some items from all four latent variables have item loadings less than the recommended standard of 0.7.

Learning orientation has two items that are loading very poorly, LO\_3 and LO\_5, each with values less than 0.5. The responses to the learning orientation items were checked for any outliers that could be causing the lower indicator reliability, and the reliability was checked when these two items were removed. The reliability of the LO scale did improve when LO\_3 and LO\_5 were removed however since learning orientation was already found to be a reliable scale, removing the two items would not be necessary. Furthermore, the low item loadings of LO\_3 and LO\_5 could be attributed to Park and Holloway’s (2003) findings from conducting an explorative factor analysis that learning orientation had two distinct dimensions: learning attitude and learning orientated behaviour. This study utilized the one-dimensional scale for learning orientation developed prior to Park and Holloway’s (2003) findings. Therefore, the indicator reliability for these two items will be included as a limitation of this study and suggest that future research should take into consideration the potential for multi-dimensionality when measuring learning orientation. Furthermore, the low item loadings for the ASB and CO construct could be a result of the small sample size used in this study.

Table 4: Item loadings and Cross Loadings

Indicator Reliability				
	Adaptive Selling Behaviour	Customer Orientation	Learning Orientation	Performance
ASB1	<b>0.5027</b>	0.2042	0.0283	0.2737
ASB2	<b>0.6568</b>	0.2543	0.2591	0.2194
ASB4	<b>0.8269</b>	0.1501	0.4153	0.5344
ASB5	<b>0.6032</b>	0.2374	0.3562	0.3262
CO1	0.2134	<b>0.5758</b>	0.0454	0.2936
CO2	0.1816	<b>0.5885</b>	-0.0289	0.2442
CO3	0.1974	<b>0.8368</b>	-0.1118	0.0564
CO4	0.1573	<b>0.7608</b>	-0.046	0.0366
CO5	0.2901	<b>0.8128</b>	0.0822	0.1781
LO_1	0.0958	-0.236	<b>0.5186</b>	0.1068
LO_2	0.3206	-0.1009	<b>0.6529</b>	0.2359
LO_3	-0.0034	-0.174	<b>0.3901</b>	-0.0155
LO_4	0.443	0.2197	<b>0.6264</b>	0.3041
LO_5	0.1712	-0.0369	<b>0.3094</b>	0.2344
LO_6	0.3779	-0.0269	<b>0.631</b>	0.2225
LO_7	0.2375	0.0308	<b>0.8086</b>	0.4657
LO_8	0.259	-0.0595	<b>0.8616</b>	0.3858
LO_9	0.3581	-0.0202	<b>0.7882</b>	0.5571
PERF_1	0.5333	0.2627	0.2289	<b>0.6785</b>
PERF_2	0.1969	0.1599	0.2906	<b>0.6293</b>
PERF_3	0.4299	0.3509	0.2544	<b>0.7639</b>
PERF_4	0.4277	0.3527	0.2909	<b>0.747</b>
PERF_5	0.4009	-0.0192	0.5307	<b>0.7683</b>
PERF_6	0.4553	0.1351	0.485	<b>0.8143</b>
PERF_7	0.3417	0.0686	0.5292	<b>0.7952</b>

### Scale Validity

In order to evaluate the factorial validity, a confirmatory factor analysis was performed. All constructs demonstrated acceptable levels of discriminate validity whilst only CO and PERF demonstrated acceptable levels of convergent validity.

*Convergent Validity* is shown by the average variance extracted (AVE) measure. This measure indicates the amount of variance captured by a construct in relation to the amount of variance due to random measurement error. According to (Fornell & Larcker, 1981) an acceptable AVE score is greater than 0.5. Table 5 indicates that CO and PERF demonstrate acceptable levels of convergent validity. ASB and LO have values less than 0.5 which suggests that not all items are loading on only one factor for ASB and LO respectively. As

fore mentioned items in this study for LO could be loading on the two dimensions of learning orientation found by Park and Holloway (2003). In addition, since the practise of adaptive selling is comprised of many facets which include the body language, communication, listening and information gathering skills of the salesperson (Porter, Weiner & Franwick, 2003). Therefore, it is possible that when the ASB construct is measured in a small sample using only a small number of items, the different “facets” of the adaptive selling process present themselves as different dimensions of the ASB construct and cause a problem for the reliability of the scale. Further research should be conducted on the possible multidimensionality of the ASB construct when measure in small samples.

Table 5: Average variance extracted scores for the constructs

<b>Convergent Validity</b>	
	<b>AVE</b>
<b>ASB</b>	0.4329
<b>CO</b>	0.5235
<b>LO</b>	0.4168
<b>PERF</b>	0.5548

*Discriminate Validity* was evaluated using the Fornell-Lacker criterion which states that a construct should better explain the variance of its own indicators than the variance of other constructs in a model. This was tested using a construct correlation matrix as shown in Table 5. The bold figures represent the square root of the AVE for each construct which is compared to the constructs cross - correlations. The results from Table 6 indicate that all four constructs demonstrate discriminate validity since their square roots of the AVE values are greater than the constructs cross-correlations.

Table 6: Cross-correlation matrix showing the square root of AVE scores in bold.

<b>Discriminant Validity</b>				
	<b>ASB</b>	<b>CO</b>	<b>LO</b>	<b>PERF</b>
<b>ASB</b>	<b>0.6579</b>	0	0	0
<b>CO</b>	0.3017	<b>0.7235</b>	0	0
<b>LO</b>	0.4518	-0.0014	<b>0.6456</b>	0
<b>PERF</b>	0.5444	0.234	0.5184	<b>0.7448</b>



In order to evaluate the *factorial validity* of the measurement model, the cross-loadings shown in table 2 were assessed. The cross loading scores indicate the proportion of each indicator's variance that is being explained by the other constructs in the model. Therefore, if the latent variables are demonstrating factorial validity, each item should have a cross-loading score that is lower than the item-loading score. Table 2 shows that each item measuring ASB, CO, LO and PERF respectively have cross loadings that are lower than their item-loadings. This means that as predicted the respective items for ASB, CO, LO and PERF are correlated together and are loading onto the latent variable they were supposed to load onto.

### **Structural Model**

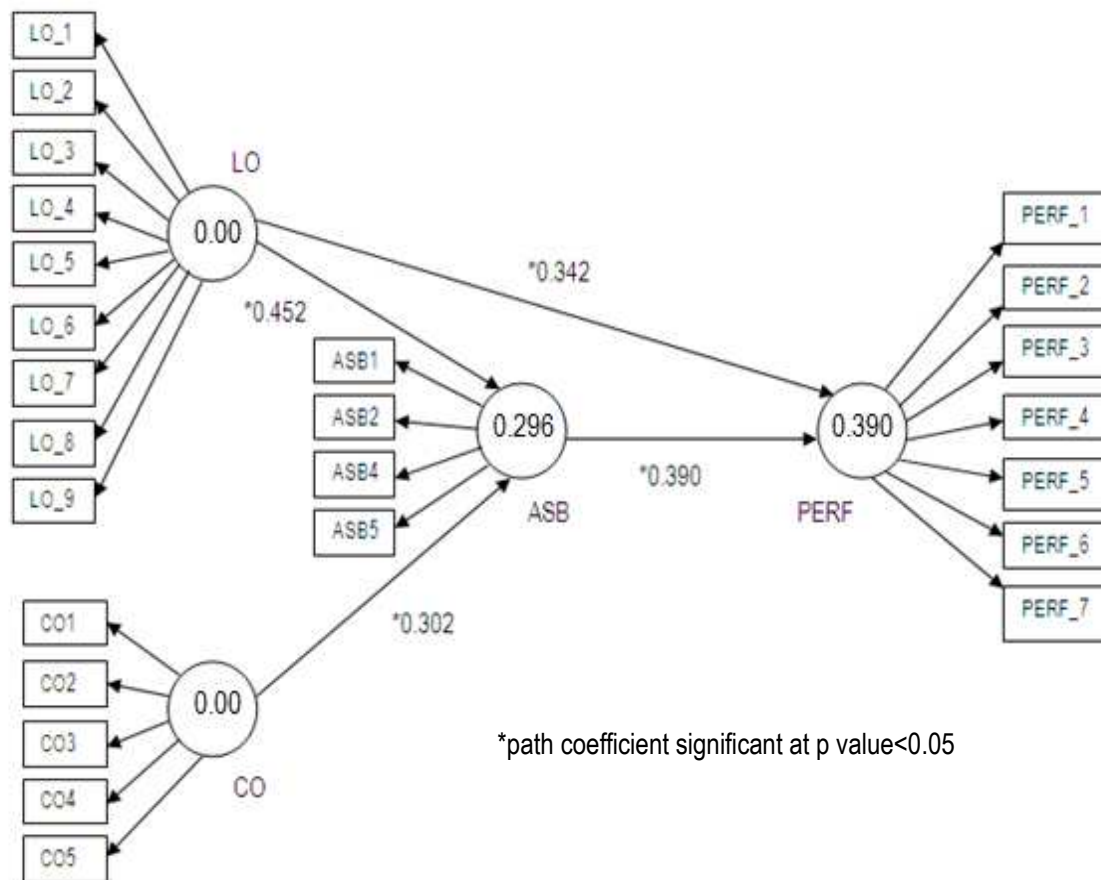
R-squared is used as an indicator for the overall predictive strength of the model. The R-squared value presented in figure 1 for the final endogenous variable, ASB, is 0.390. According to (Chin, 1996) a moderate R-square score is greater than 0.33. Therefore, the R-squared for this study is satisfactory. This indicates that the role of adaptive selling as a mediator is significant. The final inner model path coefficients shown in Figure 1 were all found to be significant at the 5% significance level.

The path coefficient linking CO to ASB is positive and significant with a value of 0.3023 and associated t stat = 2.6396 > 1.96. Finally, the path coefficient linking LO to ASB is positive and significant with a value of 0.4522 and associated t stat = 3.4759 > 1.96.

The path coefficient linking LO to PERF is positive and significant with a value of 0.342 and associated t stat = 2.012 > 1.96. The path coefficient linking ASB to PERF is positive and significant with a value of 0.3897 and associated t stat = 2.5680 > 1.96. The link between CO and PERF was found to be insignificant and therefore this link was removed from the final inner model shown in Figure 1 presenting only the significant links.

Following Cohen's (1998) standard, the effect size of adaptive selling behaviour when it is added as a mediator into the structural model is very weak with a value less than 0.02.

Figure 1: Structural model showing significant path coefficients



The results indicate that a positive relationship exists between customer orientation and adaptive selling behaviour. Therefore at the 5% significance level Hypothesis 1 is supported. The significant path coefficient linking LO to ASB also confirms that a positive relationship exists between learning orientation and adaptive selling behaviour. Therefore at the 5% significance level Hypothesis 2 is supported.

Consistent with theory, the results of this study confirm that a positive relationship exists between learning orientation and performance. Therefore at the 5% significance level Hypothesis 3 is supported. This finding replicates the results of Park and Holloway (2003) who found a significant, positive relationship between learning orientation and performance of Korean automobile salespeople. Furthermore, the results confirm that a positive relationship exists between adaptive selling behaviour and performance. Therefore at the 5% significance level Hypothesis 4 is supported. This finding is consistent with numerous previous studies (Boorum, Goolsby & Ramsey, 1998; Pelham, 2008; Park & Holloway, 2003). The effect of customer orientation on performance was found to be not significantly

different from zero, which contradicts the hypothesized positive relationship between these two constructs. Therefore, at the 5% significance level Hypothesis 5 is not supported.

In addition, this study hypothesized that adaptive selling behaviour mediates the learning orientation-performance and customer orientation-performance relationship.

The findings suggest that customer orientation does not have a direct significant effect on performance. However, the customer orientation-adaptive selling behaviour and adaptive selling behaviour-performance relationships are significant, which indicates that adaptive selling behaviour is acting as a full mediator in the customer orientation-performance relationship. Therefore, at the 5% significance level Hypothesis 6 is supported and can be expanded to state that adaptive selling behaviour fully mediates the customer orientation-performance relationship.

Furthermore, adaptive selling behaviour is acting as a partial mediator in the learning orientation-performance relationship since learning orientation has a significant direct effect on performance but the magnitude of the influence of learning orientation on performance is greater when worked through adaptive selling behaviour. Therefore, at the 5% significance level Hypothesis 7 is supported and can be expanded to state that adaptive selling behaviour partially mediates the learning orientation-performance relationship.

## **RECOMMENDATIONS AND CONCLUSIONS**

The findings presented in this report provide important insights pertaining to the well researched customer orientation-performance and learning orientation-performance relationships. The insight is offered by investigating the mediating effect of adaptive selling behaviour on these relationships. The results of this study highlights the fact that adaptive selling behaviours need to be present in order to maximise the influence of learning orientation and customer orientation on performance.

This study found that there is a positive relationship between learning orientation and performance. However, this relationship was greater when worked through adaptive selling behaviour. Therefore, adaptive selling behaviour partially mediates this relationship. These findings are congruent with previous research on this subject (Sujan, Weitz & Kumar, 1994). This suggests that companies who wish to foster a learning orientation amongst their sales

team should focus on encouraging and motivating adaptive selling behaviours. This can be done through effective sales training in adaptive selling practises. It is important for firms to understand the relationship between adaptive selling behaviour and sales performance since it serves as a guide for planning the often costly sales training. Booroom *et al* (1998) recommends that effective sales training in adaptive selling behaviour should focus on information gathering skills, proposing creative solutions and after-sale customer care. Furthermore, when recruiting and hiring potential salespeople, managers should consider their potential for being adaptive salespeople. Porter *et al* (2003) advocate that advanced communication and listening skills are both necessary and critical for effective adaptive selling. Therefore, these are two skills that sales managers could try measure when recruiting potential salespeople.

The results of this study also highlight the crucial role of adaptive selling behaviour in mediating the relationship between customer orientation and performance. Adaptive selling behaviour acts as a full mediator in this relationship as opposed to a partial mediator in the learning orientation-performance relationship. This finding suggests that customer orientation and adaptive selling behaviour need to be fostered simultaneously if there is to be any influence on performance. This study found that the direction of influence can go from customer orientation to adaptive selling behaviour which contrasts Pelham's (2008) finding that the direction of influence goes from adaptive selling behaviour to customer orientation. However, this study's finding is supported by Bodkin (1989) therefore companies should pay equal attention to fostering customer orientation and encouraging adaptive selling behaviours.

Our analysis has shown that by placing emphasis solely on the orientation of salespeople, companies should not expect a significant influence or change in the performance of their sales team. Unless the skills and knowledge to effectively adapt their selling approaches are developed and acquired the salespeople will not fully be able to identify and satisfy customers' needs. Thus, the establishment of the interrelationship between the behaviour and orientations of salespeople serves to guide the efforts of companies who strive to increase the effectiveness and performance of their sales team.

## LIMITATIONS AND FUTURE RESEARCH

Despite the insights gained through our results, future research should aim to overcome certain limitations found in this study. The first limitation concerns the size of the sample used in this study. In addition, all measures used were validated in previous studies that had much larger sample sizes. Therefore, further research should investigate the reliability of these scales when used in smaller samples.

The second limitation concerns the use of salespeople for responses on measures of both independent and dependent variables. However, this is the case in most studies that employ surveys as a data collection method (Summers, 2001). Pelham (2008) suggests that this raises the issue of common method variance which causes problems for interpreting the correlations between these measures. Therefore, future research should utilize responses from both sales managers and salespeople. In particular, objective performance ratings from sales managers can be used to validate the self-rated performance responses from the salespeople.

A further limitation is that the sample of salespeople utilized in this study comes from a variety of different industries operating in the B2B market. This could explain the low reliability of the ADAPTS-SV scale utilized in this study. It is important for the future to determine if the nature of the product and/or service impacts the adaptive selling behaviour – performance relationship. In particular, the difference between salespeople that encounter more repetitive and routine sales situations and those that encounter highly creative and complex selling situations should be investigated. For example, it can be expected that salespeople whose primary selling function is repeating stock orders for office stationary or equipment are less likely to be adaptive in their selling situations than salespeople that work for pharmaceutical companies that offer specialized medical equipment. With a better understanding of the nature of the product/service that the salespeople offer in the sample, the generalizability of the findings will improve.

Robinson *et al* (1967) offers a typology of the different selling/buying situations; straight rebuy, modified rebuy and new task rebuy. What distinguish these three types of selling/buying situations is; the buyers need for information, the level of risk or uncertainty associated with the purchase decision and the amount of experience the buyer has with the particular product/service (Porter, Wiener & Franwick, 2003). Therefore, following Porter *et*

*al's* suggestion, these typologies could be included as moderator variables for the adaptive selling behaviour-performance relationship in future models. This would help clarify the importance of adaptive selling behaviour in various industries and selling situations.

This study is also limited by the exclusion of additional variables that may explain adaptive selling behaviour. Future research should consider variables such as salespersons personal characteristics and organizational factors such as the training and guidance salespeople have received in adaptive selling practises, as well as the resources available to them. Therefore, past training, sales manager guidance and support and available resources could be included as potential moderators to adaptive selling-performance relationship in future studies. In addition, this study has shown that both learning orientation and customer orientation cause adaptive selling behaviours amongst a sample of salespeople. However, an additional determinant of adaptive selling behaviour, such as innovation orientation, should be considered in future studies. This could help to increase the amount of variance explained by the predictor variables of adaptive selling behaviour and performance in the model.

Finally, future research should try to expand on the understanding of the learning orientation-performance relationship in a developing market by following Park and Holloway's (2003) study and utilize a multi-dimensional scale to measure learning orientation.

## Appendix 1: Scales

### Adaptive Selling (reliability=0.5636)

1. When I feel that my sales approach is not working, I can easily change to another approach.
2. I like to experiment with different sales approaches
3. I feel that most buyers can be dealt with in pretty much the same manner.
4. I can easily use a wide range of selling approaches.
5. I try to understand how one customer differs from another

### Customer Orientation (reliability=0.7642)

1. I try to figure out a customer's needs.
2. I have the customer's best interests in mind
3. I take a problem-solving approach in selling products or services to customers
4. I recommend products or services that are best suited to solving problems.
5. I try to find out which kinds of products or services would be most helpful to my customers.

### Learning Orientation (reliability=0.8146)

1. Making a tough sale is very satisfying.
2. An important part of being a good salesperson is continually improving your sales skills
3. Making mistakes when selling is just part of the learning process
4. It is important for me to learn from each selling experience I have
5. There really are not a lot of new things to learn about selling.
6. I am always learning something new about my customers.
7. It is worth spending a great deal of time learning new approaches for dealing with customers.
8. Learning how to be a better salesperson is of fundamental importance to me.
9. I put in a great deal of effort sometimes in order to learn something new.

### Performance (reliability=0.8666)

1. I contribute to my company acquiring a good market share.
2. I sell high profit-margin products
3. I generate a high level of Rand sales

4. I quickly generate sales of new company products
5. I identify major accounts and sell to them
6. I exceed sales targets
7. I assist my sales supervisor to meet his or her goals



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# **GRAMEEN BANK REPLICAS IN SOUTH AFRICA: LENDING PATTERNS AND ADAPTATIONS**

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## **ABSTRACT**

In South Africa as in most developing countries the majority of the poor have no access to banking facilities or formal loans. Some scholars claim that by providing the poor with access to formal financial services through the Grameen Bank Micro-finance Model, the hardships that they experience could be considerably mitigated. This micro-credit model is currently viewed amongst development workers and poverty-reduction strategists as a beneficial process to limit the effects of poverty on individuals. At present, four organisations in South Africa have replicated the Grameen Bank Model to provide financial services to the very poor. These organisations have reached out to almost 130 000 clients, offering over one billion Rands worth of loans to some of the most impoverished residents in five of the nine provinces of South Africa. Through their access to credit many of these families have advanced their businesses, now have job security and a stable income, and have raised their perception of their own self-worth.

**Keywords:** Grameen Bank, South Africa, lending patterns, adaptations

## **INTRODUCTION**

The purpose of this article is to determine the areas in South Africa in which Grameen Bank replicas are active, the number of people who are helped by these organisations, as well as the adaptations being made to the Grameen Bank principles for this country. Although South Africa

is classified as a middle-income country in terms of the earning power of its citizens, with a well-developed infrastructure, as well as an effective network of telecommunications and financial services, which are all attributes representative of a First World Country (Schutte, 2003), there are high levels of disparity within the population which are manifested in the unequal distribution of economic, social and political resources – this legacy originating in the Apartheid era (Van der Ruit, 2001). It is believed that this disparity will continue for many years and that despite the steady rate of economic growth experienced in the country since the early 1990s, the inequalities in income will continue to intensify. The increasing disparities in income generation, persistent unemployment, the limited demand for unskilled labour on the one hand and the overwhelming demand for skilled labour on the other, as well as inequalities in the educational system are also considered, perhaps unjustly, to be legacies of the Apartheid years (Seekings, 2007). The high unemployment rates, the uneven distribution of opportunities and poverty are major concerns for the South African government (Meth, 2009). To counter these problems, the present-day ANC-government has put a large social safety net in place over South Africa, but it is curiously widespread and has large holes in it through which large numbers of the population can fall (Seekings, 2007).

According to Kotir and Obeng-Odoom (2009), micro-finance is often seen as one of the most successful and adaptable approaches in the fight against universal deprivation (also see Sievers and Vandenberg, 2007; Dixon *et al.*, 2007; Roy and Chowdhury, 2009). Moseley and Hulme (1998), on the other hand, claim that this enthusiasm is bordering on hysteria. Debates on this topic by scholars such as Moyo (2009), Weber (2004) and Cockburn (2006) is also deserving attention. However, micro-finance is generally perceived by many scholars as a tool to mitigate poverty. Furthermore, it also embraces a wide range of financial and non-financial services, including the upgrading of skills and the development of entrepreneurship amongst the poor to enable them to escape from the poverty cycle (Sarkar and Singh, 2006). Campbell (2010: 1082) also argues that micro-lending has a place in the developing world because these initiatives have demonstrated that they are able to extend credit to more people in need of loans, with alacrity. This type of finance also seems to be politically appealing since the left sees it as being redistributive, with a direct approach to poverty alleviation, while the right perceives it as a facilitator in the emergence of independence and self-sustainability (Moseley & Hulme, 1998:783).

There is total unanimity in terms of the perspective that small enterprises have an importance role to play for development in Africa, with the most significant contribution lying in the areas of employment creation, economic growth and poverty alleviation (Rogerson, 2001:115). Sievers and Vandenberg (2007) confirm this standpoint by stating that informal and formal businesses can contribute towards a bottom-up transition out of the poverty cycle for the poor, as long as there is micro-finance support for micro and small enterprises in developing countries. Thus, micro-credit grants to the poor for micro ventures, will enable them to escape the limitations of poverty and to work out their own salvation, the condition being that this financial service must be provided at a scale and in a form that is appropriate to the poor (Fisher & Sriram, 2002; Ssendi & Anderson, 2009). At that level, and also in an operational context, micro-finance essentially rests on the theory that the creation of self-employment is an alternative process for the alleviation of poverty; secondly, that the lack of access to capital or credit places constraints on potential micro-enterprises, and finally, that the poor do in fact have the ability to save despite their poor income levels (Campbell, 2010; Sakar & Singh, 2006).

The notion of helping the poor to help themselves is deeply rooted in the idea of micro-entrepreneurship. However, the lack of funding remains one of the most important barriers to micro and small enterprise development (MSEs) (Ssendi & Anderson, 2009). This type of credit provides the poor with opportunities to create their own small-scale enterprises, thereby helping them to support themselves and to raise their standard of living, this being one of the strategies of the new development order (Campbell, 2010; Mwenda & Muuka, 2004). The availability of credit in the case of the poor which allows them access to financial support, also enables them to invest in a wide range of benefits such as better nutrition, improved health, access to education, better housing and the expansion of their small businesses (Kotir & Obeng-Odoom, 2009; Littlefield *et al.*, 2003).

There are very few employment opportunities available in rural areas in developing countries, where women in particular are the most vulnerable (Johar & Rammohan, 2011). Furthermore, such women often have the double burden of maintaining themselves as well as their households (Ssendi & Anderson, 2009). In South Africa, as in most developing countries, women experience the harshest of conditions when they are poor (Rossouw, 2009). In this country, 80% of the poor women live in developing or under-developed rural areas. Many of the farmlands in these



traditional areas are managed and maintained by women who work up to 17 hours a day (Kongolo, 2007). Despite women's efforts and their contribution to the food security in the country, they have little or no access to formal credit, subsidies or inputs (Kongolo, 2007). According to Rossouw (2009), three times as many female-headed households live in abject poverty in South Africa, as opposed to male-headed households; 40 percent of the poorest-of-the-poor have no access to piped water, sanitation facilities and electricity. According to Mitchell (2004), females are often entrepreneurially motivated by the need to survive and are more reliable as a group in repaying credit. Thus, it is argued that by providing micro-finance to women, they will be granted a tool of self-empowerment which could serve as a means of curbing poverty in rural areas (Ssendi & Anderson, 2009).

In South Africa, attempts by small-scale entrepreneurs to secure loans from financial institutions, mainly banks, are disproportionately limiting on account of the lending policies of these organisations. Effectively, such limitations prevent any form of the lending to aspirant black entrepreneurs since they are perceived to be lacking in their personal track records and in collateral, and they generally live in areas perceived by banks as risky. Banks in South Africa are competing in a first-world international capital market and are unable to provide for the needs of the majority of the country's poor population (Bek *et al.*, 2004:31). By gaining access to micro-loans, the poor could launch small businesses, increase their capital and profit bases and, thus, ultimately ease the burden of poverty (Kirsten, 2006; Rossouw, 2009).

This paper set out to investigate the number of people who have obtained micro-finance support from Grameen Bank replicas and the areas in which these institutions are operational and is divided into six sections. The introduction takes a brief look at poverty alleviation for those who are unable to use bank facilities in developing countries and in South Africa in particular on account of their limited financial resources. It also looks at ways in which they could benefit from micro-finance allocation. Section two explores the availability of micro-finance for the very poor in South Africa. In section three the Grameen Bank Model is scrutinised as a possible solution to providing loans and banking facilities to the poor. Section four establishes the areas in which the Grameen Bank replicas are active in the country. Before the concluding remarks of the final section, section five deals with the impacts of the Grameen Bank replicas in South Africa.

## **MICRO-FINANCE IN SOUTH AFRICA**

A large number of poor households in both the rural and peri-urban areas of South Africa operate micro-businesses. These households, where most of the members are self-employed, struggle on a daily basis to make ends meet. Furthermore, the majority of these citizens have no access to banking facilities or formal loans. On the other hand, the institutions that do offer loans to them charge exorbitant interest rates which exacerbate their poverty. In 1994, 60% of South African adults had no access to formal financial services (Kirsten, 2006). This means that they were exposed either to village or township 'loan sharks' or 'mashonisas', the informal borrowers predominating in their areas (Kirsten, 2006; Ntingi, 2008). Although this percentage dropped from 60% in 1994 to 53% in 2005, these figures show that 16.4 million people were excluded from formal financial services in South Africa in 2005 (FinScope, 2005). By making more affordable micro-finance loans available to these people, it is possible to forge a way forward in order to improve the quality of life of the impoverished in South Africa.

According to Rossouw (2009), the South African government has realised the importance of micro-finance in the battle against poverty in the country. Thus, the development of policies and regulations surrounding the micro-finance industry has been on the government's agenda (Ntingi, 2008). On account of the numerous problems encountered with past legislation, micro-financial institutions now have to comply with the National Credit Act (NCA) of 2007. The aim is to “promote a fair, transparent, competitive, sustainable, responsible, efficient, effective and accessible credit market industry, and to protect consumers by addressing the quality of credit information, tackling problems related to over-indebtedness and by imposing limits on interest and fee chargers” (Rossouw, 2009: 39). Micro-financial institutions are further regulated by the local regulatory framework; however, their legal status differs from that of other credit institutions. The micro-financial industry includes Section 21 companies, public companies, trusts and banks and closed corporations (Rossouw, 2009).

By proving micro-credit to the poor, it is believed that this will ensure improvements in the levels of nutrition, health and education levels amongst individuals (Littlefield *et al.*, 2004; Rossouw, 2009). The positive spin-offs of micro-finance can put countries at the forefront in

their development. Thus, many micro-credit programmes, including the Grameen Bank model have been started up around the world with world-renowned success (Littlefield *et al.*, 2004).

### **THE GRAMEEN BANK MODEL**

The Grameen Bank Model, and micro-credit in the formal sense, did not exist before the seventies (Grameen-info, 2009). Other informal methods of micro-lending were extended in numerous ways. However, micro-credit is currently viewed amongst development workers and poverty reduction-strategists as a beneficial process to mitigate the effects of poverty on individuals. According to the United Nations Secretary General, Kofi Annan, “... providing micro-loans to help poor people launch small businesses recognizes that they are the solution, not the problem... it is a way to grow productive enterprises, and so allow communities to prosper” (Boudereaux and Cowan, 2008: 27). However, despite the increase in micro-finance, the institutions offering this type of credit only service 10% of the potential global market (Fried, 2009).

Founded in Bangladesh, the Grameen Bank Model is based on the premise of lending micro-credit to the poorest-of-the-poor. The Grameen Bank (derived from the word 'gram', a Bengali word for 'village'), first began as an experiment in poverty-stricken Bangladesh in 1976 (Yunus, 2007). It aims to achieve the dual objective of a banking service to the poor, while at the same time reducing and alleviating poverty (Satgar, 2003). It is based on a set of principles that are upheld by all parties and is inspired by five visions, namely:

- to extend banking facilities to the poor;
- to eliminate exploitation by money-lenders;
- to create small-enterprise opportunities for the unemployed and underemployed;
- to bring disadvantaged people within the fold of some organisational format which they can understand and in which they can operate, and which will allow them to find some socio-political and economic strength through mutual support; and
- to reverse the age-old poverty cycle of “low income, low savings, low investment, low income” into an expanding system of “low income, credit, more income, more credit, more investment, more income” (Satgar, 2003: 21).

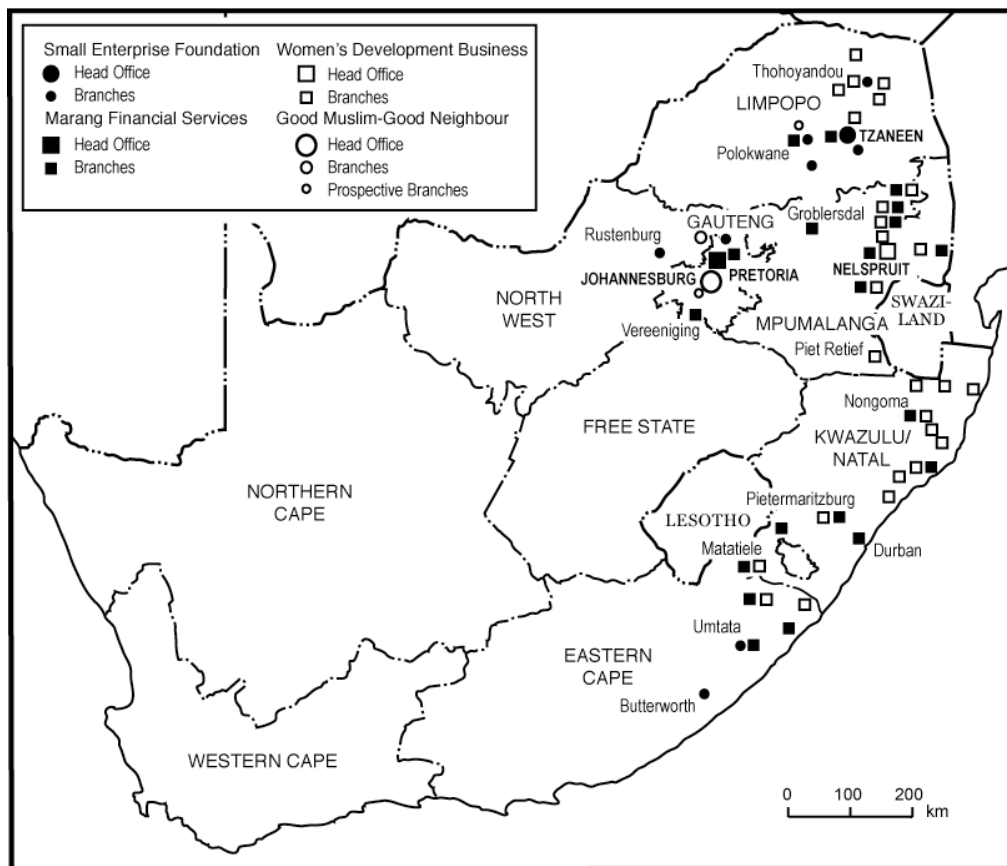
According to the Grameen Bank, micro-finance is “an effective poverty-reduction strategy via the provision of small uncollateralized loans to support income-generating ventures” (Grameen-info, 2009). The Grameen Bank aims to be transparent in all its transactions and dealings (Gibbons, 1992). Thus, it is structured on a set of principles that have been adopted by all branches, but which are adaptable to local conditions. Amongst the most important principles are the following:

- the bank focuses almost exclusively on women;
- the loans are given without any collateral being required;
- members are expected to join voluntary groups of five people each;
- the income-generated activity for which the micro-loan is sought, must be self-chosen and based on the ideas and initiative of the individual;
- savings are encouraged (compulsory and voluntary);
- loans are repayable within one year and are due in weekly instalments;
- members are expected to attend weekly meetings supervised by the appropriate bank officials;
- the issuing of subsequent loans is based on the successful and timeous repayment of the previous loan (Satgar, 2003; Gibbons, 1992; Grameen-info, 2009; Yunus, 2007).

The Grameen Bank has been largely successful in Bangladesh where it has reduced poverty amongst its borrowers. At the beginning of 2009, a total of US\$ 8,26 billion had been disbursed, with the bank covering 84 573 villages throughout Bangladesh and reaching out to 50% of the poor in the country (Grameen-info, 2009). At this stage, the bank had 7,93 million borrowers, 97% of whom were female. It was established that one-third of the clients had crossed over the poverty line and another third were very close to crossing over the threshold of poverty (Grameen-info, 2009). By allowing for the evening out of individuals’ incomes from one month to the next, micro-loans have mitigated the immediate impacts of natural disasters and the like, and have thus also contributed to dispelling feelings of vulnerability and hopelessness (Morduch, 1998).

## LOCATION AND ADAPTATIONS OF GRAMEEN BANK REPLICAS IN SOUTH AFRICA

There are four non-governmental organisations (NGO's) that offer Grameen credit in South Africa. The organisations are Marang Financial Services (previously the Get Ahead Foundation), the Small Enterprise Foundation (SEF), Women's Development Businesses (WDB) and the South African National Zakah Fund (SANZAF).



**Figure 1:** Location of head offices and branches of Grameen Bank replicas in South Africa

Marang Financial Services began its operations in 2000, when it took over the now defunct Get Ahead Foundation (GAF). The original organisation was founded in 1984 by Don MacRobert, Dr Nthato Motlana and Archbishop Desmond Tutu who were the founder members of the first Grameen Bank replication project in South Africa. When Marang took over from GAF, it retained the core principles of the previous organisation (Marang Financial Services, 2007). Marang Financial Services is controlled and funded by a government-owned wholesale fund,

Khula Enterprise Finance, Ltd, which initially also funded the Small Enterprise Foundation. Marang has extended its outreach since inception and operates in five provinces of South Africa, namely Mpumalanga, Limpopo, Eastern Cape, KwaZulu-Natal and Gauteng. Marang Financial Services has expanded to include 23 branches and 19 satellite offices in the five provinces, with its headquarters being based in Pretoria, the capital of South Africa (see Figure 1). By June 2009, Marang had a client base of 23 880 clients, 96% of whom were female (Marang Financial Services, 2007). Following the Grameen Bank Model, Marang aims to empower poor rural women so that 80% of its operations take place in rural areas and to focus on the lower half of the economy. Women who fall into the Living Standards Measure Groups 1 to 3 and are mainly involved in retail trade and small-scale manufacturing are the main targets (see Table 1). Loans from Marang Financial Services range between R500 and R10 000 and must be paid back over a period of four to nine months. Monthly repayments must be made with no rescheduling being allowed (see Table 1). At the end of 2007, the loan portfolio of the organisation stood at R29 million (US\$4,3 million) (Planet Rating, 2008).

**Table 1:** Operation of Grameen Bank replicas in South Africa

	<b>Small Enterprise Foundation</b>	<b>Marang Financial Service</b>	<b>Women's Development Business Microfinance</b>	<b>South African National Zakah Fund</b>
<b>Start of operation</b>	1992	2000	1991	2009
<b>Number of clients</b>	57 425	23 880	45 897	16
<b>% of female clients</b>	99 %	96 %	100 %	100 %
<b>% of rural-based operations</b>	100 %	80 %	100 %	100 %
<b>Number of branches</b>	37	23	27	1
<b>Grouping of clients</b>	Groups of 5	groups of 5 - 8	Groups of 5	Groups of 4 - 5
<b>Loan ceilings</b>	R500–R12 000	500–R10 000	R400–R10 000	R1 000 (no Max.)
<b>Repayment cycles</b>	Monthly	Monthly	Monthly	Monthly/quarterly
<b>Repay cycles</b>	4 to 10 months	4 to 9 months	12 months	12 months
<b>Rescheduling of loans</b>	Yes	No	Yes	Yes
<b>Centre meetings</b>	Fortnightly	None	Weekly	Monthly/quarterly
<b>Loans granted</b>	R853 million	R18 million	R136,9 million	R16 000

The Small Enterprise Foundation was founded by John De Wit in 1992 (Kirsten, 2006). De Wit was working for an NGO in South Africa and became interested in the Grameen Bank Model in Bangladesh. With the help of an analyst from Bangladesh, he began his own organisation, the Small Enterprise Foundation (SEF). This organisation began operations in Limpopo Province as it was one of the poorest provinces in the country with over 60% of the households living below the poverty line (Kirsten, 2006). Since its inception, SEF has extended its outreach and currently operates in three more provinces, namely Eastern Cape, Northwest and Gauteng. SEF has a total of 37 branches, focused on eight central areas in each of the provinces (see Figure 1). Despite its small-scale activities, SEF's loan portfolio stood at over R70,8 million (US\$9,2 million) at the end of 2008, and the organisation has disbursed 592 013 loans, totalling over R853 million (SEF Social Rating, 2008). In keeping with the Grameen Bank Model, SEF encourages saving, and thus, to date, the client savings amount to R12 million (Planet Rating, 2009). At the end of June 2009, SEF had a client base of 57 425 clients, 99% of whom were female. Loans from this organisation, ranging between R500 and R12 000, must be paid back over a period of four to ten months. Monthly repayments, with an option of rescheduling loans, are allowed by the Small Enterprise Foundation (see Table 1).

The Women's Development Businesses, the third-largest Grameen Bank in South Africa, was founded by the former First Lady of South Africa, Zanele Mbeki, in 1991. Mbeki, who is currently on the board of trustees, was aware of the plight of the average South African woman and felt that the problem needed to be addressed in order to curb the high levels of poverty in the country, especially in woman-headed households. This Grameen Bank replica rapidly became one of the leaders in micro-credit institutions in South Africa, along with the Small Enterprise Foundation and Marang Financial Services, with over 45 897 clients at the beginning of 2010. From operations concentrated solely in Mpumalanga initially, the Woman's Development Businesses has expanded its operations to three more provinces, namely Limpopo, KwaZulu-Natal and Eastern Cape. WDB has a total of 27 branches and 989 centres that operate from these branches, with 100% based in the rural areas and offering loans exclusively to females (WDB Group, 2008). The loans from Women's Development Business range from R500 to R10 000 and must be paid back over a period of 12 months. Monthly repayments and a rescheduling of loans are allowed (see Table 1). Women's Development Businesses has succeeded in expanding its operations owing to two factors:

- firstly, the increased interest in the company from the private sector, thus ensuring greater support and funding from external sources; and
- secondly, the success of the WDB Trust, which is the backbone of finance for this micro-finance organisation (WDB Group, 2008).

By the end of 2008, loans worth R136,9 million had been issued to clients. However, despite its success WDB has still not been able to break even (WDB Group, 2008). Unlike Marang Financial Services and the Small Enterprise Foundation, Women's Development Businesses has shown itself to be only 52% self-sufficient. Nevertheless, its target for 2010 was to break even (Nkuna, 2009).

The South African National Zakah Fund (SANZAF) began operations in South Africa in 1974 as a Muslim charity organisation. Its main focus was on development. However, this equated to short-term relief rather than to longer-term solutions. Over the past 35 years, the organisation has reformed its goals from those of primarily a welfare organisation to those of principally a developmentally-orientated organisation. Initially, SANZAF was an urban-based organisation, but in 2006 it began operations in rural and peri-urban areas to minimise the travelling costs of its clients (Essof, 2009). Thus, a Polokwane-based office, located in Seshego Township, was opened to enable the organisation to initiate its pilot Grameen Bank project, namely the *Good Muslim – Good Neighbour* project. This venture began its operations only in early 2009. Being a religious-based organisation, the focus of its operations has been maintained in this sector, its aim being to enhance the lifestyles of poor, rural Muslims (Joosub, 2010). According to SANZAF, since the project is still in the pilot phase, the membership is limited to ensure that the organisation can closely monitor the progress of its members, and make adaptations. In 2010, SANZAF had only 16 members who were involved in the *Good Muslim – Good Neighbour* project, but other branches outside Gauteng are envisaged (Joosub, 2010). Loans from SANZAF, starting from R1 000, with no maximum being set, are to be paid back over a period of 12 months. Monthly or quarterly repayments, with no rescheduling of loans, are allowed (see Table 1).

Since 2008 the three older Grameen replicas, and the newly-established *Good Muslim – Good Neighbour* project, have increased their client outreach to 127 218 clients across the north-



eastern part of South Africa. Only five of the nine provinces in the country have been penetrated effectively with Grameen credit, however. The provinces in question include Limpopo, Mpumalanga, KwaZulu-Natal, Northwest and Eastern Cape (see Figure 1), all bearing witness to a number of branches and centres in their rural areas. These replica organisations have successfully targeted a female client base in these areas, and all have successfully targeted a female client base in their areas.

Despite client numbers increasing amongst the Grameen Bank replicas there is little evidence of micro-finance and/or the intent to infiltrate the western half of the country. Thus, the outreach has not been equally spread across the landscape and it will take some time before all of South Africa's poor people have access to Grameen credit.

### **THE IMPACT OF GRAMEEN CREDIT IN SOUTH AFRICA**

Futhi Mthoba, the chairperson of the Women's Development Businesses Trust, maintains that since 1991, the WDB Group mission has been able to serve the poor women in the rural areas of the country by providing them with access to both financial and non-financial resources. She argues that the result has been that women participating in these programmes have improved the quality of their lives, as well as that of those families, created jobs for themselves and for their neighbours (WDB Group, 2008: 5).

In a professional longitudinal impact assessment conducted between 1998 and 2000 on a group of clients by the Small Enterprise Foundation's research group, it was found that there was an informal link between building a strong business and generating an adequate and reliable income. When these two factors were considered together, positive impacts were noticed. The key impacts were that members were able to meet their household needs, develop assets to protect their income, and also reduce their own vulnerability when they were faced with misfortunes, such as a death in the family or a natural disaster. These findings revealed that in the long term, micro-loans tend to improve the quality of life amongst members, although perceptible results take time to show (CMN, 2002).

The study further revealed that given time, cognisance has to be taken of the accumulation of assets amongst members in the following spheres:

- Savings, which provided funds to be used in case of emergencies and as a means for financing unusually large expenditure purchases for businesses or households;
- Human assets, such as business and social skills, to ensure effective business management; in turn, they contribute to developing other livelihood opportunities;
- Increased opportunities in children's education and family health which also contribute to long-term sustainability and the protection of livelihood gains;
- Social networks and relationships, which allow for the strengthening of the social 'safety-net' and improved the chances of support from other people in good times and bad (CMN, 2002).

All these factors clearly indicate that over time, quality of life amongst the recipients of micro-finance does in fact improve in terms of food security, housing needs, health care, education, business values and social interactions, all of these aspects in turn leading to reduced feelings of vulnerability. These improvements are clearly evident in the households of members, signifying improvements in the entire household, and not just in individual members. In this manner too, the effects of poverty can be reduced for future generations. Once vulnerability levels decline and asset bases increase, and with them the availability of funds, children prove to be healthier and better able to study. They are also empowered and better able to break the cycle of poverty. As De Wit states, through micro-credit, there is a reduction in crime, a decline in violence against women and children, and an increase in school attendance, all contributing to significant improvements in the quality of life (De Wit, 2010).

With regard to the social effects on the lives of borrowers, a recent impact study conducted by the Women's Development Businesses revealed that micro-credit programmes, specifically in the case when loans are given to women, attests to:

- improved self-esteem;
- improved status (respect) in the family;
- the improved nutritional status of their children;
- better access to education for their children;
- home improvement;
- better health status (lower morbidity rates);
- employment creation (rural jobs); and

- the generation of savings (Westoll, 2007).

All of the above impacts, as mentioned before, add to the quality of life of the borrowers and the changes being made are tangible amongst most borrowers. According to Kirsten (2006), a borrower's life, specifically in South Africa, changes radically from the very first loan. Thus it can be seen from studies that very poor families are able to afford three meals a day as opposed to being able to afford only one meal per day prior to the opportunities presented through their accessing Grameen type credit. The families are also able to pay school fees and buy uniforms, and in certain cases, can even afford to send their children to college or university. It has been found that after benefiting from a few loans, many families are able to electrify their homes, extend their living quarters, or expand their businesses to hire more employees (Kirsten, 2006). Owing to higher incomes, which results from gaining access to micro-credit, a sense of independence, self-reliance and significant empowerment is evident amongst borrowers, especially in the case of previously disadvantaged poor women. Thus, Grameen type credit has a positive impact, whether directly or indirectly, in that it alleviates poverty in the long term.

## **CONCLUSION**

The four Grameen Bank replica organisations have been successful in reaching close on 130 000 clients to date, to whom they have extended over one billion Rands in loans. The impact on the lives and households of the borrowers has been exceptional and far-reaching. Although many of the poorest-of-the-poor borrowers have not crossed over the poverty line in South Africa, many of their families now have a stable income, job security, and access to credit, and are thus able to advance their businesses and raise their sense of self-worth. Furthermore, through this credit facility, food security has become a reality to many households after only eight loan cycles. Prior to the availability of Grameen type credit, this was virtually impossible.

All of the organisations have experienced positive success rates with regard to repayment and outreach. The Grameen Bank Model, which all four organisations have replicated, has proven to work in South Africa, and has allowed thousands of South Africans access to legal credit. Poor South Africans, who under normal circumstances would have been 'unbankable' in the formal banking world, on account of the lack of collateral, have been placed in a better position. However, only five of the nine provinces in the country have been penetrated effectively.

Limpopo, Mpumalanga, KwaZulu-Natal Northwest and Eastern Cape have seen a number of branches and centres being established in their rural areas. Thus, the outreach has not been equally spread across the country's landscape and it will take some time before all of South Africa's poor have access to Grameen type credit. Despite this, there are indications that this type of financial services could have far-reaching impacts on the impoverished in South Africa.

Owing to the high unemployment rates, micro-finance has been advocated as a tool to reduce poverty in South Africa. The availability of micro-credit facilities to the poor not only creates jobs and allows for an increase in the number of meals consumed per day by households, but also improves self-esteem, people's status in the community, a sense of independence, self-reliance and empowerment amongst the borrowers. Thus, micro-finance has to be seen as a tool to stimulate local economies and promote development within South Africa.

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# **THE IMPORTANCE OF PRODUCT ATTRIBUTES IN DECISION-MAKING: AN EXPLORATORY STUDY AMONG VITAMIN CONSUMERS**

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## **ABSTRACT**

The study determines the product attributes consumers consider important when buying vitamins. Four groups of attributes were identified. Respondents differ significantly in terms of their perceptions regarding some of the attribute factors. The results could guide marketers in successfully positioning vitamins to gain competitive advantage in the market.

## **INTRODUCTION**

Consumers are increasingly becoming concerned with their health and the nutritional value food offers (Wirth, Stanton & Wiley, 2011: 48). It is for this reason that consumers are ever more turning to vitamins to supplement their diets, thereby affording them added nutritional value to maximise the amount of beneficial elements in their diets (Bainsbridge, 2009: 26; Mintel, 2012; O'Connor & White, 2010: 75; Reportlinker, 2012). This trend has led to rapid growth in the vitamin and dietary supplement market to more than \$68 billion per annum (Reportlinker, 2012).

In contrast to international trends, the vitamin industry in South Africa has shown a slowdown in sales (Euromonitor, 2011). It is believed that three factors are responsible for this slowdown (Euromonitor, 2011). Firstly, consumers are increasingly becoming aware of nutritional choices and accordingly adapt their lifestyles to include more healthy food choices (Bainsbridge, 2009: 26). Vitamins are accordingly not seen as necessary as consumers perceive a healthy diet to be sufficient (Mintel, 2012). Secondly, as a result of the worldwide economic crises, consumers consider more carefully what they buy. This leads to lower vitamin sales as these products are viewed as a luxury. Thirdly, the South African vitamin market is characterised as being very competitive as, despite becoming saturated in terms of

brand availability, new products are still being launched (Euromonitor, 2011; Reportlinker, 2012).

It therefore becomes increasingly important for marketers in the vitamin industry to understand how consumers make buying decisions when choosing between competing vitamin brands. Sun (2011: 195) suggests that marketers can help consumers make more informed decisions by offering information on their products' attributes. Product attributes are also important, as organisations cannot identify their competitive advantage if they are unaware of the attributes that their consumers perceive as important (D'Aveni, 2007: 112; Kardes, Cline & Cronley, 2011: 359-360), since product attributes directly influence the consumer decision-making process as well as the consumption experience (Lye, Shao & Rundle-Thiele, 2005: 216; Smith & Deppa, 2009: 28).

The purpose of this study is to determine which product attributes consumers in the North West Province perceive as important when buying vitamins. This information can be used to gain a competitive advantage within the vitamin industry.

## **THEORETICAL OVERVIEW**

This section examines consumer decision-making, product attributes and the importance of attributes during alternative evaluation, since these constructs form the theoretical foundation of this study.

### **Consumer decision-making**

The importance of understanding consumer behaviour and consumer decision-making in particular, becomes apparent when considering that consumers make a decision every time they buy and consume a product or service (Jansson-Boyd, 2010: 131). Marketers therefore study the consumer decision-making process to enable them to customise marketing messages to adequately address consumer needs, thereby influencing consumers' purchasing decisions (Webb, 2010: 32).

During the consumer decision-making process, consumers go through different stages. Various authors (Babin & Harris, 2012: 248; Kardes *et al.*, 2011: 71; Noel, 2009: 135; Peter

& Olson, 2010: 164) describe five stages during the consumer decision-making process. Firstly, consumers recognise that there is an unsolved problem or an unmet need. This is followed by the search for alternative solutions to satisfy this need. In the third stage, all the alternatives that can fulfil the need are evaluated. The best alternative is chosen for purchase or the consumer can decide not to purchase at all in the fourth stage. Finally, consumers re-evaluate the chosen alternative after purchase and consumption. This process highlights that a decision requires a choice between alternatives (Babin & Harris, 2012: 248; Webb, 2010: 28). The stages of the consumer decision-making process where alternatives are sought and evaluated will receive more attention to support the theoretical foundation of this study.

Consumers will search for information on alternative solutions for their need when they come to the realisation that the need can be satisfied through purchasing or consuming products or services (Schiffman, Kanuk & Wisenblit, 2010: 485). Consumers always start with an internal search for alternatives from their memory, followed by an external search in the environment if the internal search proved inadequate for decision-making purposes (Kardes *et al.*, 2011: 77; Noel, 2009: 140). Consumers can use personal search alternatives, including past experience with a product or service, as well as marketing and non-commercial information like advice from friends, relatives, co-workers and sales representatives (Kardes *et al.*, 2011: 77; Schiffman *et al.*, 2010: 487).

The alternatives found during the internal search are referred to as the retrieved set (Noel, 2009: 143). Consumers may search for alternatives other than those in the retrieved set through an intentional search, or they may be exposed to alternatives accidentally, be it through marketing stimuli or other sources in the environment (Peter & Olson, 2010: 166-167). All the alternatives consumers deem acceptable in terms of the minimum requirements in the product category to satisfy their needs (after both the internal and the external search) are placed into the evoked set, which entails that these alternatives are considered for purchase (Noel, 2009: 143; Schiffman *et al.*, 2010: 488). Alternatives deemed unacceptable or inferior are categorised into an inept set (Babin & Harris, 2012: 257; Evans, Jamal & Foxall, 2006: 53; Schiffman *et al.*, 2010: 488), while the inert set comprises those alternatives perceived by consumers to hold no specific advantages (Babin & Harris, 2012: 257; Evans *et al.*, 2006: 53; Peter & Olson, 2010: 166; Schiffman *et al.*, 2010: 488). Furthermore, consumers may be unaware of some alternatives in the product category and such products constitute the unawareness set (Babin & Harris, 2012: 257; Evans *et al.*, 2006: 53).

Consumers choose the alternatives in the evoked set that best satisfy their needs (Noel, 2009: 143), and for this reason, the next stage of the consumer decision-making process, namely evaluating alternatives, takes place. When consumers search for alternatives to the identified need, they have limited time, energy and cognitive capacity, which results in only a subset of all available alternatives (the evoked set) actually being evaluated (Peter & Olson, 2010: 166).

It is therefore important that marketers ensure that consumers are aware of their products and that their products are included in consumers' evoked sets, as only products included in the evoked set will be considered when buying products.

### ***Product attributes***

Product attributes (both intrinsic and extrinsic attributes) are viewed as a multidimensional construct associated with the core product (Doole & Lowe, 2008: 268; Schiffman *et al.*, 2010: 195-196). Intrinsic attributes form part of the physical product, for example size, colour, flavour or aroma, and are therefore considered to be concrete, physical and objective (Auger, Devinney & Louviere, 2007: 2; Enneking, Neumann & Hennenberg, 2007: 133; Schiffman *et al.*, 2010: 195-196; Veale & Quester, 2009: 195). Alternatively, extrinsic attributes are considered to be abstract, beneficial and subjective, as these attributes are, though product-related, not part of the physical product (Enneking *et al.*, 2007: 133). Extrinsic attributes include price, brand image, manufacturers' image, retail store image and country of origin (Kauppinin-Räisänen, 2010: 162-163; Schiffman *et al.*, 2010: 195-196). Sometimes, credence attributes, relating to the quality of the production process, are also used during consumer decision-making (Mondelaers, Verbeke & Van Huylenbroeck, 2009: 1121). By accenting intrinsic attributes, extrinsic product attributes influence the evaluation of alternatives (Van Herpen & Pieters, 2007: 77), and the combination of intrinsic and extrinsic attributes, like nutritional information and brand, can enable marketers to design a product mix that will result in product preference during the evaluation of alternatives as part of the consumer decision-making process (Enneking *et al.*, 2007: 133, 138).

Studies concerning attributes that consumers consider with regard to edible products such as vitamins tend to focus on sensory, origin-related content, as well as health and safety product attributes (Finco, Deliza, Rosenthal & Silva, 2010: 126; Iop, Teixeira & Deliza, 2006: 900;

Ozimek & Zakowska-Biemans, 2011: 138, 150; Urala & Lähteenmäki, 2003: 155; Wood, 2007: 114; Yeung & Morris, 2001: 170). Sensory attributes seem to play the most important role during consumer decision-making concerning edible products such as vitamins and therefore, innovation and differentiation based on sensory attributes are important considerations for marketers (Urala & Lähteenmäki, 2003: 155; Wood, 2007: 114-115). Consumers firstly examine sensory product attributes (such as colour, smell and taste), followed by the consideration of non-sensory attributes (Péneau, Linke, Escher & Nuessli, 2009: 253). Origin-related product attributes, such as manufacturers' name and details as well as country of origin, which are visible on product labels, and therefore perceived through the senses, influence purchase intentions (Henley, Fowler, Yuan, Stout & Goh, 2011: 7, 18). The country of origin can aid in developing consumer loyalty if it is used to accentuate sensory attributes such as smell and taste (Fandos & Flavián, 2006: 657). The notion that consumers tend to rely on extrinsic attributes such as country of origin to make purchasing decisions in circumstances where little specific and reliable product information is available, has been challenged by Veale and Quester (2009: 202) who found that, specifically, country of origin plays a significant role in consumer evaluation of product quality, even if all intrinsic attributes are available. Also, the place where products are purchased influences the evaluation of product attributes (Péneau *et al.*, 2009: 254). Consumers' interest in origin-related attributes and content attributes (such as nutritional information) is associated with consumers' product concerns (Iop *et al.*, Teixeira, & Deliza, 2006: 900). Although health considerations are important, health attributes are considered as basic requirements in specific products (Wood, 2007: 114-115) like vitamins. Consumers might purchase products such as vitamins for general well-being or to prevent disease (Urala & Lähteenmäki, 2003: 154, 157). The mentioned product attributes can be identified on vitamin packaging and consumers then use this information to infer product quality (Finco *et al.*, 2010: 138). During the focus groups, as mentioned in the section on the research methodology, sensory, origin related, content along with health and safety product attributes as discussed above, were also considered important influencers during vitamin purchasing decisions.

From the literature review and focus groups this study considers colour, smell and taste as sensory product attributes. Manufacturer details, country of origin and manufacturers' name are considered to be origin-related product attributes, while sealed packaging, expiry date, absorption rate and listing side effects are viewed as health and safety product attributes.

Furthermore, quality, content, nutritional value, natural content, detailed label, ease of use and price are considered to be value and content product attributes.

### ***The importance of attributes during alternative evaluation***

Consumers use decision rules to evaluate alternatives during decision-making. Decision rules simplify the decision-making process by providing guidelines or routines for decision-making (Schiffman *et al.*, 2010: 491). Since knowledge of decision rules enables marketers to change how information is presented to consumers in order to generate a favourable decision for a particular product or service (Jansson-Boyd, 2010: 131), further exploration thereof is necessary. The two main categories of consumer decision rules are non-compensatory and compensatory decision rules. Non-compensatory decision rules are used when alternatives are eliminated based on a negative evaluation of a single attribute, thereby appearing to be a decision rule that can be relatively easily used – however, this decision rule is error prone (Babin & Harris, 2012: 257-258; Kardes *et al.*, 2011: 85-86; Schiffman *et al.*, 2010: 491). Compensatory decision rules, on the other hand, allow consumers to compute a summated score in terms of important attributes for each alternative. For this reason, a negative evaluation on one attribute in an alternative can be offset by a high evaluation of another attribute in the same alternative (Babin & Harris, 2012: 273; Kardes *et al.*, 2011: 86; Schiffman *et al.*, 2010: 491).

Decision rules include information-processing strategies, decision strategies and heuristics (Schiffman *et al.*, 2010: 491). In short, concerning information-processing strategies, the affect referral rule entails that consumers maintain long-term memory of the overall evaluations of alternatives in their evoked sets (Jansson-Boyd, 2010: 133-134; Noel, 2009: 147) and can simply choose the alternative with the highest perceived overall rating (Schiffman *et al.*, 2010: 492). Heuristics are specific rules for making decisions (mental shortcuts) that consumers use to simplify the process (Jansson-Boyd, 2010: 132; Noel, 2009: 147). Four categories of heuristics should be considered when examining consumer decision-making, namely prediction heuristics, persuasion heuristics, compliance heuristics and choice heuristics (Jansson-Boyd, 2010: 132). For the purpose of this study, a brief discussion on choice heuristics follows.

Choice heuristics are used when consumers are unmotivated to process information they encounter (Jansson-Boyd, 2010: 137). Lexicographic heuristics involve the ranking of attributes in terms of perceived relevance or importance, after which consumers compare the alternatives in terms of the most important attribute. If there is an alternative that clearly exceeds the rest in terms of the most important attribute, that alternative is chosen. If more than one alternative is evaluated to be better than the rest, the process is repeated with the second highest ranked attribute (Babin & Harris, 2012: 274; Bodapati & Drolet, 2005: 257; Jansson-Boyd, 2010: 137; Schiffman *et al.*, 2010: 492). During elimination-by-aspects heuristics, consumers use a cyclical process eliminating the product that does not have the desired features in circumstances where a valued attribute appears in more than one alternative (Babin & Harris, 2012: 274-275; Jansson-Boyd, 2010: 137), while additive-difference heuristics are used when comparing the difference between two alternatives. The difference is weighed by importance, and then the weighted differences are added (Jansson-Boyd, 2010: 138). Conjunctive heuristics imply that a minimally acceptable level for each attribute is set as a cut-off point, and any alternative with an attribute falling below the cut-off point is eliminated (Babin & Harris, 2012: 274; Jansson-Boyd, 2010: 138; Schiffman *et al.*, 2010: 491). Disjunctive heuristics are considered as the opposite of the conjunctive decision rule because a minimally acceptable level for each attribute is set as a cut-off point, and any alternative with an attribute rated above the cut-off point is accepted (Babin & Harris, 2012: 274; Jansson-Boyd, 2010: 138; Schiffman *et al.*, 2010: 492).

It is concluded that when consumers are faced with a purchasing decision and when confronted with a vast variety of vitamin products, the product attributes of a particular product will set the product apart from competing products, thereby providing a competitive advantage (Lye *et al.*, 2005: 216; Tran & Demmig-Adams, 2007: 50).

## **PROBLEM STATEMENT, OBJECTIVES AND HYPOTHESES**

It is important for marketers to understand how product attributes are evaluated in the consumer decision-making process as products' attributes will determine how products are evaluated and which product will be bought (Enneking *at al.*, 2007: 133). Consumers accordingly compare attributes during decision-making (Babin & Harris, 2012: 266; Jansson-Boyd, 2010: 140) when evaluating alternatives and choose a mixture of product attributes (or



in some cases a single product attribute) to make a final choice (Van Herpen & Pieters, 2007: 77, 87).

As consumers can only compare attributes that they remember, the stimuli that consumers come into contact with at any given time can affect the type of attributes that consumers use to make decisions (Jansson-Boyd, 2010: 140). The attributes on which marketers focus their marketing stimuli (for example, prominent labels highlighting 'sugar-free') enhance the likelihood that those attributes will be considered when consumers apply decision rules (Peter & Olson, 2010: 168).

As with the global trend where the vitamin and dietary supplement market showed tremendous growth (Reportlinker, 2012), the South African vitamin industry has seen sales increase rapidly over the past 30 years due to the growing middle class, a rise in income levels and a trend towards healthier living (Berry, 2007). However, despite this trend the South African vitamin market is experiencing a slowdown in sales (Euromonitor, 2011). It is therefore important for vitamin marketers to understand how consumers view, and choose between, different product attributes when buying vitamins to optimally position these products for competitive advantage.

The primary objective of this study is therefore to uncover the perceived importance of product attributes to consumers in the North West Province when buying vitamins. The following secondary objectives were formulated to achieve the primary objective, namely to:

- determine vitamin users' consumption and purchasing habits;
- measure the perceived importance consumers assign to product attributes when purchasing vitamins;
- determine whether the measure developed for measuring the perceived importance of product attributes when purchasing vitamins is valid and reliable; and
- determine whether different vitamin consumer groups differ significantly in terms of the perceived importance they assign to product attributes when purchasing vitamins.

The following null hypotheses were formulated for the study:

*H<sub>01</sub>*: Vitamin consumers who differ demographically from one another do not differ significantly in terms of the perceived importance assigned to product attributes when purchasing vitamins.

In order to refine this hypothesis, the following hypotheses are formulated:

*H<sub>01a</sub>*: Vitamin consumers of different *genders* do not differ significantly in terms of the perceived importance assigned to product attributes when purchasing vitamins.

*H<sub>01b</sub>*: Vitamin consumers of different *ages* do not differ significantly in terms of the perceived importance assigned to product attributes when purchasing vitamins.

*H<sub>01c</sub>*: Vitamin consumers with different *levels of education* do not differ significantly in terms of the perceived importance assigned to product attributes when purchasing vitamins.

*H<sub>01d</sub>*: Vitamin consumers from different *population groups* do not differ significantly in terms of the perceived importance assigned to product attributes when purchasing vitamins.

*H<sub>01e</sub>*: Vitamin consumers from different *family sizes* do not differ significantly in terms of the perceived importance assigned to product attributes when purchasing vitamins.

*H<sub>02</sub>*: Vitamin consumers who differ in terms of regularity of vitamin consumption do not differ significantly in terms of the perceived importance assigned to product attributes when purchasing vitamins.

*H<sub>03</sub>*: Vitamin consumers who differ in their vitamin purchasing habits do not differ significantly in terms of the perceived importance assigned to product attributes when purchasing vitamins.

In order to refine this hypothesis, the following hypotheses are formulated:

*H<sub>03a</sub>*: Vitamin consumers with different *average monthly spending* on vitamins do not differ significantly in terms of the perceived importance assigned to product attributes when purchasing vitamins.

$H_{03b}$ : Vitamin consumers who purchase vitamins from different *outlets* do not differ significantly in terms of the perceived importance assigned to product attributes when purchasing vitamins.

## **RESEARCH METHODOLOGY**

The study population of this study included all individuals residing in the North West Province of South Africa who purchase and consume vitamins. The researchers made use of a non-probability sampling technique to draw a sample from the study population. More specifically, convenience sampling was used to select respondents.

A self-administered questionnaire was designed to collect data from respondents. The questionnaire consisted of a number of different sections containing closed-ended questions. The questionnaire commenced with a preamble explaining the nature of the research and the respondent's role in the research. The preamble also indicated the time the questionnaire takes to complete. Screening questions were included to ensure that respondents completing the questionnaire reside in the North West Province and purchase and consume vitamins. The first section of the questionnaire gathered information regarding respondents' vitamin consumption and purchasing habits. The next section focused on the perceived level of importance respondents assign to product attributes when purchasing vitamins. Perceived importance was measured on a ten-point unlabelled Likert-type scale where 1 represents 'not important' and 10 represents 'very important' (Table 3 provides a list of the product attributes included in the questionnaire). The product attributes that were included in the questionnaire were developed through a literature review and feedback from focus groups conducted for this purpose. The questionnaire concluded with a final section devoted to respondents' demographics. The questionnaire was pre-tested among the study population before being fielded.

Trained fieldworkers targeted prospective respondents in major towns outside shopping centres in the province. Besides meeting the criteria set by the screening questions, respondents also had to be willing and able (literate) to complete the self-administered questionnaire. In practice, a questionnaire was handed to a prospective respondent who had to complete and return the questionnaire upon completion.

After the fieldwork had been completed, the questionnaires were scrutinised to ensure all poor quality questionnaires (those that were incomplete or contained inconsistent responses) were identified and discarded. A total of 888 useable questionnaires were collected from respondents.

The Statistical Package for Social Sciences (SPSS Version 20) was used for purposes of data capturing, cleaning and analyses. The data analysis strategy followed several steps:

- The frequencies (percentages) to describe the demographic profile of respondents as well as their vitamin consumption and purchasing habits were calculated.
- The descriptive statistics (means and standard deviations) for the perceived importance respondents assign to product attributes when purchasing vitamins were also calculated.
- The data analysis furthermore involved the testing of hypotheses formulated for the study. Before this could be undertaken, it was firstly important to assess the normality of distribution for the results for each of the product attributes included in the measure and to uncover the underlying dimensions of the measure used to measure the perceived importance respondents assign to product attributes when purchasing vitamins. The skewness and kurtosis of the distribution of each product attribute were investigated to assess normality of distribution (West, Finch & Curran, 1995: 75) and an exploratory factor analysis was performed to identify underlying factors. The researchers made use of the Maximum Likelihood Model to extract the factors and Varimax with Kaiser Normalisation was used to rotate the factor matrix (Eiselen, Uys & Potgieter, 2007: 105).
- The internal consistency reliability of product attributes included in each factor was furthermore assessed through the calculation of a Cronbach alpha value for each factor (Pallant, 2010: 6).
- Once reliability was confirmed, an overall mean score was calculated for each factor to allow for hypotheses testing. In order to determine whether a significant difference exists between the means of two groups, the Independent samples T-test was used. In order to determine whether significant differences exist between the means of more than two groups, the One-way ANOVA test was used. The interpretation of the results of the hypotheses tests was based on a significance level of 0.05 and a subsequent confidence level of 95%. In case of the One-way ANOVA, Scheffe's post-hoc test

was used if equal variances could be assumed between the groups, and Dunnett's T3 post-hoc test was used if equal variances could not be assumed between the groups (Eiselen *et al.*, 2007: 76&121).

- In addition, a number of response categories were collapsed to allow for statistical comparison between groups. The different age categories were collapsed into two groups, namely those who are 49 years and younger and those who are 50 years and older. Education level categories were collapsed into two groups, those with matric or less and those with any post-matric qualification. Family size was collapsed into two categories, those with a family size of two or fewer and those with a family size of more than two. The regularity with which vitamins are consumed was collapsed into two groups, namely those who are frequent (two or more times per week) and those who are infrequent users (weekly or less).

## RESULTS

The results are discussed in terms of the demographic profile, respondents' vitamin consumption and purchasing habits, the perceived importance and the underlying dimensions of product attributes' perceived importance. The distribution of results, validity and reliability of the product attribute measure and results for the hypotheses conclude this section.

### Demographic profile

Table 1 provides the demographic profile of respondents who took part in the study.

**Table 1: Respondents' demographic profile**

<b>Gender</b>
Male (34.6%) and <b>female (65.4%)</b>
<b>Age</b>
Younger than 20 years (6.4%), <b>20 to 29 years (29.7%)</b> , 30 to 39 years (20.3%), 40 to 49 years (20.3%), 50 to 59 years (14.7%), 60 to 69 years (4.7%) and older than 70 years (3.8%)
<b>Education level</b>
No schooling (0.1%), some high school (9.3%), <b>matric (39%)</b> , diploma (18.8%), degree (20.8%), postgraduate (10.9%) and other (1.0%)
<b>Population group</b>
Indian (1.5%), Coloured (7.9%), Black (23.7%) and <b>White (66.9%)</b>
<b>Family size</b>
One (11.5%), <b>two (27.1%)</b> , three (21.0%), four (23.3%), five (12.0%), six or more (5.0%)

It is evident from Table 1 that the majority of respondents were female (65.4%), between the ages 20 to 29 years (29.7%) and had matric as highest level of qualification (39%). Most respondents were white (66.9%) and in a two-person household (27.1%).

### Respondents' vitamin consumption and purchasing habits

Table 2 provides some insight into respondents' vitamin consumption and purchasing habits.

**Table 2: Respondents' vitamin consumption and purchasing habits**

<b>Regularity with which vitamins are consumed</b>
More than once a day (11.5%), <b>daily (43.6%)</b> , two to three times a week (9.6%), weekly (7.1%), when I remember (14.8%), when I am ill (12.3%), other (1.1%)
<b>Average monthly amount spent on vitamins</b>
Less than R50 (15.0%), <b>R51 to R99 (28.6%)</b> , R100 to R149 (23.2%), more than R150 (20.2%), do not know (13.0%)
<b>Outlets where vitamins are purchased</b>
Health store (12.5%), <b>pharmacy (63.6%)</b> , where I buy groceries (16.6%) and other stores (7.2%)

It is evident from Table 2 that the majority of respondents consume vitamins on a daily basis (43.6%). Most respondents spend between R51 and R99 per month on vitamins (28.6%) and mainly buy their vitamins at pharmacies (63.6%).

### The perceived importance of product attributes

Table 3 provides the descriptive results for the importance ratings respondents had to assign to the different product attributes they consider when purchasing vitamins. The product attributes are ranked in order of perceived importance from least important to most important.

**Table 3: Perceived importance of product attributes**

Product attribute	Mean	Standard deviation
Colour	3.32	2.761
Smell	4.99	3.000
Country of origin	5.05	3.179
Taste	5.45	3.116
Manufacturer details	5.68	3.054
Manufacturer's name	6.69	2.716
Price	7.50	2.424

Detailed label on package	7.72	2.449
Natural content	7.73	2.393
Absorption rate	7.85	2.293
Ease of use	7.94	2.295
Listing of side effects	8.07	2.326
Expiry date	8.79	1.967
Content	8.87	1.614
Nutritional value	8.88	1.728
Sealed packaging	8.90	1.743
Quality	9.03	1.532

It is evident from Table 3 that the colour (mean = 3.32), smell (mean = 4.99) and country of origin (mean = 5.05) are the least important product attributes respondents consider when purchasing vitamins. Content (mean = 8.87), nutritional value (mean = 8.88), a properly sealed package (mean = 8.90) and quality (mean = 9.03) rate as the most important product attributes influencing respondents' vitamin purchases.

#### **Underlying dimensions of product attributes' perceived importance**

As is evident from Table 3, this study measured the perceived importance of 17 different product attributes when purchasing vitamins. In order to determine the underlying factors for the measure used in this study, an exploratory factor analysis was conducted. A sample size of 888 respondents is adequate to permit the use of this technique (Eiselen *et al.*, 2007: 106). Table 4 presents the results of the exploratory factor analysis.

**Table 4: Results of exploratory factor analysis**

Measure	KMO statistic	Bartlett's p-value	Factors	Cumulative percentage of variance explained
Perceived importance of product attributes	0.828	0.000	4	52.28%

It is evident from Table 4 that the Kaiser-Meyer-Olkin Measure of Sampling Adequacy (KMO) statistic is above the cut-off point of 0.6, indicating sufficient correlation between pairs of product attributes to merit a continuation with the factor analysis (Eiselen *et al.*, 2007: 107). The Bartlett's Test of Sphericity p-value is furthermore below the cut-off point of 0.05. The null hypothesis that all the product attributes are uncorrelated can therefore be rejected. This allows for continuation with the factor analysis. The Measures of Sampling

Adequacy for each product attribute are furthermore all equal or exceed 0.6, thus allowing for all 17 product attributes to be retained. It is furthermore evident from Table 4 that the 17 product attributes can be grouped into four factors using an Eigen value of equal or greater than 1 as cut-off point. These four factors explain 52.28% of the total variance. Table 5 presents the rotated factor matrix, highlighting which product attributes load onto each of the four factors. It is evident from Table 5 that the product attribute ‘price’ realised a factor loading of less than 0.3. Although an item with a loading of less than 0.3 is commonly discarded, the researchers decided to retain the ‘price’ attribute (with a loading of 0.268), since according to extant literature, price plays an important role in consumers’ decisions when purchasing goods and services (Kauppinin-Räsänen, 2010: 162-163). Price also ‘fits in’ with the other product attributes that load onto the factor concerned. There are furthermore many researchers who believe a cut-off point of 0.2 instead of 0.3 should be used. According to Schwarz (2011: 33), a factor loading of 0.2 and more is completely acceptable. A study conducted by Hargreaves, Morison, Gear, Kim, Makhubele, Porter, Watts and Pronyk (2007) in eight villages in rural South Africa amongst 1 640 respondents to assess household wealth, also used a factor loading of 0.2 as cut-off point in the exploratory factor analysis they conducted.

**Table 5: Rotated factor matrix**

Product attributes	Factors			
	1	2	3	4
Quality	0.747			
Content	0.656			
Nutritional value	0.588			
Natural content	0.373			
Detailed label	0.316			
Ease of use	0.310			
Price	0.268			
How vitamins taste		0.848		
How vitamins smell		0.634		
Colour		0.488		
Manufacturer details			0.706	
Country of origin			0.557	
Manufacturer’s name			0.519	
Sealed packaging				0.682
Expiry date				0.612
Absorption rate				0.412
Listing side effects				0.369



Each of the four factors was subsequently labelled and the internal consistency reliability of each was calculated. The results are presented in Table 6.

**Table 6: Labels and Cronbach’s alpha values for underlying factors**

<b>Factor</b>	<b>Label</b>	<b>Cronbach’s alpha value</b>
1	Value and content product attributes (7 attributes)	0.663
2	Sensory product attributes (3 attributes)	0.716
3	Origin-related product attributes (3 attributes)	0.694
4	Health and safety product attributes (4 attributes)	0.674

### **Distribution of results, validity and reliability of the product attribute measure**

It is important to assess the distribution of results for each product attribute before hypotheses testing using parametric tests can be undertaken. Parametric tests require that the results for a variable (product attribute) are normally distributed before such tests may be used to test hypotheses. The parameters as suggested by West *et al.* (1995: 75) were used to assess the normality of distribution. These authors state that the results for a variable can be considered normal if the skewness of the distribution is less than an absolute value of 2.00 and the kurtosis is less than 7.00 (West *et al.*, 1995: 75). Using this as a guideline, the researchers found all 17 product attributes to fall within the limits of what can be considered normal.

The validity of the measure (the perceived importance of product attributes when purchasing vitamins) was assessed through assessing (1) *content validity*, where the researchers used a systematic process to evaluate whether the measure actually measures what it was designed to measure (in this case the perceived importance of product attributes), and assessing (2) *criterion validity*, where the researchers assessed how the measure performs with respect to selected demographic, consumption and purchasing habit variables (Malhotra, 2010: 320).

Internal consistency reliability was furthermore assessed by the calculation of a Cronbach alpha value for each of the four factors. As is evident in Table 6, all factors report a value of greater than 0.6. According to Malhotra (2010: 319), any value greater than 0.6 indicates an acceptable level of internal consistency reliability.

## Results for the hypotheses formulated for the study

This section reports on the results for the three null hypotheses formulated for this study in relation to each of the four factors uncovered with the exploratory factor analysis that underlies the perceived importance assigned to product attributes when purchasing vitamins.

### *Hypothesis 1*

With regard to null hypothesis 1, the following results were uncovered:

- Respondents of different genders do not differ significantly in terms of the perceived importance assigned to product attributes when purchasing vitamins.  $H_{01a}$  can therefore be supported.
- Respondents of different ages differ significantly in terms of the perceived importance assigned to *sensory product attributes* (Factor 2) when purchasing vitamins. Respondents who are 49 years and younger of age (mean = 4.79) place significantly more importance on sensory product attributes when purchasing vitamins than respondents who are 50 years and older (mean = 3.91; p-value = 0.000). With regard to the other three factors, significant differences could not be uncovered.  $H_{01b}$  can therefore be partially supported.
- Respondents of different educational levels do not differ significantly in terms of the perceived importance assigned to product attributes when purchasing vitamins.  $H_{01c}$  can therefore be supported.
- Respondents of different population groups differ significantly in terms of the perceived importance assigned to *value and content product attributes* (Factor 1) when purchasing vitamins. The Dunnett's T3 post-hoc test indicates that white respondents (mean = 8.39) place significantly more importance on value and content product attributes than black respondents (mean = 7.93; p-value = 0.000). With regard to the other three factors, significant differences could not be uncovered.  $H_{01d}$  can therefore be partially supported.
- Respondents of different family sizes do not differ significantly in terms of the perceived importance assigned to product attributes when purchasing vitamins.  $H_{01e}$  can therefore be supported.

## ***Hypothesis 2***

With regard to null hypothesis 2, the following results were uncovered:

- Respondents who differ in terms of regularity with which vitamins are consumed differ significantly in terms of the perceived importance assigned to *sensory product attributes* (Factor 2) when purchasing vitamins. Respondents who are infrequent users (weekly or less) of vitamins (mean = 5.00) place significantly more importance on sensory product attributes when purchasing vitamins than respondents who are frequent users (2 and more times a week) of vitamins (mean = 4.37; p-value = 0.000). With regard to the other three factors, significant differences could not be uncovered. H<sub>02</sub> can therefore be partially supported.

## ***Hypothesis 3***

With regard to null hypothesis 3, the following results were uncovered:

- Respondents who differ in terms of the average monthly amount they spend on vitamins differ significantly in terms of the perceived importance assigned to *value and content product attributes* (Factor 1) and *sensory product attributes* (Factor 2) when purchasing vitamins. Scheffe's post-hoc indicates that respondents who spend R51 to R99, R100 to R149 and R150 or more per month on vitamins (means = 8.30, 8.41 and 8.47 respectively) place significantly more importance on value and content attributes (Factor 1) than respondents who spend R50 or less (mean = 7.79; p-value = 0.000). Dunnett's T3 post-hoc test indicates furthermore that respondents who spend more than R150 per month on vitamins (mean = 8.47) place significantly more importance on sensory product attributes (Factor 2) than respondents who do not know how much they spend on vitamins per month (mean = 8.02; p-value = 0.010). With regard to the other two factors, significant differences could not be uncovered. H<sub>03a</sub> can therefore be partially supported.
- Respondents who differ in terms of the outlets where they purchase vitamins differ significantly in terms of the perceived importance assigned to *origin-related product attributes* (Factor 3) when purchasing vitamins. Scheffe's post-hoc indicates that respondents who purchase vitamins at a pharmacy (mean = 5.89) place significantly more importance on origin-related product attributes (Factor 3) than respondents who

purchase vitamins at a place where they buy groceries (mean = 5.26; p-value = 0.012). Scheffe's post-hoc indicates furthermore that respondents who purchase vitamins at a health store (mean = 6.12) place significantly more importance on origin-related product attributes (Factor 3) than respondents who purchase vitamins at a place where they buy groceries (mean = 5.26; p-value = 0.012). With regard to the other three factors, significant differences could not be uncovered.  $H_{03b}$  can therefore be partially supported.

## CONCLUSIONS AND MANAGERIAL IMPLICATIONS

From the literature review, it could be concluded that consumers compare product attributes during decision-making (Babin & Harris, 2012: 266; Jansson-Boyd, 2010: 140) when evaluating alternatives to make a final choice (Van Herpen & Pieters, 2007: 77, 87). Product attributes are viewed as a multidimensional construct associated with the core product (Doole & Lowe, 2008: 268; Schiffman *et al.*, 2010: 195-196). Intrinsic attributes (e.g. size, colour, flavour or aroma) are viewed objectively as they form part of the physical product (Auger *et al.*, 2007: 2; Enneking *et al.*, 2007: 133; Schiffman *et al.*, 2010: 195-196; Veale & Quester, 2009: 195), whereas extrinsic attributes (e.g. price, brand image or manufacturer's image) are considered to be subjective and abstract as these attributes are not part of the physical product (Enneking *et al.*, 2007: 133). The combination of intrinsic and extrinsic attributes, like nutritional information and brand, can enable marketers to design a product mix that will result in product preference during the evaluation of alternatives as part of the consumer decision-making process (Enneking *et al.*, 2007: 133, 138). Understanding how attributes are perceived is therefore important, because, when consumers are confronted with a variety of vitamin products, the product attributes of a particular product will set it apart from competing products, thereby providing a competitive advantage (Lye *et al.*, 2005: 216; Tran & Demmig-Adams, 2007: 50).

Results from this study identified four groups of attributes respondents consider important when buying vitamins, namely value and content product attributes (comprising seven attributes), sensory product attributes (comprising three attributes), origin-related attributes (comprising three attributes) and health and safety product attributes (comprising four attributes). From this finding, it can be concluded that not all vitamin attributes are viewed

equally in importance and that some attributes could be considered more important than others when deciding between alternatives.

Although it was found that respondents of different genders, educational levels and family sizes do not differ in terms of the perceived importance assigned to vitamin attributes, differences were found between different ages and population groups for some of the identified attribute factors. Younger respondents accordingly placed significantly more importance on sensory product attributes than older respondents, while white respondents placed significantly more importance on value and content product attributes than black respondents.

This study furthermore found differences between respondents in terms of the regularity with which vitamins are consumed, with infrequent users viewing sensory product attributes as significantly more important than frequent users.

The final findings from this study showed significant differences between respondents spending different monthly amounts on vitamins as well as between respondents buying from different retailers. Concerning monthly spending, differences were noted between different spenders for two of the four attribute factors, namely value and content product attributes (those spending R51 and more per month view these attributes as significantly more important than those spending R50 or less) and sensory product attributes (those spending more than R150 per month view these attributes as significantly more important than those who do not know how much they spend). Respondents who buy vitamins from a pharmacy or a health store viewed origin-related product attributes as significantly more important than those who buy vitamins where they buy their groceries.

The conclusions drawn from this study hold a number of managerial implications to vitamin manufacturers and sellers. Firstly, vitamin marketers should not only determine how their products' attributes are perceived, but also how their products' attributes compare to those of competitors. By understanding how consumers view vitamin attributes and choose between alternatives, marketers could gain a competitive advantage. This advantage could manifest through positioning strategies and through advertising and promotional campaigns. Secondly, marketers should determine how respondents with different demographic profiles view vitamin attributes. By noting differences between groups, marketers could not only better

position their offerings, but also segment their markets more accurately to address different segment needs. Thirdly, by determining how regularity of usage influences vitamin attribute perceptions, marketers can highlight different attributes to vitamin users based on regularity of usage in their communication with these groups. Information gained in terms of which attributes are important to regular users (and motivations as to why these attributes are viewed as important) can also be used in communication to irregular users in an effort to migrate irregular users to more regular users. Fourthly, the monthly spending on vitamins can be used to reposition product attributes marketers wish consumers should view as more important in an attempt to increase monthly spending. Marketers can, for example, provide discount coupons highlighting important and beneficial vitamin attributes, to those with low monthly vitamin spending. Finally, by understanding which vitamin attributes consumers who buy from different retailers value, marketers can realign their strategies to ensure that the attributes consumers consider important correspond with those offered by the retailers they buy their vitamins from.

## **LIMITATIONS AND DIRECTIONS FOR FUTURE RESEARCH**

A number of limitations applicable to this study can be reported. Firstly, a non-probability, convenience sampling method was used. Results are therefore only representative of those who participated in the study and not the study population at large. Secondly, the study was limited to only one province, namely the North West Province. Results could have been different if the study was performed in another province.

With regard to future research, a non-hierarchical clustering method (K-Means clustering) will be used to identify potential segments marketers of vitamins could target. Reporting on the results of a cluster analysis in this paper is beyond the scope of the paper.

The following recommendations can also be made for future research: the study should be duplicated in other (and more) provinces in South Africa to determine similarities and differences pertaining to how vitamin attributes are perceived. If possible, a probability sampling method should be used to generalise findings. The study could also be duplicated among consumers belonging to different Living Standard Measure (LSM) groups and consumers with different diets, lifestyles and health issues to determine the influence of these variables on the perceptions of vitamin attributes.

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# **THE IMPORTANCE OF, AND SATISFACTION WITH, STORE ATTRIBUTES AMONG BLACK GENERATION Y CONSUMERS WHEN BUYING CASUAL WEAR**

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## **ABSTRACT**

This study investigates the importance of, and satisfaction with, store attributes to black Generation Y consumers when buying casual wear. Results from the study can aid casual wear retailers to determine which store attributes to focus on in their retail strategies when attempting to attract and retain consumers.

## **INTRODUCTION**

The South African retail industry contributes 12.5% to the total Gross Domestic Product (GDP) and has generated a total of R502 billion in the first 6 months of 2012, with textiles, clothing, footwear and leather goods contributing a total of 21.4% to this figure (Statistics South Africa, 2012). The apparel retail industry contributed the largest share of total profit margin, namely 10.2% and furthermore employs 22% of workers in the South African retail industry (Statistics South Africa, 2009).

In light of the fact that retailers' profits depend on consumers purchasing goods from selected stores, retailing and consumer behaviour have to be viewed concurrently. Furthermore, the manner in which consumers make store selections has to be examined (Berman & Evans, 2007:211). Consumers' store selection decisions depend on their evaluation of numerous store attributes (Purushottam, 2011:72; Ghosh, Tripathi & Kumar, 2010; Erasmus & Grabowski, 2011; Visser, Du Preez & Janse van Noordwyk, 2006), making it essential for stores selling casual wear to examine the store attributes deemed as important to their target market. Additionally, consumers' satisfaction with store attributes should also be examined as store attributes influence current and potential consumers' overall satisfaction, and therefore also store selection and re-patronage behaviour (Terblanche & Boshoff, 2006:33; Koo, 2003:42; Moye & Giddings, 2002:259; Van Herpen & Pieters, 2002:331; Bloemer & de Ruyter, 1998:499).

Regarded by many as having technological savvy and being conspicuous, Generation Y consumers enjoy spending on apparel and accessories to enhance their self-image (Hyllegard, Olge & Yan, 2009:112; O’Cass & Choy, 2008:349; Clow & Baack, 2007:117; Blackwell, Miniard & Engel, 2006:246; Bakewell & Mitchell, 2003:97). As the first generation cohort to grow up in the post-apartheid era in South Africa, black Generation Y consumers have more opportunities in terms of education, equity and transformational employment policies, and wealth creation, and therefore have more purchasing power and should thus be viewed as a lucrative market segment for stores selling casual wear (Bevan-Dye, Dhurup & Surujlal, 2009:177; TNS Research Surveys, 2007).

However, little research has been carried out with regard to black Generation Y consumers’ decision-making, the store attributes they consider as important when selecting a store selling casual wear, as well as their satisfaction with casual wear stores’ attributes. This study therefore aims to determine the importance of, and satisfaction with, store attributes among black Generation Y consumers when buying casual wear.

## **LITERATURE BACKGROUND**

### **Store attributes and store selection**

The origins of store attributes and store selection choices are grounded in store image literature. Numerous research studies have been devoted to store image and its constructs (Visser *et al.*, 2006; Thompson & Ling Chen, 1998; Lindquist, 1974; Martineau, 1958). Earlier pioneers in the field, such as Martineau (1958), described store image as the manner in which the store is defined in shoppers’ minds. Martineau (1958) initially proposed that a store’s image comprises several functional and psychological key attributes such as layout and architecture, symbols and colours, advertising and salespeople. Lindquist (1974:30), in turn, identified nine store image attribute dimensions, namely merchandise, service, clientele, physical facilities, convenience, promotion, store atmosphere, institutional factors and post-transactional satisfaction.

Ultimately, store image consists of store attributes, be it functional or psychological (Visser *et al.*, 2006; Lindquist, 1974; Martineau, 1958). Since consumers compare alternative apparel retailers on certain evaluative criteria such as store image (Purushottam, 2011:72; Jin & Kim, 2003:397; Doyle & Fenwick, 1975) and store image consists of different store attributes (O’Connor, 1990:36; Hirschman, Greenberg & Robertson, 1978; Bearden, 1977:15; Lindquist,

1974; Martineau, 1958), it can be argued that consumers evaluate store attributes when selecting an apparel retailer.

Within the available body of literature, numerous studies have been conducted in an attempt to understand consumer behaviour and store selection choices, including the role of expectations (Ghosh *et al.*, 2010), perception (Erasmus & Grabowski, 2011), demographic variables such as age, gender and income (Moschis, Ferguson & Zhu, 2011; Carpenter & Moore, 2006) and psychographic variables, including shopping orientation, motivation and culture (Wong, Osman, Jamaluddin & Yin-Fah, 2012; Narang, 2011; Seock & Lin, 2011; Mittal & Mittal, 2008; Rigopoulou, Tsiotsou & Kehagias, 2008; Morschett, Swoboda & Foscht, 2005; Ohanian & Tashchian, 1992).

Within the South African context, Erasmus and Grabowski (2011) argue that apparel retailers offer similar merchandise and brands, causing retailers to be poorly differentiated which adds to the perplexity as to why consumers shop at a particular store. In an attempt to identify those store attributes perceived as important by a selected group of female apparel shopping consumers, Visser *et al.* (2006) concluded that merchandise (referring to availability, assortment and style), clientele (referring to sales staff interaction) and service (in-store transfers, consultants and accounts) were regarded as the most important store attribute dimensions considered when selecting an apparel store.

From the discussion above, it is evident that a vast amount of research has been carried out examining store attributes in store image and store selection. However, not all store attributes are considered as equally important by all consumers when selecting a retail store (Paulins & Geistfeld, 2003:371). Therefore, consumers' satisfaction with store attributes needs to be examined, as store attributes influence consumers' overall satisfaction levels, which in turn affect their store selection choices (Moye & Giddings, 2002:259).

### **Satisfaction with store attributes**

Within a retailing context, Bloemer and de Ruyter (1998:501) define satisfaction as “the outcome of the subjective evaluation that the chosen alternative (the store) meets or exceeds expectations”. This conceptualisation is grounded in the disconfirmation paradigm proposed by Oliver (1980) in which satisfaction depends on a comparison between consumers' expectations

and perceptions of store attributes present within the store. Therefore, consumers' satisfaction with store attributes cannot be viewed without taking their expectations into consideration.

According to Wirtz, Matilla and Tan (2007:6), consumers enter into a retail experience with a set of predetermined expectations of what they would like to happen and what store attributes should be present. These expectations influence the manner in which store attributes and other stimuli from the retail environment are interpreted (Hawkins, Mothersbaugh & Best, 2007:298). Research findings by Wirtz *et al.* (2007:6) suggest that an intrinsically attractive store environment can be perceived as unpleasant if it fails to meet consumers' desired level of expectations. Therefore, expectations influence consumers' satisfaction with the retail experience and store attributes, which in turn affects consumers' overall satisfaction and store selection choices (Evanschitzky, Goppalkrishnan & Caemmerer, 2008:276; Terblanche & Boshoff, 2006:33; Koo, 2003:42; Van Herpen & Pieters, 2002:331).

Within a South African context, Erasmus and Grabowski (2011) propose that consumers' expectations towards the service offering of clothing retailers are cognitively structured in terms of three elements, namely physical facilities and product presentation, personnel and store image, and processes. Ma and Niehm (2006:620) examined the service expectations of Generation Y consumers in an apparel setting. Results indicated that Generation Y consumers' expectations for service differ by store type, and that store expectations, store perception and store quality were related to overall retailer satisfaction. In support of this, a study by Sum and Hui (2009:100) showed that as consumers' demands increase, so too do their service expectations from apparel retailers.

Numerous studies have been conducted regarding specific store attributes, the role of consumer expectations and their influence on consumers' overall satisfaction (Erasmus & Grabowski, 2011; Koo, 2003:42; Van Herpen & Pieters, 2002:331). Evanschitzky *et al.* (2008:275) identified that consumers' overall store satisfaction is determined by means of satisfaction with store attributes such as merchandise and pricing policies, store environment, employees, store access and transactions.

A study by Mittal and Mittal (2008) among apparel shoppers identified two dimensions that could create sustainable store choice, namely loyalty drivers (specifically merchandise mix, sales promotion, value/price, recommendation/relationship) and experience enhancers (specifically reputation/advertisements, temperature, return/guarantee, ambient conditions).

From the discussion above, it can be seen that the role of consumers' satisfaction in store selection and store satisfaction has received abundant attention within literature. As the black Generation Y consumer represents an important current and future market segment for stores selling casual wear, the manner in which they select stores based on store attributes needs to be examined more closely.

### **Black Generation Y consumers**

Not only do black consumers constitute 79% of the total South African population, they are also moving into higher employment positions, bringing an increase to their disposable income and making them a lucrative market segment for stores selling casual wear to focus on (Statistics South Africa, 2011; Oliver, 2007; TNS Research Surveys, 2007). Additionally, Generation Y consumers are also viewed as an extremely important age group for marketers to focus on based on their size, disposable income, and purchasing power (Jordaan, Ehlers & Grove, 2011:2; Schaefer, Parker & Hermans, 2009:541; Durvasula & Lysonski, 2008:230; Sullivan & Heitmeyer, 2008:285). Many discrepancies exist between authors with regard to the exact age of Generation Y. Clow and Baack (2007:115) define Generation Y as those individuals who are between the ages of 18 and 24. Cant, Brink and Brijball (2006:106) divide Generation Y into three categories, namely adults (age 19 to 24), teenagers (age 13 to 18) and children (age 8 to 12). For purposes of this study, Generation Y was regarded as those consumers between the ages of 16 and 24, which includes the majority of age categories identified by Clow and Baack (2007:115) and Cant *et al.* (2006:106).

### **PROBLEM STATEMENT AND OBJECTIVES FORMULATED FOR THE STUDY**

Retailers are operating in a highly competitive environment, making it vital to examine consumer behaviour and specifically the manner in which consumers make store selection decisions. Consumers evaluate store attributes when selecting a store, yet not all store attributes are considered equally important by all consumers (Paulins & Geistfelt, 2003:371). For this reason, stores selling casual wear need to be concerned with the store attributes their targeted consumers deem as important and ensure that these are addressed in their retail strategies. In addition, the satisfaction levels consumers have with current store attributes offered, should also be investigated, as consumers' satisfaction with store attributes affects their overall satisfaction



and store selection choices (Huddleston, Whipple, Mattick & Lee, 2009:63; Evanschitzky *et al.*, 2008:276; Terblanche & Boshoff, 2006:33).

Generation Y consumers are regarded as being conspicuous, and prefer spending on clothes and accessories, thereby representing an important market segment for apparel retailers to target (Clow & Baack, 2007:115; Blackwell *et al.*, 2006:246). Pertaining to black Generation Y consumers, little research has been conducted within a South African context regarding their decision-making, the store attributes considered as important when selecting an apparel retailer, as well as their satisfaction with store attributes. Since black Generation Y consumers are estimated at 8.3 million (Statistics South Africa, 2011) and thought to have sufficient current and future spending power (de Bruyn & Freathy, 2011:538; TNS Research Surveys, 2007), it is imperative that stores selling casual wear investigate the manner in which store selection decisions are made. However, little is known about black Generation Y consumers' store selection criteria, specifically which store attributes they regard as important when buying casual wear, as well as their satisfaction with store attributes currently offered. Gaining insight into the store attributes black Generation Y consumers regard as important when buying casual wear will help stores selling casual wear to formulate retail strategies better by making sure that these store attributes are incorporated in their retail setting.

Based on the literature review and the problem statement, the aim of this study is therefore to identify the importance of, and satisfaction with, store attributes among black Generation Y consumers when buying casual wear. To achieve the stated aim, the following objectives are set, namely to:

- Determine the store attributes important to black Generation Y consumers when buying casual wear.
- Determine whether a difference exists between the store attributes that black Generation Y consumers deem as important and their satisfaction with the store attributes from stores from which they most often buy casual wear.

## **RESEARCH METHODOLOGY**

### **Population and sample**

The target population for this study included all black Generation Y consumers between the ages of 16 and 24 living in Soweto who buy from a store selling casual wear. A non-probability convenience sampling method was used due to the absence of a formal sample frame (Malhotra, 2007:347; Burns & Bush, 2006:345). The absence of such a sample frame makes it impossible to assign numbers to members, making probability sampling methods difficult to execute (Zikmund & Babin, 2010:424; Proctor, 2005:111).

### **Questionnaire design and data collection**

An interviewer-administrated questionnaire containing closed-ended questions was used as research instrument to obtain data from Generation Y consumers between the ages of 16 and 24 living in Soweto who buy from a store selling casual wear. The items included in the questionnaire were adapted from previous studies identified in the literature review examining store attributes that influence store image and store selection decisions (Janse van Noordwyk, 2008; Visser *et al.*, 2006; Lindquist, 1974). The questionnaire included a screening question ensuring that only consumers between the ages of 16 and 24 participated in the study. The questionnaire was furthermore divided into two sections. In section 1, respondents indicated how important certain store attributes were to them when selecting a store selling casual wear. Importance was measured by using an unlabelled Likert scale anchored at 1 = 'not important' and 5 = 'very important'. This section also required respondents to indicate their satisfaction level of each of the store attributes measured pertaining to the store they most often buy casual wear from, measured on an unlabelled Likert scale, where 1 = 'not satisfied' and 5 = 'very satisfied'. Section 2 of the questionnaire focused on respondents' demographic information.

The questionnaires were distributed by fieldworkers (proficient in English and other African languages and who live in Soweto) who were selected, trained and supervised to collect data from respondents through a mall intercept survey. This allowed for better data quality by means of closer sample control and reduced respondent anxiety (Zikmund & Babin, 2010:217; Malhotra, 2007:188). Data was collected over a two-week period at different time intervals and different days of the week. A sample of 261 respondents was obtained.

## Data analysis

Questionnaires were examined for consistency in responses, omissions and errors (Malhotra, 2007:11). Data was captured using the Statistical Package for Social Sciences (SPSS) as well as SAS. During data capturing, data was cleaned and errors were corrected. Both descriptive and inferential statistics were employed.

An exploratory factor analysis was performed to identify Importance factors to respondents when buying casual wear. Factor loadings were calculated to show the correlation coefficients between Store attribute items and the Importance factors (Zikmund & Babin, 2010:625; Kent, 2007:420; Malhotra, 2007:309). The Oblimin method of rotation was applied (Cooper & Schindler, 2006:634; Aaker, Kumar & Day, 2003:570-571). Only factor loadings higher than 0.3 were reported, as items with factor loadings lower than 0.3 do not correlate significantly with the factor (Field, 2005:622; Raubenheimer, 2004:59).

The Measure of Sample Adequacy (MSA) was calculated to indicate the appropriateness of the factor matrix and whether one can believe that the amount of variance explained is valid (Hair Anderson, Tatham & Black, 1998:99). Hair *et al.* (1998:99) further state that an MSA value  $\geq 0.8$  is meritorious,  $\geq 0.7$  middling and  $\geq 0.5$  mediocre, while values  $< 0.5$  are considered miserable. Community estimates, which refer to the total amount of variance that original items share with all other items (Hair *et al.*, 1998:99), were included in a factor analysis. Eigen values were calculated to indicate the amount of variance throughout all the statements explained by the factor as well as which ones should be retained (Malhotra, 2007:617; Kress, 1988:291). Additionally, effect sizes using Cohen's d-values were used to indicate practically significant differences between the means of different groups (Cohen, 1988:20-27). Bagozzi (1994:248) explains that practical significance indicates the strength of the significance of values. This, in turn, allows the researcher to evaluate the practical importance of the effect or result. The d-values were calculated using the following formula (Cohen, 1988:20-27):

$$d = \frac{|\bar{x}_1 - \bar{x}_2|}{S_{\max}}$$

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.

The effect sizes for the difference between means were interpreted as follows (Cohen, 1988:20-27):

- $d \approx 0.2$  small effect with no significance
- $d \approx 0.5$  medium effect, and
- $d \approx 0.8$  large effect indicating that a practically significant difference exists between variables

Paired sample T-tests were used to determine whether significant differences exist between the means of two different variables (Churchill & Brown, 2007:488; Hair *et al.*, 1998:330). In this instance, the test was used to reveal significant differences between the importance placed on factors, and respondents' satisfaction thereof. To interpret the practical significance of these results, Cohen's d-values were calculated.

## RESULTS

### Sample profile and casual wear store behaviour

Table 1 provides a demographic profile of respondents participating in the study.

**TABLE 1: SAMPLE PROFILE AND CASUAL WEAR STORE BEHAVIOUR**

Demographic variable	F	%
<b>Age</b>		
16-18	86	33.0
19-21	98	37.5
22-24	77	29.5
<b>Gender</b>		
Female	157	60.2
Male	104	39.8
<b>Marital status</b>		
Single	228	87.4
Living with someone	25	9.6
Married	8	3.0

**TABLE 1: SAMPLE PROFILE AND CASUAL WEAR STORE BEHAVIOUR CONTINUED**

<b>Demographic variable</b>	<b>F</b>	<b>%</b>
<b>Average spending on casual wear per month</b>		
Less than R100	13	5.0
R100-R250	102	39.1
R251-R500	93	35.6
More than R500	53	20.3
<b>Highest level of education</b>		
Primary school	12	4.6
High school	215	82.7
Diploma	27	10.4
Degree	6	2.3
Postgraduate degree	0	0.0
<b>How often casual wear is purchased</b>		
Only when needed	139	53.3
Weekly	7	2.7
Monthly	79	30.3
Three times a year	24	9.2
Twice a year	8	3.0
Once a year	4	1.5

From Table 1, it can be noted that respondents' age groups were relatively evenly distributed, with 33% of respondents being between the ages of 16 and 18; 37.5% between the ages of 19 and 21 and 29.5% between the ages of 22 and 24. The majority of respondents who participated in the study were female (60.2%), single (87.4%), spend between R100 and R250 (39.1%) and R251 and R500 (35.6%) on casual wear on average per month, and are busy with or have a high school education (82.7%). Most respondents indicated that they purchase casual wear only when needed (53.3%).

### **Factor analysis**

An exploratory factor analysis was performed to aid with the substantive interpretation of data by reducing its dimensionality into a smaller set of factors (Diamantopoulos & Schlegelmilch, 2000:216). Table 2 presents the factor matrix for Importance factors on Generation Y when selecting a store selling casual wear. The Table displays the question number in the questionnaire, the items tested in the questionnaire and factor loadings for each item. Table 2

also shows the Eigen values, the Measure of Sample Adequacy (MSA) and communality estimates for each factor.

**TABLE 2: FACTOR MATRIX FOR STORE ATTRIBUTES IMPORTANT IN STORE SELECTION**

No	Items	Factor loadings					
		F1	F2	F3	F4	F5	
27	Enough salespeople to provide assistance	0.87					
28	Helpful salespeople	0.87					
29	Friendly salespeople	0.86					
30	Knowledge about casual wear sold	0.81					
25	Enough check-out points		0.85				
26	Fast check-out points		0.83				
16	Easy access to store exit		0.81				
9	Convenient store hours		0.80				
21	Clothing store close to home		0.77				
12	Enough dressing rooms		0.76				
15	Enough light in dressing rooms		0.73				
17	Availability of parking near store entrance		0.69				
22	Clothing store close to work or school		0.65				
47	In-store display of casual wear			0.96			
45	Window display of casual wear in store			0.95			
46	Clearly visible in-store advertisements			0.95			
1	Variety of styles of casual wear sold				0.81		
44	Clean store				0.80		
43	Neat store appearance				0.77		
42	Enough light in store				0.75		
6	Quality of casual wear				0.74		
14	Privacy in dressing rooms				0.70		
2	Variety of sizes of casual wear sold				0.69		
10	Availability of seats if you want to rest					0.95	
11	Availability of trolleys or baskets to carry clothing					0.95	
<b>Eigen values</b>		2.91	6.02	2.72	3.96	1.82	
<b>MSA</b>		0.82	0.86	0.77	0.83	0.50	
<b>Communality estimates</b>		<b>High</b>	0.77	0.73	0.92	0.66	0.91
		<b>Low</b>	0.65	0.43	0.90	0.48	0.91

From the MSA values reported in Table 2, it can be noted that the variance explained by each of the factors is valid for this study. The communality estimates for all of these factors range between 0.92 and 0.43, which is an indication of the relative importance of an item among other

items in a factor. The Eigen values (representing the amount of variance accounted for by each individual factor) range from 6.02 (for Factor 2) to 1.82 (for Factor 5). The items that loaded onto each factor were examined and the factors were named more descriptively. Specifically, the factors were labelled as follows: Factor 1: Service provided by salespeople; Factor 2: Check-out points, dressing rooms, store hours and proximity to store; Factor 3: Display of casual wear and in-store advertising; Factor 4: Store appearance, styles, sizes and quality of casual wear and Factor 5: Physical facilities to enhance shopping convenience.

### **Reliability and validity**

In order to validate the reliability of the Importance factors identified, Cronbach's alpha coefficients were calculated for each of the factors. Sapsford and Jupp (2006:111&112) and Welman, Kruger and Mitchell (2005:149) state that reliability indicates the degree to which all the items in a questionnaire measure the same construct, in other words, whether similar results would have been obtained if the study was repeated. For this study, this refers to the correlation that exists between store attribute items listed in the questionnaire and the Importance factors identified.

Table 3 lists the five factors together with the items comprising each factor and the realised Cronbach alpha values. From Table 3, it can be noted that Factors 1, 2, 3, 4 and 5 had Cronbach alpha values above the acceptable cut-off point of 0.7, indicating that all five factors are reliable (Zikmund & Babin, 2010:334).

**TABLE 3: RELIABILITY TESTS FOR FACTORS**

<b>Factor</b>	<b>Item</b>	<b>Cronbach's alpha values</b>
Factor 1: Service provided by salespeople	27, 28, 29, 30	0.86
Factor 2: Check-out points, dressing rooms, store hours and proximity to store	12, 15, 16, 17, 19, 21, 22, 23, 25, 26	0.92
Factor 3: Display of casual wear and in-store advertising	46, 47, 48	0.95
Factor 4: Store appearance, styles, sizes and quality of casual wear	1, 2, 6, 14, 43, 44, 45	0.87
Factor 5: Physical facilities to enhance shopping convenience	10,11	0.90

Validity refers to the degree to which what was intended to be measured by the questionnaire, was actually measured (Zikmund & Babin, 2010:336). Content validity implies that the

questionnaire logically appears to reflect what was intended to be measured (Zikmund & Babin, 2010:336; Diamantopoulos & Schlegelmilch, 2000:35). In this study, content validity was tested by means of a pilot study.

### Paired sample T-test: Importance versus satisfaction

Two components pertaining to store attributes were examined, namely importance (the importance of the factor identified) and satisfaction (the satisfaction levels of respondents pertaining to each factor identified). In order to determine whether differences exist between the means for importance of and satisfaction with, store attributes, paired sample T-tests for dependent groups were performed (Hair *et al.*, 1998:330). Table 4 presents the results from the paired sample T-tests and indicates the means and standard deviations for the five factors in terms of their importance and respondents' satisfaction with these factors, as well as the mean of difference, standard deviation of difference, and effect sizes between means obtained.

**TABLE 4: PAIRED SAMPLE T-TEST TO COMPARE IMPORTANCE FACTORS AND RESPONDENTS' SATISFACTION WITH THE IDENTIFIED FACTORS**

Factors	Importance		Satisfaction		Mean of difference	Std. dev. of difference	d-value
	Mean	Std. dev.	Mean	Std. dev.			
Factor 1: Service provided by salespeople	4.71	0.66	4.07	0.97	0.63	1.06	0.60
Factor 2: Check-out points, dressing rooms, store hours and proximity to store	4.43	0.85	3.93	0.77	0.51	0.91	0.60
Factor 3: Display of casual wear and in-store advertising	4.74	0.65	4.32	0.90	0.41	0.97	0.40
Factor 4: Store appearance, styles, sizes and quality of casual wear	4.82	0.43	4.22	0.73	0.59	0.69	<b>0.90</b>
Factor 5: Physical facilities to enhance shopping convenience	4.20	1.29	3.48	1.47	0.71	1.99	0.40

From Table 4, it can be determined that a large effect size ( $d = 0.90$ ) was obtained from Factor 4 (Store appearance, styles, sizes and quality of casual wear), which indicates a practically significant difference between the mean of importance and the mean of satisfaction in terms of this factor. This finding implies that although Factor 4 was important to respondents (mean = 4.82), respondents were practically significantly less satisfied (mean = 4.22) with this factor.



Medium effect sizes were obtained for Factor 1 (Service provided by salespeople) ( $d = 0.60$ ) and Factor 2 (Check-out points, dressing rooms, store hours and proximity to store) ( $d = 0.60$ ). In each case, respondents were not satisfied to the extent to which these factors were important to them.

## **CONCLUSION AND MANAGERIAL IMPLICATIONS**

From the literature review it could be concluded that consumers evaluate store attributes when making store selection decisions, yet not all store attributes are regarded as equally important by all consumers (Purushottam, 2011:73; Erasmus & Grawbowski, 2011; Paulins & Geistfelt, 2003:371). Additionally, consumers' satisfaction with store attributes not only influences their overall store satisfaction, but also store selection and preference (Evanschitzky *et al.*, 2008:276; Terblanche & Boshoff, 2006:33; Koo, 2003:42), necessitating apparel retailers and stores selling casual wear in particular, to re-examine their current store attributes offered and its role in their overall retail strategy. The purpose of this study was to identify the importance of, and satisfaction with, store attributes among black Generation Y consumers when buying casual wear.

Results from this study identified five importance factors that black Generation Y consumers regard as important when buying casual wear, namely service provided by salespeople; check-out points, dressing rooms, store hours and proximity to store; display of casual wear and in-store advertising; store appearance, styles, sizes and quality of casual wear; and physical facilities to enhance shopping convenience. It is therefore recommended that stores selling casual wear and that target black Generation Y consumers examine these factors and determine how their stores compare in delivering on those factors. These store attributes can be used in advertisements of stores selling casual wear to increase awareness and to encourage store selection. These store attributes can also be incorporated prominently in-store as part of stores selling casual wear's retail strategy to improve their prospects of being selected by consumers.

A practically significant difference exists between importance and satisfaction for store appearance, styles, sizes and quality of casual wear (factor 4), which indicates that although store appearance, styles, sizes and quality of casual wear are important, respondents are practically significantly less satisfied with this factor. Stores selling casual wear should consider conducting research among their own target market to determine their satisfaction with current store attributes and focus marketing efforts on improving satisfaction with those store attributes

deemed as important. As consumers are less satisfied with store appearance, styles, sizes and quality of casual wear than its importance to them, stores selling casual wear therefore need to ensure that the store's appearance appeals to black Generation Y customers' observant nature and invites browsing. Stricter store merchandise purchasing strategies can be formulated to ensure that quality merchandise in a variety of styles and sizes is available. It is also recommended that stores selling casual wear should conduct research regarding the perception of their target consumers on their store appearance, styles, sizes and quality of casual wear to find areas for improvement and ensure that they formulate strategies to meet expectations. This will improve black Generation Y consumers' satisfaction with the store delivering on those store attributes and enhance consumers' retail experience.

### **LIMITATION AND FUTURE RESEARCH**

This study made use of convenience sampling; therefore, the results are not representative of the entire population. Furthermore, the study was only conducted in Soweto, Gauteng. Other areas in Gauteng and provinces in South Africa were excluded. Similar studies could be conducted among different population groups, age groups, income levels and geographic regions to determine whether the attributes identified in this study influence store selection, and which store attributes consumers find important and whether they are satisfied with store attributes.

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# **THE MANAGEMENT OF ESTUARINE RECREATIONAL SERVICES IN SOUTH AFRICA: THE KROMME RIVER ESTUARY**

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## **ABSTRACT**

This study investigates recreational demand management at the Kromme River Estuary. A choice experiment was carried out to value various recreational demand management alternatives. It is envisaged that the study's results will provide valuable inputs into the estuary's management process as proposed in the National Estuarine Management Protocol.

## **INTRODUCTION**

The advent of estuarine health as a major issue facing South African society has had far-reaching implications for the decisions made by government, recreational estuary users, conservationists and non-governmental organisations (Bennett & Blamey, 2001). In an attempt to escape everyday stresses, recreational users, for example, take advantage of the natural beauty, easy access, and various environmental services provided by estuaries. Recreational users demand a product or composite good (the estuary) comprising certain environmental and recreational attributes, and the government, conservationists, and the private sector seek to supply the product that meets these needs (Bennett & Blamey, 2001). The discord between the conservation of the environmental service flows provided by estuaries, and their development and use has become blatantly clear. Decision makers and other stakeholders have also become more aware of the complexity of this discord and the trade-offs that it implies (Hay, Hosking & McKenzie, 2008). Some of the trade-offs relating to estuarine recreational use on which policy guidance is needed are:

- between the demand for abstraction of river inflows into estuaries, and the human demand for maintaining ecologically functional estuary habitats for bait, fish, birds and mangroves; and
- between the demand for access to the estuary space among the population of boat owners, and also the demand for use of the estuary space by other categories of users (shore based fishers, residents and owners of other craft).

A South African estuary system currently facing similar demand trade-offs is the Kromme River Estuary. It is located in the Eastern Cape (EC) approximately 80km west of Port Elizabeth (Sale, 2007). The estuary flows into St Francis Bay, in the Indian Ocean. This estuary is one of the larger estuaries situated in the EC province and is classified as permanently open (Scharler & Baird, 2003). It faces, *inter alia*, over-development, boat congestion and reductions in navigability. These demand pressures present the relevant authorities with a complex management scenario, requiring the development of an appropriate estuarine management plan in which all the identified key issues can be addressed.

## **PROBLEM STATEMENT AND OBJECTIVE OF THE STUDY**

A rapid increase in the demand for goods and services provided by estuaries has led to increased pressure on the efficient functioning and overall sustainability of estuarine ecosystems. Since estuaries provide goods and services that are derived from terrestrial, ocean, and riverine habitats, their management is a complex task. Assessments have been carried out on the value of estuaries in South Africa from ichthyofaunal diversity, water quality and aesthetics perspectives (Coetzee, Adams & Bate, 1997; Harrison, Cooper & Ramm, 2000; Colloty, 2000; Harrison & Whitfield, 2006) and from a conservation significance perspective (Turpie, Adams, Joubert, Harrison, Colloty, Maree, Whitfield, Wooldridge, Lamberth, Taljaard & Van Niekerk, 2002; Turpie & Clarke, 2007; Department of Water Affairs (DWA), 2010). These studies have been used as inputs to the process of assessing the minimum water supply requirements for each estuary (ecological reserve) in order to maintain or improve its regulatory and habitat functionality. These ecological reserve requirements were assigned through the use of Resource Directed Measures (RDM). The RDM approach, however, values estuaries from a supply-side perspective, and does not take recreational demand for estuarine goods and services into account. In order for a management strategy to integrate all aspects of the estuarine environment, management must incorporate supply-side as well as demand-side factors. While supply-side measures (for example, RDM) aim to limit the use of the resource in order to maintain the required level of functionality, demand side analysis, i.e. regulating excess recreational demand, aims for the optimal use of the resource as a whole.

This study investigates demand-side factors, by focusing on excess recreational demand experienced at the Kromme River Estuary. It attempts to estimate the value that users attach to the estuary from a recreational demand-side perspective.

The primary objective of this study is thus to estimate values (implicit prices) for various estuarine characteristics (attributes) that suffer from excess recreational demand, and use these values as inputs to the development phase of the Kromme River Estuary management strategy. These prices (also known as willingness-to-pay (WTP) values) will be estimated through the use of the choice experiment (CE) method. This stated preference (SP) technique allows estuary users to make choices between different recreational attribute ‘packages’, representing different management strategies. The recreational attributes suffering from excess demand at the Kromme River Estuary (selected through extensive focus group discussions) include (1) the level of navigability, (2) boat congestion, and (3) the potential use of jet skis and wet bikes. It is envisaged that the results from this CE analysis will provide valuable inputs into the management framework as proposed in the National Estuarine Management Protocol (NEMP) (ICMA, 2008).

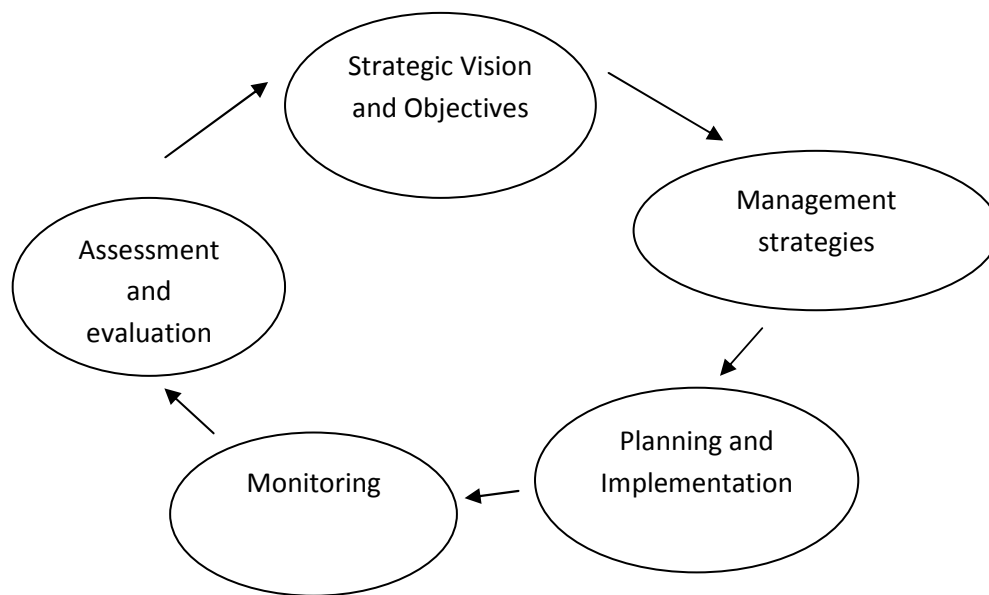
## **A FRAMEWORK FOR ESTUARINE MANAGEMENT IN SOUTH AFRICA**

South African policies for wetland management and conservation are considered in the National Water Act (Act 36 of 1998), and, more specifically, the National Environmental Management: Integrated Coastal Management Act (Act 24 of 2008). The main objective of the National Water Act (NWA) is to sustainably and equitably protect, use, develop, conserve and manage South Africa’s water resources. This objective promotes the principles of (1) recognising basic human needs, (2) protecting and conserving the water resources within our country, and (3) developing the socio-economic aspects of South Africa through the use of water (National Water Act (NWA), 1998). The National Environmental Management: Integrated Coastal Management Act (ICMA), which was promulgated in December of 2009, requires coordinated and efficient management of estuaries in South Africa (National Environmental Management: Integrated Coastal Management Act (ICMA), 2008). The ICMA is in the process of developing a National Estuarine Management Protocol (NEMP)

which will be responsible for establishing individual estuarine management plans (ICMA, 2008).

### The proposed NEMP

The NEMP facilitates estuarine management through the application of five generic steps (see Figure 1).



**Figure 1: The proposed NEMP**

*Source: Van Niekerk, 2007*

These steps include (1) the development of a strategic vision and the setting of relevant objectives, (2) the derivation of appropriate management strategies to achieve these objectives, (3) the implementation of these objectives and strategies in the planning and operational management of estuarine activities and/or developments, (4) the monitoring of the effectiveness of these strategies, and (5) an assessment and evaluation of the results in terms of objectives met and the overall effectiveness of the implemented strategies. This study focuses on stage two of the NEMP.

## **The development of a management strategy**

### *Ecosystem valuations*

In order to value and effectively manage an estuarine ecosystem, an understanding of the underlying functions within the ecosystem is required. Ecosystem functions refer to the ability of natural processes and estuary components to provide goods and services that will directly or indirectly satisfy human need (De Groot, 1992). De Groot, van der Perk, Chiesura and Marguliew (2000) suggest that ecosystem functions can be grouped into four main categories, namely (1) regulation functions, (2) habitat functions, (3) production functions, and (4) information functions. Regulating functions (for example, water regulation) and habitat functions (for example, nursery activities) are necessary for maintaining natural processes and components of the estuary. Production and information functions provide goods and services for human consumption and enjoyment, conditional on the effective maintenance of the first two function categories (De Groot, Wilson & Boumans, 2002). Once all functions within estuarine environments are accounted for, the value of these ecosystems to society can be explored. Total value is divided into three types, namely (1) ecological value, (2) socio-cultural value, and (3) economic value. Ecological value is largely based on supply-side factors (for example, ecological reserve requirements) whereas economic value is estimated using demand-side analysis. These components of value can be estimated through a number of different measurement indices or valuation techniques (see Table 1).

**Table 1: Types of value and measurement techniques**

<b>Value Type</b>	<b>Function(s) supported</b>	<b>Valuation techniques</b>	<b>Most preferred valuation technique</b>
Ecological value	Regulation, habitat	Conservation importance index, estuarine health index, biodiversity importance score	Resource directed measures approach utilising various indices of estuarine health (in line with National Water Act objectives)
Socio-cultural value	Information	Indirect estimation based on heritage value and equity considerations	NA
Economic value	Production, information	Direct market valuation, revealed preference (RP) techniques, stated preference (SP) techniques, group discussions	Direct market valuation (if market good), RP and SP techniques (if non-market good)

*Source: Adapted from De Groot et al. (2002)*

As suggested in Table 1, the RDM approach can be used to estimate the ecological value of an estuary. This study focuses on estimating another component of estuarine value through the use of a stated preference (SP) technique. Management alternatives should be investigated that can control use of the estuary, from a recreational perspective, by decreasing recreational demand at the estuary to levels that ensure its sustainability into the long-run. Demand is largely regulated through the use of registration fees, permits and levies. The changes in these pricing instruments can only be estimated through the use of a SP technique, in this case, the CE method. Economic value is estimated by asking individuals to express their preferences for certain recreational management strategies proposed for an estuary. These preferences indirectly reveal individuals' willingness-to-pay (WTP) for these estuarine characteristics. This WTP amount (implicit price) is then added on to registration fees, license permits etc. in order to decrease recreational demand to an optimal level.

It is envisaged that analysing the value of estuarine ecosystems using a combination of supply-side and demand-side factors will provide the estuarine management process with valuable information during the management implementation phase.

#### *A management strategy for the Kromme River Estuary*

Conflicting recreational demand at the Kromme River Estuary has led to reduced navigability, peak-use boat congestion, and controversy over the potential usage of jet skis and wet bikes on the estuary (St Francis Bay Ratepayers Association (SFBRA), 2011). There is increased demand for residential developments in the area which have been developed in a largely *ad hoc* basis without the proper approval by the relevant authorities. Growth in both resident and visitor populations has also resulted in higher levels of boat congestion on the estuary (Red Cap Investments (RCI), 2010). Being freshwater starved, the estuary is also suffering from reduced navigability caused by high levels of sedimentation. These demand pressures have led to the overall exploitation and degradation of the Kromme River Estuary.

##### a) Navigability

Navigation is considered to be hazardous on the Kromme River Estuary (Thorpe, 2010). The level of navigability is largely a function of the amount of sedimentation that takes place over a period of time in a river bed, *inter alia*. Sedimentation, in turn, is a function of the volume of instream flows, *inter alia*. Early studies on sedimentation in the Kromme River Estuary expressed concerns at increasing levels of sediment due to reduced freshwater inflows (Reddering & Esterhuysen, 1983). This upstream water abstraction (damming) and resultant sedimentation build-up has reduced annual freshwater inflow to such an extent that the estuary is considered 'freshwater starved' (Baird, Marais & Bate, 1992).

It is widely accepted that adequate instream flows protect the ecological and aesthetic values of an estuarine environment (Field, 2001). They also provide the basis for many outdoor recreational activities, most notably, fishing, and boating. The amount of water that should be appropriated from a stream is dependent on the costs and benefits associated with these instream flows (Hosking, 2008). In a study conducted by Sale (2007), the value of freshwater

inflows into the Kromme River Estuary was estimated by means of a contingent valuation. Results of the study indicated that the total benefit of instream flow protection is below the total cost at every instream flow level (Sale, 2007). It is clear that allocations based on marginal cost do not safeguard estuaries such as the Kromme River Estuary, because recreational demand tends not to be equivalent to (is increasing less than) urban and/or agricultural demand.

An alternative way of improving navigability of the Kromme River Estuary is to dredge the channel bottom. Dredging involves the use of a machine equipped with a suction device which removes sand and silt from the channel bottom, deepening the waterway. Unfortunately it can come at a cost, for example, damaging prawn habitats. Currently, dredging activities are confined to the canal system in the marina. There are no immediate plans to extend the dredging to the main estuary channel (partly due to the damage it can cause). A potential source for funding this dredging activity could take the form of an additional tariff imposed on recreational boat users of the estuary. In order to ensure holistic decision making by management, a WTP amount should be compared to the costs of dredging. Assuming an area of 10 000m<sup>2</sup> requires dredging, and a cost of hiring a dredging outfit of R30 per m<sup>2</sup> (SFBRA, 2011), the annual cost (excluding habitat damage) of dredging the main estuary channel would be R300 000. The total cost including habitat damage would be much higher.

#### b) Boat congestion

The Kromme River Estuary is a popular tourist destination and heavily used for recreational purposes. Recreational use is concentrated over relatively short peak holiday periods, i.e. less than 30 days. Approximately 65 percent of people using the estuary own some form of water craft, and the most popular recreational activities include leisure cruising and water skiing (Forbes, 1998). The number of recreational visitors to the estuary has risen exponentially since 1998. Approximately 35 000 visitors were recorded in the peak holiday month of December 2010 alone (RCI, 2010). Given these large increases in the number of residents and visitors to the estuary, as well as the problem of increased sedimentation and reduced navigability on the estuary, the occurrence of conflict between boat users of the estuary was inevitable. Rationing motorised boat use through the implementation of a quota, or relying on



self-regulation (automatic market resolution), are not viable options to reduce boat congestion. Quotas are difficult to implement due to practical considerations, such as prohibitively high cost and the need for competent physical enforcement. Self-regulation does not work if one or a few of the boat users act selfishly and do not take other boat users into account. Under these circumstances, the preferred management option is the use of prices to ration use. A price rationing procedure is one that uses a fee to limit access to a recreational area (Field, 2001). This rationing mechanism not only limits the use of a scarce natural resource, but it also yields a revenue flow that can be used to manage recreation in the area. From a revenue raising perspective, the implementation of a single access fee is sub-optimal for all users and for all periods. The external congestion cost incurred through excess motorised boat usage is typically only incurred in peak demand periods. The correct price adjustment to make in this situation is to add a congestion cost (in the form of a supplementary tariff) during peak use periods only.

c) The potential use of jet skis and wet bikes

The recreational population are divided on whether jet skis/wet bikes should have complete access to the Kromme River Estuary. Currently, it is illegal to operate these jet-propelled craft on the estuary, unless they are directly accessing the open ocean. The Forbes (1998) study found that recreationists on the Kromme River Estuary were not in favour of jet ski/wet bike activities. Due to the negative social impacts of high noise levels, high travelling speeds, reckless behaviour and wide scale disregard for regulations, the majority of the respondents suggested that they remain in excess of 80 meters away from other recreational users at all times (Forbes, 1998). The external cost imposed on others by jet ski/wet bike access is referred to as a 'congestion cost'. Externality theory suggests that it would be welfare improving to allow jet skiers and wet bikers access to the estuary at a fee, but the gain from being allowed this access accrues only to the jet-skiers and wet-bikers. This gain, however, represents an external or 'congestion' cost to the other recreational users of the estuary. These other users would have to be compensated (from the access fees collected) before this level of access could be considered efficient. In the absence of compensation being made to those imposed upon by the jet skiers and wet bikers, the welfare case for providing them with access to the estuary rests on a comparison of gain with the uncompensated losses. Only once these values have been estimated can an attempt be made to manage their use as efficiently as possible.

In light of this information, the following two management options were incorporated in the CE design for improving navigability in the estuary – increasing freshwater inflows and dredging. Also incorporated into the CE were alternative management arrangements for (1) reducing boat congestion during peak periods, and (2) the use of jet skis and wet bikes on the Kromme River Estuary.

## **THE CHOICE EXPERIMENT METHODOLOGY**

The most frequently used tool for modeling the choices that individuals make is the discrete choice model based on the hypothesis of random utility (Bateman, Carson, Day, Hannemann, Hanley, Hett, Jones-Lee, Loomes, Mourato, Özdemiroglu, Pearce, Sugden & Swanson, 2002; Hensher, Rose & Greene, 2005). These models are founded in classic economic consumer theory, which is where many of the important assumptions of the models were derived. Within economic consumer theory, consumers are assumed to be rational decision makers (Howard & Sheth, 1969; Abelson & Levy, 1985; Engel, Blackwell & Miniard, 1995). In other words, when they are faced with a set of possible consumption bundles of goods, they assign preferences to each of these bundles and then select the most preferred bundle from the set of affordable alternatives. This choice optimizes the consumer's utility and provides the basis for the demand function and indirect utility. This indirect utility function shows the maximum amount of utility that a consumer can achieve, given prices and income. In the context of discrete choice modeling, this indirect utility function is simply referred to as a consumer's 'utility'.

Initially, it was assumed that consumer theory dealt with homogeneous goods (a car is a car), and as a result, the utility derived from a good was a function of quantities only and not the attributes of the good. In a seminal paper, Lancaster (1966) suggested, however, that it was *the attributes* of a good that determined the utility derived from the good, and therefore that utility should be expressed as a function of the attributes of the good. This theory assumes, however, that consumers behave in a deterministic manner. Random utility theory introduced the concept that a consumer's behaviour is inherently probabilistic (Luce, 1959). In other words, even though consumers can exercise discrimination when making choices, they do not

have complete information and thus there is an element of uncertainty that must be taken into account. Following this line of thinking, the utility function may be considered as the sum of two parts. The first part is the observed or measurable component, and the second part, the unobserved or random component. The random component accounts for uncertainty due to incomplete information.

The random utility approach to model estimation is adopted i.e a model that provides for random (error) influences in addition to identified fixed ones (McFadden, 1974; McFadden, 1984). More formally, total utility can be presented as:

$$U_{iq} = V_{iq} + \varepsilon_{iq} \quad (1)$$

where:

$U_{iq}$  represents utility derived for consumer  $q$  from option  $i$ ,

$V_{iq}$  is an attribute vector representing the observable component of utility from option  $i$  for consumer  $q$ , and

$\varepsilon_{iq}$  is the unobservable component of latent utility derived for consumer  $q$  from option  $i$  (Nam Do & Bennett, 2007).

Assuming a linear additive form for the multidimensional deterministic attribute vector ( $V_{iq}$ ):

$$V_{iq} = \beta_{i1} f_1(s_{1iq}) + \dots + \beta_{ki} f_k(s_{kiq}) \quad (2)$$

where:

$\beta_{ki}$  are utility parameters for option  $i$ , and

$s_{iq}$  represents 1 to  $k$  different attributes with differing levels,

Equation 3, is expanded to become:

$$U_{iq} = \beta_{i1} f_1(s_{1iq}) + \dots + \beta_{ki} f_k(s_{kiq}) + \varepsilon_{iq} \quad (3)$$

This random utility model is converted into a choice model by recognising that an individual ( $q$ ) will select alternative  $i$  if and only if (iff)  $U_{iq}$  is greater than the utility derived from any other alternative in the choice set. Alternative  $i$  is preferred to  $j$  iff  $P[(V_{iq} + \varepsilon_{iq}) > (V_{jq} + \varepsilon_{jq})]$ , and choice can be predicted by estimating the probability of individual ( $q$ ) ranking alternative  $i$  higher than any other alternative  $j$  in the set of choices available (Louviere, Hensher & Swait, 2000; Nam Do & Bennett, 2007).

The probability of consumer  $q$  choosing option  $i$  from a choice set may be estimated by means of the maximum likelihood estimation (MLE) approach, whereby estimates are obtained through the maximisation of a probabilistic function with respect to the parameters (Louviere *et al.* 2000; Hensher *et al.* 2005; Nam Do & Bennett, 2007). This estimation approach requires the random components ( $\varepsilon_{jq}$ ) to be independently and identically distributed (IID) and this, in turn, requires the error term to be independent of irrelevant alternatives (IIA). This type of statistical distribution is referred to as the extreme value type 1 distribution (EV1). Using the EV1 distribution, the unobserved random components associated with each alternative must be converted into a workable component of the probability expression. Once this is done, the model can be simplified whereby the random component is integrated out of the model. The resultant choice model only has unknowns relating to the utility parameters of each attribute within the observed component of the random utility expression, and is called the multinomial logit (MNL) or (more correctly) the conditional logit (CL) choice model (Hanley, Mourato & Wright, 2001; Hanley, Bergmann & Wright, 2004).

The CE technique was considered the most appropriate for the purposes of this study as it has been extensively used and developed for the valuation of environmental goods and services (Adamowicz, 1995; Bennett & Adamowicz, 2001; Hanley *et al.* 2001; Hensher *et al.* 2005). Numerous international CE studies have been conducted into the valuation of wetland, estuary and river attributes in different countries in order to investigate the feasibility of various management options, including Vietnam (Nam Do & Bennett, 2007), Sweden (Eggert & Olsson, 2004), Greece (Birol, Karousakis & Koundouri, 2006), England and Wales

(Luisetti, Turner & Bateman, 2008), Australia and Tasmania (Kragt & Bennett, 2009) and the United States of America and Canada (Smyth, Watzin & Manning, 2009).

Nam Do and Bennett (2007) estimated wetland biodiversity values by applying a choice model to the Mekong River Delta in Vietnam. WTP values were estimated for Tram Chim National Park, one of the many wetlands found in the Delta. The survey was conducted by means of personal interviews. In total, a sample of 917 respondents was interviewed from three main cities in the study area. The CE utilised the multinomial logit (MNL) model and random parameters logit (RPL) model to estimate implicit prices for the proposed wetland biodiversity plan. Total benefits were estimated at \$3.9million. Nam Do and Bennett (2007) found that the benefits outweighed the costs of implementation, implying that social welfare would improve if more resources were allocated to the conservation of wetlands in Tram Chim.

Eggert and Olsson (2004) studied the economic benefits of improving coastal water quality in the coastal waters of the Swedish west coast. This improvement was investigated from a fishing, bathing water quality and biodiversity perspective. The sampling frame for the study was the Swedish Register of Inhabitants, and only respondents from the permanent population in the counties representing the southwest part of Sweden were randomly sampled. Questionnaires were sent out to 800 respondents via mail, of which 343 were returned, and 324 were deemed usable. The data was analysed using mixed MNL models. The calculated marginal WTP values revealed that respondents prioritise improvements in fishing stocks, and want increased efforts at developing a strategic management plan aimed at preventing biodiversity loss.

In Greece, a CE was applied by Birol *et al.* (2006) to estimate the value of changes in different social, ecological and economic functions that the Cheimaditida wetland provides to the citizens. Study results revealed that the public derived positive and significant WTP values of enjoyment from the conservation and sustainable management of this wetland.

Luisetti *et al.* (2004) utilised an ecosystem approach to assess managed realignment coastal policies on the east coast of England. These coastal management strategies include managed realignment projects whereby sea defences are breached and the land flooded in order to restore salt marshes in the area. The CE was used in this case, as the value of salt marshes created by different managed realignments could be estimated in a single application. The

project site was the Blackwater Estuary in Essex in the east of England. The key finding of the study was that site specific value estimates derived through the use of the CE had yielded results in line with other previous managed realignment cost-benefit analyses, which lent support to the use of this approach for assessing future coastal management strategies.

In north-eastern Tasmania, Kragt and Bennett (2009) applied the CE method in order to address catchment management issues in the George catchment. This report attempted to assess community preferences for different proposed management scenarios aimed at improving the quality of the catchment environment. This status quo scenario implied a slow degradation in catchment conditions, whilst the other two options represented management scenarios for improved catchment conditions. Overall results from this study revealed that Tasmanians are willing to pay for increased protection of native riverside vegetation and rare native animal and plant species in the George catchment.

Smyth *et al.* (2009) investigated public preferences for alternative management scenarios for Lake Champlain, situated in Vermont and New York, but also bordering on Quebec, Canada. Results indicated that although water quality and beach closures were important management issues, the public wanted policy measures aimed at improving the safety of fish consumption.

In South Africa, there have only been a few attribute valuation studies reported. The WRC commissioned a study in 2008 (Project K5/1413/2) to generate information on guiding the allocation of river water to South African estuaries and to investigate the factors that explain WTP for river inflows into South African estuaries (Oliver, 2010). This study applied a CE to the Bushmans Estuary, in the EC, and compared the results with those of an application of a contingent valuation (CVM) done by Van Der Westhuizen (2007). Welfare measures derived from the CE study were found to be 30 percent less than those derived from the CVM study (Oliver, 2010).

These studies lend support to the use of the CE for the purposes of valuing the selected recreational services provided by the Kromme River Estuary. This method forces the recreational user to make trade-offs among estuarine attributes, and reveal which of these are most important. This information is vital in the context of resource management decision making, where scarce resources need to be allocated between competing recreational

demands. A further argument in favour of integrating the CE method into management practices at South African estuaries is its ability to “generate multiple value estimates from a single application”. These results would be difficult to provide through other non-market valuation techniques, for example the CVM, where only one environmental service input can be valued at a time.

## CHOICE EXPERIMENT DESIGN

Designing the CE began with the selection of attributes and realistic levels. The attributes and their levels are presented in Table 2 below.

**Table 2: Attributes and levels for the Kromme River Estuary.**

Attribute	Levels	Description of levels
Level of estuary navigability	Ideal navigability	The estuary is completely navigable at any tide
	Current navigability	Parts of the estuary are not navigable at low tide. At mid to high tide, it is navigable only with detailed knowledge of fluctuating channels
Boat congestion	Hear and see few boats	The recreational user sees and hears a few boats
	Hear and see many boats	The recreational user sees and hears many boats
Potential use of jet skis/wet bikes	Unbanned, with enforced regulation	Let jet skis and wet bikes use the estuary, but in a regulated manner with very strict law enforcement
	Banned	Keep the ban on jet skis and wet bikes in place
Cost	R0	A fixed annual sum added to the existing boat license fee. This added sum will be directed back to the Kromme River Estuary as an environmental quality levy.
	R85	
	R169	
	R507	

A ‘*status quo*’ or ‘*no change*’ option was not included in this study, as it can lead to ‘*status quo*’ bias. The cost variable (price) levels were based on the existing boat license fee of R169

per annum (2010/2011). The designer considered this cost variable to be “credible, relevant, acceptable and coercive” (Bateman *et al.* 2002).

For the purposes of this study, two alternatives per choice set (see Addendum A) were adopted. This number was considered appropriate as more than two alternatives can become demanding for the respondent in terms of cognitive burden. These alternatives were randomly allocated to 32 different questionnaires. Each questionnaire contained four choice sets. For each choice set, the respondent had to choose between two alternatives or scenarios, each represented by a price.

The last step involved the development of the questionnaire. It followed the design steps proposed by Hasler, Lundhede, Martinsen, Neye & Schou (2005). These steps include (1) the collecting of introductory information from the respondent through the use of an introductory section, (2) the setting out of the CE with relevant descriptions of the attributes and levels, (3) the provision of follow-up questions, which allow for reliability and validity checks, and (4) the collection of socio-demographic information from the respondent.

Sample design entailed four distinct steps: selecting the target (sample) population, determining who to sample (the sample frame), determining the appropriate sample size and choosing the method of respondent selection and elicitation of response technique. The target population included all individuals who, at the time of the survey, made use of the Kromme River Estuary for recreational purposes, as well as those individuals who had high potential to make use of the estuary for recreational purposes in the future. A sample frame for the estuary could not be compiled, as the population does not reveal itself until it visits the estuary. Given the inability to adequately define a sample frame, the sample select process was followed using underlying knowledge of the specific target population. This form of non-list sampling can be used when the target population refers to visitors to a beach, or in this case, an estuary (Bateman *et al.* 2002; Dillman, Smyth & Christian, 2009). Timeliness is very important when attempting to sample the recreational users of an estuary, as they ideally need to be sampled when they are actually engaged in carrying out the recreational activities. This requires on-site sampling, and is known as an intercept survey (Bateman *et al.* 2002).



In the context of the CE, sample size is often determined through the use of both probabilistic and non-probabilistic sampling techniques, known as *rule of thumb* approaches (Hensher *et al.* 2005). Probabilistic sample size approaches are very often abandoned in favour of '*rule of thumb*' approaches due to practical considerations – budget and time constraints often supersede theoretical preference (Hensher *et al.* 2005). A '*rule of thumb*' approach was used to calculate the minimum sample size i.e. a sample of 50 respondents is acceptable if each respondent faces 16 choice sets (Bennett & Adamowicz, 2001). This translates into a sample of 200 respondents if they are being offered 4 choice sets each. In total, 244 completed questionnaires were collected. The personal interview method was adopted as it affords the interviewer the best opportunity to encourage the respondents to cooperate with the survey. The interviewer is also given an opportunity to explain complex information and valuation scenarios to the respondent – which is very important in the CE setting (Mitchell & Carson, 1989). The questionnaire was administered on-site by seven trained interviewers during December, 2010. During this intercept survey, every  $n^{\text{th}}$  recreational user was approached and asked to participate in the study.

## **RESULTS**

### **Descriptive statistics**

The majority (59 percent) of visitors to the estuary were over the age of 35, male and came from areas more than 50km away. The average annual income was R447 000. Of those respondents sampled, 29 percent had a matric qualification with university exemption. All occupational categories were well represented in the sample, with the exception of plant and machinery operators/assemblers (0 percent), agricultural workers (0.41 percent), and elementary occupations (0 percent).

### **Attitudes and knowledge**

The respondents were asked certain questions in order to elicit information about their attitudes towards various aspects affecting the estuarine environment. The first question was whether or not the protection of an estuary was considered to be one of government's most

important responsibilities. Almost all of the respondents (97.13 percent) agreed with this statement. The majority of respondents also felt that boat congestion (68.45 percent), reduced navigability (85 percent) and the use of jet skis and wet bikes (61 percent) constituted a serious threat to the overall quality of their recreational experience on the Kromme River Estuary. About 97 percent of respondents agreed with the statement that the estuary should provide a sustainable habitat for animal and plant life.

### Model estimation

A conditional logit (CL) model was used to analyse the choice results. The estimated model shows the importance of choice set attributes in explaining respondents' choices across two different alternatives. The LIMDEP NLOGIT Version 4.0 statistical programme was used for all estimations. Table 3 gives the results of the standard CL model.

**Table 3: Estimation results of the CE – Kromme River Estuary**

Variables	CL	
	Coefficient	Std Error
Navigability	.672167**	.096057
Congestion	-.467298**	.097580
Jet Skiing	-.053177	.097113
Cost	-.001539**	.000252
No. of Respondents	244	
No. of Choice Sets	976	
Pseudo R <sup>2</sup>	.081	

Notes: \*\* indicates significance at the 1 percent level

All the coefficients have the expected signs, *a priori*, and three of the four coefficients are significantly different from zero at the 99 percent confidence level. The probability that an alternative would be chosen was reduced: the lower the level of navigability; the higher the amount of boat congestion; the higher the amount of jet skiing and wet biking activity; and the higher the environmental quality levy.

## Marginal value estimates

These figures can be used to calculate implicit prices that Kromme River Estuary users would be willing to pay for a marginal change in one of the recreational attributes. These values are estimated by calculating the marginal rate of substitution between the attribute coefficient and the price coefficient, i.e. by dividing each of the recreational attributes by the cost attribute. These WTP values are given in Table 4 along with the confidence intervals estimated using the Delta Method (Wald Procedure).

**Table 4: Marginal WTP for attributes (Rands)\* and 95 percent confidence intervals (CI)\*\* - Kromme River Estuary**

Attributes	Marginal WTP
Navigability	436.75; (256.15; 617.35)
Congestion	-303.63; (-463.09; -144.17)
Jet Skiing	-34.55; (-161.35; 92.25)

*\*Please note that the estimated coefficient for the Jet Skiing attribute was statistically insignificant, however implicit prices were calculated to inform policy analysis.*

*\*\*Confidence intervals in parentheses.*

Kromme River Estuary users are willing to pay R436.75 in increased boat license fees per annum in order for navigability to improve from its current level to a pre-settlement one. In order to decrease motorised boat congestion, recreational users are willing to pay an extra R303.63 over the existing boat license fee. The 'Jet Skiing' coefficient is insignificant and thus impossible to interpret, however, this insignificance suggests that there might be some controversy over this issue.

## POLICY ANALYSIS

Two management options investigated for improving navigability include increasing freshwater inflows and dredging the main estuary channel. Increasing freshwater inflows is not a feasible option, as the demand value is higher than it is for the freshwater that flows into the estuary because of water abstracted upstream. The water abstracted is used mainly for domestic and agricultural consumption. Two big storage dams located on the Kromme River are a physical testimony to this value. The marginal WTP value for improving the level of navigability from its current state to one closer to pre-settlement norms was estimated to be

R436.75 per annum. With this amount of revenue, dredging operations in the main estuary channel seem to be the more efficient management option when compared to instream purchases, providing prawn and fish habitat damage is low.

Increased human recreational demand at any estuary does not necessarily reduce the recreational appeal of that estuary, but can lead to negative crowding effects, i.e. congestion externalities. This is the case for motorised boat use. The management option considered most feasible was the introduction of a price mechanism to ration use. The price adjustment proposed was to add a congestion cost (in the form of a supplementary tariff) to the existing boat license fee structure during peak use periods only. This supplementary tariff was estimated at R303.73 per annum (covering the peak period). It will only be payable by motorised boat users from the months of November to February each year.

There are individuals who believe that jet skis/wet bikes should have complete access to the Kromme River Estuary, yet there are others, however, who believe that these activities on the estuary should remain banned. Efforts have been made by concerned jet skiers and wet bikers to have the use of jet skis and wet bikes reinstated on the Kromme River Estuary. There is strong opposition to this course of action by individuals who believe that these jet-propelled water craft constitute a safety hazard for other recreational users of the estuary. The CE results indicate that the coefficient for this jet ski and wet bike variable was statistically insignificant and negative. This result reflects the existence of two opposing forces among the recreational users of the Kromme River Estuary - one group lobbying for jet ski and wet bike usage, and the other, lobbying to keep jet skis and wet bikes banned. The negative result indicates that most recreational users have a preference for a continued ban on all jet ski and wet bike activity on the estuary, i.e. the preferences of those opposed to jet skiing and wet biking dominate the preferences of those who wish for increased access. To this extent, the results of this study support the theory that external costs are imposed by jet ski/wet bike users on other recreational users of the estuary. The management of this recreational activity, however, is fraught with difficulty given the strong feelings emanating from both lobbying camps.

## RECOMMENDATIONS FOR MANAGEMENT

The primary objective of this study was to estimate values (implicit prices) for various estuarine attributes that suffer from excess recreational demand, and use these values as inputs to the development phase of the Kromme River Estuary management plan. The attributes identified as suffering from excess recreational demand at the Kromme River Estuary were reduced navigability due to sedimentation build-up, increased boat congestion, and the potential usage of jet skis and wet bikes. Using this information, possible management options were put forward for improving navigability in the estuary, namely increasing freshwater inflows and dredging. Also incorporated into the CE were alternative management arrangements for reducing boat congestion during peak periods, and considering the use of jet skis and wet bikes on the Kromme River Estuary. The results from this CE application have provided valuable inputs into the development of appropriate management strategies as proposed in the National Estuarine Management Protocol (NEMP). Using the CE method to estimate the values for these estuarine characteristics, the following recommendations are made:

- It is recommended that dredging be investigated as an appropriate management strategy for improving navigability through a reduction in sedimentation. This strategy would be funded through an additional levy of R437.
- It is recommended that, in addition to the standard boat license fee, the implementation of a once-off per annum supplementary tariff payable by peak period boat users, covering the months of November to February, be investigated in order to discourage congestion during this period. The supplementary tariff recommended for imposition is R304.
- It is recommended that no changes be made to the current management arrangements restricting the use of jet skis and wet bikes on the estuary, however, further research should be conducted with regards to the potential use of jet skis and wet bikes on the estuary. Given the controversial nature of the problem, the CE has not been able to determine an appropriate management strategy for possible implementation.

When the marginal WTP values for improved navigability and reduced boat congestion are added together, the overall additional levy recommended per annum for boat users of the

Kromme River is R739. The simultaneous application of these management plans would take the boat license fee up to R908 per annum (2010 price level).

In order for a management framework to integrate all aspects of the estuarine environment, management must incorporate supply-side as well as demand-side factors. While this study provides demand-side analyses of estuarine management, a combination of supply-side and demand-side analyses should ideally be conducted concomitantly in order to ensure an integrated approach to the development of estuarine management strategies. These management strategies will provide balance between the demand for physical processes within the estuary and the demand for recreational use of the estuary (Department of Water and Environmental Affairs (WEA), 2012).

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## ADDENDUM A

Please consider the example of a completed choice set given below.

Attribute	Option A	Option B
Level of estuary navigability	Ideal navigability	Current navigability
Boat congestion	Hear and see few boats	Hear and see few boats
Potential use of jet skis and wet bikes	Unbanned, with enforced regulation	Banned
Cost to you(R)	R0	R169
I would choose (TICK ONE BOX ONLY):	√	<input type="checkbox"/>

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# WHY SHOULD I KNOW ABOUT TOURISM? COMMUNITY EDUCATION AND TRAINING IN LESOTHO

Limpho Lekaota, North West University

Haretsebe Manwa, North West University

## ABSTRACT

This study aims to analyse the stakeholder's perceptions on community's awareness and knowledge about tourism. Education and training have emerged as crucial aspects of successful indigenous tourism operation. The strategic plan for tourism development in Lesotho (2007) indicates a concerted awareness/training drive to improve tourism knowledge and capacity among the communities. The study was undertaken in villages close to Ts'ehlanyane, Liphofung and Bokong Nature Reserves in Lesotho. The area is called Katse and Mohale tourism development area. A total number of 500 questionnaires were distributed to stakeholders and 320 were completed, representing 64% response rate. There were no significant differences in knowledge of tourism by community leaders. Most communities are knowledgeable about tourism. They have not benefitted from tourism development hence hostility towards tourism. Suggestions to the Ministry of Tourism and Environment are also made.

**Keywords:** knowledge, awareness, education and training, Lesotho

## INTRODUCTION

The government of Lesotho acknowledges tourism will become one of the key economic sectors, contributing effectively to the GDP growth, biggest national employer and revenue earner by the year 2020. National Tourism Policy (2000:4) indicate that sustainable tourism development is the focus of the country's tourism development and planning contributing to growth and well-being of the people of Lesotho. It also says that through the development of a dynamic, competitive and customer-driven industry that capitalises on its rich cultural heritage and natural environment and the beauty of Lesotho in order for the local people to become prime beneficiaries of tourism development.

At the forefront on sustainable tourism are the local communities. These are the custodians of cultural and other tourism resources that make Lesotho is still a niche tourism destination. Lesotho has escaped mass tourism and its negative impacts. This is because it is only recently in 2000 that the Lesotho government started putting a lot of emphasis on tourism development (NTP, 2000). This gives the country a unique opportunity to embark on a programme of sustainable and responsible tourism. This is tourism that respects the culture and values of the Basotho people; a tourism that conserves the environment, tourism where the Basotho particularly those living in rural communities become partners in the process and where they truly benefit from the development of the tourism industry (NTP, 2000:5). The government vision is indeed in line with sustainable tourism principles which focus on sustainability of resources and sustainability of livelihoods of communities living with tourism resources. In spite of the contested nature and narrow focus in practice, the political argumentation and justification of sustainable tourism are often derived implicitly from the idea and rhetoric of sustainable development as a holistic, future-oriented and socially equal global-scale process (Saarinen, 2006:1125).

## **RESEACH PROBLEM**

Lesotho has identified tourism development zones. These are discussed in detail under the study area/context of the study. The Management plan of Katse and Mochale Priority Areas (2006:88) indicate that intense community awareness programme of tourism and the environment have been undertaken to educate local communities in these areas. It is further stated that the general public would be updated about tourism growth and development in their area and that communities would also receive 10% of any money generated from park fees adjacent to communities (Bokong Nature Reserve Management Plan 1998; Ts'ehlanyane Nature Management Reserve Plan 1998; Liphofung Nature Reserve Management Plan 2002 by LHDA). Listed among the activities are explanations to the public about proposed new tourism developments, tourism contributions to the country's wellbeing. This was to solicit communities' support for the development of both domestic and international tourism (Sethi, 2005:245).

It is through tourism awareness and community knowledge about tourism that the environmental objectives can be achieved. The environmental objectives for the tourism industry in Lesotho are to develop tourism in sustainable manner, to make the tourism industry in Lesotho a leader in responsible environmental practices, to require the conduct of

environmental impact assessments for all tourism projects, to evaluate and consider the tourism impacts of proposed project development and contribute to the development of the coordinated countrywide environmental strategy (NTP, 2000:15).

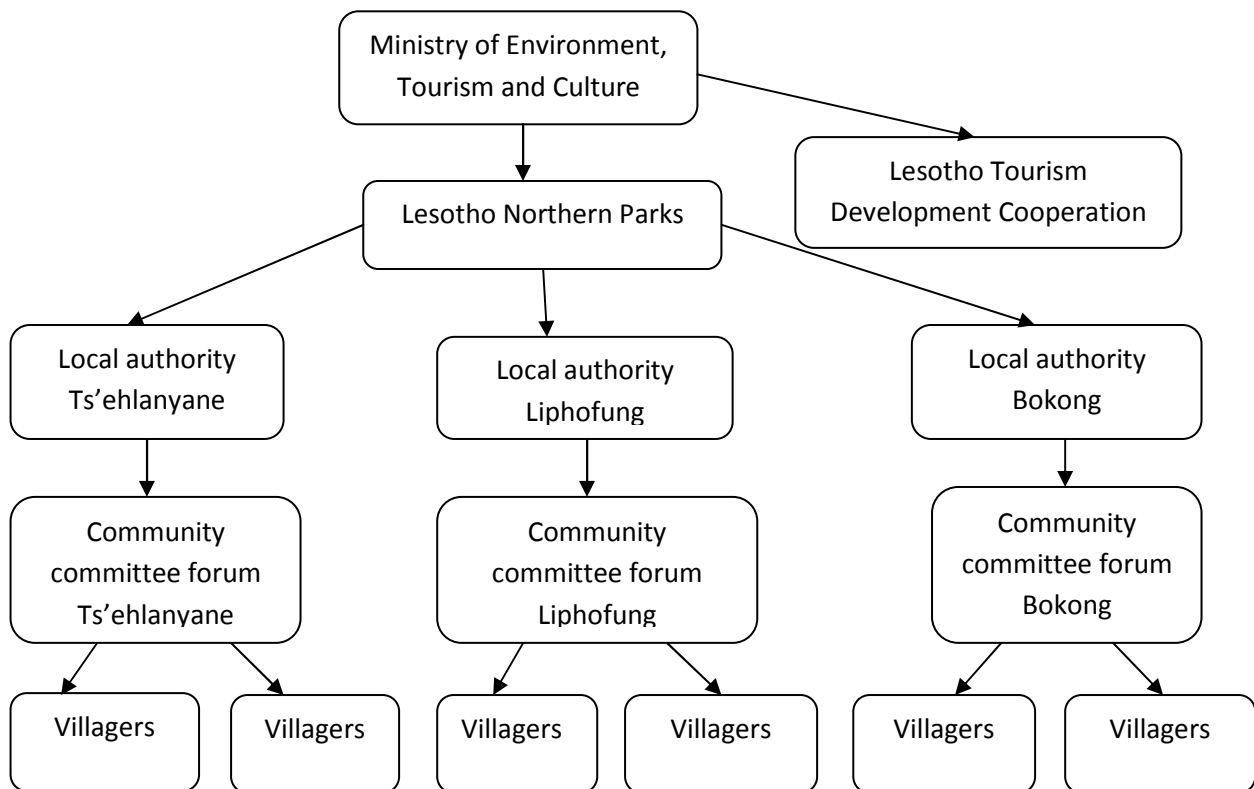
Lesotho Highlands Development Authority (LHDA), under the Bokong Nature Reserve Conservation Development of Management Plan (BNRCDMP) (1998:82), states that the principles underlying the environmental awareness programme for neighbours are promotion of the values of and need for protection area and improvement of understanding of environmental issues and the need for conservation of natural and cultural environment.

The Government of Lesotho is committed to supporting a widely shared and sustained economic development programme. The government has set out its objectives in the Poverty Reduction Strategy Paper (PRSP) for Lesotho covering the period 2004 to 2007. The tourism sector is acknowledged as an important vehicle for poverty alleviation through employment creation and income generation. The National Tourism Policy (NTP) (2000:13), states that the objectives for tourism development in the Kingdom of Lesotho to include among other things poverty alleviation, employment creation and economic growth. In addition, it emphasises that tourism activities should be conducted in harmony, to provide appropriate education, training and awareness.

In addition to the public awareness campaigns, the Lesotho government has embarked on tourist awareness drive to educate tourists about the local culture and how to behave when they interact with the local people in order to derive the maximum benefits from their visit. The Lesotho government has as a result set up a coordinating mechanism to facilitate the process at both national level and local levels (see Figure 1) (Sethi, 2005: 246).



**Figure 1: Government tourism structure for education and awareness campaign**



The strategic plan for tourism in Lesotho (2007) indicates that the tourism awareness and training campaign was launched in 2000. However, there is no record that we could trace of a follow-up study to determine the effectiveness of the campaigns. The study was aimed at bridging this gap by soliciting the views of both government officials and communities on the communities' knowledge and awareness of tourism and environmental education. The study was therefore guided by the following objectives:

- to measure the communities' level of knowledge and awareness about tourism;
- to identify training and education programmes in place about tourism and the environment;
- if such programmes exist, their impacts on local communities.

The next section briefly reviews the literature which will be followed by the study area and methodology of the study. Results and discussions will be discussed next followed by conclusions and recommendations for policy.

## **LITERATURE REVIEW**

### **Rural tourism awareness**

#### *Information and knowledge about tourism*

In most developing countries, local people need to be sufficiently aware of and knowledgeable about tourism. Even that collected information about tourism may not have been disseminated to the citizens in ways that are comprehensible to them. Most residents are not well-informed regarding tourism development; therefore, low public involvement should be expected (Tosun, 1999:620). Butler and Hinch, (2007:132) acknowledge the role of cultural pride and access to information as motivators for indigenous people in tourism. Community learning refers to acquisition of knowledge and its relationship to building capacity in the community. Knowledge can come from many different sources including traditional knowledge, which is passed down from generation to generation or from more formal institutional models (Butler & Hinch, 2007:222). Knowledge and values are the cornerstones for decision making in tourism development. However, the issue of local tourism awareness has not been studied widely in the community-based tourism, including in southern Africa (Saarinen, 2010:714).

Community-based tourism is often promoted as one way of alleviating poverty among poor rural communities by complementing their traditional livelihoods (Hawasaki, 2006). However, for communities to benefit from community-based tourism, local people need to be sufficiently aware and knowledgeable about tourism (Tosun 2000). There is a big communication gap between communities and decision-makers. This lack of communication does not only increase the knowledge gap between local communities and decision-makers but also accelerates isolation of the local community from the tourism development process. The knowledge gaps between centralized authorities and local communities make it difficult for a host community to participate in the tourism development process (Tosun, 1999:620). The implication of the above argument may be that greater awareness and interest among members of local communities could be achieved if meaningful and comprehensible information contained in reports and plans is disseminated.

In a broader sense, the term 'local tourism awareness' refers to the level of local knowledge on tourists, tourism and its impacts (Saarinen, 2010:714). Community participation in tourism planning can also build on the store of knowledge, insights and capabilities of the different

stakeholders, and the sharing of ideas among these stakeholders can result in a richer understanding of issues (Richards & Hall, 2002:27). Community members should be afforded opportunities to learn about tourism, its benefits, and its consequences (Timothy, 2005:164). In this way, they will be better prepared to make decisions and to be involved in preparing a local tourism strategy. Another key factor in achieving participatory planning is community 'readiness', readiness with respect to tourism knowledge, resources and commitment (Wisansing, 2000:52).

#### *Tourism awareness campaigns*

The public awareness programme in tourism explains characteristics of tourism, benefits brought by tourism, development perspectives and new projects, information about business and job opportunities as well as staff tourism programme. For any local community a public awareness programme answers four fundamental questions:

- *What is there positive to say about tourism?*
- *About which issues should the local community be consulted?*
- *What help should be offered and to whom?*
- *Who are the tourists and what are they like (Doswell, 1997:288) ?*

#### *Tourism awareness success*

Tourism awareness is very important as it can increase the participation of the communities in tourism. Awareness can also change the community's perceptions about tourism. Therefore, tourism awareness and perceptions are the corner stone of community participation in tourism. Community participation is considered necessary to obtain community support and acceptance of tourism development projects and to ensure that the benefits relate to the local community needs (Cole, 2006:620). Tosun and Timothy (2003), further argue that the local community is more likely to know what will work and what will not in local conditions, and that community participation can add to the democratization process and has the potential to increase awareness and interest in local and regional issues. It is believed that tourism should benefit the local residents of the places that tourists visit and are attracted to (Saarinen, 2010:713).

### *Education and training about tourism*

The education, training and development of employees at all levels within tourism, hospitality and leisure are vital in maintaining the industry's competitiveness in the international arena (Baum, 2006:202). The processes of learning to get the most effect must include the native population. Community members should be afforded opportunities to learn about tourism, its benefits, and its consequences. In this way, they will be better prepared to make decisions and to be involved in preparing a local tourism strategy (Timothy, 2005:164).

Education simply to improve the satisfaction gained from recreational experiences has ceased to be the only or even the dominant role of interpretation in protected areas and equivalent reserves (Wearing & Neil, 2009:107). The education offered comes in several forms, for example, guided tours with a local guide, native family visits, environmental programmes on how the area is working towards maintaining and preserving its natural resources and booklets sent out to the visitors prior to a visit, containing information on the area, its history, the culture of the area and codes of practice (Diamantis, 20004:302). By providing education about tourism that addresses critically the broader context of tourism as a social phenomenon; indigenous people are further empowered through the skills to promote self-determination in the context of tourism (Butler & Hinch, 2007:36). Timothy (1999:374) has identified an additional aspect of resident education in destination areas, namely building general community awareness of tourism. Educating residents of developing countries is one way of building awareness, so that they will be better qualified to make informed decisions in their own communities.

Education and training have emerged as crucial aspects of successful indigenous tourism operations. Unfortunately, most tourism studies and training programmes include little information that is specific to indigenous groups, their beliefs, their culture and ways of operation (Butler & Hinch, 2007:325).

### *The benefits of tourism awareness*

Mathieson and Wall (1982:52) state that economic benefits of tourism which have been documented in the literature includes the contribution of tourism to foreign exchange earnings and the balance of payment, the generation of income, the generation of employment, the improvement of economic structures and the encouragement of entrepreneurial activity. Mason (2008:37) confirms that positive economic benefits usually

include contributions to the local economy and job creation. Positive social impacts of tourism can include the revival of traditional art or handicraft activity as a result of tourist demand. Positive environmental effects of tourism may include revenue generated from visits to sites of natural attraction being used to restore and maintain the attraction, as well as enhance interest from visitors on the importance of the natural environment and therefore a greater willingness to support measures to protect the environment. Studies indicate that tourism-related activities can provide local communities with a source of income (Butler & Hinch, 2007:154). According to Saarinen (2011:3), the Namibia Ministry of Environment and Tourism, for example, involves the following benefits and conditions for the community-based tourism policy in the country:

- People can benefit from tourism and participate in tourism planning and development.
- People can benefit from tourism on their land and conserve wildlife and natural resources.
- People will be encouraged to develop tourism enterprises.
- Tourism development on communal land must be acceptable to the people living there.
- Established tourism businesses are encouraged to work with people in communal areas.
- Tourism development will work hand-in-hand with conservation of the environment.

In many southern African countries, tourism provides new development opportunities, jobs and economic benefits for local people (Saarinen et al., 2009). The literature confirms that most studies have emphasized the economic benefits which accrue to destination area and the development of tourist facilities and recreational opportunities has frequently been viewed as a major positive contribution to the national balance of payment, and as a means of redressing regional disparities in incomes and employment (Mathieson and Wall (1982:35). Sharpley (2002:234), noted that increasing dependence on and support for rural tourism is based upon a number of perceived benefits and more specifically, the development of rural tourism offer potential solutions to many of the problems facing rural areas, including economic growth, socio-cultural development and protection and improvement of both the natural and built environment and infrastructure.

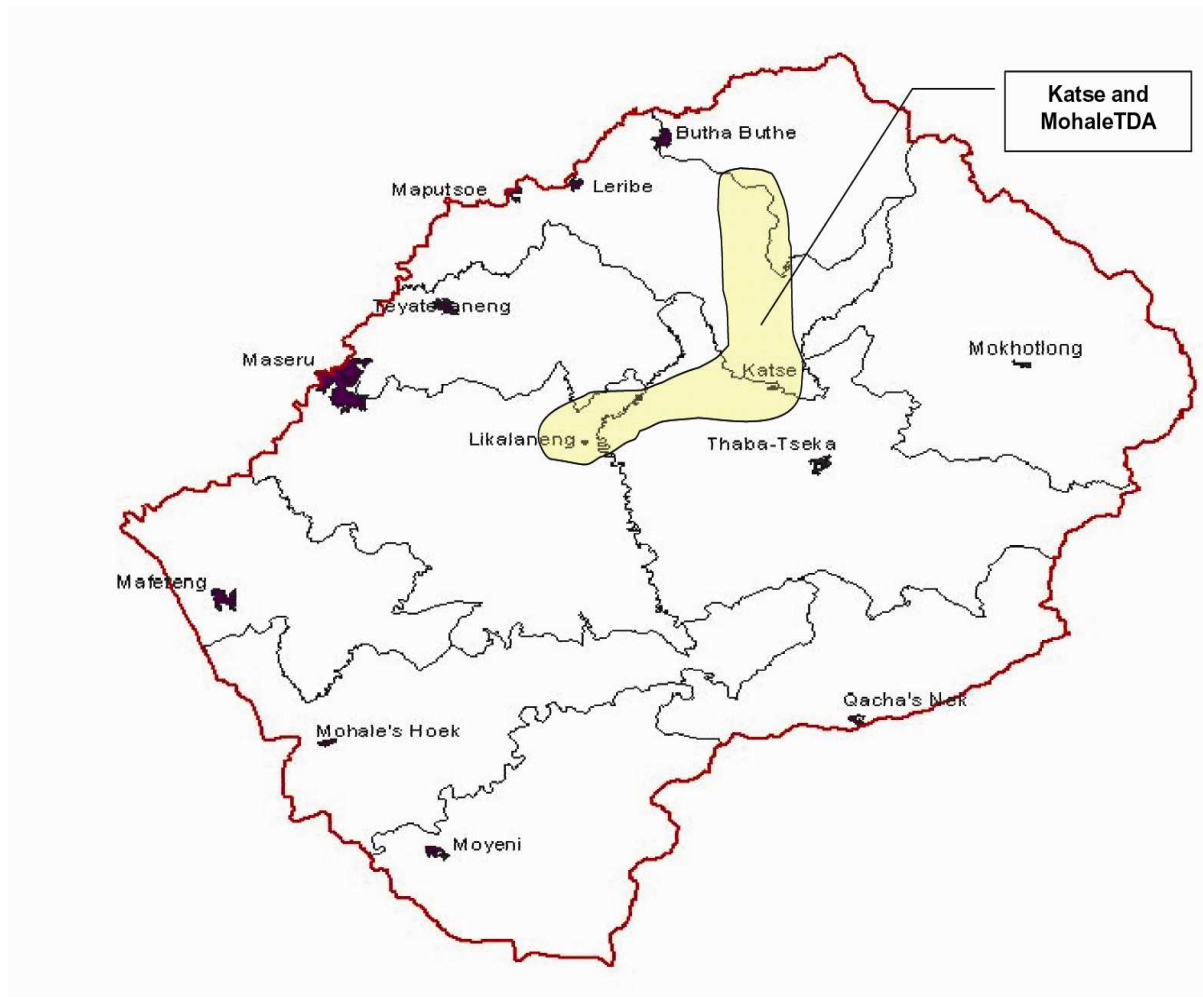
## **The study area and context of the study**

Lesotho is a small mountainous country completely surrounded by South Africa. It has unique tourism attractions which has the potential to attract different types of tourists as indicated in the study areas discussed next.

The research was undertaken in what the Lesotho government refers to as tourism development areas (TDA). The site chosen was the Katse and Mofale Tourism Development (KMTDA) which covers the northern and central part of Lesotho. The TDA is made up of three parks; Ts'ehlanyane nature reserve, Bokong Nature Park; and the Liphofung Nature Reserve. The tourism development area crosses through four districts of Lesotho which are Butha-Buthe, Leribe, Thaba-Tseka and Maseru and is located in the Highlands of Lesotho (See Figure 2). KMTDA was chosen because it was the first to initiate tourism awareness campaigns (LHWP, 1997).

- The KMTDA's main attractions are based on the reservoirs, which are amongst the highest and deepest manmade lakes in Southern Africa. There are several mountain passes within or on the way to the TDA with passes and peaks which offer an exceptional view. At the northern end there is the Mafika-Lisiu Pass at 3090m and at the southern end the Blue Mountain Pass at 2.20m, and the Molimo-Nthuse Pass at 2.318m.
- Aesthetically pleasing – beautiful and unique landscapes, rock formations, including spectacular weathered sandstone formations and the highland basalt massif, clear mountain streams and waterfalls;
- Wilderness – sense of remoteness and tranquility;
- Natural history – endemic and unusual flora and fauna not found elsewhere, including the ice rat, the Maloti minnow, the spiral aloe and numerous endemic afro-alpine plants.
- Historical and palaeontological features – caves with San painting in region, dinosaur foot prints (King Moshoeshoe I the founder of the Basotho nation used the Liphofung caves as shelter for his troops) and
- Culture identity of the people, shepherd's huts, arts and crafts (Fabricius, 2007); NPT, 2000: 8). The KMTDA has indeed a lot of potential for tourism development which would benefit the local communities.

**Figure 2: Katse and Mohale Tourism Development Area Map**



**Source:** (UNDP/UN WTOP LESOTHO 2006)

## **RESEARCH DESIGN AND METHODOLOGY**

Research design is a sequence way or procedures followed by the research when conducting the research. Supported by Mouton (2008:55) by stating that a research design is a plan or blueprint of how you intend conducting the research. The research design of this study consists of quantitative and qualitative research methods.

The study used a survey methodology. This is a part of a PhD research of one of the authors. The respondents of the study were communities from three villages adjacent to the KMTDA. These were Ha-Mali (Ts'ehlanyane nature reserve), Ha-Lejone (Bokong Nature reserve) and Phelandaba (Liphofung). Park officials and local authorities were also surveyed. A

questionnaire was developed which included both close and open-ended questions. For open close questions a 5-point Likert scale was used where 1= strongly agree and 5 = strongly disagree.

The sampling was convenience sampling whereby only those willing to be interviewed or complete the questionnaire were approached. Government officials working in the parks which fall under KMTDA were also asked to complete the questionnaire. The third sample was of the Local authorities (chiefs and sub-chiefs). Table 1 shows the breakdown of the respondents of the study.

Statistical Package for the Social Sciences used to analyse close-end questions, means, frequencies and ANOVA were derived for the sample.

Table 2: Population of the study and response rate

	Community		Local Authority		Government officials	
	Frequency	%	Frequency	%	Frequency	%
Questionnaires distributed	471	94.2	6	100	23	100
Questionnaires completed	293	59	6	100	19	83
TOTAL	500	100				

## RESULTS

The community leaders (i.e. nature reserve manager, local authorities, tourism officers, conservation/environment officers) generally agreed with the statement that “community members are knowledgeable about tourism”. With respect to the villages, the average values for the leader responses were 1.5, 2.0 and 2.1 for Ha Mali, Phelandaba and Ha Lejone, which were leaning towards agreeing (2) with the statement that community members of their village are knowledgeable about tourism. The tourism officers tended to lean more towards



neither agree nor disagree (3), with an average value of 2.67, while the rest of the leaders tended towards agree (2) with average values ranging from 1.5 – 1.67.

An analysis of variance (ANOVA) revealed that the views of the community leader category of the respondents were not significantly different ( $F = 1.00$ ,  $P = 0.455$ ) and not significantly different with respect to the different villages ( $F = 0.51$ ,  $P = 0.623$ ). The leaders tend to concentrate on the existing participating community members in tourism and ignore other members to the community especially, new members of the community, as awareness and trainings about tourism were active until 2007.

The community members also tended to agree with the statement that they were knowledgeable about tourism, the mean values range between 1.31 and 2.21 (i.e. nearly strongly agree (1) to agree (2)). ANOVA revealed that the views of the members were significantly different ( $F = 20.47$ ,  $P < 0.001$ ). This indicated that the level of knowledge about tourism was significantly different between at least in two villages. A t-test was used to determine which villages had significantly different views. T-test indicated that there were significant differences in the level of knowledge about tourism among the villagers. Ha Lejone community members were significantly more knowledgeable than those in Ha Mali ( $t = 3.379$ ,  $P = 0.0009$ ) and Phelandaba ( $t = 5.570$ ,  $P < 0.001$ ), with the community members in Ha Mali were significantly more knowledgeable than those in Phelandaba ( $t = -2.778$ ,  $P = 0.006$ ). Therefore, Ha Lejone community was the most knowledgeable (mean = 1.3095 compared to Ha Mali mean of 1.663, Phelandaba mean of 2.107) followed by Ha Mali. Phelandaba community was the least knowledgeable. Open-ended questions were used to explain why there were differences among the villages in community's knowledge about tourism. These are discussed next. It is the area where large number of tourists visit as of the unique landscapes that attract tourist.

#### *Ha-Lejone community*

Ha-Lejone village was more knowledgeable about tourism than other villages because they have a much more developed tourism industry. They are in close proximity to Katse dam which attracts a lot of tourists who visit the area to view the dam and its channels and reservoirs (Manwa, 2012). We were also told that tourism development was originally run by the Lesotho Highlands Water project which embarked on community education and involvement in tourism development. All but one tourist accommodation facilities are owned

and run by local people. Community based products have also been developed which benefit the whole community. The trout fishing is a good example of a project that has developed out of tourism which benefits the community through employment creation and supply of fish to the community. Tourism has also been instrumental in creating jobs for the community at the botanical garden and visitors' centre. We were also informed of the community hiring out their ponies to be used by tourists for pony trekking. Other job creation measures include fire protection belts burners which are employed after every three months. The respondents also indicated that they are benefiting from the handcrafts, as the Park sells their products on their behalf at the visitors centre.

#### *Ha-Mali village*

Similar to Ha-Lejone village, Ha-Mali village is located in an area with a relatively developed tourism industry in Ts'ehlanyane National Park. They have wildlife in the park such as camels, monkeys, impala and snakes. Both the traditional leaders and the community were aware of tourism development in the area. What has happened though is that there is resentment towards the tourism. The hostility resulted from lack of employment in the Ts'ehlanyane national park and Madiba lodge, a privately owned by an investor from South Africa. They complained that tourists who visit the park made noise and polluted their area. In addition, young girls from the village were engaged in prostitution and the lodge was used for such illicit activities. Interestingly, the communities expressed the view that their livestock should be allowed to graze in the park atleast once a week. They also felt deprived of the medicinal plants in the park. For them to harvest medicinal plants they were required to get a letter from the traditional leader stating that the medicinal plants were for exclusive personal use and not for sale. Additionally, they do not receive community's share of the park's entrance fees.

#### *Phelandaba Village (Liphofung National park)*

Similar to Ha-Mali community, Phelandaba community was aware of tourism. However, they had developed extreme hatred of the industry. A number of issues were explained to us that led to the dislike of tourism. They threatened to burn down the park. They alleged corruption among the park officials where only friends and relative's crafts were sold in the park. Sometimes even people who were not from the area were allowed to sell and display their crafts in the park. They alleged discrimination in employment in the park. Most employees were not from the local villages. Horses which were rented by tourists for pony rides were

also from friends further marginalising the majority of the community members. They told us of an incidence whereby some tourists who had visited the village before, threw a coke bottle through their car window and this smashed on one of the children. Subsequent tourists had their windscreens smashed as a revenge for the deeds of previous tourists who had visited the area. The resentment of tourism is very strong in Phelandaba village.

They also complained about effectiveness of their representation in community committee forums. They described it as “*limembara tsa poleiti ea lijo*” literally meaning that the committees are just social gatherings where they receive free plate of food. They have no role in making decisions on tourism planning and development in the area.

## **DISCUSSIONS AND CONCLUSIONS**

The results show that although communities indicated that they were not aware of tourism. Open ended questions show that they were indeed aware of tourism. What has happened is that only communities who had benefit from tourism, Ha-Lejone communities were more positive towards tourism. The results agree with the literature where communities who derive benefits from tourism are generally more positive towards tourism (Mbaiwa & Stronza, 2010). There is increasing evidence that costs and benefits from tourism do not accrue equally to residents of destinations areas (Brougham & Butler, 1981:569).

Another interesting finding from the study is the negative social impacts of tourism on communities. Phelandaba community had a negative encounter with the community. Since communities cannot differentiate between different tourists, bad experiences with tourists have resulted in communities holding a vengeance attitude towards all tourists who visit their area (Ross, 1992).

Corruption is another problem which influenced people’s perception of tourism. Corrupt government officials had lasting impact on people’s perceptions of tourism.

It can therefore be concluded that government has been effective in creating awareness of tourism among communities in KMTDA. What is worrying though is that among communities, especially the Ha-mali community in Ts’ehlanyane nature Reserve, environmental education seems to have failed. Communities still insist on being allowed to graze their livestock once a week in the park and be allowed to harvest medicinal plants even though some of the wild plants found in the park are endangered plants for example, the spiral aloe (NPD, 2007). Communities are not benefiting from tourism as stipulated in the

National Tourism Policy (2000). There is lack of community involvement and unsustainable practices of rural tourism in Lesotho which lead to less or no benefits and participation in tourism in the rural areas.

National Tourism Policy of Lesotho (2000:27) states that government recognizes that there are constraints facing the Lesotho tourism industry: the environment, the very foundation of the tourism industry is being degraded; most Basotho people lack the knowledge to effectively and successfully manage the environment. The results of this study have indeed confirmed lack of training, education and awareness programmes at the community levels in environmental sustainability.

### **MANAGERIAL IMPLICATIONS/RECOMMENDATIONS**

The rural communities have to be knowledgeable and aware of tourism activities taking place in their own surroundings. Supply of educational programs helps to address the issues of sufficient capacity, the issue of how the current tourism and hospitality education curriculum can meet the deeper needs of the indigenous people of the region for sustainability, empowerment and self-determination still need to be considered (Butler & Hinch, 2007:33). Developers should provide information on the following: how the project will protect the environment; how to build in ecological education programmes; how to actively involve environmentalists in the development; and how to inspire community members to develop education programmes for tourists (Mason, 2008:174). There is clearly a major role for public sector agencies in particular to play in making information and advice available, and if an when a positive decision is made to engage in tourism, making training, advice and capital available (Butler & Hinch, 2007:324).

According the present structure for education and awareness campaign, the Lesotho Development Tourism Cooperation is not involved and it shows that it does not deal with management of parks. The action plan states that initiatives were taken by LDTC for development and implement a community tourism awareness/involvement drive which can be rolled out throughout Lesotho, but unfortunately the national parks are not part identified area. Education and awareness campaigns should involve all institutional structures for successful results. According to a strategic plan for tourism development in Lesotho (ASPTDL) (2007), there should be relationship between the various institutional structures including the Lesotho Tourism Development Corporation (LTDC). LTDC has already taken

initiatives to develop and implement a community involvement drive. However, such a drive does not cover the national parks (ASPTDL, 2007).

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# **POTENTIAL IMPACT OF THE PROPOSED ADVERTISING REGULATIONS ON THE ALCOHOL MARKET IN SOUTH AFRICA**

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## **ABSTRACT**

Alcohol abuse is a major problem in South Africa and across the world. It diminishes mental capital as well as places heavy financial and social burdens on the state and the affected communities. It is therefore vitally important that irresponsible alcohol consumption is curbed.

Critics of alcohol advertising argue that advertising and marketing of alcoholic beverages increases alcohol consumption, which in turn increases alcohol abuse and fatalities associated with it. A number of researchers, adhering to the strong theory of advertising, have confirmed that advertising is a factor that may influence alcohol consumption, but other researchers, supporting the weak theory of advertising, have proven the contrary, that alcohol consumption is affected by other factors and not advertising.

The purpose of this study was to assess the potential effectiveness of the proposed regulations on reducing alcohol consumption in the country. A qualitative research methodology was utilised, as this was an exploratory study, collecting data through in-depth interviews with a convenience sample of 20 experts. The data was analysed using direct content analysis.

The research found that the alcohol market size would not diminish if mainstream advertising were banned, i.e. supporting the weak theory of advertising, but that market structure could be affected. Competition could be reduced with the dominance of the big players in the industry continuing, while new entrants (brands and/or companies) would find it difficult to enter the market. Promotion will move from above-the-line activities to more extensive below-the-line.

**Keywords:** Alcohol regulations, Alcohol Market, South Africa

## **INTRODUCTION/RESEARCH PROBLEM**

Following the ban on tobacco advertising by the World Health Organisation (WHO) and subsequently in South Africa in 1999, the alcohol industry is undergoing a similar transformation with regard to curbing the abuse and misuse of alcohol. The WHO estimates that alcohol abuse and misuse causes approximately 2.5 million deaths per annum (WHO, 2010). As a result in May 2008, the World Health Assembly adopted a resolution to formulate strategies to reduce the harmful use of alcohol (WHO, 2008). The resolution urged member states of the WHO to assist in developing a draft global strategy to reduce the harmful use of alcohol and to develop national systems to monitor the consumption of alcohol and its health and social consequences. Furthermore, member states were asked to regularly report to the WHO and to implement policies to reduce alcohol-related harm.

In May 2010, the WHA (World Health Assembly) endorsed the *Global Strategy to Reduce the Harmful Use of Alcohol* after considering the draft strategies and reports submitted by the Director-General and the Secretariat of the WHO (WHO, 2010). The strategy proposed ten target areas for policy options and interventions to the WHO member states, including the promotion of alcoholic beverages. Taking its directive from the World Health Organisation (WHO), the South African Department of Trade and Industry (DTI) proposed regulations on the sale, manufacture, distribution and advertising of alcohol within the country, in order to address the problems associated with alcohol abuse and misuse. The draft regulations aim to curb the increase of alcohol abuse and deaths due to drunken driving, amongst other alcohol-related illnesses, such as foetal alcohol syndrome.

Following the Biennial Summit on Substance Abuse in March 2011 in Durban, 34 resolutions were adopted, of which 5 are directly related to this research (Kalaeamodimo, 2011):

1. Harmonisation of all laws and policies to facilitate effective governance of alcohol production, sales, distribution, marketing, consumption and taxation.
2. Raising the legal age for the purchasing and public consumption of alcohol from the age of 18 to the age 21.
3. Banning all sponsorship by the alcohol industry for sports, recreation, arts and cultural and related events.
4. Immediate implementation of regulations that permit the restriction of the time, location and content of advertising related to alcohol and in the medium term banning of all advertising of alcoholic products in public and private media, including electronic media.
5. The short-term intervention will include measures that will ensure that alcohol will not be marketed at times and locations where young people may be influenced and the content of the advertising should not portray alcohol as a product associated with sport, and social and economic status.

However, global brands rely heavily on marketing in order to embed the brand identity with the targeted groups. Alcoholic drinks are one of the most heavily advertised products in the world (Heimonen and Uusitalo, 2009). Jernigan (2009, p. 9) says, “Successful brands become part of the identity of the consumer”. Industry competitors are constantly trying to increase mindshare of their brands, and in so doing increase market share of their respective brands. As a result, advertising spend amounts to billions of dollars every year (Jernigan, 2009). Due to the fundamental nature of mass media advertising, people of all ages are exposed to the communications. There is no discrimination between people above the legal drinking age and those below the legal drinking age. The proposed regulations will prohibit mass media advertising of alcohol. In addition, promotion of alcoholic drinks through sponsorships of events will be banned.

If ratified, the proposed regulations will have a major impact on several industries as well as the consumer. In 2009, the South African alcoholic drinks market was valued at R80 billion, growing at 1.3% (DataMonitor, 2010). Moreover, in total Brandhouse, Distell and SABMiller spent approximately R1,4 billion on advertising in 2010 (Furlonger, 2011). SABMiller spent the third largest amount on advertising in the country in 2010. Brandhouse

was the seventh largest spender, while Distell was tenth. The large amounts spent on advertising by the alcohol companies are an indication of the size of the potential impact on the advertising industry if the proposed regulations are ratified.

Furthermore, the South African national broadcaster, the SABC, stands to lose between R250 million and R400 million per annum if alcohol advertising is banned. This translates to approximately 8.5% of the SABC's annual advertising revenue (Benjamin, 2011). There will also be a huge impact on the country's fiscus arising from the loss of VAT of R280 million per year (South African Press Association (Sapa), 2011).

However, in spite of regulations on alcohol promotions being implemented in other parts of the world, research has failed to convincingly prove that banning of advertising is directly correlated to increased alcohol consumption rather than increased brand equity (Nelson, 2005, 2010).

Consequently, the research objective of this exploratory study is to determine the potential impact of the proposed regulations on promotions on the alcohol market size and structure in South Africa.

This paper provides insights about the role and purpose of advertising in a particular field of application, and contributes as potential input into policy-making regarding regulations on promotions, in addition to knowledge of the field of marketing communications. It is relevant within the context of current alcohol legislation considerations.

## **LITERATURE REVIEW**

### **Impact of Alcohol Controls on Promotions and Consumption in other countries**

Restrictions across the globe vary from total bans to voluntary advertising codes. In the European region in 1998, approximately three-quarters of the 37 countries had complete bans or legal restrictions (Rehn, Room and Edwards, 2001). Limited success in restricting alcohol consumption has been achieved.

In the United Kingdom, a number of studies have been conducted to establish the effect of advertising on consumption in the United Kingdom. Wilcox and Kyung OK (2010)

concluded that advertising had a weak effect on aggregate consumption of alcohol beverage in the United Kingdom between 1971 and 2007.

Moreover, Duffy (2003) used a dynamic demand modelling system to investigate the influence of advertising on the inter-product distribution of consumer demand for food, tobacco, alcohol and services in the UK over the period 1963-1996. The model, using estimations of price elasticities, confirmed that prices have a strong influence on the allocation of consumer expenditure. However, advertising was found to be non-influential in the determination of inter-product consumer demand; hence also in consumer preferences and pattern of expenditure (Duffy, 2003).

In Russia, alcohol consumption was estimated to be approximately 10.2 litres per capita in 1984 and it was rising at an astonishing rate (Levin, Jones and Braithwaite, 1998). In 1985 the totalitarian Russian government implemented a number of alcohol reforms in order to address the alcohol abuse in the country. In the first three years of the reform, state alcohol production was reduced by 50%. However, legal drinking became illegal drinking: while there was a marked reported decrease in alcohol consumption since the implementation of the reforms, the illegal production of alcohol during that time was estimated to be 50 million decalitres, while state production was 122 decalitres. When the illegal production was taken into account, the per capita sales of alcohol was estimated to be fourteen to fifteen litres in 1994 (Levin et al., 1998). The reforms did not address the problems but created new ones. In fact, alcohol consumption rose during the years of the advertising ban, and was only halted at the start of the new century due to a sudden economic decline in the late 1990s (Perlman, 2010).

During the 1990's in addition to the restrictions on the manufacturing, distribution and sale of alcohol, Russia, Latvia, Lithuania and Estonia implemented restrictions on advertising (Reitan, 2000). The regulations varied across alcohol categories and the countries. Lithuania and Russia implemented total bans on alcohol and tobacco advertising, whereas Estonia restricted the advertising of beverages with an alcohol content of more than 22%. In 1995 Latvia prohibited the advertising of spirits but allowed advertising of beer and wine as long as it followed a specific set of rules.

France has been implementing an increasing number of alcohol advertising regulations since 1949. In 1991 the Loi Evin – the alcohol policy law – was passed banning television advertising of alcohol and enforcing rules and controlling message for radio, press and billboard advertising (Saffer, 1991). France’s mean per capita consumption of pure alcohol in 1990 was 16.66 litres. In 2000 the figure was 13.41 litres (Nelson, 2010). However, Nelson (2010) used cross-country panel data to assess the impact of advertising regulations on alcohol demand after which the author rejected the null hypothesis that bans on alcohol advertising do not decrease the market demand for alcohol.

Nevertheless, there is general public support for the control of excessive consumption of alcohol. A study conducted by Tobin et al. (2011) found that Australians were very supportive of stricter controls (enforcement of licensees’ compliance with legislation, inclusion of health warnings on alcohol labels, restrictions on alcohol advertising) that targeted high-risk populations, but were less supportive of controls that restrict alcohol availability and increase price through taxation (Tobin, Moodie and Livingstone, 2011). Moreover, Kaskutas (1993) suggests that public support for alcohol control policies depends on whether the policy affects the entire population or just the problematic drinkers. The greatest public support is given to those policies that are not intrusive to the moderate, social alcohol consumer (Kaskutas, 1993; Giesbrecht and Kavanagh, 1999). Consequently, policymakers, seeking public support, continue to advocate restrictions on promotion of alcohol as an attempt to curb consumption.

### **Theory of Advertising**

The ultimate goal of advertising is to increase sales; however, consumers do not switch from being disinterested to convinced purchasers at the first exposure to an advertisement (Lavidge and Steiner, 1961). In the long term, advertising may or may not increase sales, but in the short term advertisements seek to increase awareness and/or level of knowledge of the product (Lavidge and Steiner, 1961; Kotler and Keller, 2009).

The strong theory of advertising arises from the “Response Hierarchy Models” summarised by Kotler and Keller (2009). The AIDA, Hierarchy of Effects, Innovation-Adoption and the Communications models all assume that the buyer passes through a cognitive, affective and

behavioural stage (Kotler and Keller, 2009). The strong theory of advertising suggests that advertising can persuade someone to buy a product that they have never bought before and it can accomplish repeated long term buying behaviour (Fill, 2005). This theory also suggests that advertising is capable of increasing sales at the brand and class levels and has a direct and positive impact on sales (Fill, 2005); some sophisticated sales analyses prove this idea (Pickton and Broderick, 2005).

The best example to illustrate the strong theory of advertising is that of Absolut vodka (Belch and Belch, 2001). Since the 1980s Absolut has used creative advertising to differentiate the brand from others, positioned as a fashionable and sophisticated drink using the distinctive shape of the bottle. The advertisements have made the Absolut brand synonymous with vodka; as a result, Absolut sales have increased 10 fold and have gathered a 70 percent market share (Belch and Belch, 2001).

In contrast, the weak theory of advertising proposes that the conative (behavioural) step comes before the affective (liking/preference) step. The importance of product trial and usage experience is emphasised in the low-involvement hierarchy models (Vakratsas and Ambler, 1999). Advocates of the weak theory of advertising believe that there is no causal link between advertising and aggregate consumption, hence advertising restrictions would have little effect on the total market. They claim that advertising changes brand preferences and hence brand market shares within mature markets, and does little to generate primary demand for a product category (Ambler, 1996). A strong proponent of the weak theory of advertising, Ehrenberg, believes that a consumer's pattern of brand purchases is driven more by habit than by exposure to promotional messages: advertising provides more power to consumers' habits and makes them choose to buy a certain brand over other brands already existing in their minds (Fill, 2005).

### **Effect of Advertising on Purchasing Alcohol**

There are conflicting conclusions amongst researchers about whether alcohol advertising is directly linked to increased consumption. Wilcox and Kyung Ok (2010) point out that many of the researchers that support the view that advertising leads to increased alcohol consumption, use either cross-sectional data (survey methodology) or controlled experiments

in their research methodology. Cross-sectional studies are helpful in linking individual choice to advertising; however, they are not useful in identifying the relationship between advertising, advertising expenditure and total consumption of a population (Wilcox and Kyung Ok, 2010). Therefore, the authors used a time-series method in identifying the aforementioned relationship between advertising expenditures and total alcohol consumption.

The Wilcox and Kyung OK (2010) analysis used six advertising mediums (print, outdoor, television, radio and internet), alcohol consumer price index, per capita disposable income and tax rates as independent variables, with per capita spirits consumption as the dependent variable. Radio advertising was found to be significantly related to consumption. However, the coefficient value was extremely small meaning that a \$1.6 million increase in radio advertising would increase per capita consumption of alcohol by one-tenth of one-ounce. The final conclusion was that advertising had a weak effect on aggregate consumption of alcohol beverage in the United Kingdom between 1971 and 2007.

Duffy (1991) suggests that many previous papers used annual data in determining the relationship between advertising and alcohol consumption. The author believed that the previous methodologies were unacceptable as advertising's effect on sales lasts for months rather than years. Therefore, Duffy (1991) examined the relationship between advertising and consumption using quarterly data. In addition, the author improved the model by including tobacco in the study. The study found little evidence to support the view that advertising increases alcohol consumption (Duffy, 1991).

Nelson and Young (2001) studied the per capita consumption of alcohol in 17 OECD countries over the period between 1977 and 1995 in order to establish whether advertising bans were effective or not. The conclusion as stated by the authors is: "The evidence indicates that a complete ban on broadcast advertising of all beverages has no effect on consumption relative to countries that do not ban broadcast advertising." (Nelson and Young, 2001).

However, Saffer and Dave (2002) found conflicting results in their study, using a pooled time series of data from 20 countries over 26 years. The primary conclusions of their study were that alcohol advertising bans decrease alcohol consumption, and that alcohol consumption



has a positive effect on the legislation of advertising bans. The results indicated that an increase of one ban could reduce alcohol consumption by 5 – 8 % (Saffer and Dave, 2002).

The motivational model of alcohol use assumes that the decision to consume alcohol is based on a combination of emotional and rational processes (Cox and Klinger, 1988). Furthermore, the decision is based on whether the positive affective consequences expected by drinking outweigh those of not drinking. Kuntsche et al. (2005) go on to say that an individual's expectancies of the chemical and non-chemical effects of alcohol consumption are based on historical, current, situational and cognitive factors (Cox and Klinger, 1988; Kuntsche, Knibbe, Gmel and Engels, 2005).

The historical variables help shape the nature of an individual's past experiences with consuming alcohol; and these past experiences influence that individual's current motivation to drink.

Parental drinking behaviour has been found to be an important factor in a child's decision to consume alcohol. Chuan-Yu et al. (2011) conducted a study amongst 4<sup>th</sup> and 6<sup>th</sup> graders in Taiwan in order to understand the differential relationship of family drinking with alcohol expectancy amongst school children. The authors found that approximately 29% of 4<sup>th</sup> graders and 43% of 6<sup>th</sup> graders had consumed alcohol. The study highlighted the significant role of family drinking behaviour on an individual's early life. Furthermore, the study proposed the use of policy directed at addressing family influences on alcohol expectancy in preventing adolescent drinking (Chuan-Yu, Storr, Chieh-Yu, Kuang-Hung, Chen and Keh-Ming, 2011).

Clark et al. (2011) found that parental disapproval of alcohol led to lower rates of alcohol use amongst children. Several dimensions of parenting were found to affect alcohol use, refusal or both. For example, parental monitoring and control, disapproval of alcohol use, and relationships with each parent directly influences the drinking behaviour of the child (Clark, Nguyen, Belgrave and Tademy, 2011).

The current factors that have an impact on a person's decision to drink include the situation the person is located at a point in time, and whether drinking will enhance a current positive affect, or counteract a negative affect. Cox and Klinger (1988) suggest that the situational and

current factors give rise to cognitive processes that determine the expectations, both chemical (direct) and instrumental (non-direct), associated with consuming alcohol.

Moreover, Abbey et al. (1993) demonstrate that it is vitally important to simultaneously consider personal motives for drinking alcohol and the situational factors that correspond to these motives for drinking alcohol. For example, if an individual reported consuming alcohol in order to cope with stress, that individual consumed more alcohol when experiencing stress. If an individual reported consuming alcohol to be sociable, that individual consumed more alcohol when their peers frequently consumed alcohol at the social gatherings they attended together (Abbey, Smith and Scott, 1993).

Additionally, Khan et al. (2002) investigated the short and long-term effects of poverty and unemployment on alcohol abuse. The results of the study found that increased poverty increased alcohol use and problems. Furthermore, it was found that a recently unemployed individual consumed less alcohol while prolonged unemployment increased the consumption of alcohol (Khan, Murray and Barnes, 2002). A study by Mossakowski (2008) reiterates the fact that poverty, unemployment and the duration thereof are risk factors of heavy drinking in the United States.

Consequently, prior research would indicate that factors other than advertising impact the consumption of alcohol. This leads us to our first proposition:

*Proposition 1:* The alcohol market adheres to the weak theory of advertising: the market size will be unaffected by the proposed regulations on promotions.

### **Effect of Advertising on Market Structure**

According to Bogart (1986, p.208) advertisers use repetition to impress “the advertised name upon the consumers’ consciousness and make them feel comfortable with the brand.” One of the main objectives of advertising is to generate and maintain brand awareness (Bogart, 1986; Hoyer and Brown, 1990). The Hoyer and Brown (1990) study demonstrated that brand awareness has an influence on consumer choice and brand sampling.

However, analysis has shown that very few consumers of a particular product category are 100% loyal to any particular brand (Foxall and James, 2003). Foxall and James (2003) showed that consumer brand choice is highly price sensitive, and that the marketing mix, promotions and place is important in consumer buying behaviour.

Pettigrew (2001) found that the Australian beer market is characterised by image management. Consumers managed their beer consumption behaviour, including brand choices, location choices, posturing while consuming, and discussions about the beer category, in order to achieve their ideal self-images. The implication is that consumers remove free choice in order to manage their image, which is culturally defined (Pettigrew, 2001)

In his paper, Vrontis (1998) explains the importance of branding in the homogenous beer market. Brewers in the European market consider beer as a homogenous product, thus using differentiation strategies – product image and segmentation – to grow market share (Vrontis, 1998). Furthermore, the author emphasizes that it is the brand values, images and associations that influence the consumer's perceptions. Like Pettigrew (2001), the author mentions that consumers can also be influenced by the perceptions of others.

The effect of a change in legislation on market structure and size is not fully understood. The results across the literature vary. However, investigating the impact of advertising expenditure on alcohol demand provides some insight into changes in the market structure when a change in legislation occurs. Eckard (2007) investigated the changes in the market structure after a ban on cigarette television advertising was implemented in the United States. The author found that brand and firm shares were more stable after the ban and that leading brands and firm concentration that were declining before the ban were stable or increased after the ban (Eckard, 2007).

On the other hand, Heimonen and Uusitalo (2009) investigate the impact advertising expenditure had on the Finnish beer market in the absence of price competition. During the period concerned, price competition in the Finnish beer market was outlawed, thus making it an oligopolistic market, in which each firm uses marketing campaigns to sell instead of prices irrespective of rival behaviour (Heimonen and Uusitalo, 2009).

The authors found that advertising did not impact the market share of the respective beer brands proportionately. The results showed that strong brands benefited from the advertising spend of weaker brands. In other words, the association between the brand and the brand information from advertising was disjointed. The authors propose that brand familiarity is a possible explanation for the phenomenon. Strong brands are able to maintain their market share with a proportional share of advertising, while weaker brands require a greater share of advertising voice to maintain market share (Heimonen and Uusitalo, 2009). Kent and Allen (1994) support the notion that familiar brands tend to maintain a market share that exceeds their advertising share-of-voice, while less familiar or low-share brands tend to have an advertising share-of-voice greater than their market share (Kent and Allen, 1994). Additionally, the study found that consumers tend to better remember new product information for well-known familiar brands.

In his study on the effect of advertising in overcoming brand loyalty in the breakfast-cereals market, (Shum, 2004) found that advertising plays a role in encouraging switching behaviour and persuading consumers to try brands they have not tried recently. The findings imply that advertising may be an effective way for new brands or firms to overcome the advantage enjoyed by incumbent brands and firms.

Eckard (2007) found that new brand entry in the cigarette market ceased in the first four years of the ban on television advertising in the United States. The author concluded that the ban had a negative effect on advertising within the cigarette industry.

This leads us to our second proposition:

*Proposition 2:* The market structure will change if promotions in mainstream media are banned as follows:

- a. Consumers will move from lesser-known brands to established brands.
- b. The market share enjoyed by the alcohol companies will not change significantly.
- c. Promotions will change from above-the-line to below-the-line.
- d. As a result of the new alcohol regulations, the barriers to entry into the alcohol industry will increase. The dominance of the big players in the industry will continue, while new entrants (brands and/or companies) will find it difficult to enter the market.

## **RESEARCH METHODOLOGY**

The research design for this study was exploratory, as the proposed alcohol regulations have not yet been implemented in the country. Consequently, a qualitative approach was followed, using in-depth face-to-face interviews with respondents to gather data. It can be argued that the implemented tobacco regulations are similar to the proposed alcohol regulations, due to both products having possible adverse effects on the health of individuals and communities. However, according to Shiffman and Balabanis (1995), the direction of the influence between alcohol and tobacco cannot be distinguished clearly, so that cross-sectional correlation studies cannot distinguish whether drinking alcohol increases smoking or vice versa. Therefore, it was important to collect separate data for this research, due to the lack of evidence supporting whether the impact of the tobacco regulations was able to predict the impact of the proposed alcohol regulations.

In addition, an interpretivist view was adopted, as it is important to understand that social behaviour is dependent on how people define and interpret the social situations in which they find themselves. Furthermore, the research examined the subject's views at a point in time; the answers to the interviews were context-bound and will not be applicable to all situations at all times.

The research population includes all persons who are involved in the marketing of alcohol products, including suppliers, distributors, marketing analysts and media partners. A purposive sampling technique was used, to interview 20 experts in the industry, using a semi-structured interview guide. These experts were typically marketing managers or general managers, marketing, of small and major alcohol suppliers, as well as executives from advertising agencies or distributors responsible for the promotion or distribution of alcohol.

Each interview was transcribed, and the data was analysed using the 'Directed Content Analysis' method, as described by Hsieh and Shannon (2005). The transcript data was categorised into the variables that were predetermined from existing theory; any text that could not be categorised using the predetermined variables was assigned a new variable.

Validity was ensured by following a rigorous data capturing method, sampling a broad, diverse set of individuals, and capturing data over a two month period to limit exposure to differing external stimuli that could affect responses. Reliability was ensured by collecting and analysing the data concurrently, and using follow-up questions during or after the interview if an idea needed clarification. However, given the exploratory nature of the research and the limited sample size, the results are not generalisable to the population as a whole.

## RESULTS/FINDINGS

### Results for Proposition 1

This proposition posits that the market size will be unaffected by the proposed regulations on promotions. The interview guide initially explored the fact that the decision to consume alcohol is based on a combination of emotional and rational processes, personal motives, and situational factors, rather than exposure to advertising. A number of themes emerged, as given in Table 1:

**Table 1: Factors influencing the choice to consume or purchase alcohol**

Themes	Respondent Comments
Childhood experiences are greater influences of alcohol consumption than advertising	<ul style="list-style-type: none"> <li>• Studies have shown that parental influence is the biggest influence that will result in whether a child will drink or not. And people’s attitudes towards alcohol</li> <li>• I think a child’s first experience of alcohol is their parents’ consumption of alcohol not through an outdoor billboard or a television ad . That’s where the fundamental learning structure comes from</li> <li>• Male role models in this society are the single biggest problem we face</li> </ul>

<p>Socio-economic issues contribute to alcohol abuse and misuse more than alcohol advertising</p>	<ul style="list-style-type: none"> <li>• Alcohol abuse is related to a number of social economic issues, there's a level of escapism in it – making alcohol less visible by not advertising is like treating the symptom rather than the disease</li> <li>• Alcohol abuse in SA is a major problem; underlying causes are poverty, lack of education, skills, no jobs, and a sense of hopelessness</li> <li>• An alcoholic told me that he couldn't understand the stupidity around advertising: "I drank because I wanted to drink, not because of advertising"</li> </ul>
<p>Advertising does not affect the decision to consume or purchase alcohol</p>	<ul style="list-style-type: none"> <li>• It has been borne out in several other markets, that simply banning advertising wouldn't take away the need or desire to consume alcohol</li> <li>• If they ban advertising tomorrow I don't think you will see a dip in alcohol consumption unless there is a fundamental shift in the global view on alcohol like there was in cigarettes</li> <li>• The majority of alcohol consumed in the world today (ethanol alcohol) is not advertised globally</li> </ul>
<p>A ban on above-the-line advertising would not affect market size or total consumption of alcohol</p>	<ul style="list-style-type: none"> <li>• There's no correlation between advertising and sales unless there is a very retail orientated message, such as a special price offer</li> <li>• If it [advertising] wasn't there, it might determine brand choice but I don't think it will determine consumption.</li> <li>• What will happen is that the market size won't change. But will change is the competition within the market - competition will be dramatically reduced - between the brands.</li> </ul>
<p>Alcohol advertising does not play a role in recruiting non-drinkers</p>	<ul style="list-style-type: none"> <li>• Our advertising has never really been conceptualised to turn someone who doesn't drink into a consumer</li> <li>• I wouldn't necessarily target non-drinkers; I would try and take drinkers from my competitors. so what you would do is advertise ATL so that people are aware of it but you'd have to do a lot of sampling and trial.</li> </ul>

The themes that emerged certainly point to the fact that the proposed legislation ban on the promotion of alcohol would not impact the market size and total alcohol consumption in the country.

## Results for Proposition 2

The latter part of the interview guide was designed to elicit responses related to whether a ban on advertising and promotions in the alcohol industry would affect the market structure and the market shares of the brands. A number of themes surfaced during the interviews, as given in the following tables for each of the components of the Proposition:

**Table 2: (a) Factors determining consumer brand choice and market share**

Themes	Respondent Comments
Alcohol advertising helps fight for market share	<ul style="list-style-type: none"> <li>• What we really fighting for is – we fighting for a little bit of share that the other guy has and we are trying to make our brand a little more attractive than the other brands</li> <li>• What I believe advertising does is that it creates a stronger relationship between you and your consumers; it deepens your loyalty between you and your consumers. It might bring people over that have been on the fence and not too sure about this brand.</li> </ul>
The main purpose of alcohol advertising is brand awareness and growing brand equity	<ul style="list-style-type: none"> <li>• But what I think, it [advertising] fundamentally builds a set of – it attempts to build a set of values into a brand – a set of values or an understanding of what that brand represents – what that brand stands for around perceptions, around memories.</li> <li>• There's two parts to it. There's the equity. And equity if you don't push it, it will erode over time. That means that you will touch onto a smaller brand. But at the same time, the strong guys will survive because they are strong right now.</li> </ul>



<p>Consumers are brand loyal and there will be no homogenisation of brands</p>	<ul style="list-style-type: none"> <li>• I think that brands play a very definite very specific role in people's lives and people will gravitate and orientate themselves around the brands that are relevant at any one given time. I don't think that by removing the above-the-line aspect of advertising that there would be a homogenisation of brands that will all slowly start to collapse in some way or the other.</li> </ul>
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Respondents agreed on the role of advertising in capturing market share and building brand equity, but lack of consensus on the switch from lesser-known brands to established brands.

**Table 3: (b) Changes in market share as a result of the promotion ban**

<b>Theme</b>	<b>Respondent Comments</b>
<p>The market share of the different alcohol companies will not change significantly</p>	<ul style="list-style-type: none"> <li>• If you ban alcohol advertising, the first thing that will happen is that you will freeze market shares. That's also just logical. If there is no way to tell the potential consumer that there are different brands, they will stick to what they know. So that's point one. It would benefit SAB - it would lock in the 85% share</li> <li>• They won't actually shift brands. What you will find is that their loyalty will stay with what they know.</li> <li>• You will get an initial dip in some respective market share in the short term (six to eight months), because people will forget about some brands for the time being, and then they will recover.</li> <li>• So if you are no longer allowed to advertise on TV, you'll find something else. Company, which is the most creative will most probably, gets the market share eventually.</li> </ul>

In general, respondents did not foresee any major movements in market shares.

**Table 4: (c) Advertising spend within the industry**

Theme	Respondent Comments
<p>Advertising spend will move from above-the-line to below-the-line space</p>	<ul style="list-style-type: none"> <li>• So I'd imagine that the shift would move far more from a broad based awareness model which advertising does to a far more one-on-one engagement model within the environments that people are actually consuming alcohol.</li> <li>• The war for alcohol brands is happening in trade, in bottle stores, its happening in distributors, in shebeens, in taverns, in counter serves, in people's homes.</li> <li>• So while it may seem that a lot of advertising is on TV and a lot of visibility in print and even sponsorships. But the majority - if you go into a tavern tomorrow you will see a lot of branding and a lot of promotions that cost money.</li> <li>• I think below the line; I think direct marketing, experiences.</li> <li>• But I know they [the tobacco industry] did far more expensive way of promoting where it was face-to-face marketing and having to go out there and meet the people and talk to the people directly</li> </ul>

Respondents were unanimous that alcohol suppliers would find other, more direct ways, of innovative marketing to replace the above-the-line activities.

**Table 5: (d) Factors determining competition within the industry**

Themes	Respondent Comments
<p>The effect on competition will depend on the company's/brand's target market:</p> <ul style="list-style-type: none"> <li>• Competition in niche markets will remain the same</li> <li>• Competition in mainstream markets will be reduced</li> </ul>	<ul style="list-style-type: none"> <li>• I think there is something in exclusivity. There is a sector of people who do not want to drink what everyone else is drinking. So there will always be a place for new exciting entrants into the market.</li> <li>• But any of the very tiny wine farms; they are already in trouble so it's not going to be easy for them to survive. Because there is no way to get people to try your brand.</li> <li>• I think the competition with the better distribution, the better sales force, the better in</li> </ul>

	<p>store executions will win. No longer can you create desire on TV and get people to switch brands by just being available. I think the companies with the better execution will win.</p> <ul style="list-style-type: none"> <li>• I think we will lose consumers with the smaller brands, because the others are established and have been punted already, but like new brands into the market and I think the smaller brands will suffer a bit.</li> <li>• Some niche players have been very successful without advertising, relying on direct marketing and word-of-mouth promotions</li> </ul>
<p>Innovation will be hindered and there will be no new entrants into the market</p>	<ul style="list-style-type: none"> <li>• So think about it from the point of view that it will be much more difficult for us: it will kill innovation. Innovation is important: lower alcohol products, safer products</li> <li>• You will be protecting SAB's dominant position in the market. You will effectively be locking out the opportunity for any new entrants to come in. There are still brewers out there internationally who are not present within this market. They will not come here as they can't advertise</li> <li>• By creating a dark market, you aren't going to get any new role players into the industry, because in order to kick off you are going to need to advertise your brand. So it is the small boys that are going to suffer the most.</li> </ul>

As can be seen from above, there were conflicting views regarding the effect of a ban on advertising on competition within the industry and between brands.

## CONCLUSIONS

All the respondents firmly believed that a ban on above-the-line alcohol advertisements would not have an effect on the market size or total consumption of alcohol. The respondents believed that the purpose of alcohol advertising is not recruitment. In other words, alcohol advertising does not aim to convert non-drinkers to drinkers; the purpose of advertising is to

build brand awareness amongst those who have already chosen to consume alcohol. Consequently, the lack of advertising would not affect the decision to consume and in so doing, leaving market size unaffected.

In addition to the opinion that alcohol advertisements do not turn non-drinkers into drinkers, the majority of the respondents believed that the decision to consume alcohol stems from the experiences an individual has had with alcohol during childhood. Chuan-Yu et al. (2011) and Clark et al. (2011) highlighted the significant role of family drinking behaviour and beliefs on an individual's propensity to consume alcohol. In explaining their opinion that alcohol abuse is impervious to alcohol advertising, the respondents mentioned the effect of the socio-economic circumstances surrounding the individual. They believed that poverty, lack of education and unemployment pre-disposed individuals to adverse drinking behaviours. This idea is supported by research conducted by Khan et al. (2002) and Mossakowski (2008). The studies showed that the likelihood of alcohol abuse increased with increased poverty and prolonged unemployment.

The results of the interviews were found to be consistent with the research. Consequently, Proposition 1 is *supported*, that the alcohol market adheres to the weak theory of advertising: the market size will be unaffected by the proposed regulations on promotions.

As far as the effect of the proposed regulations on the market structure were concerned, there was less consensus:

- all the respondents believed that the role of advertising is to build brand equity and brand awareness.
- the general consensus amongst the participants (except for two respondents who predict a short-term temporary decline) was that the market share of the different companies and brands would remain as it is currently. The main reason given is that if there is no way of communicating and telling the consumer about what is available on the market and what the brand represents, the consumer will purchase the brands and products that they understand and know. This is consistent with the study by Heimonen and Uusitalo (2009), who found that advertising did not impact the market share of the respective Finnish beer brands proportionately.

- all respondents agreed that if the proposal to ban mainstream advertising is accepted, companies will be forced to move into the below-the-line advertising space.
- the respondents were not in agreement regarding the effect of a ban on advertising on competition: some felt that smaller firms would struggle, others felt that niche players currently survive without above-the-line advertising anyway. This controversy is consistent with research by Shum (2004), who found that advertising encourages consumers to try new brands, and Eckard (1991), who concluded that banning cigarette advertising had a negative effect on competition.

Table 6 below summarises the conclusions to Proposition 2 regarding potential changes to the market structure:

**Table 6: Conclusions to Proposition 2**

<b>Proposition</b>	<b>Conclusion</b>
a. Consumers will move from lesser-known brands to established brands	<i>Partially supported</i>
b. The market share amongst the various alcohol brands will not change significantly	<i>Supported</i>
c. Promotions will move from above-the-line to below-the-line	<i>Supported</i>
d. The dominance of the big players in the industry will continue, while new entrants (brands and/or companies) will find it difficult to enter the market	<i>Inconclusive</i>

## **IMPLICATIONS FOR MANAGERS/RECOMMENDATIONS**

Alcohol abuse is a major problem in South Africa and across the world. It diminishes mental capital as well as places heavy financial and social burdens on the state and the affected communities. It is therefore vitally important that irresponsible alcohol consumption is curbed. However, this study assessed the effectiveness of the proposed regulations on reducing alcohol consumption in the country and it found that the alcohol market size would not diminish if mainstream advertising were banned.

Therefore, it is recommended that other approaches be explored to curb the abuse and misuse of alcohol. These should be focused on the causes, such as socio-economic, cultural and environmental, to initiate the desired behavioural changes. In particular, social influences, such as anti-smoking movements in the case of curbing tobacco usage, could also be harnessed to highlight the dangers of alcohol abuse. This is also because behaviour change takes time, there is no 'quick fix'.

For example, the "One More" campaign run by the ARA puts the spotlight on the effects of irresponsible alcohol use on families. The campaign featured advertisements on television demonstrating how parents' behaviour plays an important role in influencing their children's environment and growth (ARA, 2012).

The organisation South Africans Against Drunk Driving (SADD) is a non-profit, project-based organisation that works schools and universities around the country educating people about the adverse effects of drunk driving. In addition, they work with the authorities to enforce the laws governing drunk driving (SADD, 2012)

Also, it is imperative that the government alleviate the negative socio-economic conditions surrounding those at risk for substance abuse. Poverty, unemployment and a lack of education often leads to substance abuse.

The greatest managerial implication is that alcohol companies will be able to use this research as part of their rebuttals against the government proposals on advertising. The government, together with the for-profit companies, must explore other solutions to the problems of alcohol abuse and misuse. However, continuous monitoring of liquor advertising and its impact on consumers should be conducted regularly. Hae-Kyong Bang (1998) suggests that it is worthwhile to investigate public perceptions of spirits, beer and wine. In addition, Hae-Kyong Bang (1998) suggests that a more meaningful discussion can be generated if the focus is placed on what the liquor industry communicates to the public about its product and that product's usage.

However, in the event that the legislation is implemented, alcohol companies can prepare for this eventuality by preparing marketing plans focussed on more direct, below-the-line marketing campaigns, following the trends of the alcohol industry. The objective would be to

strengthen the brand equity and loyalty of current brands, to protect market shares should advertising campaigns not be allowed.

As this study was exploratory in nature, suggestions for further research include:

- an exploratory study of the effect of the ban on sponsorship by alcohol companies on the sports industry
- a quantitative study of the effect of the ban on the market size and structure
- an investigation into consumers' perceptions of the proposed ban, and the resultant potential impact on their attitudes and behaviours
- a study into the strength of the relationships of drivers of brand equity and brand loyalty, including advertising.

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# **A RETURNS BASED ANALYSIS OF THE EURO ZONE SOVEREIGN DEBT CRISIS: A SOUTH AFRICAN INVESTOR'S PERSPECTIVE**

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## **ABSTRACT**

This paper describes the possible effects of the Euro Zone Sovereign Debt Crisis on a simplified ideal offshore investment portfolio of the average South African investor in the Euro Zone before the crisis started. An offshore portfolio in the USA and UK and a local South African portfolio were also analysed for a comparative result. A simplified portfolio of stocks and bonds, combined in different proportions to form one risk aggressive portfolio, one moderate risk portfolio and one risk averse portfolio, were constructed for each country. The results found were that the Euro Zone portfolio performed the worst, with the UK next, then the USA, with RSA providing the highest return for an investor. With the Euro Zone debt crisis far from over, the rationale behind investing in a foreign Euro Zone portfolio may be questioned.

## **INTRODUCTION**

Due to the recent and current nature of the Euro Zone sovereign debt crisis, previous research on this topic is limited, with the exception of the last noted sovereign debt crisis in South America in the 1980s (Bowe and Dean, 1997). Sovereign debt crises are not a common occurrence and therefore only limited research has been done on them. In a South African context, we have not found current information that illustrates the effects of this foreign debt crisis on the South African investor with offshore investments in the Euro Zone; this research will add to the body of knowledge concerned with investment management and South African investors who are investing in foreign countries, as well as other investors around the world who have invested in the Euro Zone.

Since the gradual relaxation of foreign exchange controls by the South African government from 1994 onwards, there has been a large increase in demand for offshore investments

(Farrell and Todani, 2004:21-23). Current exchange controls in South Africa, entitle an individual over the age of 18 to an offshore investment allowance of R4 million (Incompass, 2011:1). The relaxation of exchange controls has caused the demand for foreign investment to increase in order to diversify South African investment portfolios. In 2007 this resulted in amounts up to €7.6 billion being invested in shares by South Africans, with South African investment flows to the European Union of €2.6 billion. Simultaneously, European investment flows to South Africa totalled €3.5 billion (European commission, 2010:1).

In this research paper has three fundamental aspects:

- The South African investor.
- Their offshore portfolios within the Euro Zone, and
- The international financial impacts that have been brought about by the Euro Zone debt crisis.

These aspects will be defined, examined and tested as to how they all interact with each other to determine overall how the South African investor has been affected by the Euro Zone debt crisis between 1 July 2009 and 29 June 2011.

The article proceeds as follows: In the next section the research objectives are discussed, thereafter the Euro Zone sovereign debt crisis and the investment opportunities will be outlined. The paper will then outline the methodology used in constructing the ideal offshore portfolio and what data was used in the data collection. The data is then analysed (RSA, UK and USA portfolio's included) and finally in the last section the results and discussion. The final section concludes the findings of this paper.

## **RESEARCH OBJECTIVES**

The primary aim of this research is to study the influence of the Euro Zone Sovereign Debt Crisis on a South African offshore investor, who has investments within the Euro Zone. The value of a portfolio of Euro Zone assets is influenced by the exchange rate, the market's perception of market risks, the liquidity of the market and the prevailing interest rates.

To achieve the aim of the research, the objectives are to:

- Compose a simplified offshore investment portfolio.
- Investigate the influence of the Euro Zone sovereign debt crisis on the offshore investment portfolio.
- Compare the impact on similar portfolios in South African (RSA), the United Kingdom (UK) and the United States of America (USA).
- Assess the impact of the results of this study on the composition of foreign investment portfolios for RSA investors.

## **EURO ZONE SOVEREIGN DEBT CRISIS AND GLOBAL INVESTMENTS**

The prolonged economic downturn which began with the international financial crisis impacted less economically stable countries which led to a sovereign debt crisis in the Euro Zone (Civitas, 2010:1-2). Sovereign Debt Crises are not a common occurrence and the only other documented instance was the ‘lost decade’ in Latin America during the 1980s. Global investments have been on the rise over the past few decades and due to these invested amounts this crisis could become global and have an effect that has not been seen in this age.

### **Sovereign debt**

Since 1900 there has only been one recorded sovereign default; namely the Latin American crisis. Sovereign debt crises occur when a country defaults on its foreign debt commitments; this in itself is a credit risk of default which is undertaken when any borrowing takes place (Lindauer, 2010:1).

Sovereign debt involves government bonds or securities which are perceived as risk free, secure debt instruments issued by the government. The sale of these government bonds results in international debt; debt owed outside of the country. When the country’s government can no longer repay these foreign debt principle or interest payments, then the country defaults on these loans or its debt, resulting in a failure to service foreign debt (Bowe and Dean, 1997:9). When this failure occurs, the “risk free” instruments default and a sovereign debt crisis occurs (Lindauer, 2010:1).

### **Latin American sovereign debt crisis**

The Latin American crisis was the first modern sovereign debt crisis, which occurred between the 1980s and the 1990s, referred to as the ‘lost decade’ due to the economic

changes which prevailed (Korner, Maass, Siebold and Tetzlaff, 1986:4). The effect of these changes were that the per capita income was lower at the end of the decade than before the crisis began (Korner, Maass, Siebold and Tetzlaff, 1986:4). There are a number of theories regarding the beginnings of this crisis; nevertheless the international debt default resulted in one of the most severe economic crises in history (Devlin, 1989:1).

Speculation regarding what caused this Latin American crisis varied from the resumption of private international bank lending to Latin American countries in the 1970s to the sudden oil price increase where international debt rose to \$112 billion in 1973, which allowed for a further increase in available funds for lending and then the 'interest shock' which increased these loans repayments and principle amounts (Korner *et al*, 1986:5).

These events caused debtors to increase their debts in order to settle older debts creating a debt build up with little income to service any of this debt, old or new. Furthermore, the IMF and the World Bank estimated that these developing countries' short-term debts at the end of 1977 totalled US \$57 billion and had risen to \$155 billion by 1982 (Korner *et al*, 1986:8). Mexico had an outflow of \$7 billion in 1984, which was the first ever negative balance recorded (Korner, *et al*, 1986:9).

Latin America suffered significant economic changes and financial losses in this 'lost decade' as well as after the crisis. Employment decreased throughout Latin America, with real income reducing by an estimated 33% in Mexico (Twomey, 1989:549), investments declined after 1980 due to investors observing the unsustainable nature of the countries' progressions, inflation also grew throughout this crisis which caused further foreign exchange devaluations through monetary policies. These devaluations in turn caused a decrease in real money supply and a further decline in investments due to the lowering returns on the horizon; this may have been due to uncertainty or domestic and international price declines (Twomey, 1989:545-555).

### **Euro Zone sovereign debt crisis**

European financial markets form a large part of the global financial market. In 2007 the Euro comprised 15.8% of global GDP (European Commission, 2010:1). The stability and reliability of the Euro over the years has caused the Euro to be the second largest reserve currency in the world as well as the second most actively traded currency in the world; it is



estimated account for 40% of the daily global transactions within the foreign exchange markets. The popularity of the Euro could be credited to its low inflation and interest rates and stable currency in the global markets (European commission, 2010:1).

The international financial crisis that started in 2007 caused a prolonged economic downturn, impacting many countries around the world including some of the less economically stable European countries. This crisis was first evident in Greece in November 2009; Greece announced extremely large amounts of debt and a budget deficit of double what was expected and four times higher than the European Union regulations (Civitas, 2010:1-2).

These budget deficits subsequently caused ratings agencies to downgrade Greece's credit rating, starting the panic and scepticism in the markets. Other Euro Zone Union member countries such as Italy, Spain, Ireland and Portugal then attracted attention due to their high levels of public debt and substantial budget deficits, similar to Greece (Civitas, 2010:3-4). The attention paid to these countries caused more downgrades in some of the mentioned countries' credit ratings, causing immense amounts of speculation and volatility in the markets. These events have led to what is currently known as the Euro Zone debt crisis with Portugal, Italy, Ireland, Spain and Greece (PIIGS) bordering on default (Saunders, 2010; The Economist, 2010; Koba, 2011; La Monica, 2012).

### **Selecting investments in a global market**

Investors in the 21<sup>st</sup> century have a wide range of investment opportunities. This can be attributed to globalisation, increases in technology and decreased trading regulation. The improvement and efficiency of communications and technology has allowed for simplicity and therefore an increase of trading domestically and internationally. These improvements have also caused markets to compete against each other, causing the creation of new investment instruments and vehicles with varying risk-return characteristics and cash flow patterns.

In a global context there are increased investment opportunities which broaden the range of risk - return choices. The rates of return may be higher in foreign countries, especially when the investor is based in a first world country and investing in emerging markets where higher growth rates are possible (Solnik & McLeavey, 2009:421). Another reason for diversifying internationally is to increase the diversity of the portfolio, as there is a low correlation in asset

returns between first world countries and emerging economies (Solnik & McLeavey, 2009:423).

There are a number of reasons why investors will take part in the risk of an investment opportunity; however the theory behind investments as well as the way in which markets are analysed, are not always efficient tools in the investment process. Markets have been said to be efficient. This comes from the theories of Harry Markowitz in the efficient capital markets (Markowitz, 1959); it is assumed that all investors are rational and that all current information is available for investment decisions, thus asset prices are an unbiased reflection of the information and the risk associated with the securities.

It has been suggested that with Markowitz's efficient assumptions in place, a single asset or portfolio of assets is considered to be efficient if no other asset or portfolio of assets offers a higher expected return with the same or lower risk, or a lower risk with the same expected return. One way in which investors determine the way in which to invest, is the diversity consideration of a portfolio. The combination of two assets that are largely negatively correlated will greatly contribute to the diversification of the portfolio. The opposite movements of the investments rates of return will cancel each other out and stabilise the rate of return, thus reducing the portfolio's volatility which in turn reduces the risk of the portfolio (Solnik & McLeavey, 2009:388).

In an International context, the macroeconomic differences between countries can be the reason for the differences in correlation. These differences in correlation allows for diversification of investors' portfolios (Solnik & McLeavey, 2009:395). Determining the correlations between prospective international investments may help the investor to decide on the best country with the largest difference in correlation to invest in. This large difference in correlation should ensure the largest reduction in the standard deviation and should maximise the return in risk terms (Solnik & McLeavey, 2009:420).

## **RESEARCH METHODOLOGY**

### **Paradigm:**

This research will be conducted from a positivistic approach. This research is an investigation of the sovereign debt crisis effects on a RSA investor. Quantitative data will be gathered in order for this assessment to take place; this data is reliable and therefore less prone to bias.

The method used by the researchers to conduct this research, was to gather the quantitative data necessary from financial databases and then, using three simplified portfolios, the data was used to show the changes in the values of the portfolios from four Economic Zones: the Euro Zone (EURO), the United Kingdom (UK), the United States of America (USA) and South Africa (RSA).

### **Model creation**

An ideal investment portfolio was composed to represent ‘best investment practice’; this was included in the model that was created in order to analyse the changes that occurred to investments throughout the Euro Zone sovereign debt crisis, beginning 1 July 2009 until the 29 June 2011. The starting point of this period was chosen as it was a number of months before the sovereign debt of Greece was downgraded (See Figure 1) and therefore the researchers argue that the crises probably had not been priced into the markets at that stage.

The researchers created a simplified portfolio which included only two asset classes; shares and bonds. These asset classes were chosen because the portfolio created needed to be accessible to the average investor who has a basic knowledge of investments. An investor would seek to diversify their portfolio through holding many shares or assets; so that the return of the market can be achieved. An investor seeking a diversified portfolio, has two options: they could “stock pick”, which is not recommended for the average investor with limited knowledge of offshore markets, or they could choose to use the index of a market which would give him exposure to the whole market without being exposed to specific stock risks (Solnik & McLeavey, 2009: 326-327). In order to reduce the possible combinations of portfolios the researchers chose to use the indexes of each of the markets being investigated.

The researchers acknowledge that it could be argued that using an index may have certain drawbacks including the fact that these indexes are often narrow-based market indexes that may not represent the total market accurately (Solnik & McLeavey, 2009:327) and that an index, like the JSE, may be dominated by certain industries. If the dominating industry in a country is either more positively or more negatively than average affected by a market shock the index might react more or less than the economic reality. After considering these limitations of using indexes the researchers would still argue that indexes are the best proxy for share based investments.

In order to cover a broad risk spectrum, three different portfolios were created to cater for three diverse risk appetite investors: a risk aggressive investor, a moderate risk investor and a risk averse investor. Therefore, the three offshore regional portfolios were split into different proportions: 75% stocks and 25% bonds representing the risk aggressive portfolio, then 50% stocks and bonds representing the moderate risk portfolio and finally 75% bonds and 25% stocks representing a risk adverse portfolio.

In the researchers view the indices that were selected also tend to represent the larger well known “blue chip” companies that an investor are more likely to invest in, as investors are risk averse and would generally invest in companies that are considered large, safe, and stable while still offering a decent return. The 10 year government bonds of each country or region were selected because they can be seen as longer term investments which are appropriate to most individual investors.

### **Data gathering**

The Euro Zone debt crisis financial data was gathered by searching for published and current data that pertained to the portfolios that were developed. This is consistent with the data analysis technique which is similar to document analysis, but is imbedded in the quantitative view. The financial databases McGregor, Thompson Datastream and Yahoo Finance were used to gather this data for analysis. The data comprised the daily closing values of the market indices, bond prices and exchange rates.

The main areas of focus for the data gathering were the country-wide share indices that the average South African investor would be familiar with and potentially invested in when considering an offshore portfolio in the Euro Zone, USA or the UK. The period that was

decided upon for this study was from the 1<sup>st</sup> July 2009 to the 29<sup>th</sup> June 2011 with a daily frequency, which allowed for a broad overview from before the Euro Zone entered the sovereign debt crisis up to a point two years later. As the Euro Zone crisis is ongoing the researchers decided on an initial two year period to identify any trends. Further research could consider the entirety of the crises when it concludes.

Data were gathered as follows:

- For the Euro Zone, the researchers gathered data from the Euro First 80 Index; this was in order to eliminate the UK for the specific research purpose (in order to isolate the data that was coming from the Euro Zone) and, for the familiar Euro Zone investment opportunities for the appropriate average investor, the bonds used were the EMU benchmark 10 year bond.
- For the UK, the FTSE financial data was used for a share index and the 10 year UK government bond.
- For the USA, the well-known S&P 500 and the USA 10 year government bond financial data was gathered and, finally,
- In South Africa, the FTSE/JSE All Share index and the RSA government bond financial data were gathered.

The exchange rates for the last two years were also gathered to relate each countries' performance back to Rand terms in order to interpret results in a contrastable format. As well as to gain a starting price in each specific currency. The Rand based performance of the investments were also important as the research was carried out from a South African investors perspective.

### **Data analysis**

The analysis of the data began with the data collected regarding the South African and three offshore countries' appropriate indexes and 10-year government bonds. The data were exported into Excel spreadsheets, where it was then grouped, aligned and synchronised to ensure all of the dates corresponded to the prices of the indexes and bonds. Where there were public holidays and weekends where no trading occurred, the data was kept the same as the previous trading day until the markets reopened. The same process was done for the

exchange rates that were used to calculate the beginning and end values of the offshore portfolios in the related currencies.

The data from the indexes and bonds were combined to create the values for the portfolio pertaining to each specific country. The portfolios were created by using a value of R1 million and investing this sum into the portfolios with the different ratios of bonds to stocks. For the offshore portfolios such as the USA, Euro Zone, and UK the exchange rate for the first day of the research was used to convert the Rand value into the respective currencies. From this the growth of each portfolio pertaining to the three asset split combinations of bonds and indexes were calculated.

In addition the daily returns were calculated and descriptive statistics drawn. Sharpe's measure was then calculated by taking the annualised return less the risk free rate divided by the standard deviation (Reilly & Brown, 2012:939). The risk free rate used was the return on the ten year bond of each country in rand terms and in their home currencies.

The daily values attained for each portfolio in their specific currency were then converted to Rand terms at the specific exchange rate relating to the end date. The return was then analysed and compared to the other countries' portfolios.

## **RESULTS**

The study conducted found results that were expected and others unexpected. Through the use of four different economic zones the researchers were able to achieve a diverse set of results showing the average South African investor what would have occurred in different scenarios as well as perhaps what their investments may have done over the past two years.

### **Summary of Data Findings**

Table 1 demonstrates the value movements of the portfolios over the two year period. Table 1 demonstrates the four different economic zones, the investments starting value's in the respective currencies and the ending values over the two year period in their own currencies and finally in Rand terms in the second part of the table.

Table 2 demonstrates the descriptive statistics of the daily returns over the period. Table 3 demonstrates the correlations between the different markets based on the daily activity in Rand terms.

Based on the findings in Table 1 it is apparent that all portfolios grew and showed returns in their respective home currencies. The highest (excluding South Africa) returns was the aggressive US portfolio that grew by 15.17% and the lowest was the risk averse EURO portfolio that only returned 4.22%. These findings are as expected as the risk averse portfolios are expected to have lower rates of return than the aggressive portfolios.

**Table 1: Findings Summary**

	<b>Market</b>	<b>Bond / Shares</b>	<b>Initial investment (01/07/2009)</b>	<b>Closing value of investment (29/06/2011)</b>	<b>Total Growth (%)</b>	<b>Annualised Return (%)</b>
<b>Home currencies</b>	USA	75/25	\$129 072	\$147 051	13.93	6.79
		50/50		\$158 955	23.15	11.05
		25/75		\$170 859	32.37	15.17
	UK	75/25	£78 152	£88 402	13.12	6.40
		50/50		£94 079	20.38	9.79
		25/75		£99 757	27.64	13.08
	EURO	75/25	€91 067	€98 858	8.59	4.22
		50/50		€101 698	11.67	5.72
		25/75		€104 538	14.79	7.19
	RSA	75/25	R1 000 000	R1 272 913	27.29	12.92
		50/50		R1 314 279	31.43	14.79
		25/75		R1 355 644	35.56	16.55
<b>Rand</b>	USA	75/25	R1 000 000	R1 007 373	0.74	0.37
		50/50		R1 088 921	8.89	4.38
		25/75		R1 092 534	17.05	8.25
	UK	75/25	R1 000 000	R968 177	-3.18	-1.62
		50/50		R1 030 355	3.04	1.52
		25/75		R1 092 534	9.25	4.56
	EURO	75/25	R1 000 000	R972 294	-2.77	-1.40
		50/50		R1 000 227	0.02	0.01
		25/75		R1 028 161	2.82	1.41
	RSA	75/25	R1 000 000	R1 272 913	27.29	12.92
		50/50		R1 314 279	31.43	14.79
		25/75		R1 355 644	35.56	16.55

When the findings in Table 1 in Rand are considered a very different picture emerges for the South African investor. The risk averse UK and EURO portfolios actually showed negative returns of -1.62% and -1.40% respectively. The highest return achieved was again for the US aggressive portfolio that achieved a return of 8.25%. The South African portfolios outperformed all the foreign portfolios as the returns ranged from 12.92% to 16.55%.

In Table 2 the daily returns are analysed. The standard deviation, that is a measure of risk, appears consistent with theory as the less aggressive portfolios had a lower standard deviation than the higher risk portfolios in most cases. Only the US portfolio in Rand terms did not follow the expectation and had very similar standard deviations and the risk averse standard deviation was slightly higher than the medium portfolio (50:50). It is also clear that in Rand terms the South African based portfolios had much lower standard deviations than the foreign portfolios.

The Sharpe measure was used to assess the performance of the portfolios. It is apparent that in Rand terms the South African portfolios outperformed the other portfolios on a risk-return adjusted basis as the lowest Sharpe measure is the RSA portfolios was 0.08 while the highest achieved for the other portfolios was for the USA of 0.03.

If the Rand based correlations between the different portfolios are considered in Table 3 it appears that the conservative portfolios of the foreign investments are negatively correlated with the South African market. This is also true of the moderate portfolio's RSA and USA correlation. All other correlations are positive although generally the correlations between the RSA portfolios and the foreign portfolios are lower than the correlations between the foreign portfolios. This lower correlation could be due to the differences in exchange rate fluctuations between the related region's currencies. It is also interesting to note the very high correlations of the EURO and UK portfolios.

The timeline by Thomson Reuters (2011) (Figure 1) demonstrates the various market reactions to the news shocks that have occurred in the Euro Zone, from the timeline it can be seen how these have greatly affected the USA Dollar-Euro exchange rate. This is also evident in our analysis with the markets and portfolios in the related regions that were chosen.



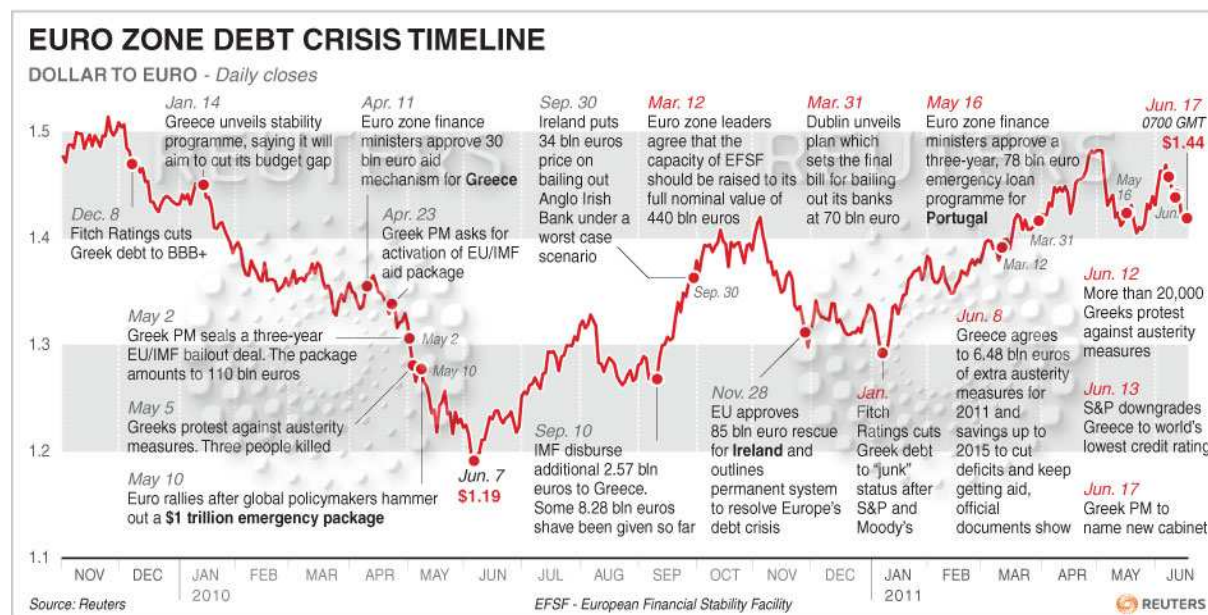
**Table 2: Daily returns statistics**

	Market	Bond / Shares	Daily returns in percent						Annual returns in percent			
			Mean	Median	Standard Deviation	Sample Variance	Kurtosis	Skewness	Annualised return	Annualised Standard deviation	Risk Free Rate	Sharpe
Statistics in home currencies	USA	75/25	0.03	0.02	0.34	0.12	1.19	-0.13	6.79	87.40	0.02	0.08
		50/50	0.04	0.08	0.49	0.24	0.84	-0.16	11.05	124.36		0.09
		25/75	0.06	0.10	0.76	0.58	1.57	-0.25	15.17	192.97		0.08
	UK	75/25	0.02	0.02	0.31	0.10	0.60	-0.17	6.40	79.16	0.03	0.08
		50/50	0.04	0.04	0.52	0.27	1.09	-0.03	9.79	131.05		0.07
		25/75	0.05	0.04	0.78	0.60	1.28	0.02	13.08	197.12		0.07
	EURO	75/25	0.02	0.00	0.29	0.08	0.81	0.11	4.22	72.75	0.03	0.06
		50/50	0.02	0.00	0.60	0.36	4.13	0.39	5.72	152.43		0.04
		25/75	0.03	0.01	0.96	0.91	5.35	0.49	7.19	242.75		0.03
	RSA	75/25	0.04	0.03	0.40	0.16	1.68	-0.09	12.92	101.33	0.11	0.13
		50/50	0.05	0.04	0.59	0.35	1.51	-0.13	14.79	149.75		0.10
		25/75	0.06	0.05	0.81	0.65	1.15	-0.15	16.55	204.93		0.08
Statistics in Rand	USA	75/25	0.00	-0.04	0.95	0.90	0.63	0.21	0.37	241.09	-0.04	0.00
		50/50	0.01	-0.02	0.90	0.81	0.92	0.08	4.38	227.91		0.02
		25/75	0.03	0.02	0.97	0.94	1.01	0.03	8.25	246.41		0.03
	UK	75/25	-0.02	0.00	0.87	0.76	7.14	-0.86	-1.62	221.18	-0.05	-0.01
		50/50	0.00	0.02	0.88	0.78	6.85	-0.86	1.52	224.15		0.01
		25/75	0.01	0.01	0.99	0.98	4.67	-0.57	4.56	251.09		0.02
	EURO	75/25	-0.02	-0.02	0.81	0.66	8.97	-0.88	-1.40	206.15	-0.03	-0.01
		50/50	-0.01	0.00	0.88	0.78	5.63	-0.68	0.01	223.72		0.00
		25/75	-0.01	0.01	1.08	1.17	3.29	-0.31	1.41	275.02		0.01
	RSA	75/25	0.04	0.03	0.40	0.16	1.68	-0.09	12.92	101.33	0.11	0.13
		50/50	0.05	0.04	0.59	0.35	1.51	-0.13	14.79	149.75		0.10
		25/75	0.06	0.05	0.81	0.65	1.15	-0.15	16.55	204.93		0.08

**Table 3: Correlation**

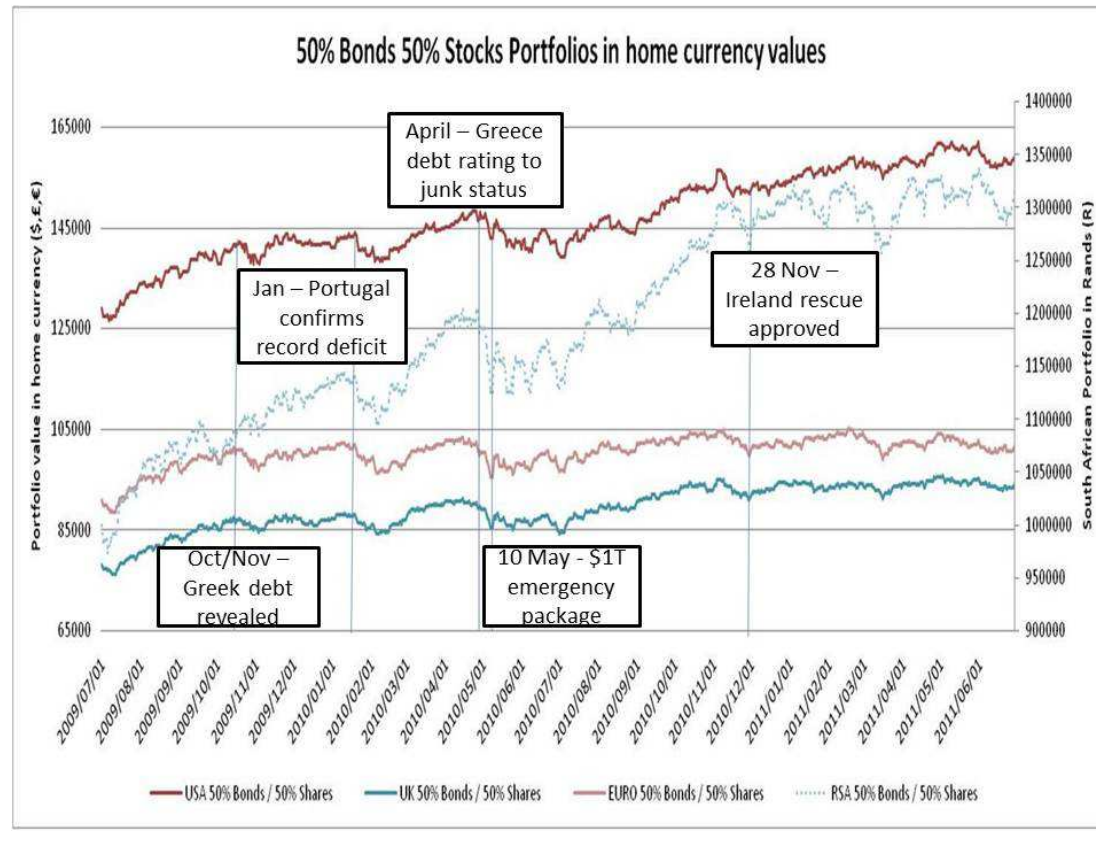
Correlations of returns in Rand terms				
75% Bond / 25% Share				
	US	UK	EURO	RSA
US	1			
UK	0.62462	1		
EURO	0.54852	0.81093	1	
RSA	-0.24	-0.0149	-0.0161	1
50% Bond / 50% Share				
	USA	UK	EURO	RSA
USA	1			
UK	0.5996	1		
EURO	0.48764	0.77797	1	
RSA	-0.0433	0.25635	0.3107	1
25% Bond / 75% Share				
	USA	UK	EURO	RSA
USA	1			
UK	0.58368	1		
EURO	0.49602	0.79959	1	
RSA	0.13997	0.4415	0.49714	1

**Figure 1: Euro Zone Debt Crisis Timeline**



The relationship between the economic regions movements and the economic shocks are best seen in Figure 2 with the 50% bond: 50% share portfolios of each economic region in their home currencies.

**Figure 2: 50% Bonds 50% Stocks Portfolios in home currency values**



Based on some of the Euro Zone events in Figure 1, a few were used to indicate, on the appropriate 50% bond: 50% stock portfolio graph, the correlated movements experienced over the time period. From Figure 2 it can be observed that all the portfolios from the different regions experienced similar dips and recoveries throughout the period. As the markets are the most correlated in their home currencies it is easier to see the news shocks that occurred in the Euro Zone in the home graph. The difference how much each portfolio moves with the news and how much and how quickly it recovers from the news shocks, which can be observed in Figure 2. Also refer back to Table 3 for the calculated correlations.

## DISCUSSION

The results that have been obtained show that the South African portfolio performed the best throughout each Bond/Index split: the return from the portfolios remained high for each South African portfolio. It should be remembered that this could be due to the market index

used. When comparing the South African portfolio to the other offshore portfolios before any exchange rate adjustments have been made, the total returns are similar to that of the risk aggressive investor in the USA with a return of 32% and the UK with a return of 27%, being slightly lower. These returns also hold true for the other moderate and risk averse portfolios of the USA and UK of 23%, 13% and 20%, 13% respectively. When reviewing the results of the Euro Zone portfolios the growth that has been realised is significantly lower than the other portfolios where the risk aggressive, moderate and risk averse portfolios produced a total return of 14%, 11% and 8% respectively.

These lower returns could be credited to the Euro Zone crisis that is still unfolding in the Euro Zone where doubts have frightened many investors away from investing in such a region. However, to prove this further research would need to be conducted.

When taking the exchange rates into account when calculating the final values of the portfolios in Rand terms an even larger difference occurs for the offshore portfolios. The Rand value returns that have been realised for the risk aggressive, moderate and risk averse portfolios in the USA were (17%; 8%; 0.74%), for the UK (9%; 3%; -3%) and Euro Zone (2.8%; 0.02%; -2.77%) respectively. This has been due to the Rand strengthening relative to other currencies, this has caused the returns in foreign investments to be lower than the actual return realised in their home currencies.

## **CONCLUSIONS AND RECOMMENDATIONS**

The effects of the Euro Zone sovereign debt crisis on the bonds and indexes that were selected in the Euro Zone portfolio have performed much worse than the relative risk portfolios selected in other regions, producing lower percentage returns when the three risk portfolios were evaluated in their respective home currencies. This result could be accredited to the linkage between the news shocks that arose out of the Euro Zone debt crisis and the daily price movements that the Euro Zone markets and bond prices battled to recover from. The high correlation of the UK portfolios to the Euro Zone portfolios also caused the returns of the UK portfolios to be lower than the relative USA and South African portfolios, which were not as correlated to the Euro Zone portfolio and thus managed to recover faster from these economic shocks.

After converting the portfolios back into South African Rand terms it appears that the offshore portfolio values are greatly influenced by fluctuations in the exchange rate. Therefore South African investors should examine the current exchange rates that prevail in each region and do an analysis of possible future fluctuations or possibly hedge their portfolio to mitigate the exchange rate risk from investing in foreign countries. Another option would be to keep investments domestic until the current economic situation in the large international economic regions such as the USA and the Euro Zone show some indication of stabilising.

This paper's aim is not to stop investors from investing in foreign markets but to analyse the sovereign debt crisis's impact on these investments. It could well be argued that at some stage in the future, when the Euro Zone recovers, there may be a lot of value that can be extracted from those markets.

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**CONSTRAINTS TO SME GROWTH IN DEVELOPING COUNTRIES:  
AN EXPLORATORY STUDY**

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**ABSTRACT**

Small and medium enterprises (SMEs) play a pivotal role in the economic growth of many countries, yet these still enterprises continue to face obstacles to growth, especially in developing countries. This research investigates the common setbacks faced by small-to-medium enterprises (SMEs) in developing countries, based on notable extant empirical studies in literature. The aim is to provide a synthesis of common problems affecting the growth of SMEs and suggest possible strategic ways of alleviating the impact of the problems prevalent in SMEs in the developing world. An analysis of the empirical studies indicates that there are 10 common problems faced by SMEs in several regions. Of the 10 common problems, 4 problems have the highest impact across all cases studied in this work. Based on the key problems identified in this study, recommendations and practical way forward are suggested for improving the growth of SMEs in developing countries.

**Keywords:** Small and medium enterprises (SMEs), SME growth

**INTRODUCTION**

Small and Medium Enterprises (SMEs) make a significant contribution to the overall economy of every country (Fatoki and Smit, 2011; Abor and Quartey, 2010; Vaaland and Heide, 2007). SMEs are the national economic drivers in every society. Millineux (1997) described SMEs as highly prolific and efficient in job creation. The SME sector is the largest employer and the fuel of business, not only in developing countries, but also in the developed



world. According to the Organisation for Economic Co-operation and Development (OECD), SMEs contribute approximately 25% of the overall OECD exports and about 35% of Asia's exports (OECD, 1997). Interest in the role of SMEs growth and development continues to be at the forefront of policy makers, researchers and academics all over the globe. Consequently, governments at all levels have tried their best to take initiatives to promote the growth and development of SMEs (Feeney and Riding, 1997).

What constitutes a small or a medium enterprise? There is no a general agreement over what defines SMEs, as demonstrated by the various definitions across regions and countries. For instance, the European Commission (EC) defined SME in terms of the number of employees: (i) micro enterprises - firms with 0 to 9 employees; (ii) small enterprises – firms with 10 to 99 employees; and (iii) medium enterprises - 100 to 499 employees. Conversely, the United Nations Industrial Development Organization (UNIDO) defines SME by classifying enterprises into industrialized and developing countries (Elaiian, 1996). Thus, SME in developed regions is described as follows: (i) small enterprises - firms with 99 or less employees; (iii) medium enterprises - firms with 100 to 499 workers; and finally, (iii) large enterprises - firms with 500 or more workers. In the same vein, the classification in respect of developing countries is given by the following:

- Micro - firms with less than 5 workers.
- Small - firms with 5-19 workers;
- Medium - firms with 20-99 workers;
- Large - firms with 100 or more workers;

Despite the increasing awareness of the potential role of SMEs to economic growth and well being of developing countries, several setbacks still affect the realization of the full potential of SMEs. In general, the growth of SMEs is retarded by a number of factors, such as limited finance, lack of managerial and entrepreneurial skills, inappropriate equipment and technology, restrictive regulatory frameworks, and limited access to international markets (Peng, 2010; Steel and Webster, 1991; Gockel and Akoena, 2002; Aryeetey *et al*, 1994). As seen by the numerous empirical studies in this study, lack of finance and lack of entrepreneurial know-how places create significant constraints to accelerated SME development. Most empirical studies have reported that the major constraint to growth is lack

of financial support or limited access to credit facilities (Rwingema and Karungu; 1999; Graham and Quattara, 1996). A significant number of studies have indicated that though numerous institutions have taken initiatives to train SME managers skills gaps are still prevalent in SMEs. This may be attributed to high costs of training such that potential entrepreneurs cannot meet the costs, and the lack of awareness of the need for skills upgrade. In addition, SMEs are reported to have limited channels to appropriate technologies or information on available techniques (Dai, 2008; Aryeetey *et al.*, 1994). More problem areas do exist in the overall SME supply chain enterprises (Chen and Peng 2011; Ping, 2008; Lim, 2006; GFP, 2005).

Research questions often arise as to what are the major roles of SMEs in developing countries? What are the common constraints to their growth and development? This research seeks to investigate, from the various empirical studies on SME growth, the common problems or constraints that contribute to the retardation of SME development. The objectives of this study are as follows:

- to explore existing empirical studies on growth of SME in developing countries;
- to investigate common problem areas affecting SME growth; and,
- to suggest the way forward based on the exploratory study in order to enhance growth of SMEs

The rest of the paper is as follows: The next section provides an overview of the SMEs and their contributions in developing countries. Section 3 presents the research methodology used in this study. Results and discussions are provided in Section 4. Section 5 presents additional managerial insights on financing constraints and challenges. Recommendations are then provided in Section 6. Section 7 concludes the paper.

## **SMES IN DEVELOPING COUNTRIES**

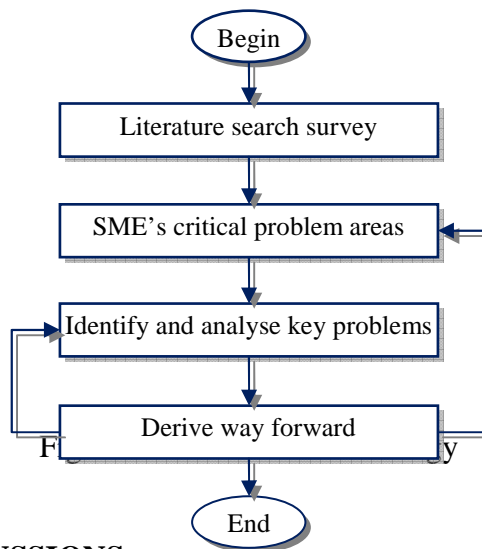
In most developing countries, SMEs represent over 80% of private business. They contribute over 50% of employment with considerable contribution to GDP. For instance, in South Africa, it is estimated that 91% of the formal business entities are SMEs (Hassbroeck, 1996; Berry *et al.*, 2002). Therefore, the performance of SMEs is important for both economic and

social development of developing countries. From the economic stand point, SMEs provide a number of benefits (Advani, 1997). As such, the development of SMEs has long been one of the most important areas of concern to many decision makers in an attempt to improve economic growth in developing countries. SMEs have been recognized as the powerhouse by whom the growth objectives of developing countries can be achieved. Moreover, they are potential sources of employment and income in many developing countries. Since SMEs are more labour intensive than larger firms, they tend to require lower capital costs related to job creation (Kayanula and Quartey, 2000). Therefore, these enterprises have the potential to sustain income stability, growth and employment.

By production of goods and provision of services to consumers and other enterprises SMEs help to contribute to a country's national product. This includes provision of products and services to the local market as well as foreign clients, which is a contribution to the overall export performance. For example, SMEs also account for nearly 90% of the formal business entities in South Africa, which yields more than 50% of GDP, providing about 60% employment to the country (Gumede, 2000; Berry *et al.*, 2002).

## **RESEARCH METHODOLOGY**

The research methodology applied in this study was conducted in four stages, as shown Figure 1. First, an intensive literature search survey of real-world empirical studies was carried out, while focusing on the growth of SMEs in developing countries. Attention was given to those case studies concerned with constraints to SME growth in developing countries, particularly those published within the period 1995 to 2012. Literature search was conducted through reputable publication databases, selecting case studies from published work found in various journals. Second, critical problem areas identified in each empirical study were highlighted in order to determine common problems that affect SME growth. Third, a synthesis of critical problems affecting SMEs was developed based on the identified problems and their impact on SME growth. This was based on the analysis of the relative weighting of each of the identified problem. Fourth and finally, a way forward is derived from the overall analysis of the research. Recommendations and suggestions are provided for possible improvements of the growth of SMEs. In the next section, a summary of the results obtained in this exploratory study is provided



#### 4. RESULTS AND DISCUSSIONS

Table 1 shows the results of the explorative study on the common problem areas affecting the growth of SMEs in developing countries. Selected references are also given for each problem area. These areas were determined by the rate of their occurrence in various empirical studies. A list of 12 problem areas were identified and recorded, including lack of finance and credit schemes, lack of entrepreneurial and managerial skills, legal limitations and bureaucracy, lack of appropriate technology and limited access to export markets. Other minor problems include bias against SMEs, limited access to infrastructure, limited access to training, and unpredictable demand and prices.

In this study, the aim is to determine the main obstacles or constraints to SME growth and development. It can be seen from Table 1 that the major constraint is inadequate finance due to lack of access to financial support from governmental and non-governmental institutions, lack of credit-worthiness on the side of the SMEs, or lack of information on credit facilities and financing. This is closely related to lack of entrepreneurial and managerial skills, which in turn, may be caused by lack of training facilities or lack or appreciation of the value of training by the potential entrepreneurs.

Table 1: Identified SME problem areas from extant empirical studies

No.	Problem Area	Selected References
1.	Lack of finance - inadequate credit access	Chen and Peng (2011); Abor and Biekpe, (2006); Shalaby (2010); Peng (2010). Abor and Biekpe (2007); Fatoki and Smit (2011); Ping (2008); GFP. (2007); Kauffmann (2005); Abor and Quartey (2010); Aryeetey (1998); Acs et al. (1999); Aryeetey <i>et al.</i> (1994); Steel and Webster (1991); Aryeetey <i>et al.</i> (1994); Gockel and Akoena (2002); BEES (1995); Rwingema and Karungu (1999); Aryeetey (1998); Bigsten <i>et al.</i> (2000), Abor and Biekpe(2006), Abor and Biekpe (2007); Quartey (2002); Green <i>et al.</i> (2002); Lader(1996); LEA (2009); Mensah (2004);
2.	Lack of entrepreneurial and managerial skills and experience	Shalaby (2010); GFP. (2007); Abor and Quartey (2010); Steel and Webster (1991); Gockel and Akoena (2002); Sowa <i>et al.</i> (1992); Aryeetey <i>et al.</i> (1994); Parker <i>et al.</i> (1995); Kayanula and Quartey ( 2000); LEA (2009); Mensah, S. (2004);
3.	Bureaucracy and legal limitations	GFP. (2007); Abor and Quartey (2010); Shalaby (2010); Anheier and Seibel (1987); Steel and Webster (1991); Aryeetey <i>et al.</i> (1994); Gockel and Akoena (2002); Parker <i>et al.</i> (1995); Mensah (2004).
4.	Lack of appropriate technology and technical expertise	Abor and Quartey (2010); Dai (2008); Gockel and Akoena (2002); GFP. (2007); Steel and Webster (1991); Aryeetey <i>et al.</i> (1994);
5.	Limited access to international markets	Abor and Quartey (2010); Shalaby (2010); Steel and Webster (1991); Aryeetey <i>et al.</i> (1994); Gockel and Akoena (2002).
6.	Logistics, supply chain, and transport difficulties	Chen and Peng (2011); Vaaland and Heide (2007); Banomyong and Supatn (2011); Lim (2006); Ruiz-Benítez and Cambra-Fierro (2011).
7	Access to reliable market information	LEA (2009); Shalaby (2010); GFP. (2007);
8	Lack of quality, conformity to standards	GFP. (2007); LEA (2009);
9	Limited access to training	Kayanula and Quartey, 2000
10	Lack of support for product development	GFP. (2007); LEA (2009);
11	Low or unpredictable price and demand	LEA (2009);
12	Limited access to infrastructure	LEA (2009);

The identified constraints can be classified further into internal constraints and external constraints. Internal constraints need immediate attention by the entrepreneurs while external constraints need external support. Nine out of twelve problems were external, while only three were internal. However, some constraints may need attention both internally and

externally, for example, lack of finance. Table 2 lists the constraints in their order of significance in each category.

Table 2: Internal and external constraints to growth

External constraints	:	1, 3, 4, 5, 7, 9, 10, 11, 12
Internal constraints	:	2, 6, 8

Figure 2 provides a graphical illustration of the results of the widespread impact of the identified constraints to SME development. The impact is defined as the relative count or occurrences of each constraint according to findings in the literature survey of the empirical studies.

$$\text{Impact, } I = \frac{f_n}{\sum_n f_n} \quad (1)$$

Where,  $I$  represents the impact; and  $f$  is the frequency or count of occurrences of each constraint  $n$  ( $n=1, 2, \dots, 12$ ).

Table 3: Relative impacts of the constraints

Constraint	frequency	Impact	Constraint	frequency	Impact
<b>1</b>	36	28.8	<b>7</b>	6	4.8
<b>2</b>	24	19.2	<b>8</b>	4	3.2
<b>3</b>	18	14.4	<b>9</b>	3	2.4
<b>4</b>	13	10.4	<b>10</b>	2	1.6
<b>5</b>	10	8.0	<b>11</b>	1	0.8
<b>6</b>	7	5.6	<b>12</b>	1	0.8

As shown in Table 2, the scarcity of finance has the most widespread impact of all the observed constraints. However, as realised from the search survey, the scarcity of finance has its own contributory factors.

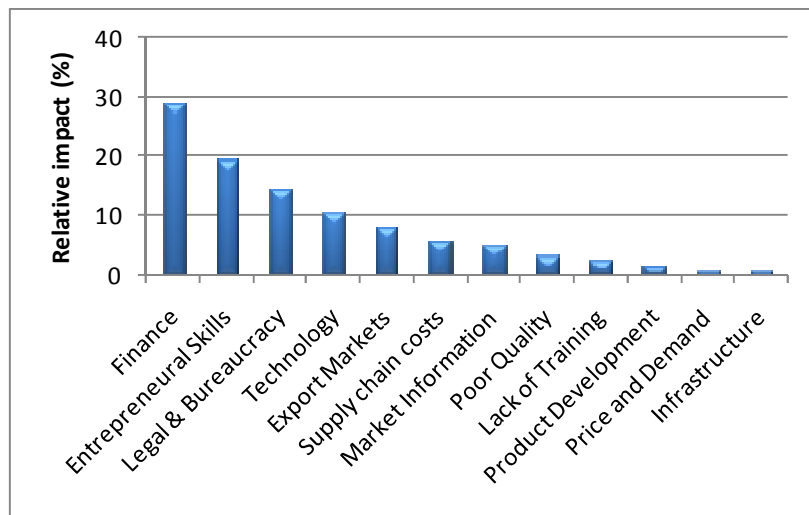


Figure 2: Impact of the identified constraints to SME development

In order to evaluate and select the most significant constraints, the well known Pareto 80/20 rule (Pareto analysis) was applied on the survey results. This helps to select the most critical issues that need the most urgent attention.

Figure 3 shows a Pareto analysis for the common constraints and their respective frequency of occurrence in the empirical studies found in literature. From the analysis, it can be seen that about 80 % of the occurrences of the empirical studies were due to the presence of six common problems. In this development, there are six major problems that need to be addressed, namely;

- Finance – inadequate finance or limited credit facilities;
- Managerial and entrepreneurial skills – lack of relevant managerial and/or entrepreneurial skills;
- Lack of conducive legal frameworks;
- Appropriate technology – lack of suitable technology for SMEs
- Access to export markets – lack of access to foreign markets and relevant information
- Supply chain costs – distribution and transportation costs tend to be too high for upcoming SMEs

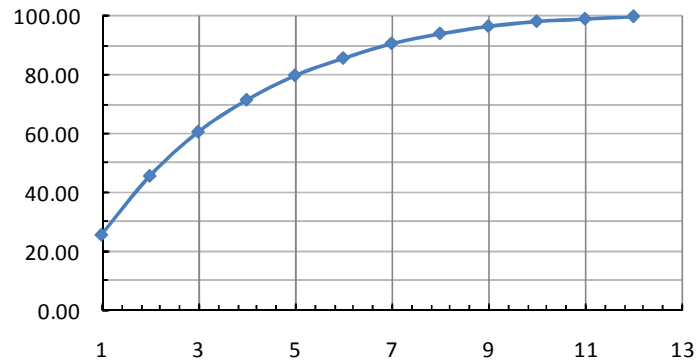


Figure 3: Pareto analysis of the identified problems

### **Financing - the main constraint**

Tough there are many researchers believing that the most important constraint to the growth of SMEs is lack of financial support, it must be realised that there are many factors that can lead to this situation (see Figure 4). Among others, the most possible causal factors are as follows:

- Undeveloped financial development services with very limited levels of intermediation
- Inefficient institutional and legal structures that should facilitate the management of SME lending risk
- Rigidity of credit mechanisms and high cost of borrowing interest rates.

### **Lack of skills training**

SME training programs are essential almost in all aspects of SME activities, including training in:

- Financial support services and systems
- Financial management
- Entrepreneurial and management skills.



As training of the SME sector is critical, it is highly recommended that more coordination be brought into SME training. These training programs would include, business management, preparation of business plans, accounting, financial statement analysis, personnel management, marketing and related areas. Lack of such training will always affect SME's position to acquire financing since this often raises the business risk to both the entrepreneur and lender.

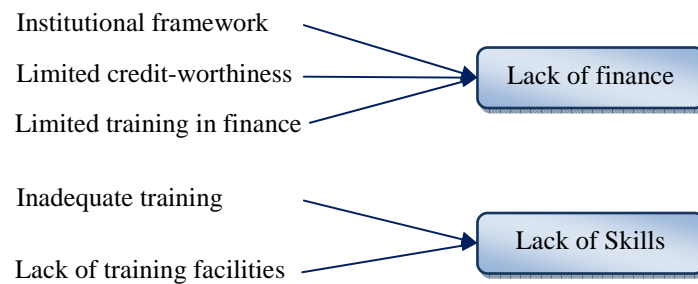


Figure 4: The main SME constraints and their drivers

Although the assessment pointed out that access to finance is the major problem, market issues, quality and technology choices may have been understated due to lack of awareness by the entrepreneurs of the implications of these issues on enterprise viability and growth.

### **ADDITIONAL INSIGHTS ON CHALLENGES TO FINANCING**

In this study, some additional insights on the challenges associated with accessing finance include the following:

- Financial institutions lack a full understanding of the industries/sectors and individual business models. They are therefore unable to appreciate SME financing needs effectively, e.g., appropriate loan size, time frames for repayments. Institutions tend to dismiss some specific business ideas because of past failures of other SMEs in similar industries;
- Financial institutions are often willing to finance equipment, buildings and other tangible goods, but are unwilling to finance working capital;
- It was observed that the foreign ownership of most major commercial institutions in various developed countries has resulted in financial products and requirements that are not tailored to meet local needs and conditions;

- Lack of collateral and high interest rates was cited as major barriers to access financing.

## **RECOMMENDATIONS AND THE WAY FORWARD**

Over and above support needs related to internal SME capabilities, this research has indicated that SMEs face challenges that are more structural in nature. This conclusion is supported by the pattern within the findings that there is a lack of significant variation in stated needs between enterprises that have done what is often considered necessary for business success (including written business plans, formal strategic planning, keeping of financial records and regular cash flow forecasting) and those that have less rigorous systems in place. These wider structural challenges include the limited local market scale and cost of exporting (making it more difficult for businesses to find a viable market), difficulties in retaining skilled human resources, competition from neighbouring countries, and entrepreneurship generally being perceived as either a high risk, part-time activity for those in employment, or a last resort for those that cannot find employment.

From this research we developed priorities for the “top 6” areas to be addressed, based on ease of implementation in the short to medium term and where the most significant impact could be derived. These are outlined as follows:

1. Focus on quality rather than quantity, in terms of clients, internal resources and Business Development Service (BDS) providers;
2. Simplify and speed up the BDS accreditation process;
3. Build coordination, communication, and trust between SMMEs, public and private BDSs;
4. Strengthen and equip the staff involved in first contact with clients (needs assessment and diagnosis), in particular business advisors;
5. Stimulate more sustainable business focus through improved market information and encouraging business differentiation; and,
6. Strengthen advanced BDS services internally and with partners.

From these findings, it is highly recommended that the above six areas be given particular attention within the strategic planning process of every stakeholder.

## **CONCLUSIONS AND FURTHER RESEARCH**

The development of SMEs is always constrained by a number of factors such as, lack of access to appropriate technology, limited access to international markets, the existence of laws, regulations and rules that impede the development of the sector; weak institutional capacity and lack of management skills and training. However, access to finance remains the greatest concern for the majority of SMEs.

In this study, we suggest that, to improve access to credit to SMEs, entrepreneurs should be encouraged to form cooperatives since financial institutions believe peer pressure often reduces the risk of default, Secondly, the government through tax incentives can encourage certain training institutions and NGOs to provide training to entrepreneurs on simple record keeping and managerial know-how.

National legislation systems in developing countries should define what constitutes an SME and their legal as well as tax obligations will help to integrate a number of informal enterprises into the formal framework. This should be complemented with steps to minimize the legal procedures involved in doing business in both countries. It is also suggested that technology transfer through simple, inexpensive and adaptable technology should be promoted to enhance the productivity of SMEs.

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# **DYNAMICS OF HUMAN RESOURCE MANAGEMENT IN UNCERTAIN ENVIRONMENTS USING A FUZZY SYSTEM DYNAMICS METHOD**

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## **ABSTRACT**

Due to imprecise information on future market growth and the expected manpower demand, the development of manpower planning policies is a nontrivial task. The complexity of the dynamics of human resource recruitment and training in turbulent and uncertain environments often creates a challenge for many policy makers in large organisations. In the presence of fuzzy manpower demand, with unexpected shifts in manpower demand patterns, many companies incur losses due to overstaffing and/or understaffing. In particular, organisations lose business when critical human resources leave in time of rising market growth. As such, the development of effective dynamic policies for recruitment and training in a fuzzy dynamic environment is imperative. In this frame of mind, a fuzzy systems dynamics modelling approach is proposed to enable the policy maker to develop reliable dynamic policies relating recruitment, training, and available skills, from a systems perspective. Fuzzy system dynamics methodology is applied using the concepts of fuzzy logic and system dynamics modelling in order to arrive at better strategies for the policy maker. It is anticipated in this study that fuzzy system dynamics approach would help organizations to design effective manpower policies and strategies in a dynamic and uncertain environment.

**Keywords:** Human resources management, knowledge management, system dynamics, simulation, fuzzy logic

## **INTRODUCTION**

The formulation of human resource recruitment and training policies is a problem that has attracted several researchers and practitioners over the years (Skulj et al. 2008; McClean,

1991; Rao, 1991; Mehlmann, 1980; Anthony and Wilson, 1990). In the presence of imprecise demand data, development of robust strategies for human resources recruitment and training is a complex task for decision makers. When future demand for human resources is imprecise and uncertain, managers in large organisations are often faced with challenges when developing human resource policies and strategies for maintaining skills resources. Future demand for human resources is in often fuzzy or uncertain (Gurry, 1999).

For large corporations in the real-world, the uncertainty of future demand for human resource is, in most cases, caused by fluctuating market growth which directly influences company recruitment policies. In times of growth or decline of business, the decision maker must recruit cautiously. This is so critical in the sense that robust policies should avoid loss of business due to understaffing, and to avoid over-investment in human resource recruitment and training.

Oftentimes, the estimation of future human resource demand requires data collection over a considerable period of time in order to develop a useful statistical model. However, relevant data may not be readily available for satisfactory model development. Moreover, in dynamic and turbulent times, past data and its trends are quickly outdated due to dynamic changes in the environmental factors that led to the generation of the past data. Dynamic interactions and causal linkages between various factors in the system may be too complex to be modelled by statistical or probabilistic means. Thus, the development of dynamic models which cater for uncertain variables is imperative. There is need for a joint approach to dynamic problems with fuzzy variables, that is, from a systems view point with cautious consideration of the imprecise nature of information.

System dynamics, originated by Forrester (1961), is a modelling and analysis tool in this that was originally introduced by Forrester (1961) in the early 60's as a modelling and simulation methodology for long-term decision-making in dynamic business management problems. Since its conception, SD has been applied successfully to various policy and strategy problems. Major areas of the application of this methodology include supply chain management (Sterman, 2004), healthcare systems, manpower systems (Hafeez and Aldelmeguid, 2003; military systems (Gass, 1991), and (Coyle, 1996). In most of these applications, the concepts of uncertainty are not addressed.

Fuzzy theory, first introduced by Zadeh (1965) in the 1960s is applied to address uncertain or linguistic variables in uncertain environments. In fuzzy theory, a linguistic or fuzzy variable represents the different ranges of values that the variable can take, for instance, “comparably high”, “relatively low” and “somewhat medium” value ranges, with flair of human perception. This is often effective in problem situations where there is insufficient data to statistically determine the average values of the variables of concern, or when the future variables are imprecise.

The concepts of fuzzy system dynamics were introduced by Tessem et al. (1994). Though the concepts of system dynamics and fuzzy theory have been applied in various problem areas, applications of fuzzy system dynamics are scarce. To the best of our knowledge, none of the existing applications addressed the problem of policy formulation for a human resource system in a dynamic and fuzzy environment.

In view of the issues above, the development of a fuzzy system dynamics approach to policy development for a human resource system with a fuzzy demand is imperative. The purpose of this study, therefore, is to present a fuzzy system dynamics approach with application to human resource policy formulation in the presence of fuzzy manpower demand patterns. Specifically, the objectives of this research include the following:

- (a) to develop a fuzzy system dynamics model for human resource and knowledge management;
- (b) to apply the fuzzy system dynamics model to policy formulation for human resource and knowledge management.

While fuzzy set theory addresses the fuzziness of the variables in the model, system dynamics arrests the dynamic complexities of the problem.

The rest of the paper is as follows: The next section provides a brief description of the problem. This is followed by an outline of the proposed fuzzy system dynamics methodology in section 3. Simulation results and discussion are then given in section 4. Finally, managerial implications and conclusions are presented.

## **PROBLEM DESCRIPTION**

Human resource and knowledge management (HRKM) is concerned with the management of skills, knowledge, and competence in an organisation. Potential human resources are recruited at a desired rate, and trained for a pre-determine period of time before final placement in the organisation. While training, dropouts are expected to occur at a known average rate. In addition, competent human resources quit their occupations at a known average. In this problem situation, the aim is to maintain the skills level such that the desired level of competence is always satisfied. It is important to recognise how to manage the actual level of the skill pool over time. However, due to uncertain demand for skills and the inherent training delays, it takes a considerable amount of time to develop and support the required infrastructure to nurture required skills and competencies. In developing this model, we assume the following;

- future demand for human resources and skills is not precisely known (fuzzy);
- the training period for the recruited potential staff is pre-determined (4 months); and,
- the average attrition rate is known from records of past data (10 %)

In view of the issues above, we present a fuzzy system dynamics method that uses the concepts of system dynamics and fuzzy logic tools in a Matlab<sup>®</sup> environment.

## **RESEARCH METHODOLOGY: FUZZY SYSTEM DYNAMICS SIMULATION**

In this research, we adopt a modelling approach that utilizes the concepts of system dynamics and fuzzy logic in a matlab toolbox. The approach is chosen due to its ability to address problems with fuzzy and dynamic variables such as human resource demand. Moreover, the model building process requires minimal effort and time. The matlab toolbox, called simulink, contains user-friendly tools that for building intelligent decision support tools for policy makers, specifically in human resource management. For clarity of deliberation of our proposed model, we first present a basic system dynamics model, followed by the fuzzy system dynamics model.

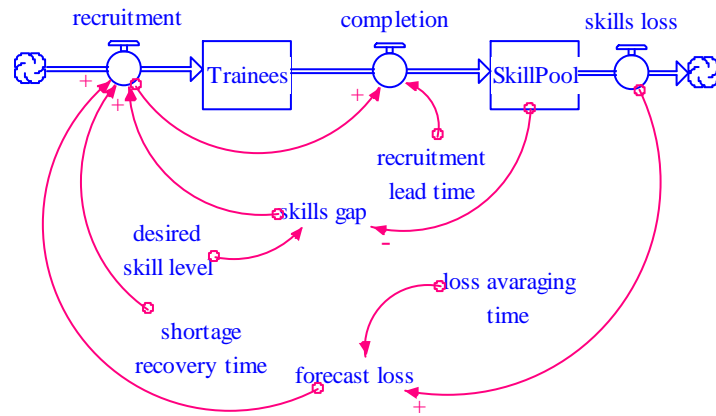


Figure 1: Skill pool model (adopted from Hafeez and Abdelmeguid, 2003)

Figure 1 depicts a human resource and knowledge management model for a typical corporate organisation (Hafeez and Abdelmeguid, 2003). Based on the concepts of system dynamics, human resources are represented in terms of stocks and flows are represented in of affects the stocks of trainee cohorts and skill pool. Flows of human resources occur due to recruitment, training, dropout and attrition. The training completion rate is dependent on training lead time At any time  $t$ , the available skill pool should match the anticipated human resource demand. Thus, the main objective is to develop a reliable human resource recruitment policy that satisfies the anticipated demand over the planning horizon. In this development, recruitment policies are adjusted according to the trend in the demand. In developing the model we consider that the demand for human resource and knowledge is uncertain.

Based on the basic system dynamics model above, we develop a fuzzy system dynamics model using fuzzy logic tools. In this connection, we define the following variables;

- $\hat{D}$  fuzzy demand for human resources at time  $t$ ;
- $S$  available human resources or skill pool at time  $t$ ;
- $g$  the gap between human resource demand and supply

$$\hat{k} = \frac{\hat{D}}{S-1} - 1 = \frac{(\hat{D} - S)}{S} \quad (1)$$

where,  $(\hat{D} - S)$  defines the gap  $g$ .

Since demand  $\hat{D}$  is fuzzy, the error variable  $k$  is also fuzzy. The fuzzy variable  $k$  is used in this study to define the measure of level of human resource requirement at any time  $t$ . At any time  $t$  it is required that the demand for human resources be as close as possible to supply,

that is,  $\hat{D}/S \cong 1$ . It follows that the value of  $k$  should be equal to or as close as possible to zero;

$$\hat{k} \cong 0 \tag{2}$$

The expression,  $\hat{k} \cong 0$ , is best represented by a fuzzy membership function  $\mu_A$  which can be represented by a triangular fuzzy number, or a Gaussian fuzzy number as shown in Figure 2,  $(-a < \hat{k} < a)$

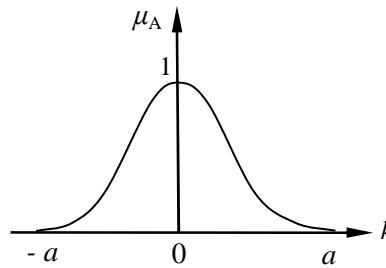


Figure 2: Level of human resource requirement,  $\hat{k}$

The fuzzy control variable,  $\hat{k}$ , can be used as an input control variable in building a fuzzy model. In addition to the control variable  $\hat{k}$  explained above, we define the rate of change of demand  $\hat{D}$  as follows;

$$rate = \frac{d}{dt}(\hat{D}) \tag{3}$$

The rate variable defines whether demand  $\hat{D}$  is increasing or decreasing, which is a comparative measure between current demand and previous demand. It follows that if the rate is increasing, then the corresponding recruitment adjustment is amplified. On the other hand, if the rate is decreasing, then the desired recruitment adjustment should be minimal. Using the concept of *rate* and error,  $\hat{k}$ , a fuzzy rule base is built to represent the fuzzy control of human resource recruitment. The *rate* variable can either be “negative” or “positive”, while the *error*  $\hat{k}$  can be “low”, “ok”, or “high.” Let the variable *change* denote the resultant desired adjustment on current recruitment. Then the *change* variable can either be “zero”, “increase



fast”, “reduce fast”, “reduce slowly”, or “increase slowly.” Overall, the fuzzy rule base is constructed using the fuzzy logic tool box as follows;

- IF (*error* is ok) THEN (*change* is zero)
- IF (*error* is low) THEN (*change* is increase fast)
- IF (*error* is high) THEN (*change* is reduced fast)
- IF (*error* is ok) and (*rate* is positive) THEN (*change* is reduced slowly)
- IF (*error* is ok) and (*rate* is negative) THEN (*change* is increased slowly)

The above described set of rules were implemented in Simulink on a matlab platform as shown in Figure 3.

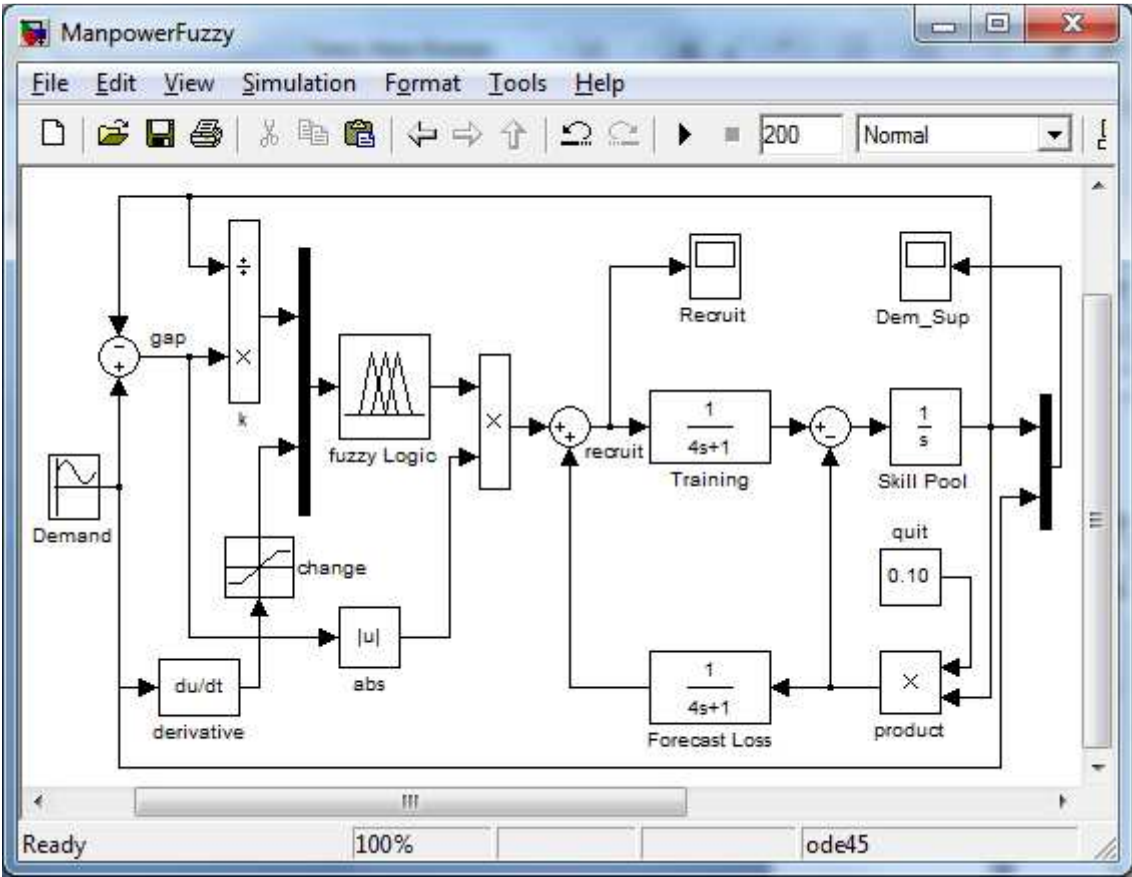


Figure 3: Fuzzy system dynamics model for the human resources dynamics

As explained by Zadeh (1965), fuzzy theory concepts are introduced to handle uncertain, fuzzy, or linguistic variables. A linguistic or fuzzy variable represents the ranges of values

that the variable can take, for instance, “high”, “low” and “medium” value ranges. The set of rules maps the input variable (or a combination of input variables) to one output response variable. The membership function is a graphical representation of the magnitude of participation of each input that associates a weighting with each of the inputs that are processed and defines the functional overlap between inputs. The advantage of using this approach is that the process of model building is fast, using fuzzy logic tools to represent practical scenarios.

## **SIMULATION RESULTS AND DISCUSSION**

In this section, we present the simulation experiment used in this study, together with the results obtained.

### **Simulation experiments**

The fuzzy system dynamics model proposed in this paper relates to a large hypothetical company, currently employing about 500 staff. The company is going through a major diversification strategy needing a fraction of the total workforce to undergo a recruitment and training programme. Also, the company has to cope with, on average, 10% employee attrition at any time, which leads to skill pool loss. The aim is to design a recruitment policy, considering that demand is expected, with high uncertainty, to increase from 500 to about 600 over the planning period. Simulation analyses must consider possible fuzzy demand patterns conceivable by management, for instance, steadily increasing demand, s-shaped demand, and step-increase demand.

### **Simulation results and discussion**

Figure 4 shows simulation results of the simulation using an s-shaped demand input. With an s-shaped increasing demand, the skill pool level experiences a sharp drop momentarily, and then closely follows the anticipated demand in the long run. This demonstrates that the use of linguistic variables for the control of recruitment and training policies is effective. Simulation assists the decision maker in prior testing of possible alternative linguistic values before the final decision can be reached.

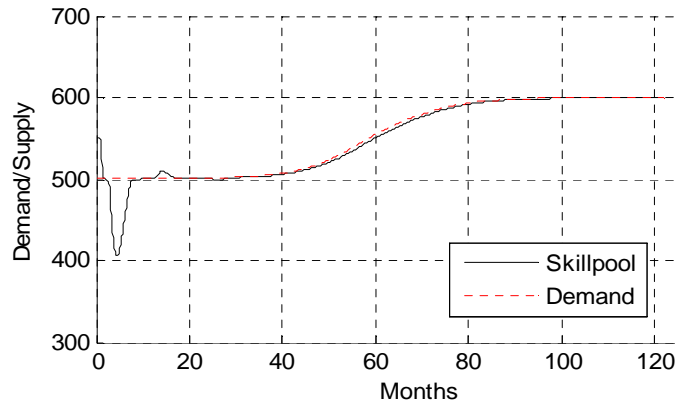


Figure 4: Skill pool level based on s-shaped demand

Figure 5 provides a graphical simulation result when the fuzzy demand for human resources is expected steadily increasing from 500 to 800. Though the skill pool dropped briefly, the desired skill pool followed the demand swiftly, showing the utility of the use of fuzzy control variables for recruitment and training policies. Other demand input shapes were used as input demand to the simulation model, and all the simulation results show that the fuzzy tool readily available in the matlab software is a useful decision support tool to assist managers in when designing suitable policies based on linguistic variables chosen by the decision maker.

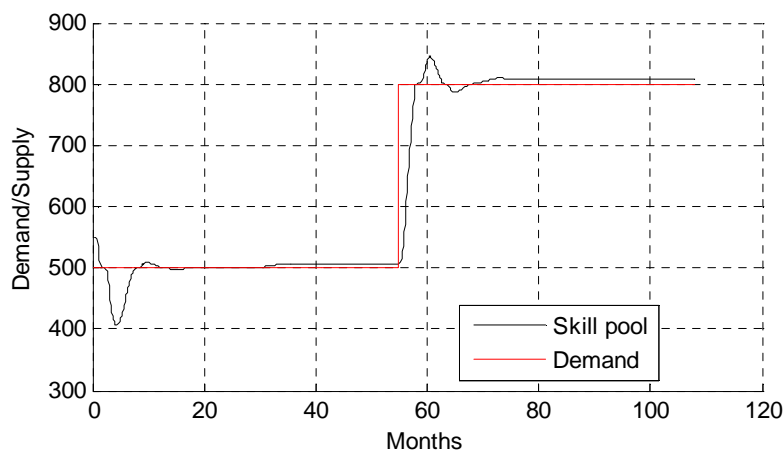


Figure 5: Demand supply behaviour for a sudden step-increase in demand

## MANAGEMENTAL IMPLICATIONS AND CONCLUSIONS

Manpower policy formulation in the presence of fuzzy demand is non-trivial task. Oftentimes, this is aggravated by imprecise and/or insufficient data regarding future demand for human resources. In addition to this, complex dynamic interactions between demand and supply

factors call for a time-based analysis of the manpower policy formulation problem. In such uncertain and dynamic environments, a policy maker has to devise robust methods for human resource recruitment and training, taking into account the imprecise nature of demand.

In this study, a fuzzy system dynamics simulation approach was proposed to address the manpower policy formulation problem in a fuzzy environment using the concepts of system dynamics and fuzzy theory. The study has demonstrated the effectiveness of the application of fuzzy rules and system dynamics using Simulink on a Matlab platform. By taking advantage of the ease of scrutiny of graphical representation, common demand patterns were used to illustrate the utility of the proposed fuzzy system dynamics approach. The demand patterns used in this study include generic curves that are often sought by policy makers; fluctuating (oscillatory), s-shaped, steady growth, sudden growth (step).

Graphical results of the simulation study showed that, using fuzzy-based dynamic simulation, the skill pool (human resources supply) closely follows input demand for all demand patterns tested. Hence, the application of fuzzy rules involving fuzzy variables such as “comparably high,” “comparably low,” or “okay,” can be used to model human perception or mental models with much ease and effectiveness. Therefore, manpower recruitment and training strategies represented in form of fuzzy variables can be developed for large real-world manpower systems in uncertain and turbulent environments. Apart from its contribution to solving real-world manpower planning problems, the fuzzy system dynamics approach also provides further understanding to the system dynamics body of knowledge.

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# PERFORMANCE MEASUREMENT SYSTEM FOR THE GREEN REMANUFACTURING

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## ABSTRACT

Environmental issues are increasingly emerging as one of the most critical topics especially in strategic manufacturing decision making. Stakeholders are increasingly becoming cautious about environmental efficiency, besides economic efficiency in the manufacturing supply chain. Product take-back and end-of-life recycling in remanufacturing are some of the operational strategies implemented in green supply chains. The measurement of the effectiveness of green remanufacturing strategies has recently attracted much attention as firms and stakeholders seek to evaluate the performance of remanufacturing supply chains. In this research, we undertake a survey of real-world case studies concerned with the implementation of green performance measures in remanufacturing supply chains. This is followed by an evaluation of the drivers behind their implementation in the context of remanufacturing. From these investigations, we derive an effective framework of performance measures applicable to the green remanufacturing supply chain (GRSC) based on product life-cycle analysis. The framework forms a practical platform for decision makers to build a performance management system for GRSC in a reasonable time frame.

**Keywords:** Green supply chain, remanufacturing, performance measurement, life-cycle analysis

## INTRODUCTION

As environmental issues are rapidly becoming one of the most important topics in supply chain management, managers consider improvements in environmental performance a basic competitive priority, apart from lower cost, short lead time and high quality (Azone and Noci,

1998; Azzone and Bertelè, 1994; Bloom and Scott Morton, 1991). The ever-growing green concerns in the market and ensuing green movements have forced decision makers to manage their organisational performance from the ecological/environmental perspective. In various countries, regulatory bodies enforce recovery of product packaging (Noci, 1995). A number of automotive industries have introduced recycling-based policies; establishing strategies aimed at product take (Azzone and Noci, 1996). The introduction of green strategies for environmental management bears a significant impact on the choice and successful implementation of an appropriate performance measurement system. In this respect, the linkage of green strategies to performance measurement systems is a serious challenge to supply chain managers. Therefore, when implementing green strategies, changes to existing performance management systems may be necessary in the following areas:

- *Procurement policies*, new environmental performance requirements require significant modifications in materials and supply procedures;
- *Product technology*, the introduction of new environmental targets often demands new product structure in relation to design, components, and materials;
- *Process technology*, environmental strategies often require new technologies such as closed-loop technologies, and cleaner technologies with reduced environmental impact;
- *Logistics and distribution*, environmental policies may require new ways of managing physical flows of goods and collaboration with other players in the supply chain.

Considering the strategic importance of green issues and the environmental performance management systems, most researchers and practitioners have focused their attention on two major areas: (i) analysis of green strategies available to supply chain managers and ways of enhancing strategy formulation (Azzone and Bertele, 1994; Azzone and Noci, 1998), and (ii) development of frameworks for assessing organisational environmental performance based on physical indicators (Noci, 1995), environmental costs (Gray, 1992), and life-cycle assessment methods (Hervani et al., 2005).

Gunasekaran et al. (2004) investigated issues concerned with current practices in supply chain performance measurement systems, providing insights into future requirements in performance measurement. The main issues are: (i) the need for organization-wide and



supply-chain-wide coordination; (ii) the need for every metric to take a supply chain perspective in order to monitor performance effectively; (iii) the need for a common goal upon which each entity in the supply chain is measured and improved; the need for designing additional new measures, non-financial and financial.

Brewer and Speh (2001) pointed out a number of concerns associated with the application of performance measurement systems across the entire supply chain:

- *Lack of understanding.* Managers that are focused on internal systems find it difficult to understand the importance of multi-organizational measures.
- *Lack of control.* Most organizations and decision makers prefer to be evaluated on measures they can control. Thus, without sufficient supply chain collaboration, the management and control of inter-organizational measures is a complex.
- *Different goals and objectives.* Differing organizations have different, and sometimes conflicting, goals and objectives thus would argue on the selection of performance measures.
- *Information systems.* Most corporate information systems are not capable of gathering non-traditional information relating to green supply chain performance.
- *Lack of standardized performance measures.* In most supply chains, there are no agreed upon performance measures in terms of units to use, structure, and format.
- *Difficulty in linking measures to customer value.* Linking measures to stakeholder value and environmental issues is becoming more and more complex. There is a wide range of customers across the supply chain.

In spite of growing literature on these issues, little attention has been paid to the design and implementation of environmental performance measurement systems (PMS's) in regards to specific green strategies. The concerns pointed out above stem from the fact that there are a number of green strategies and performance management tools and systems that can be applied in different supply chains. Moreover, different firms have different organisational objectives and capabilities. As such, the development of appropriate performance systems, given the right green strategies, is not a trivial task. In view of these issues, the design of a carefully defined framework for the developing effective performance measurement systems

is imperative. Most of the frameworks in green supply chain literature simply classify green strategies into re-active and pro-active strategies, which is rather too broad.

Numerous extant studies dealt with traditional supply chain performance metrics without consideration of the environment. The traditional supply chains deal with measures associated with the following: cost, time, quality, and flexibility (Beamon, 1999; Gunasekara et al. 2001; Chan and Qi, 2003). On the contrary, green supply chain performance management focus on metrics concerned with green image and environmental issues (Beamon, 1999). With the advent of environmental concerns associated with manufacturing operations, the metrics and measures for supply chain management have been expanded.

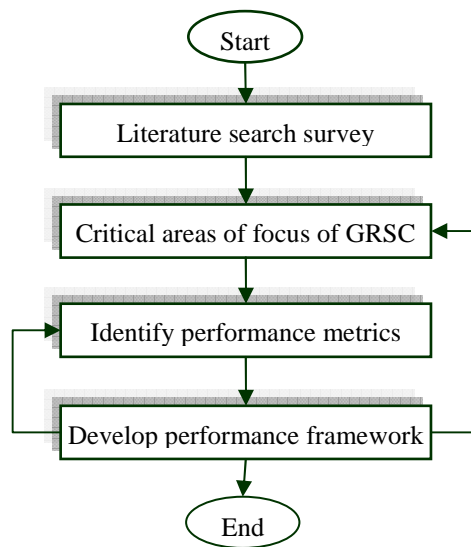
In light of the issues above, our approach seeks to provide a more detailed taxonomic analysis of performance measurement, deriving from the contributions on green supply chain strategies and PMS's. As such, this study presents a taxonomic contingency framework which examines how different green strategies may be implemented and assessed in the context of specific PMS's. The specific objectives of this study are as follows:

- (1) To analyse the key drivers behind the adoption of green strategies and to briefly define a taxonomy of the green strategies;
- (2) To identify the key requirements of performance measurement systems and their respective structures.
- (3) To identify the most effective PMS system in the context of the taxonomy of green strategies, so as to effectively assess the planned environmental performance;

The rest of the paper is organised as follows: the next section provides an overview of the research methodology applied in this work. Section 3 provides the results of the literature search survey conducted. Section 4 presents an overview of the Green Remanufacturing Supply Chain (GRSC), followed by an overview of Green Supply Chain Management (GSCM) strategies in Section 5. PMS requirements for the GRSC are presented in Section 6. In Section 7, we provide an analysis of PMS for the GRSC based on product life cycle analysis. The final section concludes the paper, indicating further research prospects.

## RESEARCH METHODOLOGY

Green supply chain success indicators are quantifiers which are used in assessing the efficiency and effectiveness of green supply chain management. These indicators vary between companies and industries, depending on their priorities or performance criteria (Mondragon et al., 2011). Our research methodology first focused on carrying out a survey of real-world case studies on GRSC and the implementation of relevant performance indicators. The cases were chosen from published work found in reputable journals, concerned with the implementation of green manufacturing strategies, such as *Sustainability*, *International Journal of Production Economics*, *International Journal of Operations and Production Management*, *Supply Chain Management*, and *Benchmarking: An International Journal*. The second task was to highlight the critical areas of focus of each case study in order to be able to determine the major driving elements behind the implementation of green remanufacturing strategies. The third task was to highlight green performance metrics chosen and the drivers behind the metrics chosen under different contexts of the case studies. The fourth and final task was to develop a generic framework for selecting the most appropriate PMS metrics for the GRSC strategy. In the next section, the outcome of the literature search survey is outlined.



**Figure 1: Research methodology framework**

## RESULTS OF THE SEARCH SURVEY

Literature search survey revealed that there are three basic categories of areas of focus in green remanufacturing supply chains: (1) improving environmental performance (Zhu et al., 2008); (2) improving economic performance (Olugu et al., 2011), and (3) promoting social responsibility to improve the firm's green image (Zhu et al., 2007); In this connection we conveniently classify performance measures (indicators) into

- (1) Environmental performance
- (2) Economic or financial performance
- (3) Social performance

Table 1 provides a summary of the performance indices identified from existing empirical studies investigated in this study.

Table 1: Identified empirical studies on the application of performance indices

Area of focus	Performance Metrics	Reference source
<b>1. Environmental performance</b>	Air emission	Kainuma, and Tawara (2006); Zhu et al.(2008); Olugu et al. 2010
	Waste water, or water pollution	Kainuma, and Tawara (2006); Zhu et al.(2008); Olugu et al. 2010; Chia et al. (2009); Beamon (1999); Hervani et al. (2005); Tsoulfas and Pappis (2008);
	Solid waste, or hazardous materials	Kainuma, and Tawara (2006); Zhu et al.(2008); Olugu et al. (2010); Rao and Holt (2005); Rao (2002); McIntyre (1998)
	Energy usage or consumption	Kainuma, and Tawara (2006); Zhu et al. 2008)
<b>2. Economic performance</b>	Reverse logistics costs	Mondragon and Lalwani (2011); Olugu et al. (2011); Olugu and Wong (2011)
	Sustainability costs, Energy consumption costs	Beamon (1999); Tsoulfas and Pappis (2008); Hervani et al. (2005); Zhu et al. (2007);
<b>3. Social responsibility performance</b>	Green image, customer perspective	Olugu and Wong (2011); Tsoulfas and Pappis (2008); Hervani et al. (2005); Zhu et al. (2007); Rao and Holt (2005);
	Percent recycling, Scrap rate	Mondragon and Lalwani (2011); Olugu et al. (2011); Tsoulfas and Pappis (2008); Hervani et al. (2005); Zhu et al. (2007); Beamon (1999); Rao and Holt (2005); McIntyre (1998)

Among the identified areas of focus, social responsibility performance has received considerable attention. As such, green remanufacturing activities such as product/material recovery, reuse, and recycling have been used as competitive strategies in modern industries (Olugu and Wong, 2011).

## GREEN REMANUFACTURING SUPPLY CHAIN MANAGEMENT

In as much as several researchers have investigated the concepts of greening the environment at strategic and operational levels, many related researchers have studied greening practices, including product design (Gupta, 1995; Allenby, 1993), process design (Klassen and McLaughlin, 1996; Porter and Van der Linde, 1995), purchasing (Handfield et al., 2002), manufacturing practices at large (Hu and Hsu, 2006; Winsemius and Guntram, 1992). Stemming from the greening concepts, the environmentally-conscious practices, and the motive for organisational competitiveness, we define GSCM in this paper as follows:

GSCM = Green Purchasing + Green Manufacturing + Materials Management + Green Distribution + Green Logistics

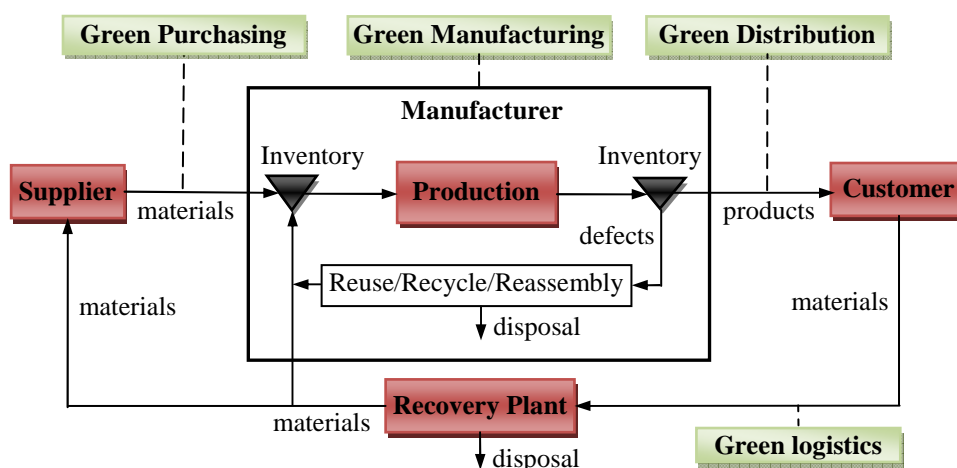


Figure 2: Activities in “green” remanufacturing supply chain (adapted, Ninlawan et al, 2010)

As shown in Figure 2, supply chain players such as used parts warehouses/storages, waste collectors, disassembly/recycle plants, final treatment (landfill) and other stakeholders are involved in carrying out these green activities. Though the figure seem to represent a single organization's internal supply chain, its major operational elements and the linkage to external organizations, a number of organizational relationships are integrated at various stages of the model, including customers and suppliers, as well as their chains, forming a relationship web.

Environmentally conscious practices in the supply chain range from *green design* (engineering and marketing), *green procurement* practices (purchasing environmental friendly materials and products, certifying suppliers), total quality environmental management (pollution prevention, internal performance measurement and auditing), environmental friendly packaging and distribution, to product end-of-life practices (recovery, reuse, recycle, remanufacturing). The choice and the success of these green practices depend on the objectives and capabilities of an organisation. We present a taxonomic analysis of green strategies in the next section.

## **GSCM STRATEGIES**

The adoption of green strategies has a far-reaching and multi-dimensional impact on performance (Hutchinson, 1996). In particular, the introduction of closed-loop remanufacturing strategies may result in (i) management complexities due to changes in logistics for product recovery and recycling leading to, and to (ii) multiple changes in performance measurement, and in the management of operations at large (Azzone and Noci, 1998). It is therefore imperative to identify the conditions under which these strategies are best implemented, to analyse the performance measurement systems in light of the specific green strategies. A question then arises as to what influences the selection and implementation of green strategies.

### **Drivers behind GSCM strategies**

The environmental awareness of an organisation will influence the perspective from which green strategies are developed. In the absence of environmental awareness, an organisation

adopts a naive perspective where the enterprise takes no initiatives towards improving environmental performance. In this work, two categories of GSCM drivers are identified as *internal* and *external*. Internal drivers are as follows (Azzone and Noci, 1998):

- *Compliance perspective*: green strategies are driven by the desire to ensure compliance with current environmental regulations through development of products and processes that comply with requirements.
- *Eco-efficiency perspective*: green strategies are developed with the objective of minimizing wastes, reducing resource usage, while maximising environmental performance.
- *Competitive advantage perspective*: green strategies are used as means of attaining a competitive advantage through technology and innovation, such as green product development, green manufacturing technologies.
- *Ecological and ethical perspective*: green strategies are driven by the desire to reduce the industrial impact on the natural environment, rather than by the desire to improve on economic performance.

Various researchers have identified total quality control, cost control, communities and environmental regulations as the main drivers behind an organisation's environmental perspective (Stephan, 1992; Gouldson, 1993; Schot and Fischer, 1993; Shrivastava, 1995). However, from a broader view, the influence of such factors depends on a combination of factors at industry, country and even global levels. In addition to the above mentioned internal drivers, we further identify two external drivers;

- *Supply chain relationship*: supply chain collaboration and relationship will always influence the company's environmental behaviour.
- *Green pressures*: "green" movements arising from customers and other stakeholders play an important role in creating green movements leading to widespread adoption of green strategies.

The drivers (internal and external) highlighted above are vital for the analysis of green supply chain strategies. In our investigation, it was observed that the selection of green strategies depends largely on a combination of internal and external drivers. For instance, a firm which

is highly concerned with ecological and ethical responsibilities, located in a collaborative supply chain environment will tend to choose remanufacturing (closed-loop) strategies (see Figure 3). In this vein, we briefly provide an outline of the classification of green manufacturing strategies in the next section.

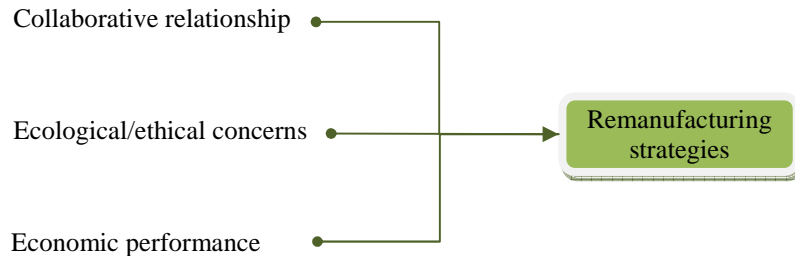


Figure 3: The main drivers in the green remanufacturing supply chain

### A Classification of GSCM strategies

In view of the above internal and external drivers, green strategies in GSCM are distinguished into four major categories of as follows (Mutingi and Mbohwa, 2012):

1. *Compliance-centred strategy*. This strategy is adopted in response to environmental regulations, stakeholder requirements, and customer pressure. For example, companies may be obliged to adopt international standard systems such as ISO 14001 (King et al. 2005), or purchasing contracts with suppliers to meet certain regulatory requirements.
2. *Lean-based strategy*. This is normally adopted by organisation whose focus is on eco-efficiency in which case suppliers are required to satisfy certain operations-based efficiency targets. The lean-based strategies link environmental performance with operational efficiency through waste reduction and optimal resource usage.
3. *Innovation-centred strategy*. The strategy is adopted by companies whose objective is to keep up-to-date with changes in environmental regulations through development of specialised technologies, product designs, processes and strict green performance standards (Ninlawan et al., 2010; Hu and Hsu, 2006; Lenox and King, 2004).
4. *Closed-loop strategy*. This strategy is adopted by organisations in a highly collaborative supply chain where companies are able not only to keep abreast with



complex requirements of the closed-loop supply chain but also to follow a pro-active approach through integrative relationships with suppliers, from design to product take-back. Materials recovery, remanufacturing and recycling improve environmental performance of the entire supply chain (Vlachos et al., 2007; Guide and Wassenhove, 2002).

## **PMS REQUIREMENTS FOR THE GRSC**

For effective implementation and operation of the performance measurement system that support the GRSC, the following requirements should be considered;

- *Strategic focus*, the ability to account for the long-term impacts is significant for long-term investment decisions.
- *Measurability*, the ease of measurement is important in order to be able to assess green efficiency of the organisation.
- *Completeness*, the ability of the performance model to account for all the relevant performance indicators is vital for effective assessment of the firm's performance system.
- *Timeliness*, this measure evaluates the amount of the time taken by the PMS to analyse the collected data.

## **A LIFE-CYCLE-BASED PMS FOR GRSC**

Environmental performance indicators (measures) are the core requirements of a PMS for effective evaluation of the environmental performance of processes, activities and services in the RGSC. Performance measures range from air emissions to energy recovery and recycling. In accordance with the RGSC, possible designs may include: (i) physical indicators to describe environmental impact resulting from the remanufacturing activities; (ii) economic indices linked with economic efficiency; (iii) life-cycle analysis methods indicating the economic and physical impact of the supply chain throughout the product life cycle; and (iv) an integrated perspective that indicates the effect of the supply chain activities on shareholders' value in terms of physical indices, and economic indices. The following section analyses the selected performance metrics for the RGSC.

The remanufacturing supply chain is mainly concerned with both environmental efficiency as well as economic efficiency. Companies embracing remanufacturing strategy seek to cautiously make investments especially of a technical nature, such as change in product bill of materials targeted at product take back and recycling processes.

In particular, the design of an operational PMS requires consideration of whether the firm has developed integrated (co-operative) or competitive relationships with suppliers. In a collaborative supply chain environment characterised by integrated relationships within the supply value chain, innovative initiatives such as product take-back and take-back of recyclable end-of-life materials can easily be supported through involvement of suppliers. In this vein, life-cycle assessment is an appropriate model that should be implemented. This enables the organisation to measure the environmental impacts of the product over its entire lifecycle, right from collection of raw materials and design to recovery and/or disposal. The life cycle analysis model can be used to assess the impact of the industrial processes in two ways: using physical indicators and economic/financial indicators;

- (1) *physical indicators* - to measure, in physical terms, how the (re)manufacturing activities affect the natural environment; or,
- (2) *economic or financial indicators* - to measure the variation of the life-cycle costs associated with the product in question.
- (3) *Social indicators* – to measure the green image of the firm based on customer or stakeholder’s evaluation, which can be obtained through market surveys

As shown in Figure 4, these set of indicators can be implemented at specific key points in the remanufacturing supply chain. These key points include raw material purchase, production plant, distribution, recycling or reuse, and the recovery plant.

In organisations where timeliness is the most important factor, analysis should focus on physical indicators. Otherwise, lifecycle costs should be evaluated. In both cases, it is important to measure the impact of take-back of end-of-life products on the organisation’s distribution and energy costs so as to which eventually influence product pricing.

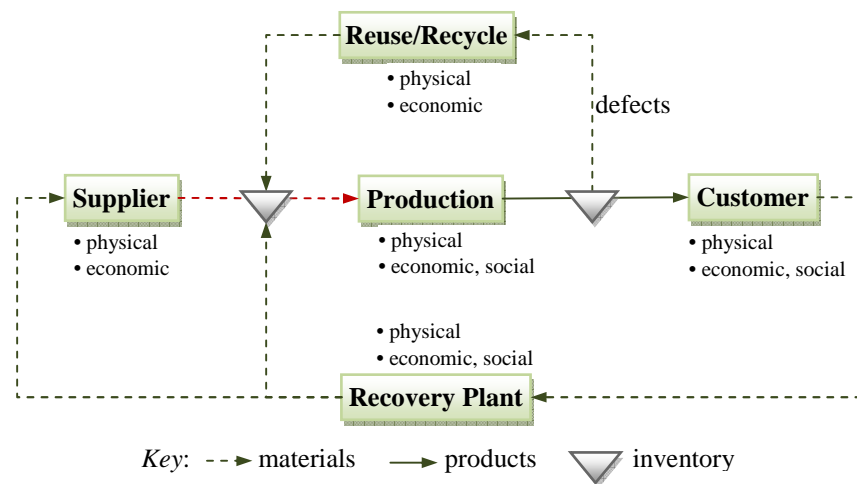


Figure 4: Physical and economic indicators throughout product life cycle

Where a remanufacturing supply chain is characterised by competitive rather than collaborative relationships, environmental performance is usually driven by internal factors. However, given the emphasis of the timeliness of the analysis, effective techniques are expected to give appreciable attention on the primary drivers that are of significant economic value. Such drivers should be economic in nature, and can be evaluated in a reasonable time. In monitoring the firm’s contribution to economic or financial value creation, the following economic features need to be considered:

- operational efficiency; these are costs related to operating costs for green manufacturing plant activities, materials, manufacturing/non-manufacturing overheads, direct labour, and costs of auditing compliance with environmental regulations;
- distribution costs; these are costs associated with waste disposal and take-back of end-of-life products.
- price and demand for the product;

Implementing “green” remanufacturing strategies often results in the introduction of new “green” products (Azzone *et al.*, 1997). In most cases, such initiatives are often complex in nature such that they must be assessed by techniques that provide complete analyses irrespective of the cost incurred. Equally important in the performance measurement is the timeliness of the analysis. As new products are designed, concepts based on the design of

recycling and dismantling techniques are incorporated so as to enable timely corrective actions to ensure prompt modifications in case of errors or product characteristics that do not conform to customer specifications.

In view of these issues, it is crystal clear that an effective PMS for the GRSC should include both physical and economic measures in an integrated manner framework. Physical measures give a timely assessment of the activities of the firm (Azzone and Noci, 1996), while financial indicators indicate how the adopted remanufacturing activities affect the organisation's profitability (Walley and Whitehead, 1994). Therefore, an efficient PMS that support the implementation of a green remanufacturing strategy should consider the physical environmental indicators, expressing the organisation's performance in the environment. These measures can be aggregated into the following categories (Hervani and Helms, 2005; Hervani et al., 2005; Azzoni and Noci, 1998):

- *Volume indices*: these measure the amount of solid wastes resulting from a firm's operations, such as percentage of scrap from production, and percentage of recyclable products;
- *Process efficiency indices*: these assess the environmental efficiency of a company's operations regarding waste water, air emissions and energy consumption .
- *Design efficiency indices*: theses measure the "green" design features defining the "green" products, such as assembly time, number of different materials or parts in a product, and number of levels in the bill of materials.

Table 1 shows the suggested indicators and their descriptions. For environmental performance assessment, the basic way is to benchmark the current performance with the regulation standards. When selecting among different potential solutions or programs, an aggregate indicator, can be used to evaluate the solutions. Four indicators derived from these measures can be used to describe the trends in environmental performance. Specialised indices can be aggregated into these four basic categories.

Table 2: Suggested indicators for the physical indicators for environmental performance

<b>No.</b>	<b>Indicator</b>	<b>Description</b>
1	Air emissions	Percentage of gas emissions into the air, e.g., chlorinated pollutants
2	Waste water	Percentage of pollutants in water, e.g., total nitrogen, phosphates per litre of waste water
3	Solid waste	Percentage of materials that are sent for disposal
4	Energy consumption	Amount of energy consumed, e.g., electricity, oil, measured in fuel oil equivalent units

Table 3 gives a list of suggested indicators for measuring economic performance of a firm practicing remanufacturing. The identified indicators can be used to evaluate decrease of various costs: (a) costs associated with material usage, energy usage, raw material usage, and (b) costs associated with fees paid for waste discharge, waste treatment, including transportation and distribution. These are concerned with process efficiency indices.

Table 3: Suggested indicators for economic performance

<b>No.</b>	<b>Indicator</b>	<b>Description</b>
1	Material costs	Decrease of cost associated with materials purchasing
2	Energy costs	Decrease of cost of energy consumption
3	Raw material usage costs	Decrease of raw material usage due to re-use
4	Waste treatment costs	Decrease of fees paid for waste treatment
5	Waste discharge costs	Decrease of fees paid for waste discharge

Table 4 provides a list of suggested indicators for measuring and tracking the social performance of a remanufacturing supply chain, as identified in this study. These indices include green image, a measure of the customers' perspective due to the firm's green practices such as product take back, recycling and product recovery. Such activities have a positive impact on the green image of the RGSC.

Table 4: Suggested indicators for social performance

No.	Indicator	Description
1	green image	increase in customer goodwill due to greening activities
2	percent recycling	increase in percentage of recycled material compared to material sent for disposal
3	product green efficiency	increase of green design features in a product, e.g. number of parts/materials in a product

## MANAGERIAL IMPLICATIONS

From the management point of view, useful managerial insights can be drawn from the analysis carried out in this study. The suggested framework provides,

- a taxonomic overview of the key areas of focus for green manufacturing upon which performance indicators should be developed;
- a guided approach to developing a performance measurement system for the green remanufacturing supply chain;
- forms a platform for defining or selecting appropriate performance indices in the context of the green remanufacturing strategy chosen;
- a performance measurement framework that is based on life-cycle analysis, which translates to a firm's complete social responsibility over its product life cycle from product design to product take-back.

Above all, the framework suggested in this study is a useful tool for supply chain decision makers who intend to design an effective PMS in the context of specific green supply chain drivers. As most customers and other stakeholders continue to raise green issues and ecological concerns in the market place, decision makers have to pay much attention on implementing green performance systems that cover the product life cycle in order to gain a competitive advantage.

## CONCLUSIONS

The design of a PMS for the GRSC is an important endeavour that has attracted the attention of various researchers and practitioners. This study has focused on investigating existing empirical studies found in literature. Based on these empirical studies, this research develops a framework of performance management measures for the GRSC. The proposed framework is a useful tool for decision makers intending to design an effective PMS for a specific the green remanufacturing strategy. The framework provides a guideline for devising a set of performance indicators that are suitable for green strategy.

In addition, this study has provided further knowledge on the various green strategies, highlighting the drivers behind their selection implementation. This provides a big picture of the context under which each strategy may be a suitable candidate for addressing green issues in an organisation. The classification gives a guide for the supply chain decision maker when selecting appropriate strategies for a specific industrial situation, depending on the inherent internal and external drivers.

Further research directions include the validation of the application of green performance measures for the PMS identified in this study. This will establish the validity of the measures and metrics for green remanufacturing performance measurement. Furthermore, new comprehensive or hybrid indicators may be designed with regards to both environmental and economic performance. Another research focus arising from this study is the development of PMS for other categories of GSCM strategies.

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# MANAGING NEW PRODUCT DEVELOPMENT PROJECTS UNDER MULTIPLE ENGINEERING CHANGES: A SYSTEM DYNAMICS APPROACH

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## ABSTRACT

Under dynamic multiple engineering changes, managing the New Product Development (NPD) process is a complex task. The dynamic process of design, prototyping, production, staffing, as well as revenue generation have to be cautiously coordinated from systems perspective, taking into account the various factors associated with the processes. Design of proper decision support tools for managing NPD projects under multiple changes is imperative. This research presents a system dynamics approach for effective design and evaluation of policies controlling the NPD processes. Using a set of performance metrics developed in this study, different scenarios are built up and evaluated. The results obtained from the “what-if analysis” on the model indicate that effective policy structures can be developed for NPD project under multiple changes. The model provides strategic managers and policy-makers an in-depth understanding of the dynamics of NPD processes in the manufacturing industry under changing environment.

**Keywords:** New product development, system dynamics, engineering change management, multiple engineering changes

## INTRODUCTION

Due to evolving market conditions, technological advancements, and business growth, multiple changes in product design and development are inevitable. As market conditions and customer needs evolve, decision makers concerned with New Product Development (NPD) strive to make the necessary changes to their product design in order to exploit new market opportunities (Chai andXin, 2006). Likewise, as technology evolves in a dynamic and

competitive environment, policy makers have to respond by improving product performance at the lowest possible cost in order to remain competitive in the market place. Manufacturing firms should always strive to explore new business opportunities for business growth so as to keep abreast with external business threats. In such dynamic and evolving business environment, multiple engineering changes are prevalent in product design and development.

In order to remain competitive, manufacturing organisations that use NPD as a strategic weapon must have a system in place to effectively manage the necessary changes in their new products. A typical NPD process consists of several stages, such opportunity identification, concept development, product design, prototyping and testing, and production (Cooper and Kleinschmidt, 1986). In practice, the process is iterative in nature, such that product design concepts and ideas may necessarily need to be changed during or after the NPD process (Reidelbach, 1991; Barzizza et al., 2001). These changes are identified and accommodated in the NPD process. As a result, the overall performance of the project in terms of lead time, product cost, resource usage, revenue and productivity, may be affected. In this regard, proper engineering change management tools are needed in order to improve the performance of the NPD process through actions such as improvement of personnel skills and knowledge, rectification of design errors, improvement of product performance, and upgrading technology. Therefore, the management of engineering changes in a dynamic environment is an essential but complex task (Reddi, 2011).

In respect of the above issues, the current research aims to develop a system dynamics approach to managing NPD projects subject to multiple engineering changes. The specific objectives in this study are:

- (i) to highlight the causal relationships between relevant factors in a typical NPD project;
- (ii) to develop stock and flow models for interacting sectors within the NPD project; and,
- (iii) to carry out what-if analyses and to draw managerial insights for effective NPD project management in a dynamic environment.

The rest of the paper is organised as follows. The next section presents a review of related work, highlighting the concepts and drawbacks leading to the current research. Section 3 provides a description of the research methodology applied in this study, particularly the system dynamics model. Section 4 provides an analysis of simulation results together with

discussions. Managerial implications and insights are presented in Section 5. Section 6 concludes this research.

## **LITERATURE REVIEW**

In this section, related extant literature on NPD and engineering change (EC) management are discussed, highlighting important concepts and research points leading to the current research. The current status of the application of system dynamics (SD) in modelling NPD and EC management is also highlighted.

### **New product development dynamics**

NPD is generally defined as the overall process of coming up with a new product from concept generation to market (Kahn, 2004). Recently, there has been increasing attention to enhancing the understanding of the management of NPD projects. Nevertheless, because of the dynamic nature of the critical success factors such as time, cost, quality, and dynamic changes, very few NPD projects succeed due to inherent engineering changes. Though various researchers have focused their efforts to better understand the NPD process, very little progress has been made in this area (Zaccai, 1991; Ulrich and Eppinger, 1994; Rodrigues et al., 2006). This is attributed to the use of traditional models of the NPD organization that are based on sequential and functional approach to product development which often makes NPD projects inflexible to change (Wheelwright and Clark, 1992). These limitations led to the development of a more agile approach to product development (Sterman, 1992; Ford, 1995). Yet, the need for a better understanding of the dynamics of NPD is still a priority in various organizations. In this development, the current research is aimed at developing an improved understanding of the dynamics of product development project features and other factors in the presence of multiple changes within the NPD project.

### **System dynamics**

SD is a simulation methodology that was introduced by Forrester (1961) in the early 60's as a modelling and simulation methodology for long-term decision-making in dynamic business management problems. Since its conception, SD has been applied successfully to various policy and strategy problems (Coyle, 1996; Sterman, 2004). Black and Repenning (2001) as well as Repenning (2001) use the SD methodology to model a multi-NPD project

environment in order to study the phenomenon of fire fighting observed at the end phases of NPD projects as their deadlines approach. The research is aimed at preserving high product quality in new product development.

SD and cybernetics have been applied in modelling engineering change (ECM) in NPD process (Rodrigues et al., 2006). The model is based on three sectors; project workflow, competent project staff sector, and revenue sector. The project sector is described by three stocks, namely, “work to be done,” “work in progress,” and “work finished.” The work that fails to meet the requirements is taken back for rework. The major setback of this model is that it does not identify the NPD process and ECM phases. Identifying the phases within the processes is vital for in-depth understanding of the workflow (Rodrigues et al., 2006).

Reddi (2011) used SD modelling approach to model engineering change management on a large scale, in a collaborative environment. The model consists of SD templates for various possible configurations of supplier integration in the new product development process of the manufacturer. For instance, the supplier may be involved at such leverage points as concept development phase, design phase, or manufacturing phase. Remarkably, engineering changes arising from requests for change within and outside the organisation are included in the model. The model is suitable for large scale engineering change management in a collaborative supply chain. The current research aims to develop a system dynamics approach to managing NPD projects subject to multiple engineering changes (Rodrigues et al., 2006).

## **RESEARCH METHODOLOGY**

This research is concerned with system dynamics modelling and organizational learning with specific application to NPD projects. SD methodology, originally proposed by Forrester (1961), has been widely applied by a number of researchers and practitioners in various NPD project situations (Coyle, 1977; Morecroft, 1999; Mohapatra et al. 1994; Jessen, 1990; Rodrigues et al. 2006). Causal loop diagramming is used in this research to capture causal linkages inherent between variables. Stocks and flow models, with the aid of relevant difference equations, are used to simulate the NDP process characterised with complex dynamics and multiple changes.

### **Causal loop diagrams**





## System dynamics model development

In this section, we explain the system dynamics model for managing NPD projects under multiple changes. The model developed in this study is a modified version of past models found in Ford (1995), Balaji and James (2005) and Rodrigues et al. (2006). More specifically, this SD model seeks to investigate the effects of multiple NPD changes on production output, revenue generation, and skills loss. We model the NPD process as a dynamic system comprising four distinct phases of NPD work arrival, design, prototyping, production, including rework and engineering change. In this connection, we propose a high level model comprising three interacting sectors as shown in Figure 2.

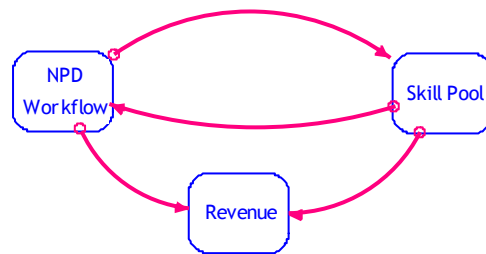


Figure 2: Sector diagram for the NPD management model

In view of the above issues, the dynamics of NPD management problem was represented by three sub-models were developed for and its sectors, namely:

- (1) NPD workflow submodel, which pertains to design, prototyping and production;
- (2) Skill-pool submodel which entails staff recruitment, training and re-training; and
- (3) Revenue submodel which covers revenue generation and workforce compensation.

Figure 3 shows the suggested stocks and flows of the NDP workflow submodel. The logic of the submodel involves four stocks, that is, *Design\_Tasks*, *Designs*, *Proto\_types* as well as *Rework* stocks. It is assumed that these stocks represent the flow of components of information from NPD concept arrival to design, prototyping and production.

The initial work load is the input for the stock *Design\_Tasks* which is performed by the competent staff *Skill\_Pool*. The completed stocks are moved from *Design\_Tasks* to stocks *Designs* which represent completed design components. The efficiency of the flow of these stocks is determined by the productivity of the competent *Skill\_Pool*. Ideally, these completed

design stocks are moved to *Proto\_types* stocks, provided the required quality level is met. The design components that fail to meet the requirements are reworked on by some of the skilled staff so as to improve their standards. Design components that are at the right level of quality trigger the corresponding prototyping process. The aim is to move the prototype components to production, subject to the quality level restraint. It follows that failed prototype components will signal rework on the design components that correspond to those prototype components. It is assumed that the errors in the design components have to be rectified as early as possible, therefore rework is given priority over new design tasks.

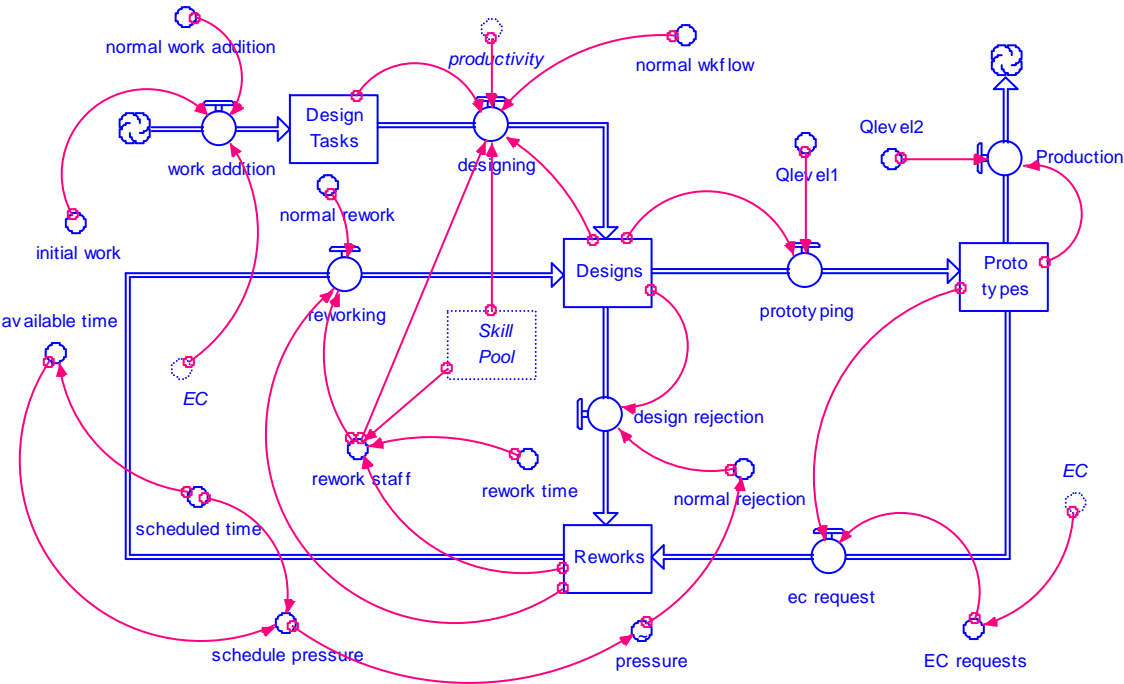


Figure 3: Proposed NPD workflow submodel

In the proposed skill pool submodel, illustrated in Figure 4, the requisite workforce is obtained from the quotient of initial workflow and the scheduled project time. This is done taking into account the natural *attrition* rate of the skilled staff. Accordingly, potential staff is hired into *Potential\_Staff* stocks and trained over the planned training time. The training process transforms the staff into *Skill\_Pool*. Occasionally, staff may need retraining so as to improve their competence. This is especially important given that their skills and knowledge may not be adequate following the occurrence of design changes associated with the NPD process. Thus, the staff may lose competence after design changes; therefore, they should regain their skills through retraining.

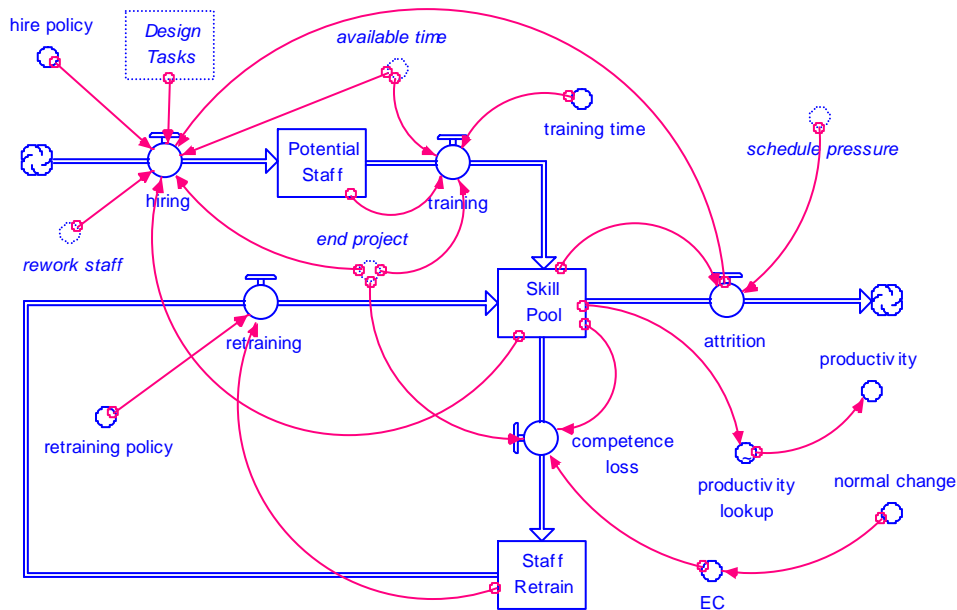


Figure 4: Proposed skill pool submodel

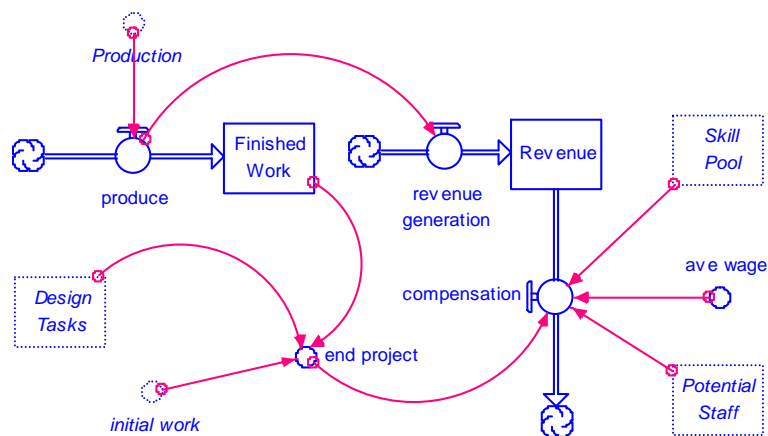


Figure 5: Proposed revenue submodel

Figure 5 shows the proposed simplified structure of the revenue submodel, consisting of *Revenue* and *Finished\_Work* stocks. Here, we assume that revenue is generated according to the rate of production of the finished work. Thus, stocks of revenue are influenced by *production* and depleted by staff *compensation* rate. Both skilled and potential staff is compensated from the generated revenue.

## SIMULATION RESULTS AND DISCUSSION

In this section, we give summary of the problem situation used for the simulation experiment in this study. We assume an NPD project with design work of 100 man-months to be

completed over a planning horizon of 36 months. During the NPD process, multiple engineering changes are expected at time  $t = 12$  and  $t = 24$ . Furthermore, skill pool requirements are adjusted on monthly basis. It is assumed that staff training time averages one month. Any rework identified is given priority over project work in process, and all the rework is supposed to be completed in one month. As the available time is reduced the schedule pressure increases and increases the rejection rate. The average wage per skill pool staff per month is \$500, while production output brings revenue of \$5000 per unit.

**Base experiments**

For the base experiments, an engineering change is requested at time  $t = 12$ , at which time the additional knowledge and skills are required to effectively carry out the engineering changes just introduced. We assume an average engineering change of 10%. In this experiment, the model is run over a simulation time of 40 months. The results of the simulation experiments are described in terms of production, revenue generation, and skill pool.

Figure 6 shows a sharp drop in the requisite skill pool at time  $t = 12$ . At the onset of the engineering change request, new knowledge and skills are required to meet the engineering change demand. Thus, the competence of the skilled staff drops, such that a corresponding number of staff has to retrain in order to regain the necessary skills. This phenomenon illustrates the need for skills development in line with engineering change, subject to availability of the requisite resources.

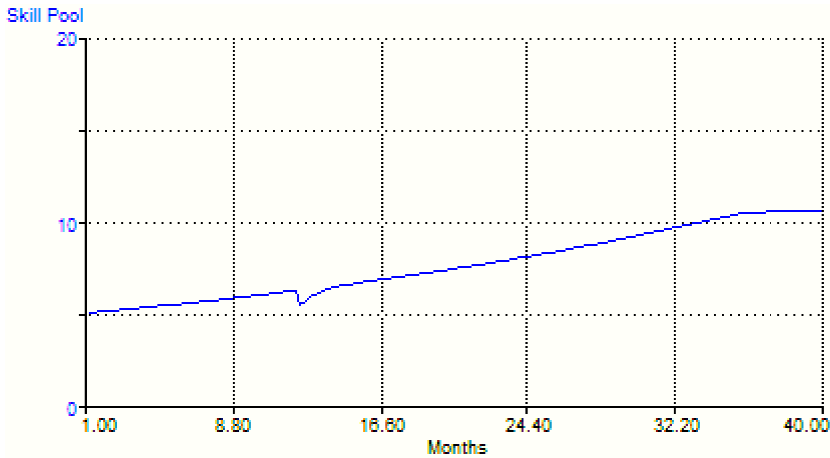


Figure 6: Base behaviour of skill pool variation over time

Figure 7 shows the variation of production with time. The production rate drops at time  $t = 12$ , and quickly rises back to the original trend. As the engineering change is introduced (at time  $t = 12$ ), the skill pool level drops accordingly resulting in low production rate. This is further aggravated by more rework due to the requests for product design modifications; this implies that the NPD personnel are occupied with additional work. Not surprisingly, revenue generation rate rises rapidly from  $t = 0$ , peaks at  $t = 4$  and decreases steadily to zero. Following the sharp decrease in production rate, revenue drops sharply when  $t = 12$ . This is illustrated in Figure 8 which shows the variation of the revenue generation rate over the planning horizon.

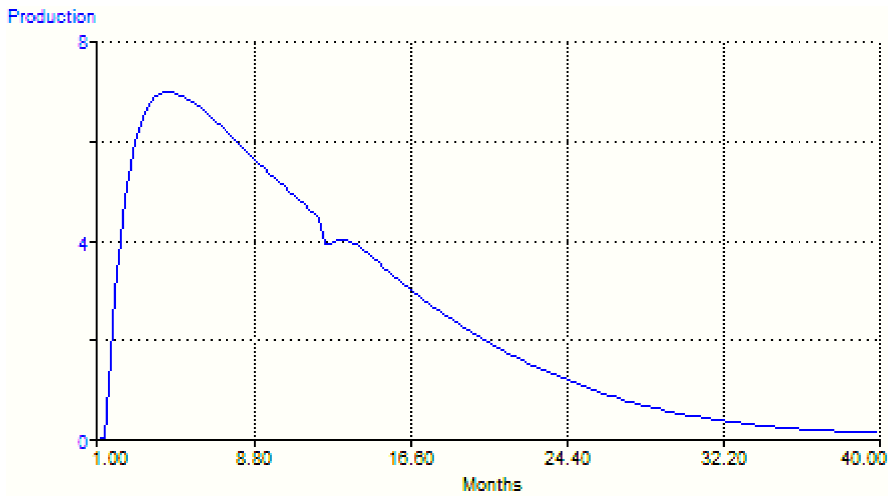


Figure 7: Base behaviour for production rate over time

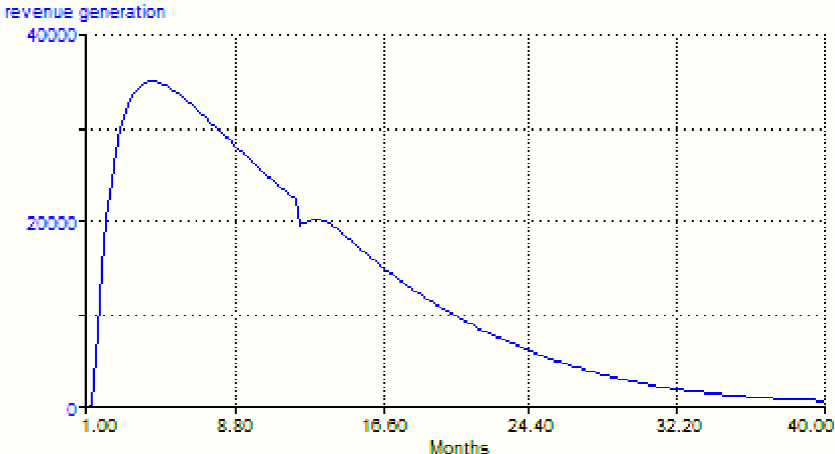


Figure 8: Base behaviour for revenue generation rate

The next set of experiments provides sensitivity analysis in the presence of multiple requests for engineering change.

### Sensitivity analysis

In this experiment, multiple engineering changes are introduced; one at time  $t = 12$ , and another at time  $t = 24$ . In addition, the average percentage change is varied in steps of 20% from 0% to 60% while observing the behaviour of the system. The performance of the system is measured in terms of production rate and revenue generation rate. The simulation experiment is run over a period of 40 months.

A series of results were obtained as shown by sensitivity analyses. Figure 9 depicts the dynamics of the skill pool for both the base scenario and 3 other scenarios. Curve 1 refers to the ideal case that assumes that no engineering change will be requested. As for curve 2, we assume that the average change is 20%. The curve shows dips at time  $t = 12$  and  $t = 24$ , resulting from staff retraining and additional work. However, the curve shows that the NPD project was completed on time. Curves 3 and 4 further demonstrate the dynamics of the skill pool in the course of the development project as engineering change is increased to 40% and 60%, respectively. The results show that the project can still be completed on time, howbeit with increase skill pool retraining to regain competence due to multiple changes.

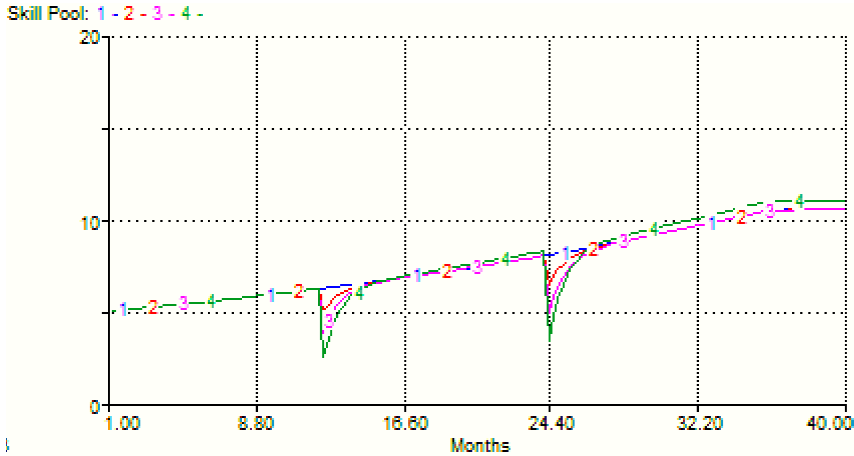


Figure 9: Sensitivity analysis for skill pool

Figure 10 shows the behaviour of production rate as engineering change is varied from 0% to 60%, in steps of 20%. As above, curve 1 depicts an ideal scenario where there are no production losses. On the contrary, curves 2, 3 and 4 show that there are dips at time  $t = 12$  and  $t = 24$ , resulting from loss of production time arising from staff retraining to increase staff

competence. As the engineering changes rises to 60%, the production rate continues to decrease due to further multiple losses in competence and production time. All the curves show that the NPD project was completed on time.

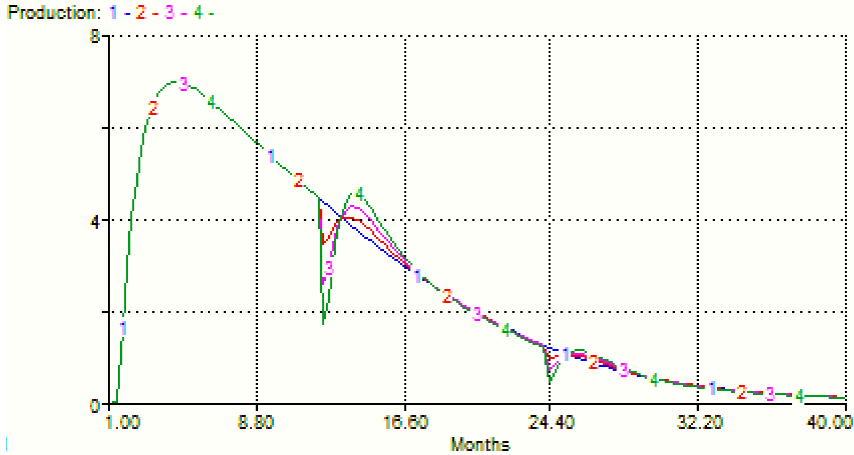


Figure 10: Sensitivity analysis for production rate

Figure 11 depicts the dynamics of revenue generation as the engineering change is varied from 0% to 60%, where 0% refers to the ideal scenario. Again, the base scenario depicted by curve 1 is an ideal case where there are no engineering change requests, and therefore no revenue losses. Conversely, curve 2 shows dips at time  $t = 12$  and  $t = 24$ , resulting from staff retraining and shortage of staff. In addition, curves 3 and 4 further demonstrate the dynamics of revenue generation as engineering change is increased to 40% and 60%, respectively. Though curves 2, 3 and 4 resulted in revenue losses, the curves show that the NPD project was completed on time.

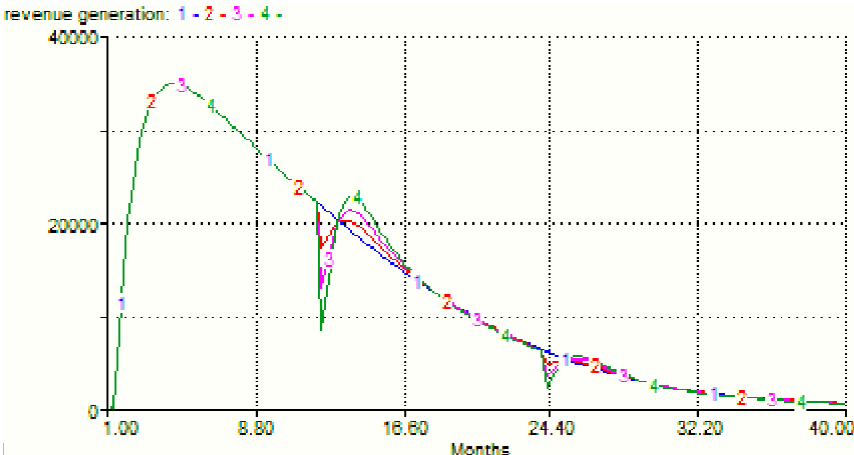


Figure 11: Sensitivity analysis revenue generation



From the above analysis of the dynamic behaviour of the NPD, we infer that the magnitude of additional work is directly proportional to the percentage engineering change; the higher the percentage change, the more the work additions and the less the revenue generation. Furthermore, multiple changes introduce further losses in production and revenue generation due to more additional work. However, the upside of multiple retraining is that more knowledge and competence are increased, specifically when multiple changes occur. This is competitive strategic weapon for the organization in the long term.

## **MANAGERIAL IMPLICATIONS**

This research brings up in-depth understanding and knowledge in regards to the knowledge management, technology, facilities, and business aspects. In other words, technology managers need to envision not only the NPD facility development but also the skills, technology and business aspects of the NPD process, from a systems view point. This calls for enhanced organisational learning and flexibility in order to enable integrative interaction between facility managers, human resources managers, and innovators. Only then, can the organisation synthesize a well informed decision system as opposed to silo decision making. In general, a summary of the key managerial insights can be drawn from this study:

- a collaborative and integrative approach, involving facility, human resource, innovation and product managers, is essential for effective NPD and EC management;
- increasing collaborative involvement between interested parties act as a knowledge-sharing base for the organization in order to address engineering change problems in the most effective way;
- strategic managers may serve to facilitate the interface between project and other organization sectors, thus enhancing a systems approach to product strategy, process strategy, and organizational strategy as the product development process advances;
- strategic decision makers articulating vision of the organisation may serve to form a platform for knowledge sharing for necessary downstream changes; such practices provide useful knowledge for possible downstream organizational changes in the product development process.

With a proper application of these integrative managerial practices, organisations can effectively manage NPD and EC management even under multiple changes.

## **CONCLUSIONS**

In the manufacturing industry, effective management of the dynamics of NPD projects is a critical issue. Dynamic complexities are prevalent in NPD projects due to such factors as changing customer demands, short product life cycles, dynamic technology life cycles and global completion. Therefore, effective management of the dynamics NPD projects is imperative.

In this research, we demonstrated the effectiveness of the system dynamics tool in formulating strategies and policies for managing the dynamics of NPD projects. The SD model developed in this study provides a tool for answering what-if analysis on factors that influence design, prototyping, production, revenue generation and knowledge management in NPD projects. The results strongly indicate that there is need for effective and efficient formulation of policies in regards to the management of skills competence in industry, particularly in the manufacturing sector. As observed in the results, all the parameters when isolated have an optimum value. The base values of known parameters can be estimated from past data, while optimum values of unknown parameters can be estimated by the simulation model. For instance, the parameters such as processing rates and EC processing capacity can be estimated from past data. And parameters such as EC capacity required for faster product development process can be estimated from the simulation model. Therefore, with past data, the model can be calibrated and be used for making informed decisions.

Suggestions and insights presented in this research provide better practices for effective management of the dynamics of change in new product development projects in the manufacturing sector.

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# ETHICAL BEHAVIOUR OF FINANCIAL PLANNERS IN NELSON MANDELA METROPOLE

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## ABSTRACT

The regulation of financial services in South Africa has created a financial services industry which demands a high level of ethics and professionalism from businesses and individual practitioners. The primary objective of this exploratory study was to investigate the influence of demographical variables on ethical behaviour of financial planners in the Nelson Mandela Metropole. The sample of this quantitative study comprised of 150 financial planners in the Nelson Mandela Metropole. Thirty null hypotheses were formulated and tested.

Findings suggest that statistically significant relationships exist between the age of a financial planner and the financial planners' perception of a code of ethics; the age of a financial planner and the financial planners' ability to engage in fair and honest disclosure; the financial planners' educational achievements and competence and diligence; and the financial planners' career length and the financial planners' perception of a code of ethics. In addition, respondents predominantly agreed that they adhere to a code of ethics, believe in fair and honest disclosure and are competent and practice due diligence.

**Keywords:** Ethical behaviour, code of ethics, demographic variables, financial planner

## INTRODUCTION

Ethics epitomises the crux of human conduct and may be defined as the branch of philosophy that deals with the systematic evaluation of the behaviour, character and principles of individuals as well as the methods used to distinguish right from wrong, and good from bad (Gildenhuis 2004:14). In addition to ethics being able to assist with the distinction between right and wrong, it reinforces acknowledgement of the reason, and being able to justify the decision making process (Kizza 2010:33). Business does not exist in solitude, but in a web of relationships. Ethics plays a vital role in the relationship between business and society. A

study by Rossouw (2002:25) has shown that there is a positive correlation between financial and ethical performance.

In the new millennium, ethics in the South African financial services industry has come under much scrutiny. According to Rossini and Maree (2010:56), the South African financial services industry is experiencing an escalation in unethical behaviour. This unethical behaviour can be attributed to “a proliferation in Financial Advisory and Intermediary Services (FAIS) Ombud and Financial Services Board (FSB) complaints, frequent media articles relating to unethical behaviour, and copious incidents regarding suspensions, revocation of licenses and disciplinary actions against financial planners” (Rossini & Maree 2010:56). Cameron (2002:1) reiterates that the negativity surrounding the financial services industry can largely be attributed to poor ethical practices.

According to du Preez (2007:1), there is lacking consumer confidence regarding the credibility of professionalism within the South African financial services industry. Regulatory and professional bodies have gone to great lengths in an attempt to enforce ethical values and responsibilities on financial services providers. The ethical codes of conduct as drafted by the Financial Planning Institute (FPI) and the stringent “fit and proper” requirements as set forth by the FAIS Act have been imposed upon financial services providers in an effort to alleviate all unethical business practices. However, despite the efforts of regulatory and professional bodies, the laws governing the financial services industry alone will not put an end to unethical business practices (Du Preez 2009:1).

One of the most concerning problems is that many financial planners are exposed to conflicts of interest, which forms the foundation for the development of an ethical or moral dilemma. Persons engaged in the selling of financial products are often motivated by the large commissions which they are able to earn (Cameron 2002:1). A situation may arise whereby financial planners, in selling a particular financial product(s), may place their own interests before that of their client’s best interests. A financial planner facing an ethical dilemma might, for example, sell a financial product to a client that does not in fact meet the financial needs of that particular client, so as to gain from the large commission pay out (Cameron 2007:1). This is supported by the views of Smith, Armstrong and Francis (2007:2), who have identified that multiple stakeholders, conflicts of interest and uncertainty regarding the law,

are common reasons for the development of the daily ethical dilemmas faced by financial planners in Australia.

There has, however, been a move to regulate the activities of persons and institutions who are engaged in providing a financial service(s) or financial advice to consumers as the Financial Planning Institute of Southern Africa (FPI) has drafted and implemented a professional code of conduct, known as the Code of Ethics and Professional Responsibility. All Certified Financial Planner (CFP) professionals are obliged to comply with the professional code of conduct in an attempt to reinforce their ethical responsibilities to the public, clients and employers. (Botha, Rossini, Geach, Goodall, du Preez & Rabenowitz 2010:52). In addition, the FAIS Act of 2002 has set minimum qualifications and operational requirements for financial planners to satisfy all the “fit and proper” requirements before they may receive their Financial Services Provider (FSP) licence (Moodley-Isaacs 2009:1).

The problem investigated will be elaborated on first, followed by the objectives of the study. A brief literature overview will be given on ethical behaviour with special reference to the impact of demographical variables on ethical behaviour. The methodology of the study is highlighted followed by the results and conclusions and recommendations. The limitations of the study are also indicated with some general guidelines on how ethical behaviour could be encouraged in the workplace.

## **PROBLEM STATEMENT**

Some of the numerous cases involving the unethical practices of financial services providers in South Africa involve the Fidentia group of companies and the theft of beneficiaries’ funds from the Living Hands Umbrella Trust and Progressive Asset Management, whereby various investment regulations were contravened, resulting in the inability to pay pension and provident fund benefits to beneficiaries (Du Preez 2009:1). According to Cameron (2007:1), the life assurance industry is characterised by high costs that erode investment returns, investment products that lack transparency and flexibility, and broker compensation packages that flaunt large upfront commissions. The principles of integrity, objectivity, fair and honest disclosure, competence and diligence, and professionalism, as set out in the Financial Planning Institute’s Code of Ethics and Professional Responsibility, forbid this form of business behaviour (Financial Planning Institute 2004:1).



According to Rossini and Maree (2010:69), the regulation of financial services has to a large degree been fuelled by a lack of ethics demonstrated by company directors and employees who instigate unethical business practices and schemes. Fraud is rampant in South Africa, yet studies from Ernst and Young show that only 32% of organisations have formal or documented fraud procedures, in spite of one in five organisations deciding against investing in an emerging market due to poor fraud risk assessment (Groenewald 2006:1).

According to Fassin (2005:270) and Román and Munuera (2005:486), unethical behaviour may stem from the internal organisation of a business, in circumstances whereby reward and evaluation systems are not in line with the long-term vision of the business. Financial planners in South Africa earn commission-based salaries and their compensation packages may be unintentionally promoting the unethical behaviour of financial planners. On the other hand, Fielding (2006:26) believes that ethics is dependent on personality characteristics, moral reasoning, values and beliefs. Furthermore, the circumstances depicting the working environment, and the ethical climate within the financial services organisation, both play a vital role in shaping the ethical behaviour of a financial planner (Fielding 2006:26).

A study by Bigel (2000:335) found that the ethical orientation of financial planners in the United States of America is directly correlated with demographic variables such as high educational achievement. Also, qualified financial planners who are obliged to abide by a code of ethics when dealing with clients, are likely to be more ethically orientated than those planners who are not educated, have not completed financial planning examinations and lack experience (Blankinship 1996:98).

From the above, it has been identified that demographic variables can play an integral role in shaping the ethical behaviour of a financial planner. This has led to the problem under investigation:

*Are demographic variables influencing the ethical behaviour of financial planners in the Nelson Mandela Metropole (NMM)?*

To create efficiency, business markets need to eradicate fraud and coercion, illegal transactions, and parties should have access to accurate information with more than one choice available. Over time, business professions such as financial planning should evolve to ensure efficient and fair business transactions (DesJardins & McCall 2005:239).

In the next section, the objectives of the study are highlighted.

### **OBJECTIVES OF THE STUDY**

The primary objective of this study is to investigate the influence of demographical variables on ethical behaviour of financial planners in the Nelson Mandela Metropole (NMM). In order to give effect to the primary objective, the following secondary objectives were explored:

- To conduct a literature review on ethics behaviour in general and specifically in the financial planning sector;
- To empirically explore the influence of demographic variables on ethical behaviour of financial planners in the NMM; and
- To provide guidelines on how ethical behaviour could be encouraged in the financial planning sector.

In the next section a theoretical overview of ethical behaviour in general and more specifically in the financial planning sector is elaborated on.

### **LITERATURE REVIEW OF ETHICAL BEHAVIOUR**

In this section a brief literature review will be provided of the definition of ethics and which principles guide ethical behaviour.

#### **Definition of ethics**

The word ethics pertains to a set of moral principles and is a translation of the Greek word “ethikos”. It is considered to be a personal attribute and cannot be enforced (Gildenhuys 2004:13). Ethics may be defined as being an individual’s character, principles, and the degree to which right or wrong, and good or evil is constituted (Mackenzie 2008:1). Paliwal (2007:4) defines ethics as those actions that are the most honest, moral and demonstrate the highest degree of integrity.

### **Ethical behavioural principles**

Ethics governs the standard of behaviour as well as both individual and organisational norms. It does not only play a vital role in society, but is also deeply embedded in laws and regulations. A code of conduct provides individuals and organisations with a selected framework to assist in ethical decision making. (Peng 2009:107).

### **A code of ethics**

The purpose of a code of ethics/conduct is to establish a consensus regarding a moral standard of behaviour, encourage organisational integration using the appropriate behaviour and values, and to aid in finding solutions to moral dilemmas. This in turn will strengthen the internal organisational structure as well as enhance its reputation with important stakeholders. (Naude 2005:24-25). With regard to the financial services industry, numerous ethical codes have been developed, such as the FAIS Codes of Conduct and the FSB Code of Ethics and Professional Responsibility. The Financial Planning Institute's (FPI) code of professional conduct is known as the Code of Ethics and Professional Responsibility which is binding on its members only (Botha *et al.* 2010:16). This professional code sets forth a financial planner's duties towards their clients, colleagues, service providers, employees, employers and the general public (Financial Planning Institute 2004:3).

According to Botha *et al.* (2010:15), an ethical code serves as a guideline which sets forth the ethical behaviour that is to be complied with, but does not guarantee that a business will always act in an ethical manner. Dobson (1997:15) concurs that a code of conduct is action-based in that it provides for a set of rules that are to guide the actions of employees in certain situations where a moral dilemma may arise. Walkowiak and Graham (2006:2) believe that the purpose of a code of ethics is to express shared values, direct conduct and ultimately provide a mutual structure from which professional members can engage in ethical decision-making. Furthermore, a code of ethics should not replace ethical reasoning, nor should formal compliance replace personal integrity. If a business is to be conducted in an ethical manner, the ethical code needs to form an integral part of the business' processes and procedures, as well as the corporate culture.

All CFP professionals are obliged to comply with the provisions of the FPI Code of Ethics and Professional Responsibility, which signifies the standard for ethical behaviour (Botha *et*

*al.* 2010:15). The six ethical and professional principles enshrined in the FPI Code of Ethics and Professional Responsibility provides a foundation for self-regulation amongst professional financial planners (Botha *et al.* 2010:19). The professional code comprises six principles, namely; integrity, objectivity, fair and honest disclosure, competence and diligence, confidentiality and professionalism. Five of these six principles will be explored in this study and are discussed below.

### **Integrity**

Rossouw and van Vuuren (2010:8) define integrity as the moral character of an individual. The principle of integrity requires that all financial planners should rely on their highest integrity as the most appropriate benchmark in determining what is right or wrong. Financial planners shall act with honesty and candour which shall not be subjected for personal gain or advantage. (Financial Planning Institute 2004:5). The relationship between integrity and ethics suggests that an individual who strictly adheres to ethical standards is said to possess a high level of integrity (Rossouw & van Vuuren 2010:8). It was further stated that integrity is also associated with other ethical concepts such as fairness, consistency, uprightness and wholeness. An individual of high integrity who adheres to ethical values is also considered reliable and trustworthy. The Financial Planning Institute (2004:5-6) also states that the code prohibits a financial planner from engaging in misleading advertising and promotional activities. A financial planner is also prohibited from conducting their professional activities with dishonesty, fraud, deceit or misrepresentation. When dealing with client funds, a financial planner is therefore obliged to exercise the highest level of integrity.

### **Fair and honest disclosure**

The principle of fair and honest disclosure requires a financial planner to provide financial services in a fair and reasonable manner and to always disclose all conflicts of interest (Financial Planning Institute 2004:6). According to Botha *et al.* (2010:29), a conflict of interest arises when a financial planner has conflicting professional and personal interests which make it difficult for the financial planner to perform his/her duties in an impartial manner. In maintaining an ethical stance, where such conflicts of interest exist they need to be dealt with in the most appropriate manner. The FPI Code of Ethics and Professional Responsibility as well as the FAIS General Code of Conduct both make provision for dealing with conflicts of interest (Botha *et al.* 2010:29). Both codes assert that where a financial

planner is faced with a conflict of interest, the financial planner is obliged to disclose such conflicting interest to the client. Even though conflicts of interest are provided for in these codes of conduct, there has still to a large extent been uncertainty as to what constitutes a conflict of interest which has been the underlying factor behind the erratic treatment of conflicts of interest (Financial Planning Institute 2004:7). The FPI Code of Ethics and Professional Responsibility also compel a financial planner to disclose all material information such as the professional relationship, business affiliations, conflicts of interest, the financial planner's contact details, credentials, qualifications, licenses, compensation structure, scope of authority and the nature of the services offered (Financial Planning Institute Code of Ethics and Professional Responsibility 2004:7). According to Walkowiak and Graham (2006:2), where a financial planner fails to maintain sufficient documentation and processes, such actions can be construed as being in violation of ethical principles.

### **Competence and diligence**

The principle of competence and diligence requires a financial planner to maintain a high level of professional knowledge and to act diligently when providing professional services (Financial Planning Institute 2004:10). In the course of furnishing advice to a client, a financial planner is required to maintain comprehensive knowledge regarding current legislation and technical standards. In an effort to improve professional competence, a financial planner is required to take part in continuous education throughout their professional career. According to the Code, a financial planner may only provide advice in areas of which they possess the relevant competencies. If they are not competent to give such advice, they are required to consult or gain the assistance of a suitably qualified professional. (Financial Planning Institute 2004:10). When recommending financial products to a client, the financial planner is required to reasonably investigate the recommended financial product. This ensures that the recommended product meets the financial needs of the client. In providing diligent advice, a financial planner is required to record in writing all significant recommendations made to a client. If such recommendations are provided orally, they need to be confirmed in writing within a reasonable period thereafter. (Financial Planning Institute 2004:10-11).

## **Confidentiality**

The principle of confidentiality requires that a financial planner shall not disclose confidential client information unless the client has given the financial planner express consent to do so (Financial Planning Institute Code of Ethics and Professional Responsibility 2004:12). Boatright (1999:46) concurs that confidential information cannot be revealed without the client's consent, and also stated that confidential information can only be used for the purpose for which it was initially provided. A financial planner is only obliged to disclose confidential client information when complying with legal requirements or legal processes (Boatright 2009:46; Financial Planning Institute Code of Ethics and Professional Responsibility 2004:12).

## **Professionalism**

The principle of professionalism requires a financial planner to always act in a manner that reflects positively on the profession of financial planning as well as the image of the FPI (Financial Planning Institute 2004:12). Furthermore, financial planners are obliged to work collectively with fellow financial planners in enhancing the profession as well as improving the quality of the services that they provide to the public. In addition, all professional members of the FPI are obliged to comply with the aspirational principles outlined in the professional code. The professional code aims to protect the public image of financial planners by providing guidance on how to deal with ethical dilemmas. (Financial Planning Institute 2004:3).

In the next section the influence of demographic variables on ethical behaviour is highlighted.

## **THE INFLUENCE OF DEMOGRAPHIC VARIABLES ON ETHICAL BEHAVIOUR**

Many authors found that demographic variables impact ethical behaviour as next described. The ethical sensitivity of auditors was positively related to age, but not to education and the level of cognitive moral development reflected in ethical judgments was higher for females (Shaub 2012:1). Pierce and Sweeny (2010:79) found that gender, firm size and type of degree had a significant association with ethical decision making (Pierce & Sweeny 2010:94). According to Pan and Sparks (2012:86), there is theoretical consensus that age improves the ability to apply relevant ethical standards, but not education and that women apply more strict ethical standards than men. Chiu (2003:66) reports that work experience lessens the strictness

of ethical judgments, while some authors (Barnett & Valentine 2004:346; Schepers 2003:345) found no relationship between work experience and ethical judgments. Allmon, Page and Roberts (2000:418) argue that education may open minds and enhance ethical reasoning.

Based on the above reasoning, 30 hypotheses relating to the independent variables (six classification data) and the dependent variables (five ethical behaviour factors) were formulated. The following five sets of null hypotheses pertaining to the influence of demographical variables on ethical behaviour were formulated:

**First set of hypotheses: Code of ethics**

- H0<sub>1</sub> There is no relationship between gender and adhering to a code of ethics.
- H0<sub>2</sub> There is no relationship between age and adhering to a code of ethics.
- H0<sub>3</sub> There is no relationship between education and adhering to a code of ethics.
- H0<sub>4</sub> There is no relationship between professional designation and adhering to a code of ethics.
- H0<sub>5</sub> There is no relationship between business structure and adhering to a code of ethics.
- H0<sub>6</sub> There is no relationship between working experience and adhering to a code of ethics.

**Second set of hypotheses: Integrity**

- H0<sub>7</sub> There is no relationship between gender and having integrity.
- H0<sub>8</sub> There is no relationship between age and having integrity.
- H0<sub>9</sub> There is no relationship between education and having integrity.
- H0<sub>10</sub> There is no relationship between professional designation and having integrity.
- H0<sub>11</sub> There is no relationship between business structure and having integrity.
- H0<sub>12</sub> There is no relationship between working experience and having integrity.

**Third set of hypotheses: Fair and honest disclosure**

- H0<sub>13</sub> There is no relationship between gender and fair and honest disclosure.
- H0<sub>14</sub> There is no relationship between age and fair and honest disclosure.
- H0<sub>15</sub> There is no relationship between education and fair and honest disclosure.
- H0<sub>16</sub> There is no relationship between professional designation and fair and honest disclosure.
- H0<sub>17</sub> There is no relationship between business structure and fair and honest disclosure.
- H0<sub>18</sub> There is no relationship between working experience and fair and honest disclosure.

#### **Fourth set of hypotheses: Competence and diligence**

- HO<sub>19</sub> There is no relationship between gender and being competent and diligent.
- HO<sub>20</sub> There is no relationship between age and being competent and diligent.
- HO<sub>21</sub> There is no relationship between education and being competent and diligent.
- HO<sub>22</sub> There is no relationship between professional designation and being competent and diligent.
- HO<sub>23</sub> There is no relationship between business structure and being competent and diligent.
- HO<sub>24</sub> There is no relationship between working experience and being competent and diligent.

#### **Fifth set of hypotheses: Professionalism**

- HO<sub>25</sub> There is no relationship between gender and being professional.
- HO<sub>26</sub> There is no relationship between education and being professional.
- HO<sub>27</sub> There is no relationship between age and being professional.
- HO<sub>28</sub> There is no relationship between professional designation and being professional.
- HO<sub>29</sub> There is no relationship between business structure and being professional.
- HO<sub>30</sub> There is no relationship between working experience and being professional.

The above hypotheses will be investigated with the aim of providing an indication as to whether significant relationships exist between the independent variables (classification data) and the dependent variables (ethical behaviour factors). In the next section the methodology of the study is outlined.

### **RESEARCH METHODOLOGY**

A quantitative research paradigm was used in this study. It is a form of conclusive research which involves a large representative sample and structured data collection procedures are used. The research approach followed was also exploratory in nature.

For the purposes of this research project, the target population consists of all financial planners in the Nelson Mandela Metropole (NMM). A convenient non-probability sample of 150 financial planners was selected from NMM.

Due to the nature of the evolving profession of financial planning, there is no easily accessible, published list of all the financial planners who are based in the Nelson Mandela Metropole. For this reason and for the purpose of this study, the sampling frame comprised a non-exhaustive list of financial planners that has been compiled by die researchers.



Since there was no easily accessible or immediately available list of all the financial planners in the Nelson Mandela Metropole, convenience and snowball sampling proved to be the most effective technique for extracting a non-probability sample. In drawing a convenience sample, a non-exhaustive list of financial practitioners was developed using the telephone directory and the assistance of postgraduate students who are studying towards a Postgraduate Diploma in Financial Planning at the Nelson Mandela Metropolitan University (NMMU). This list of financial practitioners included, but was not limited to, financial planners, insurance brokers, broker consultants, investment brokers, legal advisors, healthcare specialists, compliance consultants, employee benefit consultants and marketing advisors.

Both secondary and primary data (survey) were collected. During the literature study, various text books, journals and the Internet was consulted. During the empirical study, 200 self-administered questionnaires were distributed to respondents in the NMM in person and online. Respondents were reminded about the due date of the completion of the questionnaire. The in-person questionnaires had a business card attached to enable the researchers to obtain clarity if questions were not adequately answered. A total of 150 correct completed questionnaires were received. The effective response rate of this study was thus 75%.

Based on the sample size, a survey by means of self-administered questionnaires was best suited to this study. The questionnaire consists of two sections:

- Section A deals with five factors regarding ethical behaviour, namely code of ethics, integrity, fair and honest disclosure, competence and diligence, professionalism. A total of 28 statements were used. The type of ordinal scale used is a five-point Likert-type scale, ranging from strongly agree (rating five) to strongly disagree (rating one).
- Section B provides classification data (demographic characteristics) of respondents and contains a nominal scale of measurement, using categorical variables. Six classification data variables were tested.

As the questionnaire has never been used previously, it was distributed to 10 financial planners and lecturers in Financial Planning. Some problem areas were identified and suggestions for improvement were provided which ensure face validity of the questionnaire.

Content validity was ensured as the statements in the questionnaire were based on the literature study. The Cronbach's Alpha values were calculated to investigate the reliability of the measuring instrument.

Returned questionnaires were inspected, edited, coded and data transferred to an Excel spreadsheet and analysed by means of the SPSS computer package. The data analysis techniques used were descriptive statistics, frequency distributions, factor analysis and analysis of variance.

## **EMPIRICAL RESULTS**

The results obtained from the empirical research conducted on 150 financial planners will be discussed in the following sub sections.

### **Demographical profile of respondents**

Table 1 provides a demographical profile of the respondents in this study.

From Table 1 it is evident that the majority of the respondents were male. Most of the respondents were between 25 and 44 years old. The majority of the respondents were white. Just over one third of the respondents did not have a degree or post graduate degree. A significant number of respondents have a postgraduate education (36%). Only 25% of the respondents are certified financial planners.

**Table 1: Demographical profile of respondents**

<b>Classification variables</b>	<b>Specific variable</b>	<b>%</b>
<b>Gender</b>	Male	63
	Female	37
<b>Age in years</b>	18 - 24	17
	25 - 34	22
	35 - 44	22
	45 - 54	21
	55 and above	18
<b>Population Group</b>	Asian	3
	Black	12
	Coloured	6
	White	78
	Not disclosed	1

<b>Classification variables</b>	<b>Specific variable</b>	<b>%</b>
<b>Education</b>	Grade 12 or equivalent	20
	National Certificate or Diploma	18
	Bachelor's Degree	26
	Postgraduate Diploma	18
	Postgraduate Degree (Honours/Masters/MBA/PhD)	18
<b>Professional Designation</b>	Certified Financial Planner	25
	Associate Financial Planner	12
	Recognised Financial Planner	19
	None	44
<b>Business Structure</b>	Independent Practice	33
	Corporate Company	64
	Not disclosed	3
<b>Number of years working</b>	Less than 1 year	11
	1 - 4 years	24
	5 - 9 years	14
	10 -14 years	14
	15 years or more	37

However, 31% of the respondents are either Associate Financial Planners or Registered Financial Planners which indicates they are in the process of or have already attained their professional accreditation. Four respondents (3%) did not indicate the business structure. Most of the respondents are employed at a corporate company whereas 34% work for an independent practice. Thirty seven percent of the respondents have been working in the financial services industry for 15 years or longer whereas 24% of the respondents have been in the industry between one and four years.

### **Descriptive statistics**

Table 2 indicates the mean scores and standard deviation for the ethical behavioural factors.

**Table 2: Descriptive statistics of ethical behavioural factors**

<b>Items</b>	<b>Factors</b>	<b>Mean</b>	<b>Standard Deviation</b>
1-4	Code of ethics	4.72	0.52
5 - 8	Integrity	4.80	0.40
9 - 16	Fair and honest disclosure	4.42	0.54
17 - 24	Competence and diligence	4.63	0.51
25 - 28	Professionalism	4.84	0.49

In analysing the mean values (a measure of central tendency) of these factors, all the values exceed point four (agree) on the instrument scale. Code of ethics, integrity, competence and diligence, and professionalism all tend towards rating five (strongly agree). The measure of dispersion used is the standard deviation. The relatively low standard deviation scores of about 0.5 indicate that respondents do not vary much in their responses.

### **Reliability and validity of the measuring instrument**

In this study, the internal validity of the research instrument was ensured by means of content validity as the statements in the questionnaire were based on the literature study. To determine the internal consistency of the research instrument and the relevance of the research findings, the Statistica 8 package was used to calculate the Cronbach's Alpha coefficient for each of the five ethical behavioural factors. Table 3 summarises the Cronbach's Alpha values for the five ethical behavioural factors.

**Table 3: Cronbach's Alpha for ethical behavioural factors**

<b>Items/</b>	<b>Factor (Ethical Orientation)</b>	<b>Cronbach's Alpha</b>
1-4	Code of ethics	0.88
5 - 8	Integrity	0.70
9 - 16	Fair and honest disclosure	0.78
17 – 24	Competence and diligence	0.81
25 – 28	Professionalism	0.65

The Cronbach's Alpha coefficient for each of the ethical orientation factors is greater than 0.7, except for professionalism which was 0.65. According to Nunnally (1978:226), the recommended acceptable reliability for early stages of basic research is 0.50 and 0.60. For the purpose of this exploratory study a Cronbach's Alpha coefficient greater than 0.6 will be considered acceptable and it can thus be concluded that all the ethical behavioural factors are internally consistent. The code of ethics and competence and diligence scores were highly internally consistent with scores of above 0,80. All other scores can be rounded to 0.7 and therefore considered acceptable.

### **One-way analysis of variance (ANOVA)**

The purpose of the ANOVA analysis is to explore the relationship between the independent variables (classification data) and dependent variables (ethical behavioural factors) and to test the stated hypotheses. For the purpose of this investigation, a significance level of  $p < 0.05$

was utilised. Only the results of the four significant relationships of the ANOVA tests are shown in Table 4.

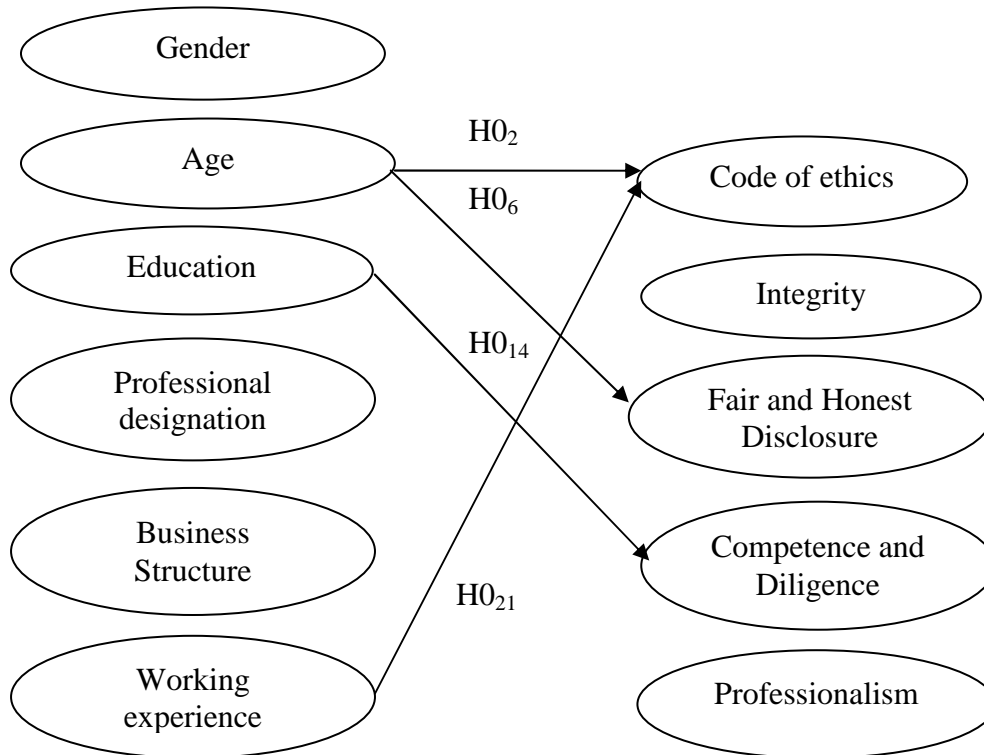
**Table 4: ANOVA results of significant relationships of the hypotheses testing**

<b>Independent Variables</b>	<b>Dependent Variables</b>	<b>P-value</b>
Age	Code of ethics	0.044102
	Fair and honest disclosure	0.021870
Education	Competence and diligence	0.036126
Working experience	Code of ethics	0.025209

As previously indicated, 30 hypotheses were initially formulated and tested. In conducting the one-way ANOVA investigation, only four of the 30 hypotheses were statistically significant. The one-way ANOVA results identified that there are statistically significant relationships between age and code of ethics and fair and honest disclosure. There is also a statistically significant relationship between education level and competence and diligence. There is a statistically significant relationship between working experience and code of ethics. The analysis concluded that there were no significant relationships between gender; professional designation and business structure and the five dependent variables.

Figure 1 depicts the conceptual model constructed to indicate the different relationships between the dependent variables (ethical behavioural factors) and the independent variables (classification data). Those variables with no linkages indicate no relationships between the variables.

**Figure 1: The relationships between the independent and dependent variables (tested hypotheses)**



**Independent variables (Classification data) Dependent variables (Ethical behaviour)**

## DISCUSSION OF RESULTS

Based on the ANOVA results which tested the relationship between the dependent and independent variables, the following conclusions and recommendations could be identified:

- There is a significant relationship between *age* and *code of ethics* (H0<sub>2</sub> rejected). It can thus be concluded that the age of a financial planner significantly influences the financial planner's adherence to a code of ethics. The difference between the adherence of younger and older financial planners can be attributed to the evolving changes taking place in the financial services industry and financial planning profession in particular. The older generation of financial planners entered the industry at a time when there was little or no regulation governing the ethical and professional conduct of financial planners. This older generation of financial planners have thus only recently become obliged to comply with a code of ethics that enforce ethical and professional business practice. On the contrary, the younger generation of financial planners have entered a regulated financial services industry. This younger generation of financial planners have

thus, from the outset, been subjected to a strict regulatory environment and have been obliged to comply with ethical and professional standards. It is also important to note that the FPI Code of Ethics and Professional Responsibility only came into being in 2004. Similarly, the FAIS Act was only enacted in 2002. The older generation financial planners should familiarise themselves with the FPI code of ethics and professional responsibility as well as the FAIS act and adhere to these code of ethics.

- There is a significant relationship between *working experience* and *code of ethics* ( $H_{06}$  rejected). The longer working experience financial planners have the more they are aware of the code of ethics and know that adherence to the code of conduct can enhance credibility. Less experienced financial planners might not be fully aware of the code of ethics and not realise the impact it may have on their career if breaching the code of conduct. As mentioned in the previous point the FPI Code of ethics and professional standard and FAIS Act have only been in existence for less than a decade. In consequence of this finding, it can be suggested that all financial planners familiarise themselves with the different acts and code of ethics. They should also ensure that they keep up-to-date by attending training when new acts or codes of ethics are implemented.
- A significant relationship exists between *age* and *fair and honest disclosure* ( $H_{014}$  rejected). Based on this finding, it can be deduced that a financial planner's ability to engage in fair and honest disclosure can be influenced by the age of the financial planner. Prior to the introduction of the FAIS Act and FPI Code of Ethics and Professional Responsibility, financial planners were not obliged to disclose all information to a client. These results may point to the fact that younger generation financial planners are now obliged to adhere to the FAIS Act and FPI code of ethics. These results could also point to older generation financial planners having experienced the value of fair and honest disclosure and being aware how it impacts your future reputation. Lack of fair and honest disclosure can prevent attracting future clients or even worse result in legal action and being prevented to practice. However, based on the empirical findings, there is insufficient conclusive evidence to suggest that the older generation of financial planners are or are not disclosing all information to clients. Further research will thus be required to investigate this issue.

- There is a significant relationship between *educational level* and *competence and diligence* ( $H_{021}$  rejected). It can thus be concluded that a financial planner's educational level can significantly influence the financial planner's ability to act in a competent and diligent manner. Based on the assumption that a higher calibre of educational achievements results in a greater level of professional competence, it can be deduced that a financial planner who has insufficient educational achievements will have a mediocre level of professional competence and diligence. It is suggested that all financial planners ensure they have an adequate educational level and also engage in continuous learning to act competently and with due diligence.

Based on the means and standard deviation findings, it is clear that all the respondents in NMM display ethical behaviour by adhering to a code of ethics, acting with integrity, being fair and honest by disclosing all information, being competent and diligent and professional at all times. It can be deduced that financial planners in NMM know how important ethical behaviour is in the financial planning profession to build a favourable reputation.

### **LIMITATIONS AND FUTURE RESEARCH**

For the purpose of this study the principle of objectivity was excluded from the empirical research. A study could be conducted on the confidentiality criteria of the code of ethics in financial planning industry. The sample comprised only financial planners from the NMM. It is recommended that this study is replicated in other provinces of the country. It would be interesting to explore whether there is a difference between the ethical behaviour of different races in the South African financial planning industry.

### **CONCLUSIONS AND RECOMMENDATIONS**

Age differences are reflected in a financial planner's perception of a code of ethics and a financial planner's ability to disclose information in a fair and honest manner. Professional and regulatory bodies thus need to ensure that all financial planners regardless of age are aware of the ethical and professional codes of conduct that are applicable to them. Increased emphases thus needs to be placed on educating the older and younger generation of financial planners on matters pertaining to the principles encompassed in the codes of conduct.



The study also found that the relationship between educational achievements and competence and diligence strengthens the need to regulate entry requirements into the evolving profession of financial planning. It is thus vitally important to ensure that all financial planners conduct themselves with the highest level of professional competence. The importance for financial planners to possess the relevant qualifications thus needs to be emphasised.

It was concluded that a financial planner's age and career tenure influence the financial planner's perception of a code of ethics. The purpose of an ethical and professional code of conduct needs to be communicated to all financial planners. Financial planners need to comprehend the value that a code of conduct places on the credibility of the financial planning profession.

In conclusion it can be stated that this exploratory study has posed an informative glimpse into the ethical orientation of financial planners in the Nelson Mandela Metropole and can form the basis for further future studies. It is encouraging to note that there is a significant relationship between the educational achievements of financial planners and their capacity to act in a competent and diligent manner. This suggests that the financial industry as a whole might be shifting towards a more knowledgeable and ethical position.

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# **THE RELATIONSHIP BETWEEN THE DIVIDEND PAYOUT RATIO AND SUSTAINABLE GROWTH: A SOUTH AFRICAN PERSPECTIVE**

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## **ABSTRACT**

The purpose of this study was to determine the relationship between dividend payout policy and sustainable growth within a South African context. Studies conducted by Arnott and Asness (2003) and Zhou and Ruland (2006) found a positive relationship between the variables within an American context. This contradiction to conventional theory, which states that higher dividend payouts result in lower growth rates, was the point of interest for this study. An exploratory research methodology was applied to the research problem as there have been no previous studies of this nature that have been taken from a South African perspective. The study attempted to replicate the work of Zhou and Ruland (2006). However, data in South Africa was only available since the 1990s. This meant shorter sample periods and a smaller data samples, compared to Zhou and Ruland's (2006) study. Therefore, we cannot safely conclude a positive relationship between dividends and sustainable growth exists within a South African market.

## **INTRODUCTION**

Low dividend payouts from companies have conventionally been seen as a signal for higher future growth. Zhou and Ruland (2006: 58) explain the reasoning behind this by stating that companies retain their earnings (therefore payout less dividends) when there is available growth opportunities and so the low dividend payout is a strong indication of future growth. Myers (1984: 581) also explains that when faced with growth opportunities, companies prefer to use internal funds which would mean high retention rates, or low dividend payouts. A study conducted by Ibbotson and Chen (2003: 97) revealed that through the use of the dividend irrelevance theory (developed by Miller and Modigliani (1961)) high dividend payouts are normally followed by lower future growth. These studies led to an assumption that a dividend payout ratio has a negative relationship with sustainable growth. However,

recent studies conducted by Arnott and Asness (2003) and Zhou and Ruland (2006) propose that the dividend payout ratio has in fact a positive relationship with growth.

The dividend payout ratio is defined as the ratio of the yearly dividend paid from the particular year's net income. The dividend payout ratio determines the dividend payout of a company. This in turn may influence the valuation process of a business, meaning it may affect the reputation of the business (Lee, 1985: 486). The ratio is usually calculated in total or per share as follows:

$$\text{Formula 1: } d = \frac{\text{dividends}}{\text{earnings}} \text{ or } \frac{\text{dividends per share}}{\text{earnings per share}}$$

The sustainable growth rate is defined as a theoretical measure of a firm's strength. This is the growth in equity created by the firm's profits and hence is the rate a company is able to grow if all other financial ratios remain constant. There are various methods to calculate sustainable growth one of which is:

$$\text{Formula 2: } g_s = (1 - d) \times \frac{EAT}{\text{sales}} \times \frac{\text{sales}}{\text{assets}} \times \frac{\text{assets}}{\text{equity}}$$

In formula 2,  $d$  is the dividend payout ratio and  $EAT$  is earnings after tax.

Another model which makes use of growth is the constant growth model developed by Gordon (1962) in Arnott and Asness (2003: 70) which follows:

$$\text{Formula 3: } R = \frac{D}{P} + g$$

In formula 3  $R$  is the expected return,  $D$  is the dividend payout,  $P$  is profits and  $g$  is an expected growth return (Arnott and Asness, 2003: 70).

By examining the formulas it can be inferred that an increase in dividend payout should be offset by higher returns or lower growth. This creates a negative relationship between dividend payout ratio and growth which is consistent with the developed theory. This conventional theory has led managers and investors to believe that the companies who pay high dividends are expected to experience lower future growth. However, due to the research conducted by Arnott and Asness (2003) and Zhou and Ruland (2006), decisions made from conventional theory may need to be revised. A positive relationship was found by Arnott and

Asness (2003) and Zhou and Ruland (2006) between payout and growth which would mean that companies with high payout ratios could expect higher future growth instead of a decline as the traditional theory would suggest.

## **RESEARCH OBJECTIVES**

The research into the relationship between the dividend payout ratio and sustainable growth will have important implications on the way financial managers and prospective investors interpret future growth rates of a company using the company's dividend payout ratio. The previous studies of Arnott and Asness (2003) and Zhou and Ruland (2006) took an American perspective whereas this study will be conducted from a South African perspective and so hopes to influence the decisions of South African investors and financial managers.

This study therefore attempts to replicate the study design of Zhou and Ruland (2006) in a South African context, to ascertain the relationship between dividend policy and sustainable growth.

As discussed previously, the current theory suggests that an organisation's growth is negatively associated with the dividend payout ratio, but recent studies contradict this by identifying a positive relationship between the dividend payout ratio and sustainable growth.

The primary aim of this research is To investigate whether or not there is a positive relationship between the dividend payout ratio, the independent variable, and growth (the dependent variable) using companies listed on the JSE.

To achieve the primary aim of this research, the objectives of this research are to:

- Identify a sample of companies listed on the JSE that satisfies the requirements laid out by Zhou and Ruland (2006: 60)
- Determine the company's sustainable growth rates using the regression developed by Zhou and Ruland (2006: 59)
- Investigate the relationship that exists between each company's payout ratio and growth

## **RESEARCH AND METHODOLOGY**

An exploratory research methodology was applied to the research problem as there have been no previous studies of this nature that have been taken from a South African perspective. The Zhou and Ruland (2006) study was chosen over the Arnott and Asness (2003) study because Zhou and Ruland (2006) examined the relationship at a company-level where Arnott and Asness (2003) used an aggregated market portfolio. A company-level analysis may produce more accurate results because it treats all companies equal reducing the possibility of a few large companies dominating the results (Zhou and Ruland, 2006: 58).

### **Paradigm**

This research uses a positivistic approach because of the quantitative nature of the data captured. The captured data needs to be precise and reliable for accurate hypothesis testing which is consistent with a positivist approach.

### **Description of data**

This research used companies listed on the JSE that fit the requirements used by Zhou and Ruland (2006: 60). These requirements include:

- The company pays out dividends on common shares in year 0
- The company has positive earnings for year 0
- The company is not in the financial services or utilities industry.

The reason for omitting companies from the financial services or utilities industry is that they may have payout-to-earnings relationships different to companies in the other markets (Zhou and Ruland, 2006: 62). Control for the effects of outliers was followed in the same way as Zhou and Ruland (2006: 60). The top and bottom 1% of observations were removed as outliers for all variables except Size and Payout. Only the top one percent of the Payout variable was removed because the minimum payout would be 0, in which the observation would be removed from the data set. The Size variable remained unaltered.

### **Data Collection**

Historical data was collected from the McGregor database. Due to limitations of the availability of data, only the past 20 years was collected (1990-2010). This time period



carries a restraint in that the period used in Arnott and Asness (2003) and Zhou and Ruland (2006) is much longer and so could produce more reliable results. Due to the exploratory nature of the research a sample of companies was also taken and only companies in the JSE top 40 were selected. The data collected taken from McGregor encompasses the various standardised financial measurements of a company. These included:

- Annual earnings: Profit to ordinary and preference shareholders in year 0 (McGregor code 01020079) compounded in one, three and five year time spans.
- Dividend payout (Payout): Ordinary dividend (in monetary terms) in year 0 (McGregor code 01020080)
- Size: A natural logarithm of market value of equity at year end in year 0 (historical market capitalisation found within McGregor)
- Return on assets (ROA): measured in line with Zhou and Ruland (2006: 59) as annual earnings (McGregor code 01020079) divided by total assets (code 01010040)
- Leverage ratio: Measured as the book value of long term debt (01010024) divided by total assets (01010040)
- Earnings yield (E/P): Measured as year 0 earnings divided by end of year market value of equity.
- Past earnings growth (PEG): Measured similarly as annual earnings, but compounded for years -1, -3 and -5.
- Annual growth (AG): Calculated as annual growth in total assets (code 01010040) compounded in one, three and five year time spans.

These variables were taken for the majority of companies, except in the case of gold producing companies where different financial statements are released but a similar approach was taken to attain the data. As the regression model includes both past and future growth, the sample size was a decreasing function of the growth horizon (Zhou and Ruland, 2006: 60). This means that when examining one-year-ahead earnings, the first year of examination was 1991 and the last year was 2009. Similarly, for a five-year-ahead examination, the first year in the model would be 1995 and the last year would be 2005. This study differs from Zhou and Ruland (2006: 60) in that inactive companies were not considered. Furthermore, not all the companies within the JSE top 40 were in existence from 1990, but they were still taken into consideration where possible. The sample size for one-year examination totalled

299 company years and decreased to 157 company years for a five-year examination. This is significantly less than that of Zhou and Ruland (2006: 60).

## **LITERATURE REVIEW**

The seminal authors found on the topic of dividend policy were Merton H. Miller and Franco Modigliani. Their article *Dividend Policy, growth, and the valuation of shares* makes an in depth study into the relationships that exists between these variables. Miller and Modigliani (1961: 414) are well-known for their dividends irrelevance theorem which states that the payout policy cannot affect a firm's market value. This is because the value of a firm is derived from the profitability of the firm's assets and of their management team's competency. However, the real world and real businesses are faced with imperfect markets, taxes and transaction costs. The irrelevance theory also predicts that low growth rates arise when higher dividends are paid out, that is assuming investments remain unaltered and the expected returns remain constant (Zhou and Ruland, 2006: 58).

Sustainable growth refers to the growth in sales an organisation can achieve given its operating constraints and without altering its dividend or financial policies (Olson and Pagano, 2005: 2005). Higgins (1977: 7) defines sustainable growth as the annual percentage increase in sales that is consistent with the firm's established financial policies (such as the payout ratio, and capital structure), without issuing new equity. These definitions suggest that the factors viewed as central to the maximum sustainable long term sales growth are predominantly financial in nature. If a firm wants to maintain a target payout ratio and capital structure without issuing new equity, the sustainable growth model provides an estimate of the annual percentage increase in sales that can be supported by, and is internally consistent with, the firm's financial policies (Varadarajan, 1983: 360).

Both Arnott and Asness (2003) and Zhou and Ruland (2006) investigated the relationship between dividend payouts and sustainable growth. The study conducted by Arnott and Asness (2003) was based on the U.S equity market portfolio proxied by the S&P 500 Index (Arnott and Asness, 2003: 71). The historical data was used to generate earnings per share and to calculate real earnings growth, graphs were used to illustrate and explain the payout-ratio and subsequent 10-year earnings growth. Various robustness tests were carried out to ensure validity of the findings. Zhou and Ruland (2006) studied earnings growth over shorter time horizons. These included 1-year-ahead (short term), 3-year-ahead (intermediate), and 5-

year-ahead (long-term) horizons. Shorter time horizons were used because Zhou and Ruland (2006: 59) believe that investors are interested in knowing short, intermediate and long-term horizon growth. A shorter time horizon is also used to avoid possible biasness as the observation periods increase. Earnings growth was measured as a compounded annual growth rate and the multivariate regression (given below) was used to test for the relationship between dividend payout policy and future earnings growth (Zhou and Ruland, 2006: 59).

The multivariate regression:

Formula 4:

$$EG_{0,t} = \alpha_0 + \beta_1 Payout + \beta_2 Size + \beta_3 ROA + \beta_4 E/P + \beta_5 LEV + \beta_6 PEG_{-t,0} + \beta_7 AG_{0,t} + e$$

(Zhou and Ruland, 2006, 59)

The key independent variable identified by Zhou and Ruland (2006) was the payout ratio. We therefore use the payout ratio as our independent variable. A negative coefficient on the payout would follow conventional thought that low dividend payout is followed by low earnings growth. A positive coefficient on the payout would be consistent with results in Zhou and Ruland (2006) and Arnott and Asness (2003).

The study of Zhou and Ruland (2003) differs from the study of Arnott and Asness (2003) in that they controlled the study design for size. This was done because large companies are more established and matured than small companies and so the larger companies tend to exhibit less growth. They also controlled the return on assets, because when profits are high, other factors equal, companies tend to find it difficult to represent strong earnings growth. The control of the leverage was based on the anticipation that companies with high leverage would have large investments and thus higher earnings growth (Fama and French, 2002: 8-9). The earnings yield and past earnings growth were controlled under the assumption that the market is reasonably efficient. Added to this was the expectation that investors would pay more for a dollar of current earnings, when growth is high this leads to the prediction that earnings per share would be negatively related to future earnings growth.

The studies conducted by Arnott and Asness (2003) and Zhou and Ruland (2006), both deduce similar findings, that: high dividend pay-out policies results in higher sustainable future growth. The results from Arnott and Asness (2003: 73) prove that forecasts of a natural

inverse relationship between dividend payout and future earnings growth are not accurate. Zhou and Ruland (2006: 61) state in their results that companies with high current dividend payouts have a tendency to have high future earnings growth but reasonably low past earnings growth.

Arnott and Asness (2003) and Zhou and Ruland (2006) also discuss possible reasons for the positive relationship that was found. One of these reasons they argue is the free cash flow theory that states that managers of companies with abundant free cash flows have incentives to over invest. This may lead to companies retaining high percentages of their earnings to “build empires” (Arnott & Asness, 2003: 74; Zhou and Ruland, 2006:67). Arnott and Asness (2003: 74) also indicated that when companies paid substantial dividends the management of the company may be subjected to more scrutiny and this may curtail empire building. Zhou and Ruland (2006) found some support for this theory as they found that where growth potential was low the association between payout and earnings growth was strong.

Arnott and Asness (2003: 84) concluded their study feeling that their facts conformed to a world where managers use low payout ratios to build “inefficient empires” through investing in “less-than-ideal” projects that reduces subsequent growth. They feel that high payout ratios may lead to managers being more careful when selecting investments.

Another reason given by Zhou and Ruland (2006 : 65-66) that may affect the their findings were that the results may be driven by industry effects. Zhou and Ruland (2006) tested their data for this possibility and found that industry effect did not appear to be an important factor. This is important for this paper as the JSE is dominated by resource stocks which are traditionally seen as low dividend payout companies.

## **DATA ANALYSIS**

A multivariate regression analysis for each of the three earnings-growth observation periods was performed on the data set using formula 4. Table 1 summarises the findings.

A positive coefficient (represented as  $\beta$  in the regression model) signifies a positive relationship with the dependent variable and a negative coefficient signifies a negative relationship. Table 1 illustrates that the payout variable has a positive relationship with earnings in the one year ahead period, but has a negative relationship with earnings in the

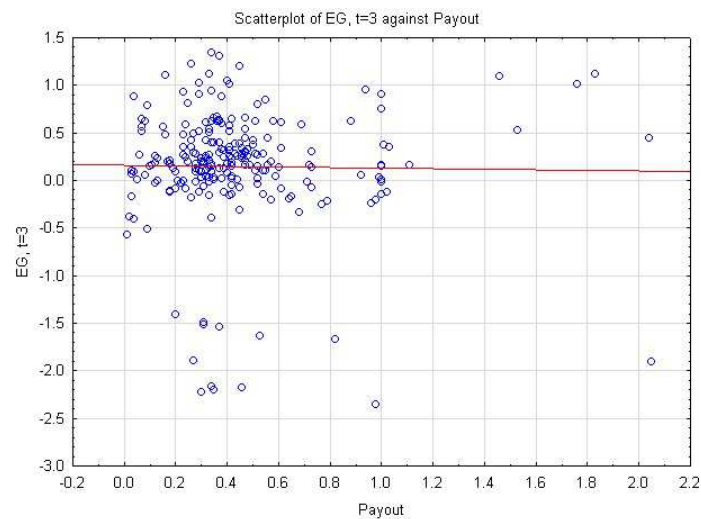
three and five year ahead periods. Furthermore, by viewing the p-value column in the table, it can be seen that for one-year earnings growth, only the variables E/P and AG are significant (p-value < 0.05). For three-year earnings growth the significant variables are Payout and AG. A variable that is considered significant means that there can be confidence in the result, implying that it is unlikely the result occurred by chance (Burton, Carrol and Wall, 2002: 62). Zhou and Ruland (2006: 61) found all but one variable in the one, three and five year analyses were significant. The possible reason for the conflict of results is that our sample sizes are too small therefore producing inconclusive results. The results does show however, at the 10% level of significance (p < 0.1), the variables LEV and PEG are also significant at the one year ahead test and PEG is significant at the five year ahead test, although this is still not enough to confirm a significant relationship for our key variable: payout.

<b>Table 1: Multiple regression analysis for future earnings growth</b>						
	<u>One-year EG</u>		<u>Three-year EG</u>		<u>Five-year EG</u>	
<u>Variable</u>	<u>Coefficient</u>	<u>p-value</u>	<u>Coefficient</u>	<u>p-value</u>	<u>Coefficient</u>	<u>p-value</u>
Intercept	0.874	0.333	-0.471	0.533	0.204	0.855
<b>Payout</b>	<b>0.291</b>	<b>0.132</b>	<b>-0.407</b>	<b>&lt; 0.0001</b>	<b>-0.237</b>	<b>0.134</b>
Size	-0.025	0.519	0.033	0.307	0.002	0.962
ROA	-0.558	0.119	-0.267	0.201	0.125	0.668
LEV	0.932	0.061	-0.309	0.285	-0.082	0.847
E/P	-3.137	< 0.0001	-0.519	0.128	-1.029	0.076
PEG	0.074	0.076	0.025	0.593	-0.067	0.419
AG	1.089	< 0.0001	0.748	<0.001	-0.017	0.969
Adjusted R <sup>2</sup>		0.170		0.098		-0.009

Table 1 also shows the adjusted R<sup>2</sup> values. The adjusted R<sup>2</sup> is used to summarize the fit as it takes into account the number of variables in the model. An adjusted R<sup>2</sup> value of 1 would indicate a perfect fit between the regression line and the data (Burton *et al.*, 2002: 159). As can be seen in the table: the adjusted R<sup>2</sup> values are 0.170, 0.098 and -0.009 for the one, three and five year regressions respectively. The values are relatively low for the one and three year regressions, suggesting a loose fit and the negative value for the five year regression

suggests a high loose fit and even unneeded variables, which is highlighted by the fact that there are no significant variables.

Additionally, Zhou and Ruland (2006: 61) found a positive relationship between earnings growth and payout in all tests, our tests revealed only a positive relationship in one year ahead earnings. This suggests that in the three-year and five-year earnings, traditional theory holds, in that dividend payout has a negative relationship with growth. While examining the results we found that the main reason for the negative relationship between earnings growth and payout was that some companies continued to pay dividends even when the firm was producing losses or experiencing negative growth. It was found that some companies were paying out dividends even when earnings had decreased by 100% (in some extreme cases, firms were paying out dividends in excess of 100% of their earnings while the firm had decreased in earnings growth). This can be seen in Figure 1



**Figure 1: Scatterplot of EG against Payout**

Management in these events are, in general, reluctant to reduce the dividend payout as it signals to investors that the company is in a worse position than the financial statements would suggest (Asquith and Mullins, 1986). This normally results in a decrease in investment when perhaps the company needs it where positive net present value projects are available. This, though, is in contradiction of the sustainable growth theory (if earnings is decreasing, dividends should decrease as well). As this theory is a large part of this research, we carried out a new regression analysis where all companies with excess of 100% decreasing growth and a payout higher than 40% was removed. When performing this analysis the data were not removed where firms that had less than a 100% decrease in growth or less than a 40% payout

as it could be justified that a reduction in the firm's payout would be more detrimental to the company than the already decreasing growth (except in one case where the firm had experienced a five-year decrease in earnings of 36% but paid a dividend of 2.66 times its earnings). The regression analysis produced the following results:

<b>Table 2: Multiple regression analysis for future earnings growth (controlled for sustainability)</b>						
	<u>One-year EG</u>		<u>Three-year EG</u>		<u>Five-year EG</u>	
<u>Variable</u>	<u>Coefficient</u>	<u>p-value</u>	<u>Coefficient</u>	<u>p-value</u>	<u>Coefficient</u>	<u>p-value</u>
Intercept	0.561	0.517	0.028	0.962	-0.080	0.916
<b>Payout</b>	<b>0.556</b>	<b>0.004</b>	<b>0.180</b>	<b>0.123</b>	<b>0.188</b>	<b>0.140</b>
Size	-0.015	0.681	0.002	0.944	0.009	0.782
ROA	-0.721	0.036	-0.276	0.150	-0.359	0.075
LEV	1.036	0.030	0.321	0.243	-0.198	0.494
E/P	-3.082	< 0.0001	-0.903	0.036	-0.709	0.071
PEG	0.084	0.036	-0.042	0.408	0.035	0.548
AG	1.163	< 0.0001	0.806	< 0.0001	0.786	0.013
Adjusted R <sup>2</sup>		0.217			0.122	0.110

According to Table 2, a positive relationship for all three analyses was found. For the one-year regression, all but one of the variables (Size) are significant at the 5% level; the three year regression contains two significant variables: E/P and AG; and for the five-year regression: AG is significant at the 5% level; ROA and E/P are significant at the 10% level. Generally these regressions are more robust, as can be seen by the higher adjusted R<sup>2</sup> values, but as the key independent variable of payout is not significant for all three regressions it cannot be concluded that a positive relationship exists. The results therefore are inconclusive and a positive relationship can not be concluded. It should however also be noted that the results also did not support the traditional theory arguing for a negative correlation either.

## CONCLUSION

This study attempted to replicate the study by Zhou and Ruland (2006) and Arnott and Asness (2003) thereby challenging conventional theory. It was felt that this study could shed

light on the continuing debate on dividend policy by providing better indicators for investors to identify which companies are most likely to exhibit future growth through the company's dividend policy. However the results are largely inconclusive. It can not be concluded that a positive relationship between dividends and sustainable growth exists in the South African market. There also was no support for the traditional theories that argues for a negative relationship.

Given these results, the researchers are of the opinion that this study may contribute to the way manager's set the dividend policy of firms if conclusive results could be obtained through further research. As Arnott and Asness (2003: 84) explain, managers are only willing to pay out higher dividends if they are certain the company can maintain the payout in future years. Managers should be willing to set higher dividend payouts only if they believe higher future growth is attainable and sustainable. Further research, with larger sample sizes may still confirm either a positive or a negative relationship between payout and growth in South Africa.



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# **THE RELATIONSHIP BETWEEN ORGANISATIONAL CULTURE, ORGANISATIONAL COMMITMENT AND INDIVIDUAL PERFORMANCE IN A SOUTH AFRICAN ELECTRICITY UTILITY**

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## **ABSTRACT**

The purpose of the research was to determine whether there was a significant relationship between the organisational culture, organisational commitment and employee performance in an Eskom Distribution Region. In order to achieve this purpose a survey was undertaken (N=83) which measured perceptions regarding the existing organisational culture, preferred organisational culture as well as organisational commitment. Performance rating scores were linked to each respondent and were obtained from the performance management process of the Distribution Region. The data gathered from the questionnaires was subjected to various statistical analyses.

The main findings of this research can be summarised as follows:

- The dominant existing organisational culture in the Distribution Region is the power culture, while the dominant preferred organisational culture is the achievement culture.
- The dominant organisational commitment within the Distribution Region is affective commitment.
- A significant positive linear relationship between the existing achievement culture and affective commitment was measured.

It can therefore be concluded that organisational culture has a significant impact on organisational commitment of the employees within the Distribution Region. The improvement in commitment level is expected to have a positive impact in terms of improved organisational performance in the Distribution Region.

## **INTRODUCTION**

Modern organisations face pressures from shareholders to maximise profits and to improve their productivity. It has been asserted that organisational performance and profitability can be increased through organisational culture and commitment (Deal and Kennedy, 1982;

Kotter and Heskett, 1992). It has also been stated that the performance of the whole organisation is very tightly coupled to each individual's performance (Cummings and Schwab, 1973; Fontannaz and Oosthuizen, 2007).

Organisational culture can lead to a greater productivity and profitability, generating commitment to the values and philosophies of the organisation (Martin and Siehl, 1983; Kotter and Heskett, 1992; ; Sørensen, 2002; Manetje, 2005). An organisation's culture can also assist in projecting a positive organisational image (Want, 2003).

It has been found that an increased organisational commitment has led to a reduced turnover of employees (Lee, Ashford, Walsh and Mowday, 1992; Porter, Steers, Mowday and Boulian, 1974; Steers, 1977; Wasti, 2003) and has resulted in an increase in organisational performance (Jaramillo, Mulki and Marshall, 2005). Ensuring reduced turnover is crucial for Eskom to maintain its key skills in the state of skills shortage in South Africa (Cape Times, 2006). In addition, a high level of employee performance would improve the overall organisational effectiveness (Cummings and Schwab, 1973).

It can thus be concluded that both organisational culture and organisational commitment together with their relationship to employee performance are important to Eskom as a whole within the context of the challenges facing the Electricity Distribution Industry in South Africa. This paper will therefore focus on determining the relationships between the organisational culture, organisational commitment and employee performance in an Eskom Distribution Region in order for management to understand the organisational culture required to enhance the commitment and performance of staff.

## **PROBLEM STATEMENT**

It has been found that a positive correlation exists between organisational commitment and certain types of organisational cultures (Lok and Crawford, 2003; Rashid, Sambasivan and Johari, 2003). This would indicate that there are particular types of organisational commitment that are better suited to certain types of organisational culture.

In terms of the relationship between organisational culture and performance, a number of authors have focussed on the relationship between the financial performance and organisational culture of organisations (Kotter and Heskett, 1992; Sørensen, 2002; Rashid *et*

*al.*, 2003). Research also exists utilising performance variables such as stock losses and staff turnover (Schlechter, Tromp and Vos, 2000).

In contrast, the relationship between organisational commitment and employee performance has previously been researched and it was found that certain commitment components correlate well with employee performance (Suliman and Iles, 2000; Shaw, Delery and Abdulla, 2003;). A study by Rashid *et al.* (2003) utilised financial results as a measure of performance and indicated positive correlations between organisational culture, organisational commitment and financial performance.

Eskom has embarked on an intensive capital expansion program to increase capacity due to a large growing demand for electricity in the country as well as to cater for expansion of the electrification drive in terms of the government's universal access to electricity policy (Lünsche, 2006). This requires a committed workforce which is able to rise up to the challenge of addressing the national electricity supply shortfall. As Eskom embarks on its capital expansion program and manages the shortages in energy, it is essential that the merging of organisational cultures and workforce commitment be well managed.

Consequently, the problem statement of this research is to establish whether a quantitative relationship exists between organisational culture, organisational commitment as well as employee performance in the context of an organisation, namely within an Eskom Distribution Region where the researcher was employed which would facilitate access to the data.

## **RESEARCH OBJECTIVES AND HYPOTHESES**

The purpose of the research is to determine whether there is a significant relationship between the organisational culture, organisational commitment and employee performance in an Eskom Distribution Region. In order to achieve the purpose of the research, the following objectives have been stated:

1. To identify the dominant existing and preferred organisational culture within the Eskom Distribution Region.
2. To identify the gap between the existing and the preferred organisational culture within the Eskom Distribution Region.

3. To identify the organisational commitment profile within the Eskom Distribution Region.
4. To analyse the performance ratings of employees in the Eskom Distribution Region.
5. To measure the extent to which the existing and preferred organisational cultures influence employee performance within the Eskom Distribution Region.
6. To measure the extent to which the organisational commitment influences employee performance within the Eskom Distribution Region.
7. To measure the extent to which the existing and preferred organisational cultures influence organisational commitment within the Eskom Distribution Region.
8. To measure the extent to which the organisational culture gap influences organisational commitment within the Eskom Distribution Region.

In order to give effect to the research objectives the following hypotheses were formulated:

*The first set of hypotheses measure the difference between the existing and the preferred organisational culture.*

- $H_{01}$  – The average gap scores between the existing organisational culture scales and the preferred organisational culture scales are not significantly different.
- $H_{a1}$  – The average gap scores between the existing organisational culture scales and the preferred organisational culture scales have significant differences.

*The second set of hypotheses measure the influence of organisational culture on employee performance.*

- $H_{02.1}$  – There is no significant relationship between the existing organisational culture and employee performance.
- $H_{a2.1}$  – There is a significant relationship between the existing organisational culture and employee performance.
- $H_{02.2}$  – There is no significant relationship between the preferred organisational culture and employee performance.
- $H_{a2.2}$  – There is a significant relationship between the preferred organisational culture and employee performance.

*The third set of hypotheses measure the influence of organisational commitment on employee performance.*

$H_{03}$  – There is no significant relationship between the organisational commitment and employee performance.

$H_{a3}$  – There is a significant relationship between the organisational commitment and employee performance.

*The fourth set of hypotheses measure the influence of organisational culture on organisational commitment.*

$H_{04.1}$  – There is no significant relationship between the existing organisational culture and organisational commitment.

$H_{a4.1}$  – There is a significant relationship between the existing organisational culture and organisational commitment.

$H_{04.2}$  – There is no significant relationship between the preferred organisational culture and organisational commitment.

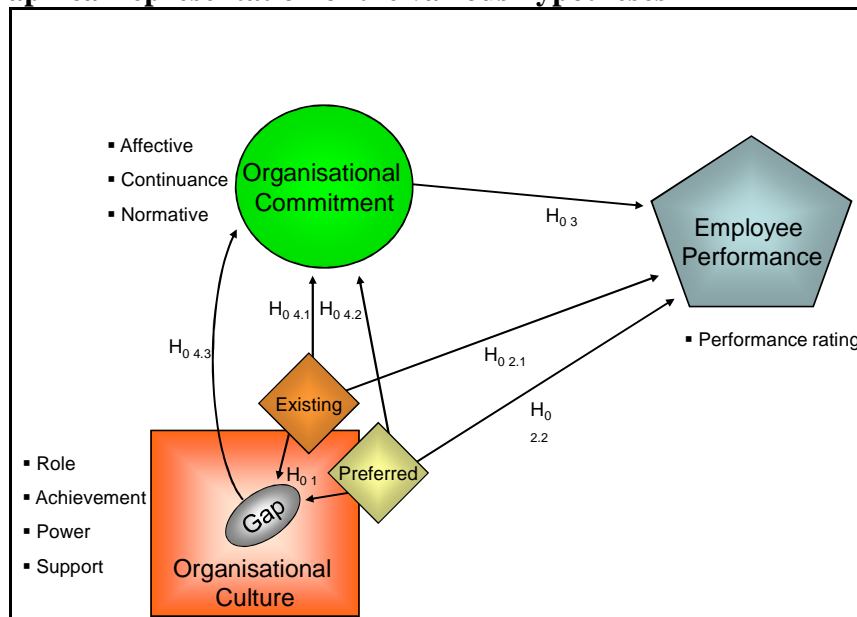
$H_{a4.2}$  – There is a significant relationship between the preferred organisational culture and organisational commitment.

$H_{04.3}$  – There is no significant relationship between the organisational culture gap and organisational commitment.

$H_{a4.3}$  – There is a significant relationship between the organisational culture gap and organisational commitment.

The relationships between the various hypotheses are shown in Figure 1.

**Figure 1: Graphical representation of the various hypotheses**



Source: Researcher's own construction based on Allen and Meyer (1990) and Harrison and Stokes (1992).

## **LITERATURE REVIEW**

### **Organisational culture**

Organisational culture can be seen as the “social glue that helps hold the organization together by providing appropriate standards for what employees should say and do” (Robbins, 1996:687). It can therefore be contested that organisational culture reduces an employee’s uncertainty and anxiety concerning expected behaviour (Smith, 2003). An organisation’s culture also differentiates it from other organisations and may explain why employees are attracted to it and are less likely to leave (O’Reilly, Chatman and Caldwell, 1991; Smith, 2003). According to Sathe (1983:12) organisational culture provides “guiding principles” that can have an impact on employee behaviour in terms of communication, cooperation, commitment, decision making and implementation.

Various definitions of organisational culture have been proposed by different authors over the years but no universally accepted definition currently exists (Sathe, 1983; Schein, 1990; Newman and Chaharbaghi, 1998; Brinkman, 1999; Øgaard, Larsen and Marnburg, 2005;). There are however some similarities between the various perspectives on organisational culture found in the literature. Organisational culture can be defined as those developed “basic assumptions” that have been proven to be valid to cope with the organisation’s internal and external problems and are taught to new members as the only correct way to address those problems (Schein, 1990:111).

Kotter and Heskett (1992) describe organisational culture as having two levels that differ in terms of their visibility as well as resistance to change. At the deeper level it refers to shared values that persist over time while on the more visible level it refers to behaviour patterns that new employees are encouraged to follow.

Newman and Chaharbaghi (1998) criticise the traditional definitions of culture as lacking in terms of their relationship to learning and technology, rather regarding culture as originating from the learning gained from a series of crises which required technology to resolve. They propose that culture be defined as “the by-product of a technology that has been developed in exploiting an opportunity” (Newman and Chaharbaghi, 1998:518).

Brinkman (1999:677) seems to build on this notion by putting forward a knowledge based definition of organisational culture as a substance that “evolves via the economic process” and is intertwined with corporate technology. He maintains that “corporate culture” can be



viewed as storing the “corporate technology” and a change to corporate technology would result in a change to corporate culture (Brinkman, 1999:682).

Seel (2000:3) favours an emergent view of organisational culture and defines it as “the emergent result of continuing negotiations about values, meanings and proprieties between the members of that organisation and with its environment”.

In terms of the various definitions reviewed in this research, four common themes were identified namely that culture is (1) a set of shared values, beliefs and assumptions (2) visible behaviour patterns, symbols and language (3) based on technology (4) emergent, evolving with learning gained from crises. Some overlap does exist between the various authors’ perspectives and definitions.

For the purpose of this research organisational culture is regarded as being the shared values, beliefs and assumptions that have an impact on the visible manner in which things are done in the organisation through the symbols, rituals and language.

### **Harrison and Stokes’ (1992) four cultural types**

Harrison (1972:121) proposed four organisational ideologies namely power orientation, role orientation, task orientation and person orientation. Harrison’s ideologies were developed further by Handy (1985) and later by Harrison and Stokes (1992) into power, role, achievement and support orientations.

**Power orientation:** – This orientation can be regarded as autocratic and dominating, where power is concentrated by a few and not shared (Harrison, 1972). It is defined by Harrison and Stokes (1992:14) as “an organisational culture that is based on inequality of access to resources”.

Some features of this orientation include a strong and charismatic leader that rewards loyal followers, the leader acts unilaterally but in the best interests of the organisation (Harrison, 1993). It is represented by a web or a communications structure as information represents power (Handy, 1985).

**Role orientation:** – This orientation can be described as being bureaucratic, rational and orderly, with formalised procedures (Harrison, 1972). A definition given by Harrison and Stokes (1992:15) is that it is a “system of structures and procedures” which focuses on job description and specialisation.

Some features of a role culture include: individual performance is judged against written descriptions and the abuse of power is limited by rules and procedures (Harrison, 1993). Organisational life is dominated by the use of privileges, rights, legality and legitimacy, with people having clearly delegated authorities in a highly defined structure (Harrison and Stokes, 1992). It can be represented as a hierarchical pyramid structure where power is derived from a person's position in the organisation (Handy, 1985).

**Achievement orientation:** – This orientation can be defined by excellence of work, performance for satisfaction, together with a personal commitment to the task or goal (Harrison, 1993). It can be defined as “the aligned culture that lines people up behind a common vision or purpose” (Harrison and Stokes, 1992:17).

The mission is very well articulated within the organisation. It is used to direct the energy of employees, determine allocation of financial resources and to define systems and structures required to accomplish its achievement (Harrison and Stokes, 1992). The achievement orientation can be represented by a matrix or net structure due to the multiple reporting lines and open communication channels (Handy, 1985).

**Support orientation:** – This orientation can be associated with the enjoyment of the activity as well as respect for the needs and values of other persons involved. Organisational life is guided by what would best satisfy the members' needs.

It can be defined as being “based on mutual trust between the individual and the organisation” (Harrison and Stokes, 1992:20). According to Harrison and Stokes (1992) there is minimal formal central power, rather being replaced with consensus decision making. The organisational structure is a cluster where there is little hierarchy and authority is assigned on task competence (Harrison, 1993).

### **Organisational commitment**

Organisational commitment has been conceptualised and measured in various ways over the years (Becker, 1960; Kanter, 1968; Buchanan, 1974a; Porter *et al.*, 1974). Early studies on organisational commitment viewed the concept as consisting of a single dimension consisting of *loyalty*, willingness to exert effort to achieve organisational goals (*involvement*) and acceptance of organisational values (*identification*) (Porter *et al.*, 1974). Buchanan (1974a) claims that there is little consensus on the definition of organisational commitment. Furthermore, Buchanan (1974a:533) defines organisational commitment as the “affective attachment to the goals and values of the organisation”. It consists of three characteristics: (1) a sense of identification with the organisation's mission, (2) a sense of involvement in one's

work role, and (3) a sense of loyalty and affection for the organisation (Buchanan, 1974b:340). Porter *et al.* (1974:604) have proposed a similar definition to Buchanan (1974b) having defined organisational commitment as “the strength of an individual’s identification with and involvement” in an organisation. This is the definition that will be utilised for the purpose of this research.

### **Allen and Meyer’s (1990) three component model**

Allen and Meyer (1990:3) have proposed three components of organisational commitment: affective, continuance and normative components that align well with Kanter’s (1968) three commitment types of cohesion, continuance and control. Meyer and Allen (1991) argue that common to all three approaches is the view that commitment is a psychological state that consists of: (1) attitudinal commitment characterised by the employee's relationship with the organization; and (2) behavioural commitment which has implications for decisions to continue membership in the organization. Employees can develop varying degrees of all three forms of commitment with each component developing from different experiences and having different implications in the work environment (Meyer, Allen and Smith, 1993; Lee, Allen, Meyer, and Rhee, . 2001). Each of these three components will now be discussed in greater detail:

- **Affective commitment:** – This approach is similar to that of Kanter’s (1968) cohesion commitment, which describes an individual’s emotional attachment to the organisation. It is defined by Allen and Meyer (1990:2) as identifying with, being involved in and enjoying membership in the organisation. Affective commitment is also described by Porter *et al.* (1974:604) as having a “strong belief” in the organisation’s values and goals thereby willing to devote a great deal of energy to attain them and be willing to remain in that organisation to see them fulfilled. It can therefore be concluded that employees that have a strong affective commitment remain with organisations because they “want to” (Meyer and Allen, 1991:67).
- **Continuance commitment:** – This component refers to commitment based on the costs of leaving an organisation and can be associated with Kanter’s (1968) continuance commitment as well as Becker’s (1960) side bet theory. The side bet theory states that the longer the individual stays in the employment of an organisation the more they accumulate investments (e.g. specialised skills, status and pension plans) which become

lost when an individual decides to leave, this may be exacerbated by a lack of alternatives to replace the lost investments (Becker, 1960; Meyer and Allen, 1984). Therefore an employee with a large accumulated investment in an organisation, together with a lack of employment alternatives will have a high perceived cost of leaving the organisation and will have a strong continuance commitment (Allen and Meyer, 1990). It can therefore be asserted that employees with a strong continuance commitment remain in their organisations because they “need to” (Meyer and Allen, 1991:67).

- **Normative commitment:** – This component measures the employees’ feelings of obligation to remain with the organisation and can be associated with Kanter’s (1968) control commitment. According to Allen and Meyer (1990:67) normative commitment is defined as “a feeling of obligation to continue employment”. It develops as a result of socialisation experiences that emphasise the importance of being loyal to one’s organisation (Wiener, 1982). According to Scholl (1981) it can also develop as a result of the receipt of benefits (such as skills training) and a feeling of reciprocation on the part of the employee would exist. O’Reilly and Chatman (1986) have conceptualised normative commitment in terms of value congruence between the individual and the organisation. Normative commitment is influenced both by the employee’s experiences prior to (family values/cultural socialisation) and post (organisational socialisation) entry into the organisation (Allen and Meyer, 1990:4). It can therefore be noted that those employees that have a strong normative commitment remain in their organisations because they “ought to” (Meyer and Allen, 1991:67; Nyengane, 2007).
- **The various commitment component relationships:** – Research by Meyer, Allen and Gellatly (1990) indicated that employees with a high affective commitment were less likely to perceive being tied to the organisation due to a lack of opportunities. Another finding was that employees who found it more costly to leave the organisation (employees with a high continuance commitment) also showed affective feelings towards the organisation (Meyer *et al.*, 1990). Age and tenure have not been identified as reliable indicators for continuance commitment, however they were found to correlate with affective measures (Meyer and Allen, 1984).

## **Performance**

The notion of performance and performance management is not new, as it has long been recognised that performance needs to be managed at both the individual as well as the

organisational level (Williams, 1998). According to Hayes and Helmes (1999) international utilities are increasingly under pressure to improve their effectiveness as deregulation forces them to change business practices to improve on efficiencies and performance.

'Performance' is a term that has many meanings and currently there is no universal consensus on a definition (Folan *et al.*, 2007). A reason for this may be that it can measure short or long term outcomes; it can focus on inputs, outputs, efficiency or service quality (Wholey, 1999). According to Neely, Gregory and Platts (1995) performance consists of both effectiveness and an efficiency component.

According to Fontannaz and Oosthuizen (2007:11) "organisational performance is the synthesis of individual performance throughout the organisation". Cummings and Schwab (1973:1) concur with this notion and describe performance as ultimately being an "individual phenomenon". The concept of the performance of the whole organisation is thus very tightly coupled to each individual's performance.

Being able to accurately measure and manage performance becomes a critical success factor in order to improve performance (Eccles, 1991; Gomes, Yasin and Lisboa, 2004). According to Neely *et al.* (1995) performance measurement is defined as the process of quantifying the efficiency as well as the effectiveness of an action. McAfee and Champagne (1993) highlight the importance of defining specific outputs that an individual must achieve as well as how they are to achieve them. Modern measurement techniques ensure that employees have job descriptions and are assigned specific, measurable, achievable, realistic and time-bound targets (Corcoran, 2006). Ongoing coaching and feedback together with formal quarterly reviews are an important part of the process (Corcoran, 2006; Heathfield, 2007).

For the purpose of this research, the employee performance rating obtained from the existing Performance Management process in the Eskom Distribution Region has been utilised as the measure of performance. This measure was selected as it is an existing measure, available at the individual level, which quantifies how well the goals that were agreed to at the beginning of the performance review period were achieved.

## **RESEARCH METHODOLOGY**

### **Research design**

The research was conducted in a post positivist paradigm, with the ontology being critical realism (Guba and Lincoln, 1994). The post positivist approach of modified dualist states that reality is able to be “approximated but not fully known” (Guba and Lincoln, 1994:111).

A quantitative analysis together with a reductionist approach (Remenyi, 1996), was carried out in order to determine the relationship between the various variables (Mahoney and Goertz, 2006).

### **Statistical analysis**

The data for this research was analysed utilising the Statistica 7 software tool (Statsoft, 2008). In this research descriptive statistics have been utilised to summarise the biographical responses, to describe the existing and preferred organisational culture, as well as to describe the organisational commitment and employee performance.

Reliability and validity are two important criteria for evaluating the quality of measurement instruments (Babbie and Mouton, 2001). According to Denscombe (2003), a reliable measurement instrument will produce the same results each time it is used. The Cronbach’s alpha reliability coefficient has been utilised in this research to measure the reliability of both the organisational culture and the organisational commitment instruments.

Validity refers to the extent to which a measure reflects the construct under consideration (Babbie and Mouton, 2001). Validity can also be understood to refer to the agreement of two attempts to measure the same trait through different methods (Hammersley, 1987). Harrison (1993: 27) gained indirect evidence for the validity of the Harrison and Stokes (1992) questionnaire by correlating it with another culture questionnaire by Tom Janz (in Harrison, 1993: 27). Table 1 illustrates the correlations between these two questionnaires, which confirm that they measure similar attitudes and values and therefore confirms the validity of the instrument (Harrison, 1993: 27-28).

**Table 1: Validity scores between the Harrison and Janz questionnaires**

<b>Harrison/Stokes Questionnaire</b>	<b>Janz Questionnaire</b>		
Organisational culture	Values	Power	Rules
Power	-0.70	0.79	0.01
Role	0.19	-0.47	0.40
Achievement	0.69	-0.69	-0.38
Support	0.41	-0.68	-0.46

Source: Adapted from Harrison (1993: 28).

From Table 1 it can be deduced that the scales in the Harrison and Stokes (1992) research instrument shows respectable validity and therefore no pilot study was conducted in this research.

In terms of the validity of the commitment questionnaire, Allen and Meyer (1990: 6) performed a factor analysis on the 24 items comprising the three organizational commitment scales. Clugston, Howell and Dorfman (2000: 13) performed factor analyses that supported the validity of the Allen and Meyer (1990) measuring instrument. Furthermore the instrument has also been shown to have validity across various cultural contexts. Wasti (2003) analysed the Allen and Meyer (1990) instrument in a Turkish context while Lee and Miller (1999) in a Korean environment and both concluded that the results supported the cross cultural validity of the instrument. This instrument has been successfully tested within the South African context by Manetje (2005), Nyengane (2007) and Van Stuyvesant-Meijen (2007).

Correlation analysis is used to describe the linear relationship between two or more variables without attributing the effect of one variable on another (Salkind, 2000, Denscombe, 2003). A Pearson product moment correlation was used in this research to determine a linear relationship between the various variables (Salkind, 2000).

The t-test is utilised to determine whether there are significant differences between two groups on a particular variable of interest (Sekaran, 1992). In this research the t-test was utilised to determine whether there were significant differences between gender and (1) the various organisational culture scales, (2) organisation commitment scales and (3) employee

performance. It was also utilised to determine any significant differences between location of respondents and (1) the various organisational culture scales, (2) organisation commitment scales and (3) employee performance.

Pearson's chi-squared ( $\chi^2$ ) has been utilised to assess the biographical variables with organisational culture and organisational commitment scales. It makes the assumption that there is no relationship between the variables and then determines the expected frequencies for the cells in the contingency table, these are then compared to the actual frequencies (Babbie and Mouton, 2001:481). This allowed the researcher to identify any significant differences in the responses of each category of biographical variable.

The analysis of variance (ANOVA) is utilised to test for a significant mean difference among more than two groups on a particular variable of interest (Sekaran, 1992). In this research the one way ANOVA has been utilised to measure significant differences in the biographical variables with more than one group and employee performance.

The Multivariate Analysis of Variance (MANOVA) method examines whether group differences occur on more than one dependent variable (Salkind, 2000). This method has been applied in this research by means of the within subjects Wilks' Lambda Effects test on the three organisational culture scales and the organisational culture gap scores. The Wilks' Lambda has a range of 0 (perfect relationship of predictors to responses) to 1 indicating no relationship of predictors to responses (StatSoft, 2008).

### **Population and sampling**

The population selected for this research includes Eskom Distribution Region management level, supervisory level as well as key senior technical staff that have been with the organisation for a period longer than one and a half years. The size of the population is 203 employees.

For this research quota sampling was used in order to identify the sample (Denscombe, 2003). The sample for the research consisted of 170 employees who were selected in the same gender ratio as the population namely 67.4% male and 32.6% female. Since this sample is not drawn at random, care must be taken in interpreting the findings (Behr, 1988).



For the purpose of this research the model by Harrison and Stokes (1992) was chosen to classify the organisational culture in terms of four types namely power orientation, role orientation, achievement orientation and support orientation.. This framework was selected as it is similar to that used by other authors (Quinn, 1988; Denison and Mishra, 1995) that also propose four cultural types. The instrument has 15 statements, each containing four sub-statements that reflect the organisational culture of the organisation. Respondents were requested to rank the statements according to the extent to which they agree (1 = most preferred) or disagree (4 = least preferred) with each statement. Each of these statements had to be ranked twice, once according to how they think things are at present (existing culture) and then the way the respondents would like the culture to be (preferred culture).

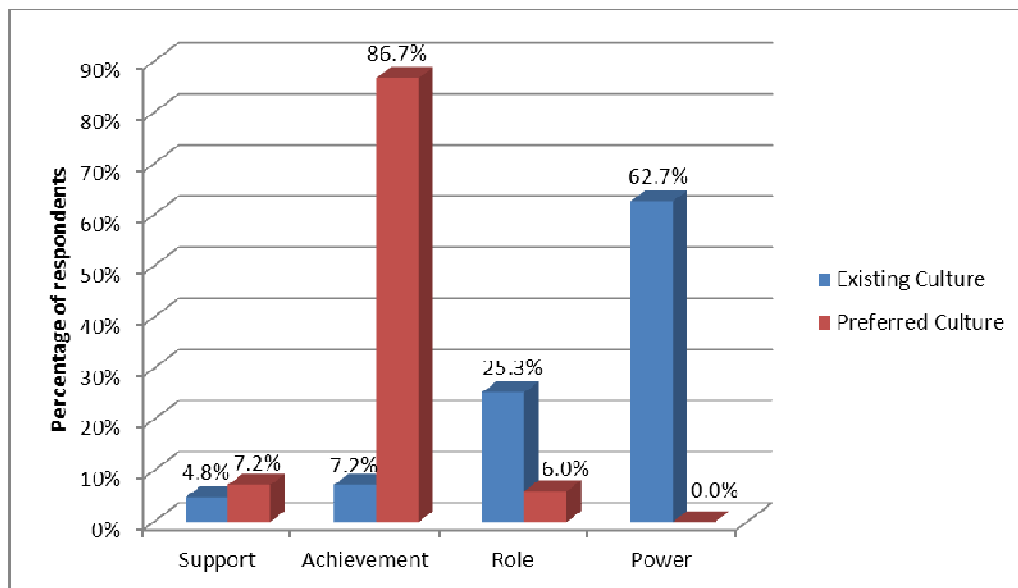
The organisational commitment instrument that was utilised is based on the one developed by Allen and Meyer (1990) with some of the questions modified slightly for the particular organisational context being researched. It measures organisational commitment in terms of three dimensions namely (1) affective, (2) continuance and (3) normative commitment (Allen and Meyer, 1990; Meyer and Allen, 1991). The questionnaire that was utilised consisted of 21 statements (7 questions per commitment dimension) that utilised a 5 point Likert scale. The 21 questions represented a reduction of the original 24 questions proposed by Allen and Meyer (1990:6-7) in that the question with the lowest factor analysis in each dimension was removed. This has helped to shorten the total length of the questionnaire without compromising on the accuracy of the measure.

## **RESULTS**

The reliability of the organisational culture and commitment instruments was determined by means of the Cronbach's alpha reliability coefficient. In terms of the organisational culture instrument only one scale (existing role culture) had a poor reliability score of 0.34 while the remaining scales ranged between 0.6 and 0.79 which is regarded as being acceptable scores. These results are inconsistent with that obtained by Harrison and Stokes (1992) but correspond with research done by Van Stuyvesant-Meijen (2007) in the South African context. The reliability of the organisational commitment questionnaire was determined as being good for the affective commitment scale (0.83) and acceptable for both the continuance (0.68) as well as the normative (0.60) scales.

The dominant existing organisational culture was assessed to be the power culture (mean of 45.69 on a scale of 15 to 60 and selected by 62.7% of respondents) as shown in Figure 2. The second highest existing culture is the role culture with a mean of 43.70 and selected by 25.3% of respondents as their dominant existing organisational culture. This would mean that the organisational culture is regarded as being autocratic and dominating, where power is concentrated in a few; as well as being regarded as formalised and orderly with a system of structures and procedures (Harrison, 1972; Harrison and Stokes, 1992).

**Figure 2: Dominant existing and preferred organisational culture per respondent**



It can therefore be inferred that some of the disadvantages of a power culture such as unilateral action and abuse of power by the leader has been tempered with some advantages of the role culture such as clear policies and procedures (Harrison and Stokes, 1992).

In terms of the preferred organisational culture, the vast majority of respondents (86.8%) agreed on the achievement culture as being the most preferred organisational culture. This culture is defined by excellence of work, performance for satisfaction, together with a personal commitment to the task (Harrison, 1993).

The first hypothesis tested for the existence of a culture gap by means of a MANOVA (Wilks' Lambda Effect test). According to Table 2 significant differences between the existing and preferred organisational culture gap scores were measured ( $p < 0.01$ ). This result can be interpreted as there being a significant difference between the existing culture and the preferred culture in the Eskom Distribution Region. The first null hypothesis ( $H_0 1$ ) was thus

rejected. This result concurs with research conducted by Van Stuyvesant-Meijen (2007) who also statistically measured a culture gap in a South African organisation.

**Table 2: MANOVA test on organisational culture gap scores**

	<b>Test</b>	<b>Value</b>	<b>F</b>	<b>Effect</b>	<b>Error</b>	<b>p</b>
Organisational culture scales	Wilks	0.16**	144.67	3	80	<0.01

\*\* =  $p < 0.01$ , values rounded to 2 decimal places

The second set of hypotheses tested the relationship between organisational culture and employee performance by means of the Pearson's correlation coefficient. A significant relationship between the existing organisational culture and employee performance was measured and therefore the null hypothesis ( $H_{0.2.1}$ ) was rejected. Table 3 indicates that a relatively slight, but significant, negative relationship between the existing achievement culture and employee performance was measured ( $r = -0.31$ ,  $p < 0.01$ ). This result can be interpreted by considering that those respondents with high performance rating scores would know what is required to achieve high performance results and therefore rated the existing culture low in terms of the achievement scale. Similarly, those respondents with low performance scores may not understand the implications of an achievement culture and rated the existing culture as high in terms of the achievement scale. A further implication of this finding is that poor performers may be experiencing an achievement culture whilst they may require more direct management intervention (power culture) in order to improve their performance.

**Table 3: Pearson's correlation between existing organisational culture scales and employee performance**

	<b>Existing Power</b>	<b>Existing Role</b>	<b>Existing Achievement</b>	<b>Existing Support</b>
Performance	0.14 $p=0.22$	0.01 $p=0.91$	-0.31** $p<0.01$	0.15 $p=0.19$

\*\* =  $p < 0.01$ , values rounded to 2 decimal places

Table 4 below illustrates no significant relationship between the preferred organisational culture and employee performance and therefore the null hypothesis ( $H_{0.2.2}$ ) was not rejected. This implies that both good and poor performance desire to work in an achievement culture.

**Table 4: Pearson’s correlation between preferred organisational culture scales and employee performance**

	<b>Preferred Power</b>	<b>Preferred Role</b>	<b>Preferred Achievement</b>	<b>Preferred Support</b>
Performance	-0.09 p=0.40	-0.13 p=0.24	0.14 p=0.20	0.09 p=0.44

\* =  $p < 0.05$ , values rounded to 2 decimal places

The organisational commitment was analysed by means of the Allen and Meyer (1990) organisational commitment questionnaire. The results of the diagnosis identified that the affective and normative commitment scales were the dominant organisational commitment scales in the Eskom Distribution Region. This means that there are staff members that not only have feelings of obligation to remain with the organisation but also have an emotional attachment to the organisation as well. The findings of this research are supported by findings from Rashid *et al.* (2003) but differ from findings by Van Stuyvesant-Meijen (2007) who identified only the normative commitment as being dominant in a South African organisation.

The third hypothesis tested the relationship between organisational commitment and employee performance by means of the Pearson’s correlation coefficient. According to Table 5, no significant relationships between the organisational commitment types and employee performance were found and therefore the null hypothesis ( $H_{03}$ ) was not rejected. This finding differs from results by Meyer *et al.* (1989) who found that affective commitment was positively correlated with employee performance while continuance commitment was negatively correlated with employee performance. A possible reason for this variation in results could be that Meyer *et al.* (1989) utilised a common employee performance assessment tool while the employee performance scores for this research were based on supervisor ratings of job specific outputs which differed between individuals.

**Table 5: Pearson’s correlation between the organisational commitment scales and employee performance**

	<b>Affective commitment</b>	<b>Continuance commitment</b>	<b>Normative commitment</b>
Performance	-0.01 (p=0.94)	0.09 (p=0.41)	0.04 (p=0.75)

\* =  $p < 0.05$ , values rounded to 2 decimal places

The fourth set of hypotheses tested the relationship between organisational culture and organisational commitment by means of the Pearson’s correlation coefficient. Two

significant linear relationships between the existing organisational culture and the organisational commitment scales were measured and the null hypothesis ( $H_{0\ 4.1}$ ) was rejected. As indicated in Table 6, a slight but significant positive linear relationship between the existing achievement culture and affective commitment ( $r = 0.30$ ,  $p < 0.01$ ) was measured. This would indicate than an increase in the achievement culture would result in an increase in affective commitment (the dominant organisational commitment scale in the Eskom Distribution Region). This finding is supported by previous research in that a high affective commitment would result higher employee performance/organisational effectiveness (Meyer *et al.*, 1989; Jaramillo, Mulki and Marshall, 2005).

**Table 6: Pearson’s correlation matrix between organisational culture and organisational commitment scales**

	EP	ER	EA	ES	PP	PR	PA	PS	AC	CC	NC
Existing Power	1.00										
Existing Role	0.03	1.00									
Existing Achievement	-0.79**	-0.30**	1.00								
Existing Support	-0.60**	-0.50**	0.25*	1.00							
Preferred Power	-0.23*	-0.10	0.19	0.21	1.00						
Preferred Role	-0.15	-0.05	0.15	0.05	0.40**	1.00					
Preferred Achievement	0.34**	0.17	-0.34**	-0.26*	-0.62**	-0.64**	1.00				
Preferred Support	0.05	-0.02	-0.03	-0.00	-0.70**	-0.70**	0.27*	1.00			
Affective Commitment	-0.32**	-0.06	0.30**	0.18	0.13	0.01	-0.07	-0.06	1.00		
Continuance Commitment	-0.12	-0.03	0.12	0.06	0.01	-0.12	-0.09	0.17	0.21	1.00	
Normative Commitment	-0.05	0.09	-0.07	0.10	0.04	-0.09	-0.01	0.06	0.43**	0.35**	1.00

\* =  $p < 0.05$ , \*\* =  $p < 0.01$ , values rounded to 2 decimal places

Table 6 shows no significant relationship between the preferred organisational culture and organisational commitment and therefore the null hypothesis ( $H_{0\ 4.2}$ ) was not rejected. The results of this research therefore indicated that there were no significant differences between the commitment levels of those respondents that selected achievement culture as their preferred culture and those that did not. The respondents’ current commitment levels could be influenced by the existing power culture. One can therefore conclude that commitment levels could rise in future (in terms of the positive linear relationship between existing achievement

culture and affective commitment described above) if the preferred achievement culture were to be increased. This result is supported by results obtained by Van Stuyvesant-Meijen (2007) who did not measure a significant relationship between the preferred organisational culture and organisational commitment.

From Table 7, there were two significant linear relationships measured between the organisational culture gaps and the organisational commitment scales and therefore the null hypothesis ( $H_{0\ 4.3}$ ) was rejected. There was a slight but significant negative linear relationship between the power culture gap and the affective commitment ( $r = -0.31$ ,  $p < 0.01$ ). This indicates that as focus is placed on closing the gap between existing and preferred power culture (decreasing the degree of the power culture in this case), the level of affective commitment will increase. This finding is supported by previous research by Bourantas and Papalexandris (1992) which found a negative relationship between the organisational culture gap and organisational commitment.

**Table 7: Pearson’s correlations between organisational culture gaps and organisational commitment scales**

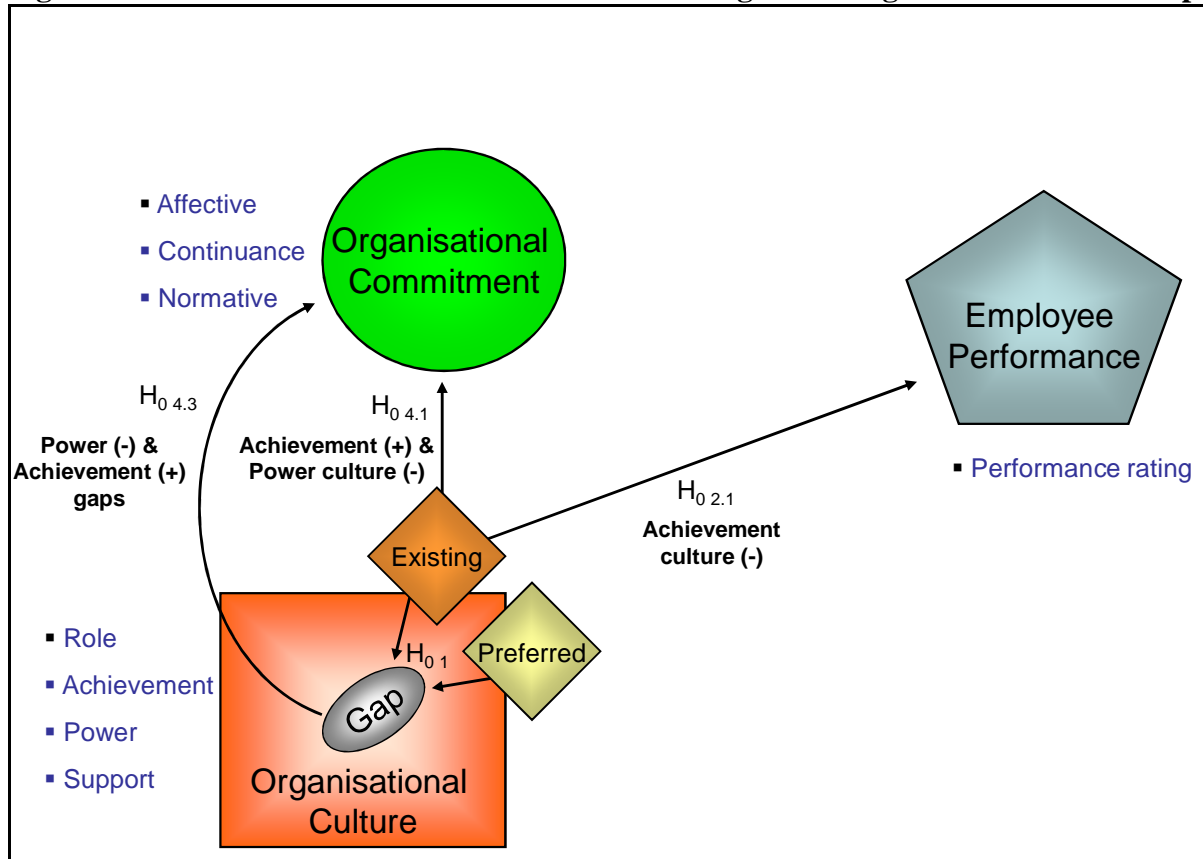
<b>Organisational commitment scale</b>	<b>Power gap</b>	<b>Role gap</b>	<b>Achievement gap</b>	<b>Support gap</b>
Affective commitment	-0.31** (p<0.01)	-0.04 (p=0.69)	0.25* (p=0.02)	0.17 (p=0.13)
Continuance commitment	-0.10 (p=0.37)	0.07 (p=0.55)	0.13 (p=0.23)	-0.07 (p=0.51)

\* =  $p < 0.05$ , \*\* =  $p < 0.01$ , values rounded to 2 decimal places

Table 7 shows a slight but significant positive linear relationship between the achievement culture gap and affective commitment ( $r = 0.25$ ,  $p = 0.02$ ). This means that as the Eskom Distribution Region strives to constantly increase the gap between the existing and preferred achievement culture (create the need to move more towards an achievement culture), the level of affective commitment will likewise increase. This result is not supported by the findings of Van Stuyvesant-Meijen (2007) who did not measure any significant relationship between the organisational culture gap and organisational commitment.

The results of the various hypotheses tests have been summarised in Figure 5. For the hypotheses where the null hypothesis has been rejected, the alternative hypothesis has been accepted. In total there was sufficient evidence to reject four null hypotheses.

**Figure 5: The theoretical framework showing the significant relationships**



Source: Researcher's own construction based on Allen and Meyer (1990) and Harrison and Stokes (1992).

## CONCLUSIONS

In conclusion, it has been shown that the pursuit of an achievement culture can significantly increase the affective commitment levels of employees in the Eskom Distribution Region. Likewise, the reduction of the existing power culture to the level of the preferred power culture will also significantly increase the affective commitment levels of employees. Employees with a high performance rating were statistically better able to distinguish that the existing culture was low in achievement culture than those employees with lower ratings. The improvement in affective commitment level is expected to have a positive impact in terms of improved organisational performance in the Eskom Distribution Region.

## **MANAGERIAL IMPLICATIONS**

The existing organisational culture has been identified as being a power culture. This culture has an element of fear as it is based on rewarding compliance and punishing non-compliance. While the preferred culture of the majority of staff members in this research is the achievement culture (which is defined by excellence of work and performance for satisfaction) it was found that high performers tend to view the existing culture as being low on achievement culture while low performers tend to view the existing culture as being higher in achievement culture. A potential management implication of this is that poor performers may lack sufficient direct management intervention (power culture) in order to improve their performance.

The majority of staff preferred an achievement culture and this culture was shown to correlate with affective commitment. It is recommended Management consider pursuing an achievement culture whilst still encouraging supervisors to intervene with poor performing staff.

In order to move from a power to an achievement culture, it is recommended that:

- Management reduce the anxiety and fear that is prevalent with power-orientated cultures. To do this, management needs to stop rewarding employees for compliance and not punish employees or withhold rewards from employees for non-compliance.
- Management align reward and recognition programs to encourage leadership and staff behaviour that support an achievement culture.
- Employee performance contracts should have a reduced focus on individual employee performance with increased reward when the overall business unit / division have achieved their objectives.
- Management consistently reinforce the Eskom vision elements in particular that of being a world class top performing utility both verbally and through practical actions to ensure staff are motivated to achieve this goal..
- Decision making and work should be delegated to lower level managers, supervisors or employees, in order to promote a high performance by holding staff accountable for outputs.
- Induction courses are adapted based on the desired culture in order to facilitate the socialisation process of new employees within a short period of time.



Management makes use of the performance rating system to objectively assess the performance of its employees. The performance ratings have been found to have a standard deviation of 0.38 around a mean of 3.73 which would indicate that the vast majority of staff are performing well above their expected performance. This could well be the case but it may also be due to inconsistent application of the 50% probability requirement to determine the expected performance targets. It is recommended that management assess the various performance objectives to ensure that they comply with the statistical probability requirements as stipulated in the Eskom performance management procedure (Eskom, 2007). This will ensure more consistency in terms of performance ratings and will result in a larger spread of performance rating scores as not all stretch targets may be aligned to ensure a similar difficulty of achievement.

This research indicated that an increase in the achievement culture would result in an increase in affective commitment. This finding is supported by past research in that a high affective commitment would result in higher employee performance/organisational effectiveness, it is therefore recommended that:

- Management align employee roles in relation to the organisation's goals and values.
- Management focus on communicating the alignment in the goals and values of the organisation to those of their employees.

In conclusion, the organisational culture is a powerful tool which management can utilise to enhance performance and influence the degree of organisational commitment.

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# **CONSUMER AWARENESS REGARDING INSURANCE PRODUCTS AND SERVICES IN SOUTH AFRICA**

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## **ABSTRACT**

Financial services are characterized by product suppliers having more information than consumers. Financial advisors, tasked with resolving this asymmetry, are expected to make mandatory disclosures when exercising their roles. A survey evidenced a low level of disclosure regarding fees charged and a low level of understanding of features of insurance products amongst consumers.

## **INTRODUCTION**

Asymmetric information exists when one party to a transaction is better informed than the other party. Financial advisors generally have better information than the consumer regarding financial products and any non-disclosure or poor product description on their part, may lead to consumers entering into contracts to their own detriment. In exercising their roles, intermediaries, financial advisors for example, are supposed to resolve this asymmetry. Asymmetric information can lead to market failure and this creates a rationale for government intervention. The case for regulation is further strengthened by marked differences between financial and non-financial services. Using multistage sampling, a national survey was conducted to establish whether consumers are knowledgeable of the features of basic insurance products and whether they are aware of the disclosures they are entitled to.

## **OBJECTIVES OF THE STUDY**

The objective of the study was firstly, to establish the extent to which financial advisors disclose to consumers the fees charged and secondly, to establish the extent to which consumers can differentiate between the basic features, associated costs and limitations of typical life insurance products.

## **ASYMMETRIC INFORMATION AND INTERMEDIARIES**

The pioneering contributions of George Akerlof, Michael Spence and Joseph Stiglitz form the basis for the theory of markets with asymmetric information (Riley, 2001). Asymmetric information may cause the less informed market participants to conclude contracts to their own detriment (Kalss, 2007). With regards to the provision of financial services, Malherbe and Morojele (2001) reported that asymmetric information can be so extreme that the client knows virtually nothing of the product being offered, the nature of the organization offering it, and the intermediary advising the client to buy it.

Allen and Santomero (1999:4) describe the role of intermediaries to be “the rendering of services to clients to bridge the gap between clients’ lack of knowledge and the expertise required to get the most out of increasingly sophisticated financial markets”. More commonly the term “agent” is used to denote someone who acts as a middleman on behalf of someone else. In an insurance context such agents are financial advisors or insurance brokers. Within the context of the provision of financial services, the concept of commission is generally understood to mean an amount of money paid to the financial advisor by the product supplier but charged directly or indirectly to the consumer. This will be referred to as the financial advisor’s fee here. Paces (2000:483) raised the concern that “in a typical asymmetric information setting, the likelihood of opportunistic behaviour gives rise to a serious concern regarding the reliability of the financial intermediary’s advice as investors cannot easily evaluate the quality of the financial information and services provided to them”.



## **NATURE OF FINANCIAL PRODUCTS**

Depending on their characteristics, products and services are frequently divided by economic literature into the categories of search goods, experience goods and credence goods (Ogus, 1994). Further, there are costs associated with gathering the necessary knowledge and appropriate expertise to make a purchasing decision. These costs are somewhat lower for search goods and significantly higher for credence goods (Pacces, 2000). With search goods such as clothing, equipment and furniture, the value and quality can be ascertained in advance, the product can also be tested in advance, and there may be guarantees or warranties attached allowing for the rectification of future faults.

With financial products the consumer's opportunity for experiential learning is very limited as such products are not purchased on a regular basis or frequently. The consumer's ability to also learn from the experience of others is also limited as matters concerning financial products are considered to be very personal and are seldom discussed openly with others. The financial services market is different from other markets, such as the real estate market or automobile market, wherein goods may be exchanged even under possible asymmetric information, is that with financial services the feedback is not immediate (Pacces, 2000). With financial products, the value or quality is difficult to establish before and even after the purchase. The reality is that an extended period of time needs to elapse before one becomes aware of the true value of a financial product or for that matter any shortcomings.

## **THE INSURANCE MARKET**

The insurance market is a vitally important economic institution where mutually beneficial exchanges between consumers and insurance companies take place, wherein consumers purchase the promise of the insurer to cover the financial consequences of a possible loss, paying the insurance premium for this service (Nienaber & Reinecke, 2009). Information is crucial for this market exchange to take place.

With Term-life Insurance, the contract is so arranged that for the sum assured to be paid on the death of the life assured only in the event of death happening during a specified term, for example 20 years while a Whole-life Insurance contract, on the other hand, provides for the payment of the sum insured on the death of the life insured and may be kept in force for the insured's entire life (Nienaber & Reinecke, 2009). Should the insured survive the term there would be no cover beyond the term. A Term-life cover does not incorporate a savings element and therefore, upon surrender or expiry, has no monetary value. With Whole-life cover should the insured terminate the cover, there would be a surrender value depending on the savings.

The cost of life cover is dependent on age and as age progresses the cost of cover increases, being lower for young people and exorbitant for advanced ages. For the same individual the cost of a Term-life policy is far cheaper than Whole-life insurance. For a Term-life policy the premium payment plan may involve a level premium payment plan. With this plan, instead of paying increasing premiums as age progresses through the term, an average premium is paid for the entire term. In other words, the premium remains constant over the term of the policy. The result is that the premiums in the early years are higher than the actual cost of cover and in the latter years the actual cost of cover is higher than the premiums charged. The excess in the earlier years is used to supplement the shortfall in the latter years. A premature termination of a Term-life cover, based on a level premium plan, would be to the detriment of the client, as amounts paid in excess of the actual cost of cover would not be returned to the client.

## **FINANCIAL REGULATION**

McVea (2005) notes firstly, that the market may be unable to supply a socially optimal level of information for investors and secondly, there may be factors which prevent individuals from appreciating this information. The informational imbalance between expert intermediaries and inexperienced investors may lead to the expert favouring his or her own interest over those of the investor resulting in the misallocation of resources (McVea, 2005). Governments can intervene and rectify market failure and ensure economic efficiency via regulation (Grace & Klein, 2008).

The Financial Services Board (FSB) is the body charged with overseeing the regulation of most forms of financial provision in South Africa. The object of the Financial Advisory and Intermediary Services Act (2002) is to regulate the rendering of advice and intermediary services to clients. The Office of the Ombud for Financial Services Providers (FAIS Ombud) was established through section 20(1) of the FAIS Act and lists the duty of the FAIS Ombud as being to consider and dispose of complaints by clients against financial services providers in terms of the FAIS Act.

The FAIS Act prescribes that the nature and extent of monetary obligations assumed by the client, directly or indirectly, in favour of the provider, including the manner of payment or discharge thereof, the frequency thereof and the consequences of non-compliance be disclosed (RSA, 2002). Section 3(1) of the General Code of Conduct for authorized financial services providers requires the remuneration to be paid for the financial service has to be established at the initial stage of the professional relationship between the client and the financial service provider or representative (RSA, 2003). Section 7(1) of the General Code of Conduct requires the financial service provider to provide a reasonable and appropriate explanation of the nature and material terms of the relevant contract with a client, and generally make a full and frank disclosure of any information that would reasonably expect a client to make an informed decision (RSA, 2003). This challenge was highlighted by Swanepoel (2006), pointing out that product suppliers historically simplified their quotations and marketing material by excluding specific terms and conditions resulting in abbreviated documents containing key features of the product and only send clients relevant and material information, that needs to be disclosed before concluding a transaction, some weeks after the transaction has been concluded. The insured first sees the insurance contract only after entering into it and consequently consumers may often be unaware of all the terms and conditions of the transaction.

### **SAMPLING, SAMPLING TECHNIQUES AND DESCRIPTION OF THE SAMPLE**

The Living Standards Measure (LSM) was developed by the South African Advertising Research Foundation (SAARF) whereby households were classified into ten groups according to amenities at the disposal of the household and the area where they live. LSM 1 denotes households with

the lowest and LSM 10 the highest living standards. The Bureau of Market Research estimated that for households falling in the LSM 1 group, food, clothing and footwear, and housing contributed to almost 80% of the cash budget of households with food alone consuming 71% of the budget with this decreasing to 24% for the LSM 6 group and less than 11% for the LSM 10 group (Martins, 2006).

According to FinMark Trust (2010), 23% (7.8 million) of South African adults have some life assurance products covering a defined risk, with 19% (6.3 million) having life coverage, comprising 2% of the LSM 1-4 population, 12% of LSM 5-6 population, 35% of the LSM 7-8 population and 56% of the LSM 9-10 population.

The largest province by population is KwaZulu-Natal followed by Gauteng, Eastern Cape, Western Cape, Limpopo, North West, Mpumalanga, Free State and Northern Cape in order of decreasing population sizes. Due to time and monetary constraints, the study was conducted in three provinces only. More than 75% of the population is represented in five of the largest provinces. Using these five provinces resulted in 10 permutations of sets of three provinces. From these permutations one set was selected at random. The set of provinces selected was KwaZulu-Natal, Gauteng and Western Cape.

Given the profile of the population (35% and 56% of the LSM 7-8 and LSM 9-10 categories, respectively), it was considered very likely that members of the population would have relatively more disposable income than members of other categories. It was also assumed that much of this disposable income would be spent at retail outlets. Prinsloo (2010) adjusted the hierarchical model of shopping centres in South Africa, developed by Kahn (1988) for a better understanding of the retail market, by incorporating threshold values of specific LSM groups that are required to warrant retail of any kind. Consumers at super regional centres and major regional centres share the same LSM characteristics, according to Prinsloo's model, as the population.

For each of the selected provinces, a sampling frame was constructed, using the Mall Guide Database (2011) containing all the super-regional and major regional centers in each province. From each list a retail centre was selected randomly. In the province of Gauteng, Cresta Mall in

Randburg, in the Western Cape province, Kennilworth mall in Kennilworth and in the province of KwaZulu-Natal the Pavillion Mall in Westville were selected, respectively. For each selected mall two consecutive days (Friday and Saturday) were selected randomly from the months of April, June and July 2011 for the conduct of the survey.

## RESULTS AND DATA ANALYSIS

### Demographic Details

The distributions according to demographic details are illustrated in Table 1.

**TABLE 1. DISTRIBUTION ACCORDING TO DEMOGRAPHIC DETAILS**

<b>VARIABLE</b>		<b>PERCENTAGE</b>	<b>NUMBER</b>	<b>TOTAL</b>
<b>GENDER</b>	Male	51%	190	369
	Female	49%	179	
<b>RACE</b>	Black	57%	209	369
	Coloured	13%	48	
	Indian	8%	29	
	White	22%	83	
<b>AGE-GROUP</b>	26-35	38%	140	369
	36-45	23%	85	
	46-55	20%	75	
	56-65	11%	39	
	65+	8%	30	
<b>PLACE</b>	Gauteng	35%	129	369
	Western Cape	27%	98	
	KwaZulu Natal	38%	142	
<b>HIGHEST EDUCATIONAL QUALIFICATION</b>	Grade 11 or lower	6%	23	369
	Grade 12	35%	130	
	Post matric Dip/Cert	37%	139	
	BDegree	13%	48	
	Post grad. Degree	8%	29	

369 questionnaires were administered to 190 (51%) males and 179 (49%) females. 209 (57%) of the respondents were Black, 48 (13%) were Coloured, 29 (8%) were Indian and 83 (22%) were White. The greatest percentage of the respondents (38%) was from Kwa-Zulu Natal, followed by 35% from Gauteng and 27% from Western Cape.

### **Responses to Disclosures Regarding Fees Charged**

The responses to statements regarding disclosures of fees charged by financial advisors are illustrated in Table 2.

**TABLE 2. RESPONSES TO DISCLOSURES REGARDING FEES CHARGED**

	STATEMENTS	AGREE		DISAGREE		TOTAL
		N	%	N	%	N
1.1	<b>I was not made aware of any financial advisor's fee that was charged.</b>	<b>271</b>	<b>73</b>	<b>98</b>	<b>27</b>	<b>369</b>
1.2	<b>I discovered the fee that was charged by the financial advisor from the scrutiny of the policy document.</b>	<b>145</b>	<b>39</b>	<b>224</b>	<b>61</b>	<b>369</b>
1.3	<b>The financial advisor verbally brought to my attention the fee that was charged.</b>	<b>99</b>	<b>27</b>	<b>270</b>	<b>73</b>	<b>369</b>
1.4	<b>The financial advisor told me that the fee that was charged is negotiable.</b>	<b>43</b>	<b>12</b>	<b>326</b>	<b>88</b>	<b>369</b>
1.5	<b>I was under the impression that the financial advisor's fee charged is a standard for the industry.</b>	<b>266</b>	<b>72</b>	<b>103</b>	<b>28</b>	<b>369</b>
1.6	<b>I shopped around for a financial advisor on the basis of the fee that would be charged</b>	<b>32</b>	<b>9</b>	<b>337</b>	<b>91</b>	<b>369</b>

Regarding the financial advisor's fee charged, 73% were not made aware that any advisor's fee was charged and in only 27% of the cases did the financial advisor verbally bring to the attention that a fee was charged. Even when the fee charged was verbally brought to the attention of the client, only in 12% of the cases did the advisor indicate that the fee was negotiable. 72% of the respondents thought that the advisor's fee charged is a standard for the industry and only 9% of the respondents shopped around for an advisor on the basis of the fee that would be charged.

Thirty nine percent of the respondents discovered the fee charged from the scrutiny of the policy document. It is therefore concluded that Financial Advisors do not make sufficient disclosures regarding the financial advisors' fee that is charged.

### **Responses to Knowledge of Features of Basic Insurance Products**

The responses to statements regarding knowledge of the features of basic insurance products are illustrated in Table 3.

**TABLE 3. RESPONSES TO KNOWLEDGE OF FEATURES OF BASIC INSURANCE PRODUCTS**

	STATEMENTS	AGREE		DISAGREE		TOTAL
		N	%	N	%	N
2.1	<b>I experience difficulty in telling the difference between the different Life insurance products</b>	<b>254</b>	<b>69</b>	<b>115</b>	<b>31</b>	<b>369</b>
2.2	<b>A Term-life cover provides death cover until the day the insured dies</b>	<b>267</b>	<b>72</b>	<b>102</b>	<b>28</b>	<b>369</b>
2.3	<b>I consider my knowledge of basic Life insurance products to be good (above average)</b>	<b>168</b>	<b>45</b>	<b>201</b>	<b>55</b>	<b>369</b>
2.4	<b>A Term-life cover expires (ends) after a specified period</b>	<b>122</b>	<b>33</b>	<b>247</b>	<b>67</b>	<b>369</b>
2.5	<b>A Term-life cover can include a savings element</b>	<b>253</b>	<b>69</b>	<b>116</b>	<b>31</b>	<b>369</b>
2.6	<b>For the same premium the insured would be able to buy Term-life cover of a far greater value than Whole-life cover</b>	<b>159</b>	<b>43</b>	<b>210</b>	<b>60</b>	<b>369</b>
2.7	<b>A Term-life cover cannot be used as a means to save</b>	<b>131</b>	<b>35</b>	<b>238</b>	<b>65</b>	<b>369</b>
2.8	<b>For the same amount of death cover the premiums for a Term-life cover will be far less than that for a Whole-life cover</b>	<b>125</b>	<b>34</b>	<b>244</b>	<b>66</b>	<b>369</b>
2.9	<b>There is no maximum limit to the amount of disability that I can buy</b>	<b>220</b>	<b>60</b>	<b>149</b>	<b>40</b>	<b>369</b>
2.10	<b>The maximum disability cover that I can buy is regulated by law</b>	<b>133</b>	<b>36</b>	<b>236</b>	<b>64</b>	<b>369</b>

Just over two thirds (69%) of the respondents agreed that they experience difficulty in telling the difference between the different life insurance products. Furthermore, only 45% of the respondents considered that their knowledge of basic life insurance products to be good (above average). These responses serve as an indicator that the level of knowledge regarding basic life insurance products was rather limited. The implication of this is that respondents have entered into life insurance contracts with a somewhat limited understanding of product features. A further implication is that the asymmetric information between product suppliers and consumers has not satisfactorily been resolved by the intermediary, who is the financial advisor in this case.

With Term-life Insurance, the contract is so arranged that for the sum assured to be paid on the death of the life assured only in the event of death happening during a specified term. However, 72% of the respondents think that a Term-life cover provides cover until the day the person dies. This incorrect understanding is further reinforced by close to the same proportion (67%) of the respondents disagreeing that a Term-life cover expires after a specified date. Further misunderstandings of the features of term life cover are illustrated by respondents (69%) believing that a Term-life cover can include a savings element. This incorrect understanding is further reinforced by only 35% of the respondents agreeing that a Term-life cover cannot be used as a means to save.

These findings are significant in the sense that respondents have false expectations regarding the benefits of Term-life insurance and upon the expiry of a term the respondents may:

- (i) find themselves without cover or having no option but to initiate new cover at much higher premiums due to advancement in age at the point in time; and/or
- (ii) anticipate some cash value when there is really none.

For the same individual, Term-life cover is significantly cheaper than Whole-life cover. However, two sets of responses indicate that respondents do not understand the impact on the premiums paid depending whether Term-life cover or Whole-life cover is elected. In the first response 60% of the respondents disagreed with the statement that for the same premium the



insured would be able to buy Term-life cover of far greater value than Whole-life cover. This incorrect understanding was further reinforced by 66% disagreeing that for the same amount of death cover the premiums for a Term-life cover will be far less than that for a Whole-life cover.

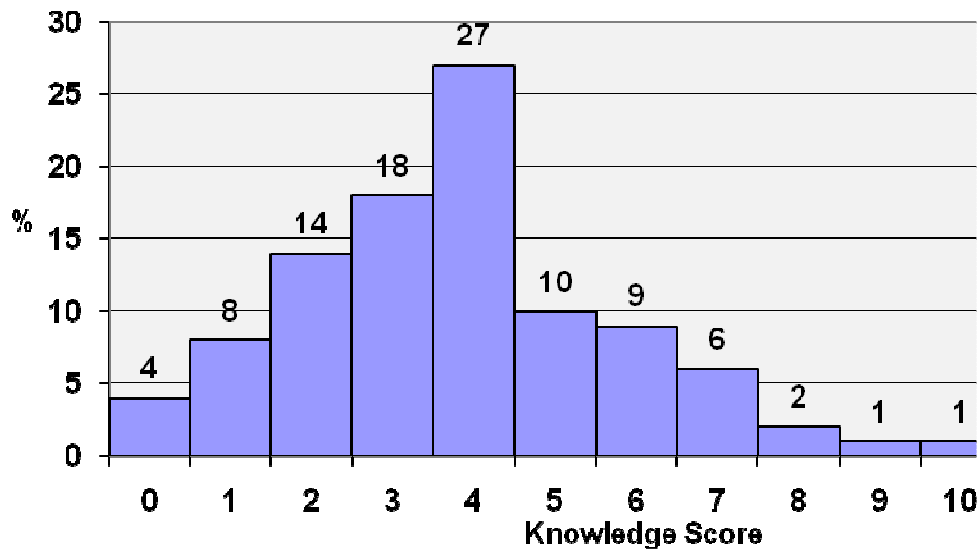
These findings are significant as consumers may for the same financial outlay:

- (i) select Term-life cover when Whole-life cover is really needed;
- (ii) cancel an existing Whole-life cover and substitute a Term-life cover believing that they are getting better value for money; and
- (iii) compare the amount of Term-life cover offered by one product supplier to the amount of Whole-life cover offered by another product supplier and decide that there is greater value for money in the one as compared to the other.

Finally, 60% of the respondents agree with the statement that there is no maximum limit to the amount of disability cover that can be bought, which is an incorrect statement. Furthermore, with 64% disagreeing with the correct statement that the maximum disability cover is regulated by law, it may come as a surprise in the unfortunate case of disability, that benefits would be reduced proportionately.

### **Knowledge Score**

A knowledge score was computed depending on the correctness of the answers provided to the questions relating to the features of basic insurance products. The minimum score possible was zero and the maximum possible score was 10. The mean score was 3.74 with a standard deviation of 1.94. The results are illustrated in Figure 1.



**FIGURE 1 KNOWLEDGE SCORE**

The distribution of the knowledge score was positively skewed (skewness value of 0.353). The Kolmogorov-Smirnov test compares the score in a sample to a normally distributed set of scores with the same mean and standard deviation (Field, 2010). According to Field (2010), if the test is significant ( $p < 0.05$ ), the distribution is significantly different from a normal distribution (not normal). The Kolmogorov-Smirnov test was highly significant [ $D(369)=0.162$ ,  $p < 0.001$ ]. It was concluded that the distribution was not normal. To use the normal approximation continuity corrections were applied.

### **Reliability of Knowledge Score**

The test on Knowledge included 10 questions. However, there were only five key questions, each asked in two different ways. Question 2.1 relates to question 2.3, question 2.2 relates to question 2.4, and so on. The sets of questions were cross-tabulated to establish whether respondents answered the related questions in the same way. The responses are cross-tabulated in Table 4. Yate's continuity correction prevents the overestimation of statistical significance, by adjusting Pearson's chi-square in discrete distributions (Devore, 1995). Even though a chi-square test may show a statistical significance between two variables, the relationship between those variables may not be substantially important. Pearson's contingency coefficient is therefore used to measure the relative strength of an association between two variables (Field, 2010).

**TABLE 4. CROSS-TABULATION MATRIX FOR RESPONSES TO KNOWLEDGE QUESTIONS**

	Continuity correction			Contingency coefficient	
	Value	df	Asym.Sig	Value	Approx. Sig
N=369					
Term-life provides death cover until the day the person dies/ Term-life cover expires after a specified period	87.31	1	.004*	.550**	.005
A Term Life cover can include a savings component/ A Term-life cover cannot be used as a means to save	122.9	1	.000*	.504**	.000
For the same premium the insured would be able to buy Term cover of a far greater value than Whole-life cover/ For the same amount of death cover the premiums for a Term-life will be far less than that for a Whole-life cover	219.1	1	.000*	.613**	.000
There is no limit to the amount of disability cover that I can buy/ The maximum disability cover that I can buy is regulated by law.	146.6	1	.000*	.537**	.000

\* There were significant relationships ( $p < .05$ ) between cross-tabulated items.

\*\* The strength of the relationships was high ( $> 0.5$ ).

It can be inferred that respondents seem to have understood the questions and answered them consistently.

### **Knowledge Score According to Demographics**

Table 5 presents the Knowledge Score according to gender.

**TABLE 5. KNOWLEDGE SCORE ACCORDING TO GENDER**

	Gender	N	Mean	Std. Deviation	Std. Error Mean
Score for Section B	Female	190	3.92	2.062	.150
	Male	179	3.55	1.787	.134

The mean score for males was 3.92 and that for females was 3.55. This difference was explored further through the Independent Samples Test illustrated in Table 6.

**TABLE 6. INDEPENDENT SAMPLES TEST FOR GENDER**

	Levene's Test for Equality of Variances		t-test for Equality of Means						
	F	Sig.	T	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference	
								Lower	Upper
Equal variances assumed	4.077	.044	1.855	367	.064	.374	.201	-.022	.770
Equal variances not assumed			1.863	364.48	.063	.374	.201	-.021	.768

According to Field (2010), Levene's test, tests the null hypothesis that the variances in different groups are equal and concludes that the assumption of equal variance is tenable at  $p > 0.05$ . The assumption of homogeneity of variances would be violated at  $p < 0.05$ . While Levene's test [ $F(1,367) = 4.077, p < 0.05$ ] indicated that the variances between the knowledge scores for males and females were significantly different, the t-Test [ $t(364.48) = 1.863, p > 0.05$ ] for gender (equal variance not assumed) indicated that there was no evidence to suggest that males and females performed differently with respect to knowledge scores.

According to Girden (1992), Analysis of variation (ANOVA) is a statistical test used to determine if more than two population means are equal, by using the F-distribution function and information about the variances of each population and groupings of populations to establish

whether variability between and within each population are significantly different. Table 8.7 presents the ANOVA according to race, age group, place and level of educational qualification.

**TABLE 7. ANOVA ACCORDING TO RACE, AGE GROUP, PLACE AND LEVEL OF EDUCATIONAL QUALIFICATION**

	Homogeneity of variance				ANOVA		
	Levene Statistic	df1	df2	Sig	df	F	Sig
<b>RACE</b>	1.383	3	365	0.254	3	0.156	0.926
<b>AGE GROUP</b>	0.238	4	364	0.917	4	2.039	0.088
<b>PLACE</b>	19.345	2	366	0.000	2	1.041	0.354
<b>LEVEL OF EDUCATIONAL QUALIFICATION</b>	2.884	4	364	0.023	4	0.763	0.550

The ANOVA that were performed by race [ $F(3,365) = 0.155, p > 0.5$ ], age group [ $F(4,464) = 2.039, p > 0.05$ ], place [ $F(2,366) = 1.041, p > 0.05$ ], and level of educational qualification [ $F(4,364) = 0.763, p > 0.05$ ] does not present any evidence to suggest that respondents performed differently on the knowledge score, due to race, age, place and level of education.

The Knowledge scores were then grouped into four categories (very low, low, high, very high) as illustrated in Table 8.

**TABLE 8 KNOWLEDGE SCORE ACCORDING TO CATEGORIES**

<b>Knowledge Score Category</b>	<b>Frequency</b>	<b>Percentage</b>	<b>Cumulative Percent</b>
Very low	96	26.0	26.0
Low	168	45.5	71.5
High	94	25.5	97.0
Very high	11	3.0	100
	369	100.0	

It was found that 71.5% of the respondents scored either at the low or very low level of understanding of the features of basic insurance products. Consumers of insurance products have a low to very low level of understanding of the features of basic insurance products, and this knowledge is not a function of gender, race, age, place or level of education. For example, any inference such as an individual holding a postgraduate qualification would be in a better position to make an informed purchasing decision, regarding a Life insurance product, would be totally unfounded and contrary to the findings.

#### **POSSIBLE IMPLICATION FOR MANAGEMENT IN THE INSURANCE INDUSTRY**

Botha *et al.* (2010) describe compliance as conforming to the meeting of requirements of laws and regulations that have been clearly defined and relevant to the financial services industry. Section 17(1) of the FAIS Act (RSA, 2002) makes it compulsory for financial service providers, to appoint (internally or outsource) a compliance officer to establish and maintain procedures to be followed by the representative in order to ensure compliance. Any ‘tickbox’ approach to compliance that includes ticking against statements that relate to product description or fees having been disclosed would do little to improve the actual levels of disclosure. The extent of the application of the ‘tickbox’ approach to compliance needs to be further explored. While compliance officers are responsible for compliance issues, accountability still rests with the financial service provider that must ensure that compliance practices are integral to their systems and process.

Abbreviated documents and marketing material, that exclude specific terms and product features limits the extent to which full product disclosure can be made. It is incumbent upon product suppliers to put financial service providers in the position to do. This calls for more elaborate product description documents, the explanation of which may have the effect of extending the duration of the meeting between the client and the financial advisor. This would limit the number of clients a particular financial advisor could visit and financial service providers would have to engage more financial advisors.

## **CONCLUSION AND RECOMMENDATIONS**

Asymmetric information between clients and product suppliers in the insurance industry is the result of the unique features of financial products and services. Financial service providers through financial advisors are supposed to resolve this asymmetry through advice. The advice that is provided is regulated through the FAIS Act and the Code of Good Conduct for Financial Advisors. In lieu of the advice, an advisor's fee is applicable. The regulation demands that such fees should be disclosed to the client and the features of the products being sold are clearly explained to the client.

However, in practice clients seem to have a low or very low level of understanding of the features of basic insurance products. This low to very low level of knowledge does not correlate with race, age, place of educational qualification. It would appear that the asymmetry regarding knowledge of basic insurance products remains unresolved. Further, there seems to be a low level of disclosure regarding fees charged by financial advisors. It would appear that clients are not aware of the disclosures that they are entitled regarding fees charged.

It is recommended that the manner in which disclosure regarding financial advisors' fees is made be revisited to include:

- The verbal disclosure of the financial advisor's fees charged, over and above any written disclosure, as an important step in the advisory and intermediary process.

- In the written disclosure of the financial advisor’s fee charged, bold print or colour or some kind of differentiation should be used to highlight relevant information so that it stands out from the rest of the printed material.
- The client’s initials should appear close to the highlighted information to signify that the relevant information has been brought to the client’s attention.

It is also recommended that:

- The FSB, in consultation with product suppliers, prepare a generic product description differentiation matrix that is made available for the clients’ attention, through the financial advisor. A quick glance through the document should furnish the necessary information that distinguishes the features of basic insurance products. One copy of the product differentiation matrix should bear the signature of the client across the recommended product and be retained amongst the necessary documents in the client’s file.

A simple example is provided for illustration purposes in Table 9

**TABLE 9 FEATURES OF BASIC INSURANCE PRODUCTS**

<b>Product</b>	<b>Product A: Term Life cover</b>	<b>Product B : Whole life cover</b>	<b>Product C: Universal life cover</b>
What is the duration of cover?	Fixed period: eg 20 years No cover after term expires	Entire life	Entire life
Is savings incorporated ?	No	Yes	Yes
Is there a surrender value?	No	Yes, value depends on savings	Yes, value depends on savings
Can the amount of cover be adjusted?	No	No	Yes
Can the premiums be adjusted?	No	No	Yes
Relative Cost	Less expensive	Expensive	Most Expensive



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# **EXPLORING THE RELEVANCE OF FLYERS AS A MARKETING TOOL – AN EXPLORATORY STUDY**

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## **ABSTRACT**

This paper focuses on flyers, a subcategory of print media, as a promotional integrated marketing communication tool. A correlation between flyer effectiveness and perception was conducted and the one-way ANOVA was used for hypothesis testing. There was a positive correlation between respondents' perceptions of flyers and the effective use of flyers as a promotional tool.

## **INTRODUCTION**

The overload of and easy access to information that is available to consumers have made marketing both interesting, however challenging as well. Marketers have to be creative in the use of traditional and modern promotional tools that are available to them. This means going beyond and above to create awareness which will cut through the clutter to create top-of-mind recall and hopefully translate into continuous sales (Grimshaw, 2010:1). The problem with cutting through the clutter is not just an international phenomenon; but a reality that product and service businesses in South Africa face as well (Grimshaw, 2010:1). Marketers have discovered cheaper and more powerful ways of communicating with consumers such as the United Kingdom grocery giant, IKEA, which now uses Facebook (Fox, 2009).

In South Africa, the advertising agency Primedia Unlimited is constantly striving to make use of traditional and modern promotional tools to increase the profitability of their clientele (Sunday Times, 2011). A recent initiative that the agency embarked on is using small and medium companies' motor vehicles as an effective communication tool, in order to raise awareness of their clients' products or services all over the country (Sunday Times, 2011). In the early 2000s, American marketers even tried what is known as "stealth marketing", which has grown to be

known as guerrilla marketing, in order to get consumers to purchase or use a certain product or service (Eisenberg, McDowell & Berestein, 2002). These are examples of the extremes that marketers need to execute to gain customers. Marketers are now using what is called a “non-advertising form of communication” which comprises product placement, sponsorship, and public relations (Kelly, 2010:3). This tendency questions whether traditional marketing tools such as television, radio and print media can still be used to get a consumer to purchase a certain product or service in the aim of keeping the customer loyal (Grimshaw, 2010:2).

Many studies have been conducted on the use and effectiveness of traditional marketing promotional tools such as television, radio and print media (Event Education, 2011). However, most of the studies have grouped the various print media available together in one category, instead of specifically focusing on each print media tool (Event Education, 2011). This paper specifically focuses on flyers, a subcategory of print media, as a promotional integrated marketing communication tool. The paper aims to investigate if and how flyers can be used as a promotional tool in both product and service businesses. The use of flyers as a promotional tool is examined by exploring the perceptions, effectiveness, design and usage patterns of flyers in order to be an effective promotional tool. The literature section will take a closer look at communication, integrated marketing communication and flyers to gain a background to the problem investigated.

## **LITERATURE REVIEW**

### **The role of communication in marketing**

An important role of marketing communication in marketing is to make consumers aware of a specific product or service that a business has to offer (Bothma, du Plessis, Jordaan and van Heerden, 2005:3). Communication is important in influencing consumer behaviour and importantly the attitudes of these consumers (Bothma, du Plessis, Jordaan and van Heerden, 2005:3). Therefore, the key role of marketing communication is therefore to achieve three main goals, namely to inform, persuade and remind consumers of the business and its offerings (Bothma, du Plessis, Jordaan and van Heerden, 2005:3). However, Davies (2009:4) argues that

communication in the form of an advertisement should do more than persuading, involving, achieving salience, and promoting. It should realise that significance is the new model of communication. Thus, creative communication ideas are methods for growth and confidence for a business to have longevity (Dawson, 2009:64).

### **The Integrated Marketing Communication process (IMC)**

Integrated Marketing Communication allows a business to evaluate their communication in a holistic way, implying that it is not only the product or the service of the organisation that sends a message to the customer. Instead, all the elements of the marketing mix, the location of the organisation, appearance and even the personnel communicate something about the business to the customer at every touch point (Zeithaml, Bitner and Gremler, 2009:24). The outcome of the integration of marketing should be synergy (Ouwensloot and Duncan, 2008:15). This implies that integrated communication enhances a product or services brand message, since the consumer will be hearing one voice from the organisation (Clow and Baack, 2010:33; Duncan 2005:172).

In terms of communicating with consumers, television, radio, print and out-of-home media was once accepted as the only way to communicate with consumers (Scitech, 2011). However, consumers have now changed their media consumption. Generation Y consumers are spending more time using online media channels than television and print. Due to the opportunities and benefits that technology offers, many marketers are now shifting from using traditional marketing communication tools to utilising online media channels (Scitech, 2011; Reynar, Phillips and Heumann, 2010:416). The Internet was said to match the performance of television media in order to create positive word-of-mouth, and positive brand associations of a product. However, Reynar, *et. al.* (2010:417) believe the rise of online marketing communication tools does not mean that offline communication tools should not be used, but rather that these two mediums should be used in conjunction to create positive sales, since an organisation should consider the greater picture. This above statement is also supported by Valos, Ewing and Powell (2010:364).

Due to the continuous growth in the medias that are available to communicate to consumers, marketers will have to keep up with this growth in order to continue to formulate an integrated approach to marketing communication (Christensen, Torp and Firat, 2005:158). Formulating a single, unified message is the only way that consumers will be able to trust an organisation in order to formulate a long-term relationship in which an organisation may capitalise on the consumer through their lifetime value (Christensen, *et. al.* 2005:158). Advertising is one avenue that organisations can utilise to communicate this unified message (Jobber, 2010:467; Davies, 2009:3).

### **Advertising as a functional area of IMC**

To attract attention, inform, persuade and remind the target audience of an organisation's product or service is the purpose of advertising, which is in line with the purposes of marketing communication, which is the purpose of IMC, which is why advertising is part of the IMC mix (Koekemoer, 2004:12). The most important elements of an advertisement are the name, logo, headline, tagline, reasons to believe, call to action and visuals. Marketers must also keep in mind the timing of their advertising campaigns. Some of the best times to advertise are during a recession, just before and during peak buying season, when consumers get paid, and when competitors don't have competitive product offerings, just to mention a few (Callen, 2010:34, Geuens, De Pelsmacker and Van den Berg, 2001:25).

### **Flyers as a promotional tool**

Advertising media can be broadly placed in two types of advertising media. These two types are broadcast and print. Broadcast includes radio and television advertisement. Print on the other hand includes magazines, newspapers, brochures, posters and flyers (Brennan, Canning & McDowell, 2008:181). Flyers are a form of advertising media that an organisation can use as a promotional tool in their marketing communication strategy. A flyer is the "synonym advertising circular", since flyers are marketing promotional tools that are intended to be distributed and circulated. The main advantage of flyers is that they can be located and distributed in whichever geographical location the target market may be. Flyers can be distributed in several ways, either

handed out on the street, mailed to the target market, or even stuck in different locations like posters (Callen, 2010:185).

Flyers are used predominantly in the retail industry and are thus called store flyers. These flyers are used to promote certain products which might be new or reduced in price. In the United States of America retailers put aside \$8 billion for printed advertising both in newspaper and store flyers, whilst in France it is said to be even higher (Chabaane, Sabri and Parguel, 2010:475). Flyers, just like the other IMC tools, are there to attract a consumer's attention. This is by the choice of pictures, brand used on the flyers and the information on the flyer. Retailers normally promote a variety of brands in one store flyer. These brands are sometimes competitive brands, however interestingly; a study conducted in France indicated that the use of competitive brands on one store flyer has no negative effect on the different brands. It enhances the purchase of a consumer's preferred brand (Chaabane, *et al.* 2010:479).

### **The importance of flyers**

The use of store flyers can in part be ascribed to the fact that it is a means of promotion that provides a much quicker response than traditional advertising media (e.g., newspapers or magazines). Store flyers allow retailers to include more product categories and brands compared to other advertising media, and allow retailers to market their own brands (Gázquez-Abad & Pérez, 2006:19-20). Flyers provide an important source of revenue for distributors such as retailers. Revenue is created by charging manufacturers a fee to place their brands on distributors' flyers (Gázquez-Abad & Pérez, 2006:19-20). Brands that are promoted using flyers, increase their sales by 175 % (Gázquez-Abad & Pérez, 2006:20). Brands in a store flyer are more effective than promoting them in price. Marketers believe this can possibly be attributed to consumers' belief that all products appearing on the flyers are promoted in price. These results confirm the relevance of flyers within the promotional strategy (Jones, Comfort, & Hillier, 2011:941).

As a retailer-specific medium, flyers impose additional tasks on the retailer, such as planning the layout, composition and distribution of the store flyer feature promotions (Gijbrecchts, Campo & Goossens, 2003:1).



Based on the advertising literature, more extensive store flyers can be expected to be more easily noticed by consumers. The more pages a store flyer has the more likely it becomes that consumers will find items that attract them to the retailers store (Gijsbrechts, *et. al.*, 2003:5). The retailers need to understand as well that, value of featured promotions may determine whether and how much attention is paid to the store flyer (Gijsbrechts, *et. al.*, 2003:5).

In an attempt to cope with information overload, consumers will either use the flyer size or the promotional amount. Consumers determine whether information on the flyer is worthy of their attention using these two factors. In addition, store flyers offering deeper discounts provide a stronger incentive to visit the store and/or to adjust in-store buying behaviour (Mulhern & Leone, 1990). Thus, flyers are an attractive way to capture consumers' attention through price at a low budget for the business if one has sufficient resources to do so (Williams & Zinkhan, 2007:286).

### **Flyer design**

The designing of a flyer is an important process. A flyer needs to ensure that the message and visuals on the flyer are consistent with an organisation's objective and purpose for the IMC plan to ensure a focused IMC strategy. Based on the advertising literature, more extensive store flyers can be expected to be more easily noticed by consumers. The more pages a store flyer has the more likely it becomes that consumers will find items that attract them to the retailers store (Gijsbrechts, *et. al.*, 2003:5). The retailers need to understand as well that, value of featured promotions may determine whether and how much attention is paid to the store flyer (Gijsbrechts, *et. al.*, 2003:5). A flyer's heading or title is what "calls to action" the target market. Marketers must formulate a creative heading or title that will call to action the target segment (Callen, 2010:185). Once the heading or title has been drafted, the marketer must once again look at the needs and wants of his target audience by conducting market research. By conducting this research a marketer is able to play with imagery and wording of the flyer to make it more attractive to the target market.

Guidelines to making a flyer call action are that not more than two or three fonts may be used and that sentences must not be too long. This is because different fonts would confuse the customer and long sentences would diminish a consumer's concentration level. A rough sketch should be outlined in order for the marketer to visualise the flyer before moving onto the creative

phase of the plan. A flyer must focus on the key selling point of an organisation and there must be a contact person somewhere, where a consumer can take action and purchase a product or service (Callen, 2010:185; Paul, Redman & Sanson-Fisher, 2003:183).

When using imagery it has been proven that a large image is more eye-catching to the receivers of flyers than a small image. However, if marketers do need to use smaller images it is more effective if these small pictures are grouped. Since, the main aim of flyers and IMC is to gain the consumers attention for them to remember a product or service, which can translate into recall and finally sales this is the desired result of a well-designed flyer (Tech-FAQ, 2011).

Flyers are used to impress customers and the other promotional tools are used in addition if necessary. Williams and Zinkhan (2007:285) states that in current times flyers are the 'best and most effective business marketing promotional tool'. This is once a business has observed and analysed its internal and external environments and capabilities.

## **PROBLEM INVESTIGATED**

Flyers are one promotional tool that is used in integrated marketing communication. Flyers are classified in the literature under the general term print media. Print media not only encompasses flyers, but represents newspapers and magazines in many organisations' budgets. Globally, there is a decline in the use of traditional marketing communications tools as a form of communication with consumers. Marketers are faced with the challenge of keeping up with consumers' needs and being able to deliver products and services consumers seek in order to fulfil specific needs and wants. Therefore, due to globalisation and the penetration of the internet, marketers have to find new and interesting ways to capture their target audience. However, businesses still use flyers as a promotional marketing tool to inform consumers about products and services. Therefore, an investigation into how and if flyers can be used as a promotional tool in a business is appropriate due to the uncertainty of traditional marketing tools as a form of communication.

## **RESEARCH OBJECTIVES**

The following objectives were formulated:

### **Primary objective**

To investigate if and how flyers can be used as a promotional tool in product and service businesses.

### **Secondary objectives**

- Determine the correlation between the perceived effectiveness and perception of flyers as a promotional tool
- Establish significant differences based upon respondents' exposure to flyers as a promotional tool
- Determine significant differences between positive experience and exposure of flyers as a promotional tool
- Determine the general perceptions regarding the design of flyers
- Determine the specific perceptions regarding flyer design for products
- Determine the specific perceptions regarding flyer design for services
- Determine the exposure of respondents to flyers

## **RESEARCH HYPOTHESES**

A hypothesis is a proposition that can be accepted and rejected through empirical testing of the predictions made (Zikmund, 2003:44). From the problem statement a number of hypotheses were formulated stating, that a relationship exists amongst variables.

HA1: There is a positive correlation between respondents' perceived effectiveness of flyers as a promotional tool and the extent to which they have positive perceptions about flyers.

HA2: There are significant differences between the usage patterns of respondents regarding the perceived effectiveness of flyers as a promotional tool in terms of how often they are exposed to flyers at a traffic light.

HA3: There are significant differences between the usage patterns of respondents regarding the perceived effectiveness of flyers as a promotional tool in terms of how often they are exposed to flyers in a mailbox.

HA4: There are significant differences between the usage patterns of respondents regarding the perceived effectiveness of flyers as a promotional tool in terms of how often they are exposed to flyers in a newspaper.

HA5: There are significant differences between the usage patterns of respondents regarding the perceived effectiveness of flyers as a promotional tool in terms of how often they are exposed to flyers at the entrance of a shop.

HA6: There are significant differences between groups of respondents regarding the perceived effectiveness of flyers as a promotional tool in terms of when they are exposed to flyers.

## **RESEARCH METHODOLOGY**

The study is quantitative and descriptive in nature, since the paper describes flyer consumption habits and how to effectively use flyers as a promotional tool. The study is descriptive since there is a clear problem statement confirming that the use of flyers as a promotional tool in South Africa remains unclear and unexplored (Churchill and Iacobucci, 2005:122; Churchill and Brown, 2004:215). From this problem statement specific hypotheses were formulated and the design of the study is structured and formal. The target population included all South Africans who have been exposed to a flyer in the last six months in the Gauteng Province. Non-probability sampling techniques were used in the form of convenience sampling. The convenience sampling method was used and personalised interviews were conducted to interview 265 respondents for the study.

An interview-administered survey was used to collect data from respondents. Structured direct questions were used to obtain responses. The questionnaire measured the effectiveness of flyers as a promotional tool and investigated how flyers should be used as a promotional tool. Data was collected in the Gauteng Province, since it represents both the largest concentration of business as well as population diversity in South Africa. The questionnaire consisted of two sections, A and B. The first section of the questionnaire specifically determines the use of flyers as a

promotional tool. The statements were asked using non-comparative scaling techniques in the form of itemised rating scales, the Likert scale. The Likert scale that was used was a five-point Likert scale with the two endpoints being 'strongly agree' and 'strongly disagree' (Malhotra, 2010:209, Zikmund and Babin, 2007:303). One balanced scale was used and respondents were asked to rank the top three ways for using flyers. One open-ended question was used to gain suggestions from respondents on how to use flyers more effectively. The succeeding section of the questionnaire specifically focused on biographic information. The questionnaire was pretested and analysed by external individuals to check for any mistake before the final draft was handed out to the sample group (Churchill and Iacobucci, 2005:357, Zikmund, 2003:186).

Reliability and validity are characteristic of good measurement and vital to assessing the trustworthiness of any research conducted. Reliability tests whether the questionnaire will measure the same thing more than once and result in the same outcome every time. The extent to which a particular measure is free from both systematic and random error indicates the validity of the measure (Cant, Gerber-Nel, Nel and Kotze 2005:54, Churchill and Brown, 2004:220). Statistical analysis was conducted and SPSS, a statistical programme was used to conduct this analysis. Descriptive frequencies were analysed. These included frequency, percentages, means and standard deviations of the sample profile; and statements measuring the effectiveness and perception of flyers as a promotional tool. A correlation between flyer effectiveness and perception was conducted and the one-way ANOVA was used for hypothesis testing (Pallant, 2010:265).

## **FINDINGS**

### **Distribution of results**

The normality of the distribution of the results of each scale item was determined in order to determine whether parametric or non-parametric tests should be used to test the hypotheses formulated. The distribution of results can be considered normal if the it exhibits a skewness of less than an absolute value of 2.00 and the kurtosis of the distribution of the distribution of less than 7.00 (Malhotra, 2010:405). All scale items used fall within these parameters. Based on this

fact and the fact that the sample size is relatively large (n=265), parametric tests were considered suitable for hypotheses testing.

### **Reliability and validity**

Reliability is defined as the similarity between results when measuring independent but similar elements of the same construct, and validity is explained as the extent to which differences among individuals or groups reflect true differences in differing situations (Churchill and Iacobucci, 2005:591, Gilbert, Churchill and Iacobucci, 2002:271, Martins, Loubser and Van Wyk, 2002: 344). Cronbach’s Alpha was used to calculate the reliability of the measurement sets used in the study. According to Malhotra (2010:319), the Cronbach Alpha can take on values between 1 and 0, however the closer the value is to 1, the greater the reliability of the scale. Furthermore, if the Cronbach Alpha is less than 0.6, the scale is said to be unreliable (Malhotra, 2010:319). Table 1 indicates the Cronbach Alpha value for each measurement set used in the paper.

The Cronbach Alpha’s results obtained are all above the acceptable point of 0.6, indicating that the questionnaire can be seen as reliable. In addition, the questionnaire had been used in previous studies, as well as the fact that the questionnaire was pretested before fielding took place. This ensured that the questionnaire was valid.

**Table 1: Reliability of the measurement sets used in the study**

<b>Measurement Set</b>	<b>Cronbach’s Alpha</b>
Effectiveness of flyers as a promotional tool (4 scale items)	0.837
Perception of flyers as a promotional tool (5 scale items)	0.608

## **Discussion**

### **Effectiveness of flyers**

The majority of the respondents agree with the items measuring the effectiveness of flyers as a promotional tool. 39.6% of the respondents agreed with the statement “*Flyers encourage me to enquire about the products/services advertised*” (mean= 3.38 standard deviation= 1.213). This statement rated the highest measuring the effectiveness of flyers. 31.7% of the respondents agreed with the statement “*Flyers prompt me to buy the products/services advertised*” (mean=3.24 standard deviation= 1.220). This statement rated the lowest in measuring the effectiveness of flyers as promotional tools. This indicates that flyers do not necessary encourage customers to buy specific product/services.

### **Perception of flyers**

The majority of the respondents (30.9%) disagree with the statement “*I prefer flyers above other advertising methods*” (mean=3.46 standard deviation= 1.280). The majority of the respondents, however, agreed with the rest of the four items measuring the perceptions of flyers as a promotional tool. 48.3% of the respondents agreed with the statement “*Flyers have useful information about products/services*” (mean=4.06 standard deviation= 0.764). This statement rated the highest. 31.7% of the respondents agreed with the statement “*I prefer flyers as I can keep it till needed*” (mean=3.29 standard deviation= 1.183). This statement rated the lowest in measuring the perceptions regarding flyers as a promotional tool. People might regard the information of flyers as useful but will not keep the flyers until the information is needed.

### **Flyer design**

#### **General perception regarding flyer design**

The majority of the respondents (27.2%) disagree with the statement “*I prefer flyers with writing on one side only*” (mean=3.08 standard deviation= 1.15). The majority of the respondents

(35.5%), however, were neutral to the statement “*the lettering on the flyer must be in capitals*” (mean=3.38 standard deviation=1.11), as well as the statement “*I only read flyers where the special price is in larger print in bold*” (mean=3.59 standard deviation=1.09). Respondents strongly agreed or agreed to the rest of the items measuring the general perceptions regarding the design of flyers. 49.1% of the respondents strongly agreed with the statement “*The headline of the flyer must be eye catching*” (mean=4.24 standard deviation=0.91). This is the highest rated statement. 26% of the respondents strongly agreed with the statement “*I prefer a smaller size flyer that can be put in my wallet*” (mean=3.43 standard deviation=1.27). This is the lowest rated statement.

### **Specific perceptions regarding flyer design for services**

The majority of the respondents strongly agreed or agreed to the items measuring the perceptions regarding the design of flyers for service. 50.9% of the respondents indicated that they agreed with the statement “*The main services offered by the company must be stated*” (mean=4.09 standard deviation=0.83). 34.3% of the respondents indicated that they agreed with the statement “*A brief overview of the company must also be given*” (mean=3.78 standard deviation=1.1).

### **Specific perceptions regarding flyer design for products**

The majority of the respondents strongly agreed to the items measuring the perceptions regarding the design of flyers for products. 49.4% of the respondents indicated that they strongly agree with the statement “*The product details e.g. features, price, etc. must be clearly indicated*” (mean=4.38 standard deviation=0.7). 42.6% of the respondents indicate that they strongly agree with the statement “*Colour pictures of the products must be shown*” (mean=4.2 standard deviation= 0.85).

## **ACCEPTANCE OR REJECTION OF HYPOTHESES**

The following section is dedicated to providing the results that are related to the hypotheses set for the paper. The Pearson product moment correlation coefficient was used to determine



whether a correlation existed between respondents' perceived effectiveness of flyers as a promotional tool, and the extent to which they have positive perceptions about flyers.

In this paper, a p-value of  $< 0.05$  represents a significant level where the variables have an effect on each other. Should the significance level be  $< 0.05$ , the researcher needs to examine the correlation coefficient in order to determine the strength of the correlation between the variables (Pallant, 2010:128; Eiselen, Uys and Potgieter, 2005:70).

### Hypothesis 1

HA1: There is a positive correlation between respondents' perceived effectiveness of flyers as a promotional tool and the extent to which they have positive perceptions about flyers. From Table 2 below it can be seen that the p-value  $\leq 0.000$ , which indicates a significant correlation between flyer effectiveness and flyer perception can be observed. When examining the correlation coefficient it can be noted that there is a strong correlation between flyer effectiveness and flyer perception as Pearson product moment correlation co-efficient = 0.702.

**Table 2: Pearson Correlation between flyer effectiveness and perception**

<b>Correlations</b>			
		<b>Flyer perception</b>	<b>Flyer effectiveness</b>
Flyer perception	Pearson Correlation	1	0.702**
	Sig. (2-tailed)		0.000
	N	257	250
**. Correlation is significant at the 0.01 level (2-tailed).			

### Hypothesis 2

HA2: There are significant differences between the usage patterns of respondents regarding the perceived effectiveness of flyers as a promotional tool in terms of how often they are exposed to flyers at a traffic light or robots. The p-value of 0.007 is evidence of a significant difference between at least two means, since the p-value is below the cut-off point of 0.05. According to the

Homogeneity of Variance test the p-value for flyer effectiveness is 0.000 which is less than 0.005. Hence, the Dunnett's T3 Post-Hoc test is the most appropriate test to use (Pallant, 2010:249). Table 3 illustrate the above. Respondents indicated that they often (58.1%) received flyers at traffic lights, followed by responses of sometimes (23.8%) and then seldom (9.1%). According to the Dunnett's T3 Post-Hoc test, there is a significant difference in respondents' perceptions regarding the effectiveness of flyers when they received them sometimes (mean=3.68), compared to seldom (mean=3.07) and often (mean=3.35).

**Table 3: The one-way ANOVA results for flyer effectiveness and perception in terms of their exposure at traffic lights**

ANOVA						
		Sum of Squares	df	Mean Square	F	Sig.
Flyer effectiveness	Between groups	10.027	2	5.014	5.139	0.007
	Within groups	225.388	231	0.976		
	Total	235.416	233			

### Hypothesis 3

HA3: There are significant differences between the usage patterns of respondents regarding the perceived effectiveness of flyers as a promotional tool in terms of how often they are exposed to flyers in a mailbox. The p-value 0.072 is evidence of no significant difference between at least two means, since the p-value is below the cut-off point of 0.05 in terms of flyer effectiveness. According to the Homogeneity of Variance test the p-value for flyer effectiveness is 0.336 which is higher than 0.005. Hence, the Scheffe Post-Hoc test is the most appropriate test to use (Pallant, 2010:250). Respondents indicated that they often (31.7%) received flyers in a mailbox, of which the response was the same as sometimes (31.7%) and then seldom (19.6%). According to the Scheffe Post-Hoc test, no significant difference exists amongst the means of at least two groups for flyer effectiveness.

#### **Hypothesis 4**

HA4: There are significant differences between the usage patterns of respondents regarding the perceived effectiveness of flyers as a promotional tool in terms of how often they are exposed to flyers in a newspaper. The p-value of 0.049 is evidence of the significant difference between at least two means, since the p-value is below than the cut-off point of 0.05. According to the Homogeneity of Variance test the p-value for flyer effectiveness is 0.471 which is higher than 0.005. Hence, the Scheffe Post-Hoc test is the most appropriate test to use (Pallant, 2010:250). Some respondents indicated that they often (41.1%) received flyers in a newspaper, which was followed by sometimes (34.3%) and then seldom (8.7%). According to the Scheffe Post-Hoc test, there is a significant difference in terms of flyer effectiveness between when respondents receive flyers often (mean=3.16) and when they seldom (mean=3.71) receive flyers.

#### **Hypothesis 5**

HA5: There are significant differences between the usage patterns of respondents regarding the perceived effectiveness of flyers as a promotional tool in terms of how often they are exposed to flyers at the entrance of a shop. The p-value of 0.265 is evidence of no significant difference between at least two means since the p-values are above than the cut-off point of 0.05. According to the Homogeneity of Variance test the p-value for flyer effectiveness is 0.727 which is higher than 0.005. Hence, the Scheffe Post-Hoc test is the most appropriate test to use (Pallant, 2010:250). Respondents indicated that they sometimes (32.8%) received flyers at the entrance of a shop, which was followed by often (32.1%) and then seldom (21.5%). According to the Scheffe Post-Hoc test, there is no significant difference in flyer effectiveness in terms of how often respondents are exposed to flyers at the entrance of shops.

#### **Hypothesis 6**

HA6: There are significant differences between groups of respondents regarding the perceived effectiveness of flyers as a promotional tool in terms of when they are exposed to flyers. The p-value of 0.004 is evidence of the significant difference between at least two means, since the p-

values are below the cut-off point of 0.05. According to the Homogeneity of Variance test the p-value for flyer effectiveness is 0.002 which is less than 0.005. Hence, the Dunnett's T3 Post-Hoc test is appropriate for flyer effectiveness (Pallant, 2010:249). Respondents indicated that they received flyers mostly during weekdays (44.2%) followed by weekends (20.4%) and with public holidays being the least likely day to receive a flyer (4.5%). According to the Dunnett's T3 Post-Hoc test there is no significant difference between week days, weekends, and public holidays. However, there is a significant difference between when respondents receive flyers at the end of the month and when respondents "don't know" when they receive in terms of flyer effectiveness.

## SUMMARY OF THE RESULTS OF THE HYPOTHESIS TESTING

Table 5 provides a summary of the hypotheses tested above. The summary of the results of the hypotheses testing discussed above, exhibits that the majority the hypotheses was supported by the data.

**Table 5: Summary of the results of hypotheses testing**

Hypothesis	Statement	p-value	Results
<b>H<sub>1</sub></b>	There is a positive correlation between respondents' perceived effectiveness of flyers as promotional tool and the extent to which they have positive perceptions toward flyers.	0.000	Accepted
<b>H<sub>2</sub></b>	There are significant differences between the usage patterns of respondents regarding the perceived effectiveness of flyers as a promotional tool in terms of how often they are exposed to flyers at a traffic light.	0.007	Accepted
<b>H<sub>3</sub></b>	There are significant differences between the usage patterns of respondents regarding the perceived effectiveness of flyers as a promotional tool in terms of how often they are exposed to flyers in a mailbox.	0.072	Rejected
<b>H<sub>4</sub></b>	There are significant differences between the usage patterns of respondents regarding the perceived effectiveness of flyers as a promotional tool in terms of	0.049	Accepted

	how often they are exposed to flyers in a newspaper.		
<b>H<sub>5</sub></b>	There are significant differences between the usage patterns of respondents regarding the perceived effectiveness of flyers as a promotional tool in terms of how often they are exposed to flyers at the entrance of a shop.	0.265	Rejected
<b>H<sub>6</sub></b>	There are significant differences between groups of respondents regarding the perceived effectiveness of flyers as a promotional tool in terms of when they are exposed to flyers.	0.004	Accepted

## MANAGERIAL IMPLICATIONS

### Flyers as a promotional tool

It is recommended that businesses utilise flyers as a promotional tool only to supplement other promotional advertising tools, since the study found that a low percentage of the respondents prefer flyers above other advertising methods. To build trust between consumers and businesses flyers are recommended since respondents perceive flyers as a credible promotional tool. Flyers are also perceived to be effective because unlike other promotional tools, flyers can be kept till needed, which assists in constantly reminding consumers of a business's product or services. However, to build on trust or for consumers to retain flyers for later use businesses need to adhere to guidelines that will be recommended for flyer design and the information. Businesses should also consider who, when and where flyers are distributed since this does effect perceptions of flyers.

### Flyer design

There were a number of issues that the design of a flyer should address in order to be effective and be perceived positively. It is important that businesses use text writing on the flyer that is in an easy –to- read size should they want to use flyers as an effective promotional tool to meet

their marketing objectives. Consumers will not be interested in the content contained in a flyer should the heading not be eye catching. Thus, the heading of a flyer should be interesting and make a consumer want to know or enquire more about the business. It is recommended that businesses use both text and pictures when designing a flyer; the reason being that it provides a greater amount of infirmity and clarity. Both the empirical findings and literature state that consumers prefer to the read and visually see information on flyers.

The writing on flyers should not only be one size, since, this does not interest the consumers in enquiring more about the business. The size of a flyer should allow the flyer to fit into the wallet of an individual. This is because consumers would like to use flyers as a quick reference or reminder of the businesses offering. Quality paper must be used when printing a flyer since this influences the perception of the individual regarding the image of the business.

The needs of the target market to which the flyer is aimed at should be addresses. This includes the size of the flyer, the colour scheme used, the information provided on the flyer and the use of graphics and wording. Businesses should print their flyers on colour paper. Colour is one of the design elements that increase the effectiveness of flyers as a promotional tool. It is also important that the product/service details that are being advertised are clearly indicated by a business. Product businesses need to ensure that pictures are used in flyers and that these pictures should be in colour in order to interest the consumer. Information on the flyer that include details such as the address and contact details of the business, the name and surname of the contact person, as well as information that is to be communicated to the final consumer should be provided. When businesses display their details, they should provide a website where consumers can engage further with the businesses offerings. The use of a website would also align a product business with the current and future of promotional tools which comprise of digital platforms.

### **Product and service businesses**

According to the paper it is recommended that flyers are used in both product and service businesses to describe emergency information and commercial specials. The reason for this is that the majority of the respondents indicated that flyers are useful in communicating both these pieces of information. Product and service businesses can utilise flyers as a promotional tool to advertise, since flyers assist in the creation of awareness for products or services of a business.

Flyers also stimulate consumers to engage in a trial usage of a product or service. Flyers also allow for consumers to refer others to the product or service business. Thus, product or service businesses could increase their referral marketing by encouraging consumers to share flyer information in exchange for a discount displayed on the flyer. Referral marketing would be a cheap form of maintaining and gaining potential customers for businesses to increase sales and thereby profits. It is important that the product/service details that are being advertised are clearly indicated by a business. Product businesses need to ensure that pictures are used in flyers and that these pictures should be in colour in order to interest the consumer. Information on the flyer that include details such as the address and contact details of the business, the name and surname of the contact person, as well as information that is to be communicated to the final consumer should be provided. When businesses display their details, they should provide a website where consumers can engage further with the businesses offerings. The use of a website would also align a product business with the current and future of promotional tools which comprise of digital platforms.

### **General guidelines to service businesses**

There were a number of issues that service businesses need to adhere to in order to be effective and be perceived positively. In order for a flyer to be perceived in a positive way and be an effective promotional tool, it is highly recommended that the main services of the business be clearly stated on a flyer. This will allow for a consumer to have the right information about the service business. This is important since the more information a consumer has about a service business, the lower the perceived risk of purchasing that service. The benefits to the consumer of the service business should be clearly stated, a factor which relates to the above point about information contained in a flyer. A business needs to ensure that they provide the contact details of the business, including the physical address on a flyer. This will assist the business in being perceived in a positive way. When a business displays their details, they should also provide a website where consumers can engage further with the businesses offerings. Use of a website would also align a product with the current and future of promotional tools which comprise of digital platforms.

## **CONCLUSION**

This research succeeded in identifying if and how flyers can be used as a promotional tool in a business. This was done by measuring both flyer effectiveness and flyer perception. It can be concluded that there are significant differences in the perceptions that exist of flyers as a promotional tool. There are furthermore also differences in the effectiveness of flyers as a promotional tool in terms of where, when, and how often respondents receive flyers.



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**THE RELATIONSHIP OF VISITORS' EXPERIENCE AND LIFE DOMAINS:  
THE CASE STUDY OF A SOUTH AFRICAN WINE FESTIVAL**

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**ABSTRACT**

The article determined the relationship between a festival experience and life domains of wine tourists based on a survey conducted at the Wacky Wine Festival. A non-probability sampling method was followed, conducting a convenience sample technique. A self-administrated questionnaire was distributed at wineries included. A total of 329 eligible questionnaires were collected.

The data was analysed in SPSS 17.0 comprising several stages. These stages included descriptive statistics, Bartlett's test of Sphericity and the Kaiser-Meyer-Olkin (KMO), exploratory factor analysis and correlation coefficients. Wine tourists are satisfied with the festival; influencing life domains and overall life positively. Results signified that correlations do exist between various life domains and overall life; as well as life domains and satisfaction with the festival. Findings will assist festival managers and marketers in providing wine tourists with what are expected; taking into consideration various life domains. This will create wine tourist satisfaction, future loyalty to the festival; as well as increased sales for the festival and regional wineries. Therefore, sustainability of the festival will be affected.

**Keywords:** Marketing, Wine Festival, Expectancy disconfirmation paradigm, Life Satisfaction

## **INTRODUCTION**

Internationally, ever-increasing numbers of cities, towns and villages are enthusiastic about sharing their customs, natural or built environments and local produce with visitors through the staging of festivals (McKercher & Du Cros, as cited by Visser, 2005:155). This premise is supported by Gursoy, Kim and Uysal (2004: 171); and Thrane (2002:281) indicating that festivals have recently been considered as one of the fastest growing tourism attractions and are described as a worldwide phenomena (Prentice & Andersen, 2003:8). Currently, at least 211 annual festivals take place in South Africa, with the Western Cape Province hosting 40 percent (n=84) of all annual festivals held in the country (Visser, 2005:165); indicating wine festivals as the strongest festival type (Visser, 2005:170).

The Wacky Wine Festival is one of South Africa's biggest regional wine festivals hosted by the Robertson wine valley in the Western Cape Province. The festival takes place at various wine cellars included in the festival weekend and offers a variety of food, wine, arts, culture and other related wine and/or community activities for the tourist, according to individual choices (CapeTownMagazine.com, 2009). The Wacky Wine Festival offers an extensive variety of wine, as well as tourism products and services to the wine tourists, and allows the opportunity to have a total experience. As stated by Carlsen (2004:5), wine, food, tourism and the arts are collectively the core elements of the wine tourism product and provide the lifestyle package that wine tourists aspire to and seek to experience. As noted by Beames (cited in Yuan, 2004:2), the changing trends and motivations in travel have transformed wine tourism, in this case a wine festival, into more of a lifestyle and personal experience than a mere primary recreational pursuit.

The aim of the article is to explore the relationship between wine tourists' festival experience and life domains. In order to determine this relationship, the article will discuss literature related to the research problem. This will be followed by a description of the survey that was conducted, as well as a discussion of the results. Thereafter, the implications and conclusions with regard to the research will be discussed.

## **PRELIMINARY LITERATURE REVIEW**

The number of theoretical and empirical studies of festivals has been growing swiftly (Gursoy *et al*, 2004:172). However, in a South African context, despite the dramatic increase in the number

of annual festivals, there still appears to be a relatively small and disparate literature on the subject (O'Sullivan & Jackson, as cited by Visser, 2005:156). Gursoy *et al.* (2004:171) and Thrane (2002:281) added that researchers have also been very slow in directing research away from economic impacts and motivations in the South African tourism environment. However, knowledge of tourist psychology is extremely important in determining the success of a tourism destination (in this case the Wacky Wine Festival) (Del Bosque & Martin, 2008:551).

According to Steyn, Saayman and Nienaber (2004:97), tourists visit a destination to have a unique experience. Therefore, the main aim of the tourism industry and of the various service providers is to create an environment in which to facilitate the optimal positive experience for the tourists, in addition to developing a sense of quality in visitor experience (Murphy, Pritchard & Smith, 2000:44). As indicated by De Rojas and Camarero (2008:525), visitors seek a total experience, including leisure, culture, education and social interactions. The total tourism experience consists of the combination of the interrelationship between quality, satisfaction and value (Chen & Tsai, 2007:1115). A tourist brings vague expectations of emotional outcomes, and satisfaction emerges over the period of the whole festival. This satisfaction is also interpreted within the broader context of the tourists' life (Morgan, 2006:307) with reference to various life domains (influencing general Life Satisfaction). It is therefore important for tourism managers to aim at delivering a quality service and to develop strategies to improve the service performance from the tourists' point of view (Obenour, Patterson, Pedersen & Pearson, 2004:35); as the tourism experience will influence tourists' life.

The expectancy disconfirmation paradigm will be reviewed to understand how tourist satisfaction is obtained. The expectancy disconfirmation paradigm conceptualises service quality as the difference between that which a consumer expects to receive and their subsequent perception of the actual service delivery. Satisfaction occurs when a product performance exceeds some form of standard or expectations, while dissatisfaction occurs when performance falls below this standard or expectation (O'Neill, Palmer, & Charters, 2002:343; Yu & Goulden, 2006:1333; Bowen, 2001:51; Lin, 2007:112; De Rojas & Camarero, 2008:2; Baker & Crompton, 2000:787; Morgan, 2006:307; Huh, 2002:ii; Truong & Foster, 2006:843; Akama & Kieti, 2002:75; Del Bosque & Martin, 2008:553; Huang & Chiu, 2006:158). Satisfaction is therefore related to how much a tourist likes or dislikes a product or service after experiencing it (Truong

& Foster, 2006:843), and when compared to their expectations. Satisfaction with the tourism products and services will in turn have an influence on numerous life domains, leading either to the enhancement of, or to the detraction from, the overall Life Satisfaction of the wine tourists. It is therefore important to recognise that people engage in tourist and travel activities to satisfy physical as well as psychological needs (Steyn *et al.*, 2004:98), and indicates the importance to determine the relationship between the festival experience and life domains.

According to Sirgy, Kruger, Lee and Yu (2010:3) and Singley (2005:4), few studies have been conducted in travel and tourism that link tourist satisfaction with a tourism service on a specific trip with Life Satisfaction. In order to understand Life Satisfaction and related concepts, the theoretical framework will be derived from the hierarchy model of Life Satisfaction, also known as the Bottom-up Spill-over theory. The basic premise of the hierarchy model is that Life Satisfaction is influenced by evaluation of major life domains. The affect within a life domain spills over vertically to the most super-ordinate domain; life in general; thus determining Life Satisfaction. Overall Life Satisfaction is conceptualised as being determined by satisfaction with each life domain (Neal, Sirgy & Uysal, 1999:156; Sirgy *et al.*, 2010:5; Rojas, 2006:469). Life Satisfaction is therefore described as a predictor of, as well as an outcome of, domain specific Life Satisfaction (Singley, 2005:1; Neal, 2000:1; Sirgy *et al.*, 2010:3; Nealet *et al.*, 1999:156; Rojas, 2006:469). As noted by Singley (2005:3) and by Rojas (2006:467), a number of studies have shown a moderate-to-strong relationship between domain specific and overall Life Satisfaction. This is also supported by Neal, Sirgy and Uysal (as cited in Del Bosque & Martin, 2008:552) indicating that tourist experiences contribute significantly to Life Satisfaction.

Due to the nature of the tourism product/service, a travel trip can have an influence on more than one life domain; and in collaboration with various life domains, determines overall Life Satisfaction. As stated by Sirgy *et al.* (2010:4), satisfaction with tourism services plays an important role in Life Satisfaction. Sirgy *et al.* (2010:2) indicates that the perceived impact of travel and tourism experiences contributes to satisfaction in important life domains. It particularly refers to the events occurring on a tourist trip that contribute to either a positive or a negative affect in various life domains which in turn spill over to life overall (Sirgy *et al.*, 2010:5). Sirgy *et al.* (2010:9) identified the following life domains in which travel and tourism play a vital role to determine overall Life Satisfaction: *Social life, Leisure and recreation life,*



*Family life, Love life, Arts and culture, Work life, Health and safety, Financial life, Spiritual life, Intellectual life, Self, Culinary life and Travel life.*

The demand for wine tourism is driven by a desire to purchase wine, an interest in learning more about wine, opportunities for social interaction, and possibly, for health reasons (Sparks, 2007:1181). This is also supported by Dodd stating (cited in Bruwer, 2003:423) that wine is a beverage related to relaxation, communing with others, is complementary to food consumption, learning about new things, as well as hospitality. Furthermore, a wine festival, as a leisure activity, provides the opportunity for relaxation, entertainment and personal development (Gilbert & Abdullah, 2004:104; Andereck & Jurowski, 2006:138). Given the latter, it can be seen that a wine festival, in collaboration with service quality, can have an influence on more than one life domain, contributing to the overall Life Satisfaction of the wine tourist. As reported by Donovan *et al.* (Ateca-Amestoy *et al.*, 2008:65), there is some evidence of the impact of leisure activities on leisure satisfaction and general satisfaction. Concerning the above, the life domains influenced by a wine festival, specifically for the purpose of this study, will include the social-, leisure and recreation-, intellectual-, culinary- and travel life domain; as well as life overall. Tourism (in this case, a wine festival) is therefore a mentally and physically healthy pursuit to follow in leisure time, and hence is a factor to increase overall Life Satisfaction (Gilbert & Abdullah, 2004:104; Carmichael, 2006:116; Andereck & Jurowski, 2006:138).

Studies with regard to festivals in the South African context are limited, with the literature study also indicating that fewer studies have been conducted signifying the relationship between satisfaction with a travel trip and overall Life Satisfaction, thus capturing a psychological perspective to the tourism experience. This current study will thus assist wine festival organisers to identify and foresee the needs of the tourist in order to enhance their overall Life Satisfaction, as well as ensuring tourist satisfaction and future loyalty to the festival. Therefore, the primary focus of the article is to determine the relationship between wine tourists' festival experience and various life domains. The next section will discuss the method that was applied to conduct the research, as well as presenting the results of the study.

## **Purpose**

The majority of studies, with reference to festivals, focus on economic impacts and travel motivations regarding tourism literature. While, fewer studies have been conducted in tourism linking tourist satisfaction with Life Satisfaction. Therefore, the purpose of this article is to determine the relationship between visitors' experience and life domains, contributing to Life Satisfaction of the attending wine tourist.

## **ENVISAGED RESEARCH DESIGN AND METHODOLOGY**

Descriptive research was conducted by means of a visitor survey. The questionnaire was developed based upon literature related to the topic. Fieldworkers were selected from the North West University, Potchefstroom campus, affiliated to the Tourism Management Program. Fieldworkers were briefed on the objective of the study as well as the sampling method to be used. The survey followed a non-probability sampling method, conducting a convenience sample technique.

The questionnaire consisted of three sections comprising questions related to Life Domains (Section A), Satisfaction with the festival (Section B); as well as Geo-demographic and Psychographic information (Section C). Section A and B made use of a Likert scale presenting the following values: 1 – Strongly disagree; 2 – Disagree; 3 – Neutral; 4 – Agree; 5 – Strongly agree. Section C made use of closed ended questions.

The self-administrated questionnaire was subsequently distributed at various wineries included in the Wacky Wine Festival hosted by the Robertson valley in the Western Cape province of South Africa. A total of 350 questionnaires were distributed at the festival of which 329 completed questionnaires were used for data analyses. The questionnaire was pre-coded where possible for the ease of data capturing. After completion of the survey the data was cleaned, captured and analysed using SPSS 17.0 (SPSS Inc., 2009). While there were missing questions, as many questionnaires as possible were included in the analysis.

## **EMPIRICAL RESULTS AND FINDINGS**

SPSS 17.0 (SPSS Inc, 2009) was used to analyse the data for this study and comprised a number of stages. The statistical measures included descriptive statistics, Bartlett's test of Sphericity and the Kaiser-Meyer-Olkin (KMO), exploratory factor analysis and correlations coefficients.

### **Demographic characteristics**

From the sample population, 58% were females and 42% males, ranging between the age of 25 and 49 (63%). Most of the participants resided in the Western Cape Province (83%) and visited the festival for social reasons (51%). Most of the visitors were married (43%) with a university degree as their highest level of education (37%). The personality type that featured the strongest of the participants was extrovert, enthusiastic (31%). The majority of the participants indicated that they lead a *good living* lifestyle (46%). The *good living* lifestyle indicates that the participants work hard and play hard. Thirty-three percent (33%) of the participants describe themselves as wine lovers, indicating that they enjoy different types of wine. The majority of participants perceive their wine knowledge as basic to intermediate (86%).

### **Descriptive statistics**

Firstly, descriptive statistics were used to indicate the influence of the wine festival on participants' life domains and life overall according to the mean. Thereafter, descriptive statistics were conducted to establish the participants' perceptions of satisfaction with the festival; as well as perceptions with regard to personal well-being as influenced by the wine festival. The descriptive statistics included the sample size ( $n$ ), mean as calculated from the original 5-point Likert scale; as well as Standard Deviation.

### **Descriptive statistics of life domains and life overall**

The mean of each life domain ranged between 3.94 and 4.54 as calculated from the original 5-point Likert scale of measurement. This mean indicates the average of each life domain and life overall as rated by the participants using the original scale of measurement. *Social life* had the highest mean (4.54), followed by *Travel life* (4.48), *Leisure life* (4.40), *Culinary life* (4.34) and *Intellectual life* (4.02); while *Overall life* had the lowest mean (3.94). Therefore, *Social life* was

influenced the most during the festival, whereas the impact on *Overall life* was the lowest according to the perception of the sample population.

**Table 1: Descriptive statistics of life domains and life overall**

Descriptive statistics of life domains and life overall			
Life domain	<i>n</i>	Mean	Std. Deviation
Social	329	4.54	0.56
Leisure	329	4.40	0.66
Intellectual	329	4.02	0.89
Culinary	329	4.34	0.60
Travel	329	4.48	0.59
Overall	329	3.94	0.83

### Descriptive statistics of satisfaction with the festival

It is important to illustrate the satisfaction with the wine festival, as it has been assumed that satisfaction with tourism services will influence Life Satisfaction. The descriptive statistics provide the satisfaction level with the festival, as well as the influence of the festival on personal well-being. The mean ranged between 3.80 and 4.36 as calculated from the original 5-point Likert scale as used in the survey. This indicates that the participants felt *neutral to strongly agree* with statements regarding satisfaction with the festival and to personal well-being being influenced by the festival. The highest mean, as indicated in the statistics is *Satisfied with quality services* (4.36), while *Festival enriched my quality of life* was the lowest mean (3.80). *Comparing expectancy and actual experience it was worth the money*, presented a mean of 4.24. This shows that the festival fulfilled the expectation of the participants; resulting in satisfaction with the festival. Comparing the mean presented in the table and the scale of measurement used it can be concluded that the descriptive statistics were medium to high, indicating satisfaction with the festival and a positive influence on personal well-being.

**Table 2: Descriptive statistics of satisfaction with the festival**

<b>Satisfaction with the festival</b>			
<b>Satisfaction item</b>	<b><i>n</i></b>	<b>Mean</b>	<b>Std. Deviation</b>
Satisfied with quality service	329	4.36	.693
Feel good about my experience	329	4.34	.715
Experience was memorable and enriching	329	4.30	.799
Comparing expectancy and actual experience it was worth the money	329	4.24	.801
Satisfied with products and services delivered at the festival	329	4.24	.769
Festival was rewarding to me	328	4.18	.832
Service at festival was problem free	329	4.16	.821
Festival made me feel good about myself	329	4.07	.838
Festival enriched my lifestyle	329	3.97	.898
Festival enriched various life domains	329	3.92	.922
Festival enriched general life satisfaction	329	3.89	.919
Festival enriched my quality of life	329	3.80	.977

**Factorability of data**

The data set was tested to determine whether it was suitable for exploratory factor analysis. An exploratory factor analysis was conducted as data was explored and no hypotheses were tested. Two statistical measures generated by SPSS were used to assess the factorability of the data and these included Bartlett’s test of Sphericity and the Kaiser-Meyer-Olkin (KMO) measure of sampling adequacy (Pallant, 2007:181). These two measures determine the relationships among 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; Field, 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 sample

adequacy. As recommended by Kaiser (cited in Field, 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.

According to Table 3, the overall KMO's for each of the five life domains, as well as overall life ranged from .757 to .835. These values are all above the minimum value of 0.6 as suggested by Tabachnick and Fidell (cited in Pallant, 2007:181). The Bartlett's test of Sphericity was found to be significant ( $p$ -values<.00001) in all five life domains, as well as overall life in comparison to the suggested  $p < 0.05$ . Therefore, the KMO as well as the Bartlett's test of Sphericity provides evidence that the data reduction by means of exploratory factor analysis is valid.

**Table 3: The KMO and Bartlett's test of Sphericity of life domains and life overall**

Life domain	Kaiser-Meyer-Olkin (KMO) measure	Bartlett's test of Sphericity (P-value)
Social life	.757	P<.00001
Leisure and recreational life	.788	P<.00001
Intellectual life	.835	P<.00001
Culinary life	.769	P<.00001
Travel life	.793	P<.00001
Overall life	.809	P<.00001

### Exploratory factor analysis

After determining the suitability of the data set, an exploratory factor analysis was done on each life domain and satisfaction with the festival. This was conducted to determine the interrelationships among the sets of variables (Pallant, 2007:179), thereby identifying groups of variables (Field, 2005:619). This 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), while retaining as much as the data as possible (Field, 2005:619). Regarding the factor analysis conducted on each life domain, no items were cross-loaded on two or more factors. However, regarding the factor analysis done on satisfaction with the festival, items were cross-loaded producing two factors. These two factors were labelled *service* (factor 1) and *life*(factor 2). All the items with a factor loading greater than 0.4 were considered as contributing to a factor. Therefore, items with a factor loading lower than 0.4 were

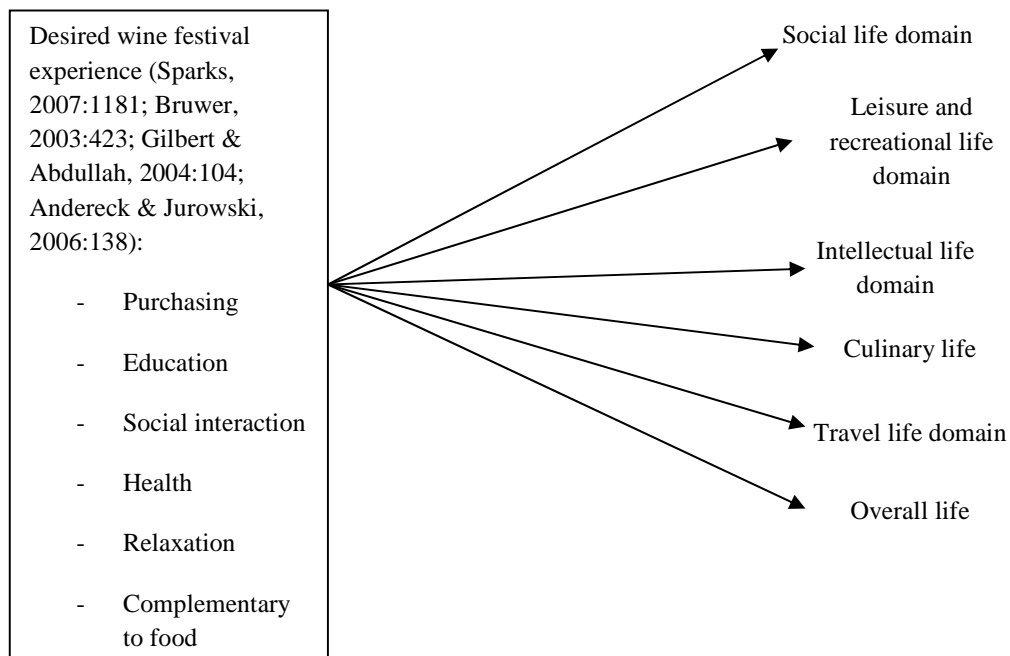
not considered as contributing to the factor and were withdrawn from the data as they did not correlate significantly with the factor (Field, 2005:640).

The internal consistency was computed for each life domain used in the study; as well as satisfaction with the festival. This was done by the most commonly used statistic, the Cronbach's coefficient alpha. According to Nunnally (1978, cited by Pallant, 2007:6), a minimum level of 0.7 is recommended for the Cronbach's alpha. However, a scale with fewer than 10 items requires calculating and reporting the mean inter-item correlation for each factor. 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 mean (average) inter-item correlation is conducted to prove the reliability of the scale used in the survey questionnaire.

**Exploratory factor analysis of each life domain**

**Results from the factor analysis – life domains**

An exploratory factor analysis was conducted on each life domain. These life domains included *Social-, Leisure and recreational-, Intellectual-, Culinary-, Travel-;* as well as *Overall life*. These life domains were included as they are influenced by the nature of the wine festival as indicated by consulted theory (Refer to Figure 1.1).



**Figure 1.1: Relationship between wine festival experience and life domains**

According to the required minimum 0.7 for a reliable factor analysis, all the life domains had a relatively high reliability coefficient ranging from 0.75 to 0.90. Internal consistency for all life domains were also implied with average inter-item correlation values between 0.41 and 0.66. All the items with a factor loading greater than 0.4 were considered as contributing to a factor. Items with a factor loading of less than 0.4 were not considered as contributing to a factor. Therefore, those items with a factor loading slighter than 0.4 were withdrawn from the data as it does not correlate significantly with the factor. Factor scores were calculated according to the average of all items contributing to each life domain.

### Social life domain

One factor was loaded, comprising four items. The life domain accounted for 58.2% of the total variance. *Social life* had the highest mean of 4.45 in comparison to the other contributing domains. It included items such as *Engaging in social activities*, *Meeting people*, *Quality time with friends and family* and *Drinking and tasting wine as a social activity*. The life domain indicated a reliability coefficient of 0.75 and an average inter-item correlation of 0.44.

**Table 4. Factor analysis - Social life**

Life domain and items	Factor loading	Mean	Reliability coefficient	Average inter-item correlation
<b>Social life</b>		4.54	0.75	0.44
Engaging in social activities	.832			
Meeting people	.809			
Quality time with friends and family	.760			
Drinking/tasting wine as social activity	.635			
<b>Total variance explained</b>	<b>58.2%</b>			



### Leisure and recreational life domain

Four items were loaded in *Leisure and recreational life* accounting for 67.8% of the total variance with one factor loaded. This life domain included items such as *Tasting different types of wine*, *Engaging in wine tasting/consuming*, *Engaging in wine and other related activities*, *Learning more about wine and wine culture*. The mean of the domain is 4.40 (third highest), with a reliability coefficient of 0.84 and an average inter-item correlation of 0.56.

**Table 5: Factor analysis - Leisure and recreational life**

Life domain and items	Factor loading	Mean	Reliability coefficient	Average inter-item correlation
<b>Leisure and recreational life</b>		4.40	0.84	0.56
Tasting different types of wine	.887			
Engaging in wine tasting/consuming	.857			
Engaging in wine and other related activities	.850			
Learning more about wine and wine culture	.683			
<b>Total variance explained</b>	<b>67.8%</b>			

### Intellectual life domain

One factor was loaded with five items accounting for 72.6% of the total variance. The *Intellectual life*, showed a mean of 4.02. It included items such as *Learned more about wine culture*, *Learned more about the history of wine*, *Learned more about the history of wine cellars*, *Learned more about different wines*, *Trip was very educational and intellectually fulfilling*. The *Intellectual life* had a reliability coefficient of 0.90 and an average inter-item correlation of 0.66.

**Table 6: Factor analysis - Intellectual life**

Life domain and items	Factor loading	Mean	Reliability coefficient	Average inter-item correlation
<b>Intellectual life</b>		4.02	0.90	0.66
Learnt more about wine culture	.910			
Learnt more about the history of wine	.886			
Learnt more about the history of wine cellars	.839			
Learnt more about different wines	.834			
Trip was very educational and intellectually fulfilling	.786			
<b>Total variance explained</b>	<b>72.6%</b>			

**Culinary life domain**

One factor was loaded. Five items were loaded accounting for 53.2% of the total variance. It included items such as *Feel good tasting a variety of wines*, *Feel good drinking/consuming wine*, *Enjoying good tasting food and wine*, *feel good drinking within my limits*, *Different wines complemented food available*. The mean of the life domain is 4.34, with a reliability coefficient of 0.76 and an average inter-item correlation of 0.41.

**Table 7: Factor analysis - Culinary life**

Life domain and items	Factor loading	Mean	Reliability coefficient	Average inter-item correlation
<b>Culinary life</b>		4.34	0.76	0.41
Feel good tasting a	.803			

variety of wines				
Feel good drinking/consuming wine	.798			
Enjoying good tasting food and wine	.767			
Feel good drinking within my limits	.643			
Different wines complemented food available	.612			
<b>Total variance explained</b>	<b>53.2%</b>			

### Travel life domain

One factor was loaded with five items accounting for 58.7% of the total variance. *Travel life* had the second highest mean of 4.48, with a reliability coefficient of 0.82 and an average inter-item correlation of 0.48. It included items such as *Enjoying the festival as part of travel life*, *Visiting new places/cellars during the festival*, *On the move travelling from cellar to cellar*, *Enjoyed the trip overall*, *Able to break away from normal routine*.

*Table 8: Factor analysis - Travel life*

Life domain and items	Factor loading	Mean	Reliability coefficient	Average inter-item correlation
<b>Travel life</b>		4.48	0.82	0.48
Enjoying the festival as part of travel life	.799			
Visiting new places/cellars during the festival	.790			
On the move travelling from cellar to cellar	.759			

Enjoyed the trip overall	.746			
Able to break away from normal routine	.734			
<b>Total variance explained</b>	<b>58.7%</b>			

### Overall life

One factor was loaded with five items in *Overall life*. The loaded items accounted for 66.4% of the total variance. The life domain had the lowest mean of 3.94 in comparison with other contributing domains. It included items such as *Enriched my travel life*, *Enriched my social life*, *Enriched my intellectual life*, *Enriched my leisure and recreational life* and *Enriched my culinary life*. *Overall life* had a reliability coefficient of 0.87 and an average inter-item correlation of 0.58.

**Table 9: Factor analysis - Overall life**

Life domain and items	Factor loading	Mean	Reliability coefficient	Average inter-item correlation
<b>Overall life</b>		3.94	0.87	0.58
Enriched my travel life	.844			
Enriched my social life	.823			
Enriched my intellectual life	.819			
Enriched my leisure and recreational life	.797			
Enriched my culinary life	.791			
<b>Total variance explained</b>	<b>66.4%</b>			

## Exploratory factor analysis of satisfaction with the festival

### KMO and Bartlett's test of Sphericity – satisfaction with the festival

Two factors were loaded with regard to the factor analysis conducted on satisfaction with the festival. These factors were labelled as *service* and *life*. The first factor (*service*) loaded seven items, while *life* (factor 2) loaded five items. The first factor was labelled as *service*, as it relates to items measuring the experience of service delivered by the festival as perceived by the participants. The second factor, *life*, measured items related to the influence of the festival on tourists' life. According to Table 2.10, the KMO for *service* and *life* was .927. This is above the minimum suggested value of 0.6 (Tabachnick and Fidell, cited in Pallant, 2007:181). The Bartlett's test of Sphericity was found to be significant ( $p\text{-values} < .00001$ ). It is therefore evident that data reduction by means of exploratory factor analysis is valid.

**Table 10: The KMO and Bartlett's test of Sphericity concerning satisfaction with the festival – service and life**

Factor	Kaiser-Meyer-Olkin (KMO) measure	Bartlett's test of Sphericity (P-value)
Factor 1 ( <i>service</i> ) & Factor 2 ( <i>life</i> )	.927	P<.00001

### Results from the factor analysis – satisfaction with the festival

As previously mentioned two factors were loaded on the exploratory factor analysis; labelled as *service* and *life*. The extraction method conducted was Principle Component analysis; making use of the Oblimin rotation method. Both factors had a relatively high reliability coefficient therefore indicating a reliable factor analysis. The mean is calculated from the original 5-point Likert scale of measurement.

#### Factor 1 – *Service*

Factor 1 (*service*), loading seven items accounted for 55.7% of the total variance. High means were found with an average of 4.26. Participants therefore Agree to Strongly agree that the festival was satisfying according to *service* (factor 1) delivered. *Service* had a reliability of 0.89 and an average inter-item correlation of 0.54. Therefore, reliability of the scale was proven.

**Table 11: Exploratory factor analysis of service**

Factor 1	Factor loading	Mean	Reliability coefficient	Average inter-item correlation
<i>Service</i>		4.26	0.89	0.54
Satisfied with quality service	.878			
Service at festival was problem-free	.825			
Comparing expectancy and actual experience it was worth money	.781			
Experience was memorable and enriching	.727			
Feel good about my experience	.669			
Festival was rewarding to me	.585			
Satisfied with products and services delivered at the festival	.564			
<b>Total variance explained</b>	<b>55.7</b>			

**Factor 2 – *Life***

Factor 2 (*life*) loaded five items. The five items accounted for 66.8% of the total variance. As calculated from the original 5-point Likert scale of measurement high means were also found in this factor, with an average of 3.80. From the above, it is evident that tourists feel Neutral to Strongly agree that the festival influenced *life* (factor 2) optimistically. Reliability of the scale was proven as the reliability coefficient was 0.91, while the average inter-item correlation was 0.66.

**Table 12: Exploratory factor analysis on life**

Factor 2	Factor loading	Mean	Reliability coefficient	Average inter-item correlation
<i>Life</i>		3.93	0.91	0.66
Festival enriched general life satisfaction	.951			
Festival enriched various life domains	.903			
Festival enriched my quality of life	.869			
Festival made me feel good about myself	.686			
Festival enriched my lifestyle	.633			
<b>Total variance explained</b>	<b>66.8</b>			

### **Correlation coefficients**

Finally, correlation coefficients were used to explore the strength of the relationship between the various life domains, as well as overall life. This was done to determine the influence of the festival on life domains; influencing overall life. Correlations coefficients were also calculated between life domains and *service* (factor 1); as well as life domains and *life* (factor 2). This was done to indicate the influence of the service provided and experience of the festival; on tourists' life domains and overall life. As indicated by Pallant (2007:101), a positive correlation indicates that as one variable increases, so does the other. In contrast, a negative correlation indicates that as one variable increases, the other decreases. The following guidelines are given by Cohen (cited in Ellis & Steyn, 2003:54) for the interpretation of the correlations: (a) small effect = 0.1, (b) medium effect = 0.3, (c) large effect = 0.5. Therefore, a relationship  $\geq 0.5$  is considered as practically significant.

### Correlation between life domains and life overall

The correlations in Table 2.13 were calculated to determine the strength of the relationship between the various life domains, as well as life overall. According to the guidelines to interpret the correlations, the effects ranged between 0.35 and 0.55 indicating a medium to large relationship between the life domains.

**Table 13: Correlation between life domains and life overall**

Correlation between life domains and life overall						
Life domain	Social	Leisure	Intellectual	Culinary	Travel	Overall
Social	1	0.53	0.37	0.41	0.48	0.41
Leisure	0.53	1	0.50	0.48	0.41	0.42
Intellectual	0.37	0.50	1	0.35	0.35	0.44
Culinary	0.41	0.48	0.35	1	0.55	0.41
Travel	0.48	0.41	0.35	0.55	1	0.48
Overall	0.41	0.42	0.44	0.41	0.48	1

A large correlation effect was found between *Social* and *Leisure*; *Leisure* and *Intellectual*; as well as *Culinary* and *Travel*. The large correlation effect ranged between 0.50 and 0.55. The largest correlation was between the *Culinary* and *Travel* life domains (0.55). A strong relationship was found between the *Social* and *Leisure*; *Leisure* and *Intellectual*; as well as the *Culinary* and *Travel* life domains as influenced by the festival. The relationship between the other life domains; as well as *Overall life*, was a medium correlation effect ranging between 0.35 and 0.48. The life domains with least medium correlation effect were *Intellectual* and *Culinary*, together with the *Intellectual* and *Travel* life domains.

### Correlation between satisfaction with the festival and life domains

Correlations were calculated to determine the strength of relationship between satisfaction with the festival and life domains of attending wine tourists. According to the interpretation of correlations a large correlation was found between factor 1 (*service*) and the *Travel* life domain (0.55); *service* and *Overall life* (0.51); as well as *life* (factor 2) and *Overall life* (0.61). Therefore, these correlations are considered as practically significant. The relationship found between other



life domains and satisfaction with the festival (factor 1: *service* and factor 2: *life*) were medium ranging between 0.31 and 0.48, indicating no practical significance. One small correlation effect was found between *Social life* and factor 2 (*life*), indicating no practical significance.

**Table 14: Correlation between satisfaction with the festival and life domains**

Correlation between satisfaction with the festival and life domains								
	Social	Leisure	Intellectual	Culinary	Travel	Overall	Factor 1 <i>Service</i>	Factor 2 <i>Life</i>
Social	1	0.53	0.37	0.41	0.48	0.41	0.32	0.29
Leisure	0.53	1	0.50	0.48	0.41	0.42	0.33	0.31
Intellectual	0.37	0.50	1	0.35	0.35	0.44	0.35	0.40
Culinary	0.41	0.48	0.35	1	0.55	0.41	0.39	0.41
Travel	0.48	0.41	0.35	0.55	1	0.48	0.55	0.41
Overall	0.41	0.42	0.44	0.41	0.48	1	0.51	0.61
Factor 1 <i>Service</i>	0.32	0.33	0.35	0.39	0.55	0.51	1	0.69
Factor 2 <i>Life</i>	0.29	0.31	0.40	0.41	0.41	0.61	0.69	1

From the results, it can be concluded that the attending wine tourists are satisfied with the *service* delivered during the festival, therefore fulfilling their expectations. This satisfaction with service had a positive influence on the *life* of the tourists. Furthermore, the festival (satisfaction) influenced various life domains positively indicating that Life Satisfaction is mediated by more than one life domain.

## CONCLUSIONS AND MANAGERIAL IMPLICATIONS/RECCOMENDATIONS

This research can be seen as a benchmark, where the influence of a wine festival on tourists' Life Satisfaction in the South African context was examined for the first time. The finding of this study with regard to *Satisfaction with the festival* revealed that the participants are satisfied with the products and services delivered by the festival. The mean score of *Satisfaction with the festival* was high as measured and calculated from the original 5-point Likert scale. Specifically,

the participants indicated that, comparing the expectancy and the actual experience at the festival, it was worth the money. It can be seen, therefore, that the tourists' expectations prior to the festival were confirmed during the festival. This corresponds with the notion of the expectancy disconfirmation paradigm indicating that satisfaction occurs when a product performance (festival) exceeds some form of standard or expectation (O'Neillet *et al.*, 2002:343; Yu & Goulden, 2006:1333; Bowen, 2001:51; Lin, 2007:112; De Rojas & Camarero, 2007:2; Baker & Crompton, 2000:787; Morgan, 2006:307; Huh, 2002:ii; Truong & Foster, 2005:843; Akama & Kieti, 2002:75; Del Bosque & Martin, 2008:553; and Huang & Chiu, 2006:158).

From the factor analysis conducted on each life domain, it is clear that the various life domains and overall life had high factor loadings; as well as mean scores. This indicates that the festival influenced the various life domains, as well as overall life, positively. The life domain that was influenced positively the most during the festival was the *Social* life domain. This was followed by the *Travel* life domain, *Leisure and recreational* life domain, *Culinary* life domain; and thereafter the *Intellectual* life domain. Influence on *Overall life* was rated as the least influenced by the festival. Even so, it still indicates a high mean.

According to Sirgy *et al.* (2010:4), Life Satisfaction is mediated not only by the *Leisure and recreational* life, but also by satisfaction in other life domains. Therefore, correlations were made between the various life domains, as well as overall life. It was found that the correlations made were medium to high, indicating that the life domains in collaboration with each other influence life overall. This concept is supported by the finding of Singley (2005:1), Neal (2000:1), Sirgy *et al.* (2010:3); Neal, *et al.*, (1999:156); Rojas (2006:467) indicating that Life Satisfaction is a predictor of, as well as an outcome of, domain specific satisfaction. From the correlations calculated, it can be seen that satisfaction with the wine festival (products and services), influences satisfaction with various life domains positively and therefore satisfaction with life overall. A high mean also indicated that the participants do feel that the festival enriched their general Life Satisfaction (Quality of Life). As indicated by Morgan (2006:307), satisfaction with the tourism product (festival) is also interpreted within the broader context of the tourists' life. The results of the study support the notion that the festival does indeed make a significant contribution to tourists' Life Satisfaction. Therefore there is a relationship between

the festival experience and life domains. Based on the above-mentioned findings, the following implications have been identified for the Wacky Wine Festival managers and marketers:

Firstly, it is proposed that wine festival visitors' intention to revisit a festival is affected by their satisfaction. The Wacky Wine Festival managers should therefore provide quality tourism opportunities to ensure satisfaction with the festival. Quality tourism opportunities can be provided for by determining the needs of the wine tourist. The findings with regard to the life domains can be used by managers to determine those needs. From the findings of this project, the managers can determine what is important to the wine tourist and so cater to those needs. As indicated by the study, the *Social* life domain was most influenced by the festival followed by *Travel life*, *Leisure and recreational life*, *Culinary life* and thereafter, the *Intellectual* life domain. Therefore, wine tourists attending the Wacky Wine Festival have a need for socialisation. Festival managers can provide in this need by hosting more arts and performances at various cellars included in the festival where wine tourists have the opportunity to socialise. These arts and performances should cater for all age groups attending the festival. The arts and performances should therefore relate to a certain age group; as well as in relation to a certain cellar. Van Loveren and Bon Courage wine cellars attract a young age group. Performing artists at these wine farms should include various individual(s)/groups such as "Straatligkinders", Kurt Darren, Casper de Vries, "Melktert kommissie", Ray Dalyn, Jackie Louw etc. While other wine cellars such as Graham Beck and Cloverfield attract an older group. Therefore, performing artists should include individual(s)/groups such as Nianell, Romanz, Elsebie Zietsman, David de Kock, Nataniël etc.

Secondly, the results indicated that the *Intellectual* life domain was the least influenced by the festival when compared to the other life domains. Managers can create particular opportunities for the wine tourist to enhance this life domain. By the creation of opportunities to enhance the *Intellectual* life domain, a more sophisticated wine tourist will be attracted to the Wacky Wine Festival. The more sophisticated can be described as the *Connoisseur* wine tourist. This wine tourist has expert knowledge in the field of wine and has selective wine product preferences, comprising collection items and quality products. The attraction of the *Connoisseur* wine tourists will generate more income for the regional wineries as they are high spenders. The creation of

these opportunities will enhance the *Intellectual* life domain as well as other life domains of the more sophisticated wine tourist, providing them with a total wine tourism experience.

Lastly, managers must develop more diversified products and services to deliver a total wine tourism experience and so enhance the various life domains. Together with the current activities delivered by the festival, winery managers can consider providing opportunities to smaller groups of wine tourists to educate them about different wines, culture of wine, history of wine, history of wine cellars; as well as the use of food and wines to complement each other. This can be delivered as an hour or two-hour presentation by specifically trained wine cellar personnel at a predetermined price. As one group finishes, the next group can arrive to participate. Not only will this recreation opportunity enhance the *Social, Leisure and recreational, Intellectual, and Culinary* life domains of the attending tourist; additional revenue will be generated for participating wineries. By providing products and services to enhance the life domains of the wine tourist, the overall satisfaction with life will be enhanced. Satisfied wine tourists will encourage revisits to the festival; as well as revisits to local wineries after the festival and purchase of regional wine products. Therefore, by providing quality tourism opportunities; comprising products and services; a wine festival such as the Wacky Wine Festival will promote the associated destination and products. As supported by Hoffman, Beverland and Rasmussen (2001:54) and Bruwer (2003:434), wine festivals help to build awareness and loyalty to a region and to its individual wineries. However, managers should conduct a marketing study annually, as tourists' needs change.

The purpose of the study was to determine the relationship between visitors' experience and life domains. From this study, the following overall findings can be reported: Firstly, wine tourists are satisfied with the festival (products and services). Secondly, it was found that the festival enriched various life domains; as well as life overall. *Social life* was the life domain enriched most during the festival. This can be ascribed to the fairly young age group attending the festival, as well as the social reasons for attending the festival. Lastly, it was found that there is positive correlations between the various life and life overall; as well as satisfaction with the festival and life domains. Therefore, satisfaction with the festival influences satisfaction within various life domains. Overall Life Satisfaction is, in turn, influenced by satisfaction with the festival and the collaboration between the various life domains.

The findings indicate the most important life domains and concerns of the wine tourists influenced by the festival. While managers can develop diversified products and services, marketers can market according to the current most important life domains as indicated by the study. By marketing the festival according to the current most important life domains, wine tourists will gain clarification of products and services provided by the festival. It is therefore important for managers and marketers to collaborate to ensure that tourists receive what they expect from the festival. This will ensure satisfaction with the festival. In turn, this will enhance overall Life Satisfaction.

This study was the first of its kind to be conducted in the South African context. Therefore, the contribution of this article is significant to national; as well as international literature with regard to wine festivals and Life Satisfaction research. This study will be useful to develop a more comprehensive database for further research in this field of study. It would be useful to explore Life Satisfaction in terms of different periods; the past, present and the future, as different periods may convey different results regarding Life Satisfaction. Based on the findings of this research, it is therefore recommended to support the quantitative study with a qualitative survey as further research. This will also lead to indications of the duration of satisfaction from the festival with regard to wine tourists' life domains, as they relate to Life Satisfaction. Further validation of the life domain scales is also recommended to ensure their relevancy to the wine festival environment. Similar research can also be conducted on other life domains also, ensuring a comprehensive study with regard to Life Satisfaction. The study can further be conducted nationally, as well as internationally, on wine festivals and other related festivals.

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## **TRUSTEES' PERCEPTIONS OF PORTFOLIO MANAGEMENT**

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### **ABSTRACT**

The main reasons for the existence of retirement funds are to create and protect the wealth of individuals until and during retirement. Investment portfolios are created for employees who are members of a retirement fund of a specific business. Each retirement fund has a board of trustees who has the responsibility of making important investment decisions towards the best interests and expectations of members. Therefore, it is expected from trustees to have a certain investment knowledge base. Lack of investment knowledge could negatively impact on the members of the pension fund if trustees make wrong decisions.

Therefore, the primary objective of the study is to investigate the perceptions of trustees regarding portfolio management. A qualitative research design was followed. An extensive literature review was conducted on portfolio management and trustees. An interview guide was created to obtain primary data for the study. A sample of 13 retirement fund trustees in the Nelson Mandela Metropole was selected via convenience and snowball sampling.

The study's findings led to recommendations which may ensure knowledgeable trustees concerning various aspects of portfolio management for more efficient investment decisions.

**Keywords:** investment, portfolio management process, trustees

### **INTRODUCTION AND BACKGROUND TO THE STUDY**

Creating wealth is the primary reason why investors seek to invest in various financial instruments. There are two main types of investors, namely, private and institutional investors (Brentani 2004:3). Private investors are private individuals who lack the skills, knowledge and access to information to manage their funds invested in various financial instruments.

Institutionalised investors invest large amounts of funds and include insurance companies, banks, retirement funds and asset management businesses. Institutional investors can decide to invest in the financial markets or outsource the management of equity funds, hedge funds and retirement funds (Stewart, Piros & Heisler 2011:7-8). Few investors have the knowledge to invest funds based on their own decisions or have sufficient capital to invest in various financial instruments. Institutional investors are particularly attracted to outsourcing their investment activities to asset management businesses that build long-term relationships with institutional investors. The asset management businesses are usually subsidiaries of banks, part of brokerage groups or part of independent businesses (asset managers) that manage the funds of institutional investors. (Brentani 2004:8; Jones 2010:15).

According to Brentani (2004:6), the retirement fund is one of the most common types of financial instruments used by institutional investors. A retirement kind of fund is established by employers or trade unions as a fringe benefit for employees. Employees, as members of a retirement fund, will receive annuity payments when they retire as contributing members from the fund. Employees will seek to achieve the maximum rate of return in excess of the inflation rate and also to protect investment capital from depreciation.

There are two types of retirement funds, namely, pension funds and provident funds, which are used to provide occupational retirement provision for employees (Botha, Du Preez, Geach, Goodall, Palframan, Rossini & Rabenowitz 2012:523). Retirement funds usually have long-term objectives and may invest in high-risk assets. Investors can invest in two fund benefit types, namely, a defined contribution fund or a defined benefit fund. The difference between the two fund benefit types are based on how each benefit will be calculated (Botha, Rossini, Geach, Goodall, Du Preez & Rabenowitz 2010:891).

The everyday operations of a retirement fund are directed, controlled and overseen by a board of trustees (acting as managers of the fund), as required by the Pension Funds Act. The trustees are expected to act in the best interests of all the fund members and to ensure that the portfolio managers comply with the Pension Funds Act. The portfolio managers need to consider all relevant factors when setting up an investment portfolio in order to meet the objectives of the retirement fund and its members' goal of wealth creation. (Botha, Rossini, Geach, Goodall, Du Preez & Rabenowitz 2012:881).

The goal of portfolio management is to group various securities into an investment portfolio that address investors' needs and to manage those securities in a way to achieve the investment objectives. Ultimately, effective portfolio management revolves around a portfolio manager's ability to effectively manage risk. With continuous advancement in technology, access to information has increased considerably and it is the duty of portfolio managers to manage the vast array of available information and use it to develop profitable investment portfolios. (Busetti 2009:191).

### **PROBLEM STATEMENT**

A primary factor influencing portfolio management is the risk and return trade-off. The risk and return trade-off implies that investors' risk objectives must be balanced with the investors' return objectives within the investment portfolio. Risk objectives can be formulated once the relevant risk factors have been identified. Investors' risk tolerance levels that refer to their willingness to accept risk will influence the potential returns of investment portfolios. Other constraints facing investors include limited resources, tax levels, decisions on suitable investment time horizons, the objective of maintaining liquidity, as well as the requirement to adhere to legal regulations. (Brentani 2004:2; Marginn *et al.* 2007:15). Therefore, the ability of investors to construct efficient investment portfolios are influenced by investors' risk tolerance levels, various possible investment constraints and the riskiness of different securities.

Obtaining an efficient investment portfolio requires investors to have adequate knowledge about portfolio management in order to choose an effective portfolio manager. Institutionalised investors invest large amounts of funds and therefore face great risk if inadequate portfolio management and poor portfolio manager selection occur. These institutional investors such as retirement funds nominate trustees to assist in the management of the funds to be invested which represents members' monetary contributions. As a result, a high level of portfolio management knowledge is expected from trustees because they may expose fund members to the risk of not having adequate income during retirement.

To summarise, inadequate knowledge of portfolio management by trustees of investment funds, can lead to higher risk and lower or no returns for fund members. This problem statement shows the importance of investigating the perceptions of trustees on portfolio management and leads to the development of the study's objectives.

## **OBJECTIVES OF THE STUDY**

The primary objective of the study is to determine the perceptions of trustees in the Nelson Mandela Metropole regarding portfolio management. The study also pursues different secondary objectives, which are:

- to conduct a literature overview on portfolio management and the importance of trustees as role players in managing retirement funds and making investment decisions;
- to conduct primary research by investigating the perceptions of trustees on portfolio management; and
- to provide conclusions and recommendations based on the findings, to assist trustees in making investment decisions and managing investment portfolios of retirement funds more effectively.

## **LITERATURE OVERVIEW**

In the following section, the literature overview will discuss portfolio management and the importance of trustees as role players therein.

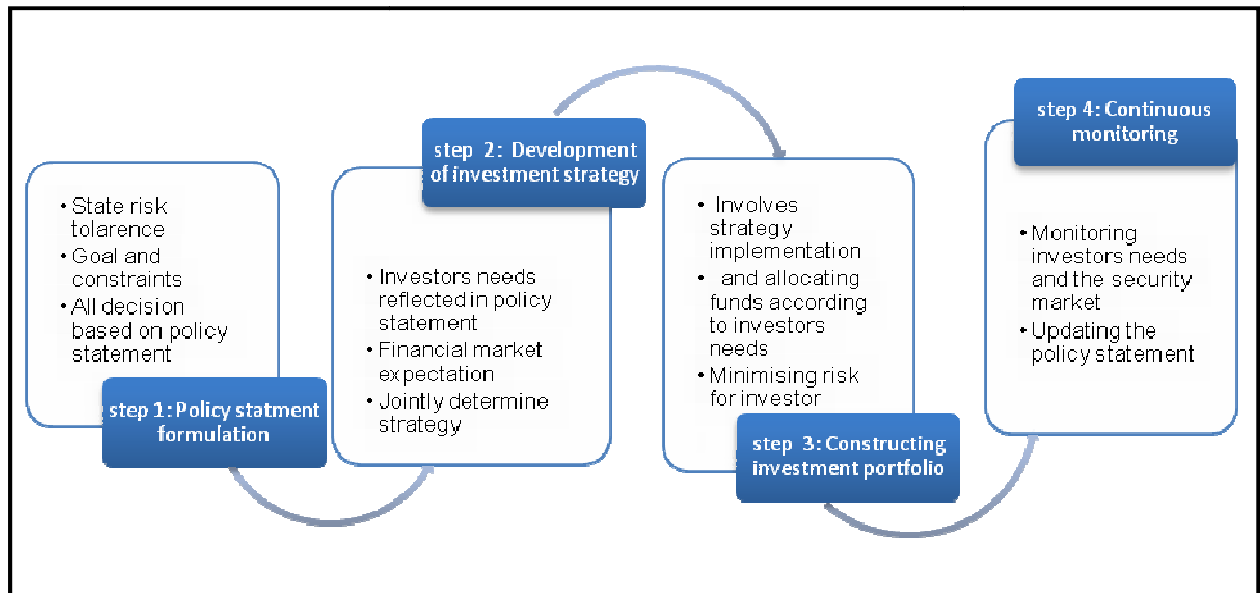
### **Portfolio management**

According to Marginn, Tuttle, McLeavey and Pinto (2007:5), portfolio management is a dynamic process where investment constraints are identified and investment objectives are formulated. Furthermore, investment strategies are developed and portfolio compositions are defined. Portfolio managers measure and evaluate a portfolio on a continuous basis.

Grant (2004:6) stated that portfolio investment is the buying of assets with the sole intention of realising a financial return on the investment. It is important to note that investors do not aim to gain any management control in the business they are investing in. Grant (2004:6) further explains that portfolio management consists of planning, organising, leading and controlling the allocation of resources. The investment portfolio should be updated, monitored and adjusted to gain at least the minimum expected returns of investors. Thus, portfolio management is the process of evaluating and constructing an investment portfolio while also taking the various constraints and risks of investors into account. To summarise, portfolio management entails the monitoring of changing stock market conditions and rebalancing the portfolio accordingly.

According to Reilly and Brown (2003:39), portfolio management consists of four main steps. The four steps of portfolio management are presented in Figure 1.

**FIGURE 1: PORTFOLIO MANAGEMENT STEPS**



Source: Adapted from Reilly and Brown (2003:39)

The first step in portfolio management is for investors to formulate Investment Policy Statements (IPSs) with or without the assistance of financial advisors. The IPS is the guideline indicating risk tolerance levels (investors' willingness to accept risk), investment goals and financial constraints. All investment decisions are based on the IPS and therefore the IPS must be continuously reviewed and updated to reflect investors' current needs. The second portfolio management step is to develop an investment strategy. The portfolio managers should study current and forecast future stock market trends in order to set up an investment strategy. The investors' needs and stock market conditions should jointly guide the development of the investment strategy. (Reilly & Brown 2003:39). The third portfolio management step involves the creation of investment portfolios using investment strategies, which incorporates IPSs and the stock markets' conditions. Therefore, this step involves implementing the investment strategies and allocating funds to financial assets within the specific investment portfolios according to investors' needs. The final step in portfolio management is the continuous monitoring of portfolios' performance by comparing the investment portfolios' returns to the stated targets from the IPSs. This step requires the

rebalancing of portfolios, which refers to the monitoring of investors' needs, the stock market performance and revising IPSs accordingly. (Reilly & Brown 2003:39). Rebalancing can be done in a three ways namely, time based rebalancing (e.g. per quarter), trigger based rebalancing (e.g. according to investment portfolio performance) and drifting strategy (e.g. no rebalancing) (Colleen, Kinniry & Zilbering 2010:7-10).

Therefore, the main purpose of portfolio management is to develop a guideline for managing and minimising the risks of portfolios while achieving investors' desired minimum returns (Brentani 2004:84). In addition, Grant (2004:48) emphasises that holding a diversified portfolio reduces the risks of individual securities in the investment portfolio which in turn reduces the overall risk of the investment portfolio. Rebalancing is also an important part of portfolio management, as it ensures that well-diversified portfolios are maintained and as a result reduces the investment risks of portfolios (Cameron 2004:51). Thus, portfolio management plays a significant role in reducing investment risk and creating wealth for all investors. It is the responsibility of trustees to be involved in portfolio management as they need to direct, manage and control the use of funds on behalf of members.

### **Importance of trustees**

Each retirement fund is required to have a board of at least four trustees (Botha 2012:A101). These trustees can either be member-elected, employer-elected or independent trustees (Greenblo 2006:15). Boards of trustees are expected to act in the best interests of the members of the funds (Botha *et al.* 2012:882; Financial Services Board 2007:3). There are four essential roles which trustees need to fulfil. Firstly, trustees must ensure that proper records are kept of members joining or retiring from the funds. Secondly, trustees should have access to statements of accounts showing the funds' financial positions. Thirdly, trustees should know where the fund's assets are invested. Lastly, trustees have to manage the fund's assets (National Treasury 2011:9-10).

To assist trustees with their roles, they need to comply with two types of duties, namely, fiduciary duties and general duties. According to Greenblo (2006:17), trustees comply with their fiduciary duties by acting in the best interests of the fund's members. The general duties of trustees include the implementation of the IPS, voting guidelines and the management of the invested funds according to the fund's rules (Greenblo 2006:20; Macmahon & Davison 2010:5).

According to Greenblo (2006:20), trustees may delegate their responsibilities to registered portfolio managers at asset management businesses. Although trustees may delegate their responsibilities to portfolio managers, trustees remain accountable to ensure the proper management of the funds invested.

It is important to remember that trustees' responsibilities are governed by registered rules, and consequently trustees should be knowledgeable about these rules (Greenblo 2006:15), as stipulated in Regulation 28. Regulation 28 of the Pension Fund Act stipulates certain investment limits of certain asset classes that retirement funds can invest in. It applies to all retirement funds namely pension funds, provident funds and retirement annuities (Botha 2012:A107). In addition, trustees should be knowledgeable about general investment aspects, amongst others, about membership profiles, the Pension Funds Act, asset classes, performance benchmarks as well as market conditions and related risks.

## **RESEARCH METHODOLOGY**

The research methodology section discusses the research design, data collection and data analysis methods.

### **Research design**

In order to attain in-depth information about portfolio management and the management of retirement funds by trustees, a qualitative research method was adopted. The qualitative method was the most suitable for this study, as a smaller sample was available for the primary research, due to access to trustees willing to participate in the study. In addition, the qualitative method ensures researchers to obtain in-depth knowledge from participants as well as present valuable results while understanding the topic from the participants' perspective (Coldwell & Herbst 2004:15; Saunders, Lewis & Thornhill 2000:86).

### **Data collection**

For the purpose of the study, primary and secondary research was undertaken. Secondary data were obtained from books, journals, newspapers and websites to provide theoretical information on the research topic for the literature overview.

The population of a study refers to the group of people to be researched (Collis & Hussey 2003:155). This study's population is all trustees of retirement funds that are located in the Nelson Mandela Metropole. The population of the study was difficult to determine because fund administrators have access to trustees' databases and researchers were limited by confidentiality of such information. A non-probability sampling technique was used for the primary data collection. The sample of trustees was chosen by applying the convenience and snowball sampling methods. Convenience sampling is a process of selecting those members in the sample frame that are the easiest to select as a sample, being the most conveniently available to the researcher. (Saunders *et al.* 2000:176; Zikmund, Babin, Carr & Griffin 2010:396). Snowball sampling refers to extending the initial sampled members based on the social network of the targeted population (Dahlberg & McCaig 2010:178). The sample participants consist of 13 trustees of retirement funds, which included both provident and pension funds, which are located in the Nelson Mandela Metropole. The 13 trustees interviewed were from different retirement funds in Nelson Mandela Metropole and were contacted through three different fund administrators. The topics covered by the interview guide are illustrated by Table 1.

**TABLE 1: INTERVIEW GUIDE TOPICS**

TOPICS COVERED	
1	INVESTMENT GUIDELINE
2	FOREIGN EXPOSURE
3	INVESTMENT STRATEGY
4	LARGE INVESTMENTS AND TIME HORIZONS
5	PERCENTAGES INVESTED IN ASSET CLASSES
6	RISK OF INVESTMENTS
7	INVESTMENT BENCHMARKS
8	REBALANCING
9	INVESTORS LIFE CYCLE
10	ACTIVE AND PASSIVE STRATEGIES
11	SELECTION OF PORTFOLIO MANAGERS
12	PORTFOLIO PERFORMANCE

Primary data was gathered by interviewing participants. The interview guide used to gather the perceptions of trustees was in the format of a semi-structured personal interview. A semi-



structured personal interview is a method that uses a list of questions known as the interview guide, formulated by the researchers based on literature. The semi-structured personal interview is flexible as the researchers can change the order and wording of the questions to achieve the desired outcome. (Dahlberg & McCaig 2010:119). The interview guide of the study consists of two sections. Section A of the interview guide is structured, with closed-ended questions and gathered participants' demographic data. Section B, which is the section relating to portfolio management, is semi-structured with open-ended questions.

To meet the criteria of trustworthiness in other words credibility, confirmability, dependability and transferability in the qualitative study the credibility of the study was addressed by pre-testing the interview guide. The interview guide was pre-tested by fellow investment researchers as well as an independent party (being a retirement fund consultant) from BOE Private Clients. In order to address confirmability, an interview schedule was designed to track the interview sessions held by the researchers. Furthermore, to address confirmability, data codes were developed by the researchers and confirmed by an outside party, namely an investment researcher. Interview sessions were recorded with the permission of the participants and the interview guides were edited when omissions and errors were traced from listening to the interview recordings to ensure the dependability of the data obtained. Therefore, an audit trail was created. Additionally, in addressing transferability, a pilot study was conducted which revealed the applicability of the interview guide to trustees. This interview guide should yield similar data, under the same conditions, in future studies. (Bloomberg & Volpe 2008:87; Creswell & Miller 2010:125-128; Teddie & Tashakkori 2009:212-213).

### **Data analysis**

During the interviews researchers made notes and a recording device was used to ensure accuracy of the transcripts. The primary data was edited to rearrange answers provided for the open-ended questions to provide consistency when reporting the results. All answers were coded and data was captured using Microsoft Excel. The data gathered from section A were analysed using descriptive statistics and data collected from section B was coded using content analysis. Content analysis is used to code raw data and convert text into numerical variables. In this study, content analysis was used to derive the coding units from the raw data and to quantify qualitative data (Collis & Hussey 2003:255-256; Gray 2009:500). The aim of the content analysis was to determine the meaning of participants' responses to the various

questions in order to identify similar responses and thus formulate the overall perceptions of trustees on portfolio management.

## RESULTS

The following section presents the results from the study in two sections, namely by providing participants' demographical and biographical details and by discussing trustees' viewpoints on portfolio management.

### Demographical and biographical data

The demographical details of participants are provided in Table 2.

**TABLE 2: DEMOGRAPHICAL DATA OF PARTICIPANTS**

Items		Frequency	Percentage(%)
<b>Gender</b>	Male	12	92
	Female	1	8
	<b>Total</b>	<b>13</b>	<b>100</b>
<b>Ethnic Group</b>	Black	4	31
	White	8	62
	Coloured	1	8
	<b>Total</b>	<b>13</b>	<b>101*</b>
<b>Level of education obtained</b>	Grade 12	3	23
	National Certificate or Diploma	4	31
	Bachelor Degree	2	15
	Postgraduate Degree	4	31
	<b>Total</b>	<b>13</b>	<b>100</b>
<b>Types of trustees</b>	Member-elected trustee	8	62
	Employer-elected trustee	3	23
	Other	2	15
	<b>Total</b>	<b>13</b>	<b>100</b>
* Due to rounding not 100%			

The majority of the participants were males (92%), with only 8% of the participants being females. The ethnic groups of the participants were black (31%), white (62%) and coloured (8%). The level of education of the participants included Grade 12 certificates (23%), diploma qualifications (31%), bachelor degrees (15%) and postgraduate degrees (31%). Of the interviewed participants, 62% were member-elected trustees, 23% were employer-elected

trustees and 15% selected the ‘other’ category. The ‘other’ category included participants that are principal officers or compliance officers of funds.

The biographical data relating to the participants’ retirement funds are provided in Table 3.

**TABLE 3: BIOGRAPHICAL DATA OF PARTICIPANTS’ RETIREMENT FUNDS**

Items	Frequency	Percentage (%)	
<b>Types of retirement funds</b>	Pension fund	2	15
	Provident fund	11	85
	<b>Total</b>	<b>13</b>	<b>100</b>
<b>Types of fund benefits</b>	Defined contribution	10	77
	Defined benefit	3	23
	<b>Total</b>	<b>13</b>	<b>100</b>
<b>Number of trustees in the fund</b>	≤5	1	8
	6 – 10	10	76
	11 – 15	1	8
	16 – 20	0	0
	21+	1	8
	<b>Total</b>	<b>13</b>	<b>100</b>
<b>Years of existence</b>	≤20	10	76
	21 – 29	1	8
	30 – 39	1	8
	40 – 49	0	0
	50+	1	8
	<b>Total</b>	<b>13</b>	<b>100</b>

From Table 3 it is evident that 15% of the participants were trustees from pension funds and 85% from provident funds. Of the retirement funds represented by the interviewed trustees, 77% of the retirement funds were defined contribution and 23% were defined benefit funds. The majority of the funds have between five and 10 trustees. On further analysis it was discovered that three funds had eight trustees. Approximately 76% of the funds used in the study have been in existence for less than 20 years.

### **Views of participants regarding portfolio management**

The participants were asked to indicate the most used investment guideline in portfolio management. Eight participants indicated that guidelines provided by investment consultants/administrators are used, while six indicated that Regulation 28 are followed.

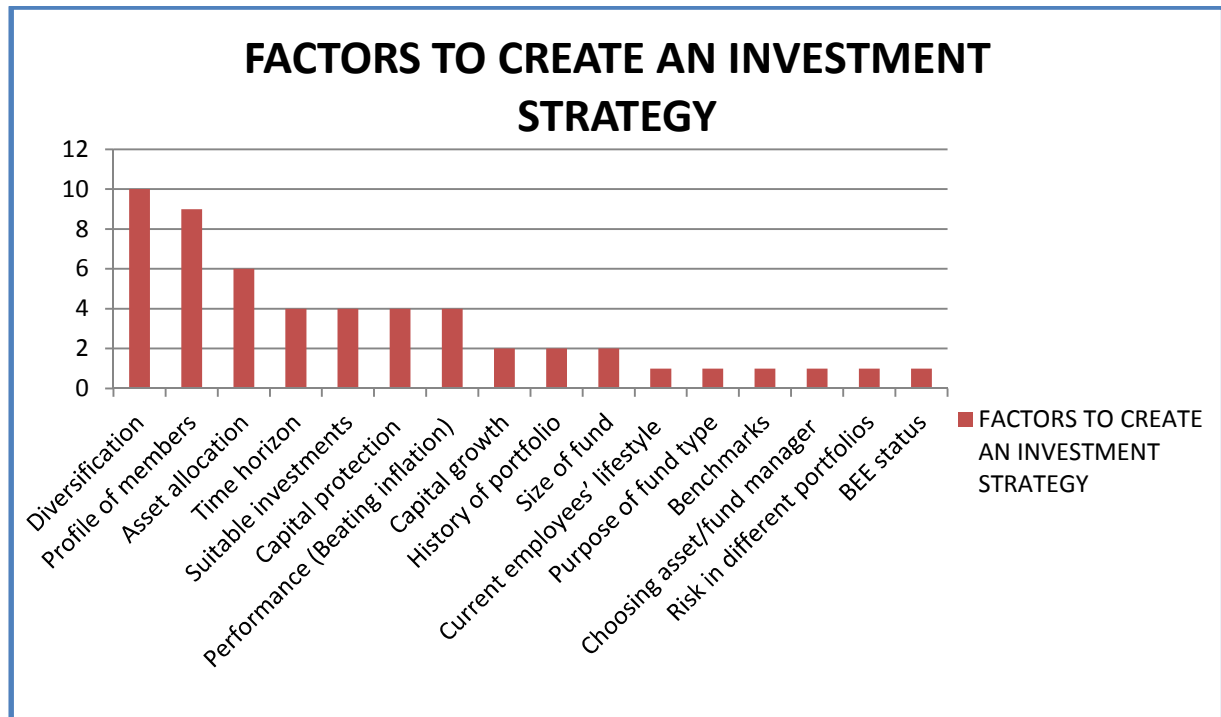
According to six participants Regulation 28 is used as it ensures diversification by specifying the investment limitations associated with each asset class. Therefore, Regulation 28 makes it easier to rebalance the investment portfolio when it goes beyond the stipulated asset mix. Participants indicated that the board of trustees should cooperate with investment consultants/administrators to create and monitor the investments of retirement funds by following the chosen investment guidelines. Furthermore, the participants stated that the board of trustees will establish the investment portfolio, track the portfolio performance and make informed decisions based on the fund's investment guidelines. Participants indicated that the investment consultants will select asset allocations and recommend appropriate changes to the fund, if it is necessary. Three participants indicated the investment policy formulated is used as a guideline and two participants identified that advice from boards of trustees should be adhered to. Three participants preferred to use the IPS because it stipulates the various asset classes to invest in as well as the limit on investment in each asset class. One participant highlighted the lifestyle approach which refers to the process of considering each member's lifecycle, and one the investment strategy (active versus passive), as important guidelines to be followed when making investment decisions.

Numerous views on foreign exposure (offshore investment) guidance were provided by the participants. The participants stated foreign asset allocation changes are guided mainly by investment companies, Regulation 28 and advice from consultants. Two participants supported changes in foreign exposure and provided two reasons therefore, such as it being less costly as well as it is providing more growth in the long-term, when the Rand is overvalued. In addition, two participants stated that foreign exposure presents an opportunity to spread risk across various assets classes. However, two participants did not support changes in their investment portfolio towards a foreign exposure and preferred investing in the local stock market because of past experiences, such as effects from a recession, with investments in the foreign markets.

A question posed to the participants related to the most important factors to be taken into account when creating an investment strategy. According to 10 participants, diversification is the most important factor that needs to be considered when developing an investment strategy. An equally important factor to be considered is the membership profiles, as it was highlighted by nine participants. In addition, six participants emphasised that the asset allocation decisions are important and four participants highlighted time horizon and suitable

investments as crucial factors. Furthermore, participants considered the following aspects not crucial when developing an investment strategy, namely: lifestyle investments, purpose of the type of fund, benchmarks of investment portfolios, choosing the asset/fund manager, risks inherent in different investment portfolios and BEE statuses. Figure 2 illustrates the factors that participants considers when creating an investment strategy.

**FIGURE 2: FACTORS TO CREATE AN INVESTMENT STRATEGY**



Participants were also questioned regarding large versus small investment portfolios and long-term versus short-term horizon portfolios. In terms of the effect of large investment portfolios on risk, three participants stated that the performance of the portfolio is more important than the size of the portfolio and therefore concluded that size has no effect on risk. Furthermore, two participants highlighted that large sized portfolios allow for investors to have more investment options, which may lead to less risk for investors. However, three participants highlighted that large sized portfolios are more risky. In terms of the effect of a long-term horizon on the risk of an investment portfolio, four participants stated that the risk of long-term investment horizons will be higher. However, six participants stated that risk will decline and return will increase if the portfolio's investment period is longer. Three participants commented that long-term investments will enable investors to achieve their desired returns. Furthermore, five participants mentioned that the inclusion of equity in a portfolio is a better option than including other financial assets, for a long-term investment.

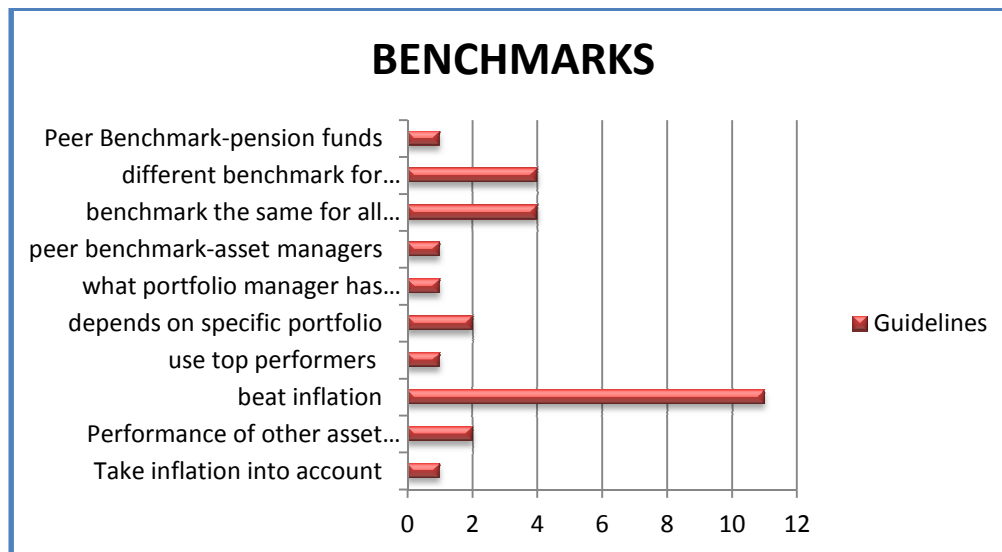
According to three participants, the risk of an investment portfolio will decrease when bonds are included in the portfolio. Therefore, this study's participants view bonds as a defensive asset class or investment option over a long-term horizon with a large sized investment.

The asset allocation decisions based on participants' perceptions were also investigated. The participants identified four main asset classes which may be included in a portfolio, namely, equity, bonds, cash and a social responsibility investment. Eleven participants commented that equity should have the highest allocation within an investment portfolio. The most preferred asset allocation structure from most preferred to least was equity, bonds and cash. Social responsibility investments, referring to investments in securities linked to corporate social responsibility, were mentioned by four participants as an asset class which retirement funds should include in their investment portfolios.

Concerning investors' needs and attitude towards risk, 10 participants stated that recognising investors' needs was the most important investment consideration, because needs will change as members move closer to retirement age. Eight participants suggested that membership profiles and investment allocation must be considered, as these factors can determine investors' needs and attitude toward risk. In addition, seven participants highlighted that a balance between members' interest and risks should be identified, while five participants highlighted the need to protect the capital of members closer to retirement. However, two participants indicated they are not sure of investors' needs and attitude toward risk, because the fund depends mostly on the guidance of advisors when making investment decisions.

Regarding the most relevant factors that need to be taken into account when creating an investment benchmark, 11 participants stated that the investment benchmark should take inflation into account. Furthermore, two participants stated that a benchmark depends on the performance of other asset classes, while another two participants suggested that a benchmark depends on the specific portfolio performance, for an example an aggressive portfolio would have a different benchmark than a conservative portfolio. The participants had different views on whether an investment portfolio should have different benchmarks or the same benchmark for different membership profiles in retirement funds. Figure 3 provides information about guidelines used by participants for creating investment benchmarks.

**FIGURE 3: GUIDELINES FOR CREATING A BENCHMARK**



When the participants were probed on the rebalancing of an investment strategy, a variety of responses were provided. Reasons for the importance of rebalancing included the achievement of investment goals (four participants) and taking the membership profile changes into account when new members join the fund or when members exit the fund (four participants). Three participants highlighted that rebalancing was important to address the needs of different membership profiles. The participants were asked to indicate when rebalancing is most likely to occur. Five participants indicated that the opportunity to rebalance a portfolio was annually, while two participants stated that rebalancing should be done quarterly. Three participants suggested that a portfolio should be rebalanced according to the performance of the stock market, whereas three participants identified that rebalancing should occur when a portfolio moves within certain limitation percentages of asset classes, as stipulated by Regulation 28. Only one participant said that rebalancing was not necessary. Trustees have a responsibility of developing an investment policy for the retirement fund. Therefore trustees have an influence on the investment management style portfolio managers adopt.

The participants were questioned regarding the influence investors' life cycles will have on investment portfolios. Nine participants perceived that, based on age, young members have aggressive portfolios (more equity and less bonds and cash in portfolios), while 10 participants mentioned that older members have conservative portfolios (less equity and more bonds and cash in portfolios). Seven participants highlighted that members close to

retirement should have protective portfolios which corresponds with the 10 participants indicating older members are having conservative portfolios. One participant indicated that when reaching the post-retirement stage, members are assumed to take full responsibility of their investment portfolio after they have retired from the fund.

From the 13 participants, 12 stated that they prefer an active strategy when making investment decisions. Four participants, who preferred an active strategy, highlighted that the strategy takes advantage of market performance by changing the investment portfolio exposure (that is rebalancing the portfolio) towards different asset classes that are considered to perform positively in the future. Three participants emphasised that an active strategy produces better investment returns and an active manager is aware of how stock market performance influences investment portfolios. Furthermore, one participant preferred both active and passive strategies. Three participants stated that they do not understand why a portfolio manager may adopt a passive strategy. In contrast, three participants suggested that a passive strategy was to maintain steady investment growth, while one participant indicated that a decision to follow a passive strategy may be based on the board of trustees' or the portfolio manager's discretion.

Various criteria for selecting a portfolio manager were identified by the participants. The majority of the participants (11) stated that they consider the past performance results of investment portfolios managed by portfolio managers when selecting a portfolio manager. Eight participants mentioned that they consider the advice they receive from investment consultants when selecting a portfolio manager. The presentation made to the trustees by the portfolio manager is used as a selection criterion by only five participants. Additionally, three participants highlighted that they consider the number and volume of investment portfolios that the asset management business manages; while two participants said they consider the other portfolios managed by a portfolio manager when choosing a portfolio manager. For each of the following aspects, only one participant mentioned it to be important when selecting a portfolio manager: the manager's investment philosophy, fees, staff and membership profile.

According to participants' views, specific actions need to be taken when investment portfolios underperform. It was found that four participants stated that when a portfolio performs poorly by having negative results, trustees should be patient and wait to see if any



changes occur. The trustees should also discuss the performance results with the portfolio manager. Seven participants suggested that the portfolio manager should be replaced if poor performance is evident. In contrast, six of the participants advised that the portfolio manager should be given the opportunity to identify the reasons for negative performances. Only two participants highlighted that the performance of the investment portfolio should be communicated with members.

Participants commented that the dialogue between consultants, portfolio managers and trustees is important. In addition, investment strategies should be simple for members to understand and trustees should pay attention to the performance of investment portfolios. Trustees should be aware of the potential conflicts between shop stewards of trade unions and trustees as well as between employer-elected trustees and member-elected trustees. The participants also highlighted that trustees should have at least Grade 12 certificates and that tertiary institutions should get involved in the attempt to educate trustees. Thus, trustees should be trained about investment principles, trustees' roles and responsibilities as well as the governance of retirement funds. In addition, trustees need to regularly attend workshops to update their knowledge regarding effective portfolio management.

## **CONCLUSIONS AND RECOMMENDATIONS**

The problem statement of the study emphasised that trustees should have adequate knowledge of portfolio management in order to make efficient investment decisions. Institutional investors invest large sums of money and face high risks when parties, including trustees, with inadequate knowledge about portfolio management make investment decisions. Therefore, trustees of retirement funds, who represent the interests of retirement funds' members but lack the knowledge of the portfolio management, can lead to members having less than their expected funds at retirement and post-retirement stages. As a result, trustees should have knowledge concerning portfolio management and related investment aspects, as it is evident that this is not the case.

Based on the study's findings, the following recommendations can be made to trustees in order to improve the efficiency of investment portfolios:

- The importance of Regulation 28 is to be recognised by trustees, especially for rebalancing and diversification purposes. Trustees should fully understand Regulation 28.

- Trustees should interact actively with, and validate advice from investment consultants/administrators.
- The inclusion of foreign investment in portfolios should be considered and should also be evaluated on a regular basis due to the dynamic and ever-changing financial situation of countries.
- Trustees need to be involved in drafting IPSs to ensure that they understand what needs to be achieved.
- Although the asset classes most commonly invested in are equity, bonds and cash, investments relating to social responsibility activities should be included in funds.
- It is important for trustees to conduct needs' analyses of their fund members to ensure that portfolios are still achieving the set objectives. It will also help to identify whether rebalancing needs to take place.
- Trustees should be aware of different benchmarks and not only focus on an absolute return benchmark. Investment portfolios that have different sizes, risks and liquidity levels should be matched to different benchmarks. Investment benchmarks should meet certain criteria, namely be clear, measurable, fair and appropriate for the relevant investment portfolio.
- Rebalancing an investment portfolio helps to maintain the investment strategy and manage membership profile changes.
- Trustees should be educated and understand that different strategies (active versus passive) match different investment portfolios. Therefore, it is important for trustees to correctly promote the use of either an active or a passive strategy in order to minimise a specific investment portfolio's risk.
- Trustees should be aware that portfolio managers can only be selected properly by using both the qualitative and quantitative methods of analysis. Therefore, trustees should be properly trained on the elements of qualitative analysis, including the investment philosophy of a portfolio manager.
- Trustees should be selected by using specific selection criteria, including their qualifications (e.g. a post-Grade 12 qualification specialising in business management and/or investment management).
- Trustees without the necessary investment knowledge should be appointed as co-trustees while gaining appropriate investment knowledge.

- New trustees should attend short training courses or workshops to attain investment knowledge, prior to becoming an official trustee.

It is evident that the study was valuable in that it provided clear insight into the perceptions of trustees on portfolio management. The study's conclusions and recommendations focus on the knowledge required by trustees of retirement funds.

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# **A REVIEW OF BUSINESS SOCIAL RESPONSIBILITY ASPECTS AND OUTCOMES FOR SMEs**

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## **ABSTRACT**

This paper reviews existing literature on business social responsibility (BSR) aspects relevant to small and medium-sized enterprises (SMEs) and the possible outcomes, from BSR implementation, for SMEs. Previous research is inconclusive regarding the BSR aspects applicable and useful to SMEs and the results thereof to SMEs. BSR is mostly referred to as corporate social responsibility (CSR) or corporate social investment (CSI) and prior research studies thereof mainly focused on the implementation of CSR activities in large enterprises. Although the implementation of BSR activities are important in large enterprises, due to their influence on many stakeholder groups, it is important to identify how smaller enterprises, including SMEs which represents most enterprises in South Africa, can implement BSR activities to positively influence their stakeholder groups. In addition, although the end results of BSR is not necessarily focused on financial gain, it is also essential to determine the possible influence of BSR actions on the financial performance of SMEs. The paper suggests a conceptual framework, with hypotheses to be tested in a follow-up study, regarding BSR in SMEs and the influence thereof on brand image and financial performance.

**Keywords:** small and medium-sized enterprises (SMEs), business social responsibility (BSR), brand image, financial performance

## **INTRODUCTION**

In the South African context, SMEs can be defined as those that have between 50 and 200 full-time employees (Bosch, Tait & Venter 2011:579). These SMEs have an annual sales turnover of amounts ranging between R13 million and R26 million and furthermore, generate a total gross asset value not exceeding R5 million (National Small Business Amendment Act 23 of 2003, IN Bosch *et al.* 2011:579). SMEs account for 90% of enterprises and they also

constitute 50-60% of total employment on a global scale. SMEs play an important role in the South African economy, as they employ 72% of the workforce. The development of SMEs in South Africa is a key objective that needs to be addressed, as SMEs have the potential to alleviate the issue of unemployment (Erasmus 2006:69). SMEs represent a large portion of enterprises in South Africa. They account for 91% of the formal business entities, contribute between 51-57% of the Gross Domestic Product (GDP) and provide up to 60% of employment (Kongolo 2010:2289). SMEs contribute to the economy by creating employment for the growing rural and urban labour force, as well as providing sustainability and innovation in the economy as a whole. Furthermore, SMEs can be regarded as the way to accelerate the achievement of wider socio-economic goals, including poverty alleviation (Kongolo 2010:2289). Kongolo (2010:2291) elaborates that SMEs contribute significantly to the provision of employment opportunities, the generation of income as well as the reduction of poverty. However, the survival of SMEs depends on different factors and influences from different parties. As with any business setting, an enterprise requires the support of its stakeholders, as it operates in a competitive environment. For this reason, the implementation of CSR activities is imperative (Freisleben 2011:54).

There is different terminology for social responsibility in literature. However, for the purposes of this study, focusing on SMEs, BSR will be the primary terminology used, as CSR has a connotation to the social responsibility activities of larger and more established enterprises.

SMEs assist with the reduction of poverty through employment, training and by providing social benefits such as BSR, to various stakeholders (Importance of SME sector 2011). SMEs play a vital role in building social capital that can assist towards the alleviation of social problems in the communities. This stems from the fact that SMEs contributing towards the investment in social capital are motivated by their moral convictions and not for commercial reasons (Jenkins 2009:23). SMEs partake in BSR to make a contribution to the society in which it operates and to invest in the well-being of its stakeholders, as these stakeholders play an integral role in the success of the enterprises. BSR plays a crucial role in an enterprise, as it influences all the aspects of the enterprise's operations. There is an increasing phenomenon of consumers who want to buy products from enterprises they can trust; suppliers want to form relationships with enterprises they can rely on and employees want to work for enterprises that are respected within the community (Werther, Jr & Chandler 2006:19). These needs of



various stakeholders show the importance of BSR. Actions that appear to further some social good, beyond the interests of an enterprise and that which is required by law, is the core attribute of BSR (McWilliams & Siegel 2001:22).

Ghillyer (2008:59) defines BSR to be the actions of an enterprise that aim to achieve a social benefit over and above its intentions of maximising profits for its owners and meeting all its legal obligations. Friesleben (2011:54) further elaborates that BSR occurs when an enterprise has a set of values that are not only embedded in its vision, mission and goals, but also in its management and business practices, to produce a positive impact on the society. Therefore, BSR refers to the commitment to improve community well-being through discretionary business practices and contributions of corporate resources (Kotler & Nancy 2005, IN Kumar & Tiwari 2011:22).

Regarding the implementation of BSR, SMEs have advantages over larger enterprises because they can adapt easily to market conditions and they can withstand unfavourable economic conditions due to their flexible nature (Kongolo 2010:2290). It is for this reason that SMEs have the ability to implement BSR with more ease and less administration, as SMEs enjoy the benefits of having fewer managerial constraints and less bureaucracy. Furthermore, the growing contribution of SMEs to the total economy makes it easier for them to engage in BSR and introduce strategies for charitable giving, as they have fewer managerial restrictions.

Most BSR initiatives arise as a response to a search for better management and greater focus on internal and external stakeholders. Even though BSR practises in SMEs may not always be consistent or clear, they are linked to issues that attempt to promote ethical citizenship in society (Santos 2011:499). Retrospectively, Vintilă and Moscalu (2009:54) assert that BSR does not only pertain to the way in which an enterprise makes use of its profits, but it also refers to the way in which those profits were acquired. In essence, BSR not only entails how an enterprise utilises its resources to contribute towards the welfare of society, BSR also pertains to the day to day operations that generate those resources within the enterprise. The growing importance of SMEs and BSR, give evidence to the need for research into these areas.

## **PROBLEM STATEMENT**

Following the brief introduction, the problem statement of the study can be formulated. BSR has traditionally been associated with larger and more established enterprises. BSR initiatives of large enterprises are still more dominant than that of SMEs, as a result of the prominence of larger enterprises. At the level of SMEs, the dynamics of BSR and the strategies that are in place are far less evident (Perrini, Russo & Tencati 2007:490). However, with the growing recognition and significance of the contribution that SMEs have on the economy, these enterprises are under pressure to exhibit their involvement in societal and environmental activities (Fuller 2003:279). BSR has largely been viewed from the perspective of large enterprises and this study attempts to make additional contributions to the knowledge on BSR in the field of SMEs. It is thus evident that prior research relating to BSR focused on large enterprises – how they conduct BSR activities and the benefits thereof for these enterprises' stakeholder groups.

Previous studies mainly considered the effects of BSR on stakeholder groups (Fraj-Andrés, López-Pérez, Melero-Polo & Vázquez-Carrasco 2012:268), and limited studies focused on the effects of BSR actions on the involved enterprises. Although much research has been conducted about the benefits that accrue to stakeholder groups (including consumers, environmentalists, the community at large) and the management strategies of the enterprises implementing it, no studies have focused on the potential influence of BSR on SMEs' brand image and financial performance.

Therefore, the need exists to investigate BSR in SMEs and the influence thereof on the performance of SMEs. Thus, the problem explained above leads to the purpose of the study – to investigate the BSR dimensions applicable for implementation in SMEs, as well as consider BSR and the related brand image and the financial performance of SMEs.

## **OBJECTIVES OF THE STUDY**

The primary objective of the study is to develop a conceptual framework regarding the BSR aspects in SMEs, to empirically test in a follow-up study.

In order to attain the primary objective of the study, the secondary objectives of the study are to:

- investigate BSR and its dimensions application for implementation in SMEs; and
- to investigate brand image and financial performance as possible results from BSR implementation.

## **RESEARCH METHODOLOGY**

An in-depth literature study was performed for this study and based on the literature a conceptual framework was developed. Desk research, described as a collection of secondary data or that which has already been collected (Hague 2011:1), was performed. Desk research is also known as secondary research (Willis 2008:1) and it refers to analysing already existing information from various sources that other researchers have gathered (Girolami 1996:3). Delaney Wood and Associates (2005:1) add that desk research is less expensive than original research, takes advantage of research already undertaken, saves time, and is available in electronic or hard copy format.

For the purpose of the study, the desk research method was followed and a thorough literature overview was conducted on the concerned topics, in order to construct a conceptual framework for future studies. As a theoretical study was undertaken, the data was sourced by using various secondary research sources, including books, journal articles, conference papers and newspaper articles. Literature regarding BSR aspects, brand image and financial performance, in relation to SMEs, were reviewed in the study.

## **LITERATURE OVERVIEW**

Following the introduction, problem statement and objectives of the study, a thorough literature review follows in this section covering the concepts of BSR, brand image and financial performance.

To achieve the research objectives set out in the study, a comprehensive literature review was carried out to identify all the different aspects and dimensions of BSR in the context of SMEs. In addition, research on brand image and the financial performance of SMEs was conducted.

### **Business social responsibility dimensions**

As stated above, the implementation of BSR activities is a valuable tool for any enterprise. For SMEs, BSR results in employee motivation and employee retention (Chen, Tseng, Wu &

Wu 2010:1151). Should an effective BSR strategy be implemented, this may enable a SME to retain and encourage key employees to stay in the employ of the SME and not find alternative employment in a larger enterprise that participates in BSR activities. Therefore, an employee that is motivated to be in the employ of a SME participating in BSR would not deem it necessary to find employment elsewhere, as those BSR activities are of interest to the employee. The aspirations that senior management has towards philanthropic participation, not only overcomes the obstacles that SMEs face, but may also provide a long-term benefit of improvement in client relationships and employee motivation. BSR activities are particularly important in developing countries, as those BSR activities that create employment in the local community assist in the development of that community. Thus, nurturing BSR activities in SMEs, especially in developing countries, is imperative as it could bring about positive social changes (Dzansi & Pretorius 2009:249). BSR provides the opportunity to build stronger stakeholder relations, especially when other enterprises are reducing their engagement in BSR activities. Therefore, BSR is vital during turbulent times, as it shows the enterprise's commitment to the environment in which it operates (Marwa, Kay, Tan, Kwek & Hassan 2011:159).

However, Santos (2011:490) believes that social responsibility for SMEs creates many challenges for these enterprises, such as financial restrictions and a lack of resources to contribute towards charitable giving. Some SMEs have allocated more time, finances and resources to investments in BSR, yet other SMEs have resisted. This may stem from the ongoing debate of whether an enterprise should go beyond the intention of the wealth maximisation of its owners as the only form of social responsibility it conducts, or whether the enterprise should be accountable for any actions that may affect the communities, people and environment in which it operates. According to Cooke (2010:78), it is important for an enterprise to be seen as part of the community, as reputation building is necessary in a competitive environment. Therefore, is it evident that what constitutes BSR varies from enterprise to enterprise, and so does the expectation to contribute towards a positive impact in society.

The various activities, dimensions or focus areas within an enterprise that can constitute BSR actions may include the enterprise's diversity efforts, environmental awareness, community development and stakeholder relations. Diversity refers to the recruitment and the retention of

a diverse workforce, with diversity programs that have the ethical obligation to employ and empower individuals regardless of age, gender, ethnicity, physical or mental ability (Thorne, Ferrell & Ferrell 2008:240). Diversity is a BSR issue that can provide an enterprise with enormous benefits, should the enterprise actively engage in it. Workplace diversity involves building and maintaining a diverse workforce that is free from discrimination and provides equal opportunities to all employees regardless of race, gender, religion or sexual orientation (Visser, Matten, Pohl & Tolhurst 2010:139). Thorne *et al.* (2008:240) describes workforce diversity as a business imperative and each enterprise must tailor its diversity initiatives to meet its unique employee, market and industrial circumstances.

Environmental awareness is another facet of BSR that an enterprise can undertake. Environmental awareness refers to the incorporation of environmental issues in business strategies for the maintenance of the quality of the natural environment (Thorne *et al.* 2008:317). In addition, it can be mentioned that BSR towards the environment encompasses energy and waste management, as well as conservation and the sustainable management of natural resources. According to Bosch *et al.* (2011:714), environmentalism refers to the organised efforts of an enterprise to protect and conserve the natural environment in which it operates. The business opportunities for BSR include green marketing (Visser *et al.* 2010:157), which links to environmental awareness.

Furthermore, a SME can be socially responsible through community development. Community development refers to an enterprise's engagement in community activities with the aim of improving the quality and substance of the community members' lives and livelihoods (Visser *et al.* 2010:76). Community development within the context of BSR refers to the recognition of how an enterprise's recruitments, purchases and investments can prosper communities. Enterprises can engage in BSR through reviewing their local purchasing and supplier opportunities, as well as collaborating with other enterprises for a greater BSR impact in deprived areas of the community (Visser *et al.* 2010:76). Community development may also entail the existence of a policy that encourages the use of local contractors and suppliers, a donation of the enterprise's earnings to the community as well as the involvement in or contributions to projects that will add value to the community (Ghillyer 2008:253).

In addition, it can be mentioned that another dimension of BSR is stakeholder relations.

Stakeholder relations refer to the extent to which business managers are willing to listen and respond to all stakeholders' needs and objectives (Thorne *et al.* 2008:68; Werther, Jr & Chandler 2006:138). The implementation of an effective stakeholder relations policy can be regarded as BSR. This can be considered part of a comprehensive approach to BSR. The extent to which an enterprise's stakeholders are considered and consulted before making any significant decisions is regarded as a key aspect of BSR (Werther, Jr & Chandler 2006:139).

It is important to note, that although the study focuses on the above mentioned activities, namely diversity, environmental awareness, community development and stakeholder relations as BSR dimensions, other BSR dimensions also exist. Prior research identified sponsorships and donations (Santos 2011:497; Visser *et al.* 2010:315), employee orientation (Barthorpe 2010:5; Dzansi & Pretorius 2009:251), industrial orientation (Vilke 2011:606; Ghillyer 2008:253), product liability (Fassin, Van Rossem & Buelens 2011:426; Thorne *et al.* 2008:264) and even consumerism (Visser *et al.* 2010:168; Thorne *et al.* 2008:266) as possible BSR dimensions. In addition, previous studies have shown that enterprises not using their finances to support socially irresponsible activities, are conducting BSR (Hohnen 2007:7; Werther, Jr & Chandler 2006:180). Due to the nature of this study, only focusing on SMEs, the four most commonly recognised BSR dimensions (diversity, environmental awareness, community development and stakeholder relations) have been considered in the study.

Jenkins (2009:21) emphasises that integrating BSR into the core of an enterprise is crucial to its success. Werther, Jr and Chandler (2006:138) confirm that enterprises that are most likely to succeed in the 21<sup>st</sup> century's evolving environment are those that balance the interests of their multiple stakeholders through BSR.

Grayson and Hodges (2004:9) maintain that the driver for business success is entrepreneurialism, a competitive instinct and a willingness to look for innovation from non-traditional areas such as those increasingly found in BSR activities. While many SMEs are motivated to undertake BSR for moral reasons, most SMEs still recognise the need for it to be mutually beneficial (Jenkins 2009:33). Thus, some SMEs require a quid pro quo association prior to participating in BSR, as those SMEs want something in return. Therefore, many enterprises expect that BSR activities must lead to benefits for the enterprise.

As the above BSR dimensions lead to the development of specific, practical BSR activities, which influence various stakeholder groups, it is possible that BSR actions can have an impact on the brand image of an enterprise.

### **Brand image in perspective**

Vukasovic (2009:166) defines brand image to be the sum of all the perceptions, notions and associations about a product/service that is being formed in the consumers' minds. Brand image is a concept built on the past behaviour of the enterprise and the expectations of stakeholders (Visser *et al.* 2010:337). In other words, stakeholders use their knowledge about the enterprise from previous encounters and their ideas and expectations of future enterprise actions to form a certain perception concerning the enterprise in their minds. Therefore, a brand image whether it is positive or negative, is formed.

Enterprises with positive brand images, strive to maintain the best practices and consider the interests of their stakeholders when making decisions about their operations. Werther, Jr and Chandler (2006:59) believe that the attractiveness of an enterprise to its stakeholders is directly linked to the strength of its brand. The stakeholders of an enterprise formulate perceptions of the enterprise, based on its brand. Therefore, the brand image of an enterprise is potentially a by-product of an effective BSR strategy or, in other words, applying BSR initiatives strategically can possibly assure a positive brand image.

BSR is a means in which an enterprise may improve their overall brand image, as it is based on the perceptions and the ideals of stakeholders. BSR may consist of various dimensions or activities and these BSR activities might influence the brand image of a SME (Fraj-Andrés *et al.* 2012:270). A good BSR initiative is vital in the establishment and improvement of the brand image of an enterprise, as BSR is an effective way of maximising the appeal of the enterprise in the market (Werther, Jr & Chandler 2006:59).

Belén del Río, Vázquez and Iglesias (2001:413) state that a positive brand image can provide an enterprise with competitive advantages. One of the advantages of a good brand image is related to the longevity of profits. An enterprise would be less vulnerable to competitive marketing actions and also less vulnerable to a marketing crisis, if a positive brand image exists among its stakeholders. A positive brand image generates good word-of-mouth

advertising, and promotes loyalty to the enterprise. Thus, brand image is an important element in the success of an enterprise. A positive brand image relates to the performance and profitability of an enterprise. A SME can gain a competitive advantage through brand image, and in doing so, ensure a positive influence on sales and revenue (Werther, Jr & Chandler 2006:57). Some research has shown that a positive brand image influences the financial performance of SMEs (International Institute for Sustainable Development 2002 IN Dzansi & Pretorius 2009:249). Following this, it is appropriate to mention the possibility that the brand image of an enterprise can influence its financial performance. Therefore, a positive brand image concerning a SME can possibly improve the financial performance of the SME.

### **Financial performance**

Santos (2011:491) asserts that BSR, at the level of SMEs, is associated with financial viability, as well as economic performance. Ethical and social values have emerged as the explanatory reason for the involvement of SMEs in BSR activities. However, the perception of the positive influence BSR has on the management of an enterprise is another reason for the involvement of SMEs. The benefits that result in the adoption of BSR may be factors such as consumer loyalty, employee satisfaction and better stakeholder relations. More so, McWilliams, Siegel and Wright (2006:18) believes the most important motive for BSR is that the strategic use of philanthropy gives enterprises a competitive edge over those enterprises that do not make use of BSR.

It is to the advantage of the enterprise to partake in those BSR initiatives that the non-financial stakeholders of an enterprise believe to be essential, as they are the stakeholders of an enterprise that are capable of withdrawing their support, should they deem it necessary. This may have an undesirable affect on the financial performance of the enterprise, as a result of these stakeholders' absence (McWilliams *et al.* 2006:15). As mentioned, BSR can be regarded as the way in which an enterprise invests its resources into the development of the community, and in doing so, make a valuable contribution to various stakeholders. For a BSR initiative to be successful, it is necessary that stakeholders are provided with the benefits of BSR, rather than the enterprise expecting returns for itself (Bhattacharya, Daniel & Sankar 2009:28). Although BSR is implemented with the intention of the enterprise not receiving anything in return, it is important to admit the possibility that successful, influential BSR



activities, positively influencing stakeholders, may influence an enterprise's financial performance.

The success or level of business performance of an enterprise can be measured by the enterprise's growth in terms of sales turnover, profits, rates of return on investments, expansion, productivity, as well as decreases in costs and its employment turnover rate (Griffin, 2008; Lasher, 2008 and Dockel & Ligthelm, 2005). Therefore, financial performance refers to the increases in sales, profits, total assets, rates of returns and the decrease in costs.

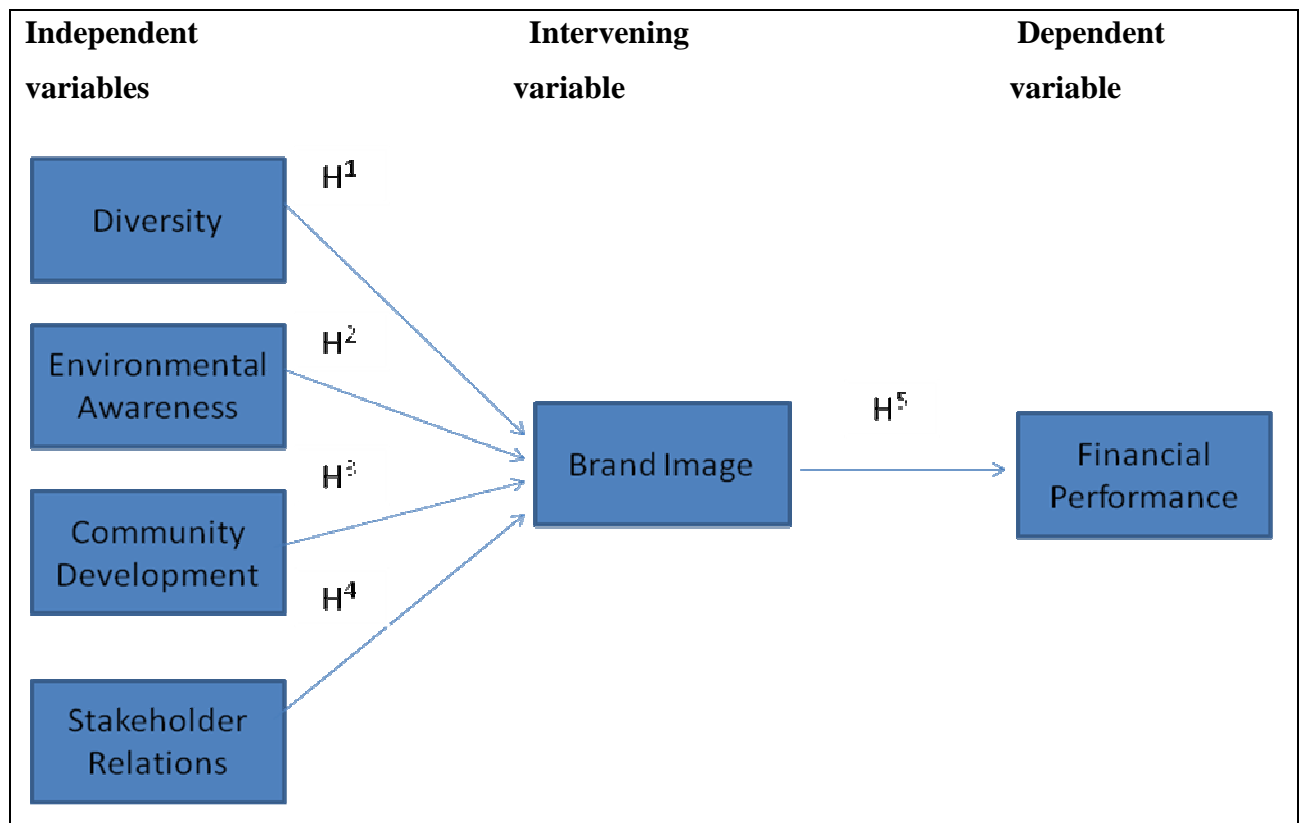
According to Bampton, Odemilin and Samy (2010:205), enterprises supporting the notion of a socially responsible business entity believe that the enterprise would be able to improve its financial performance as a result of BSR. Birch (2005:73) upholds the belief that an enterprise may be able to fulfil the expectations of society, that it will support the community in which it operates, generate profits and also create shareholder value, should it implement a BSR strategy effectively.

A substantial amount of debates have occurred, questioning the existence of a relationship between BSR and the financial performance of an enterprise (Bampton *et al.* 2010:204). There have been several studies undertaken revealing contradictory findings as to whether there is an association between the BSR initiatives of an enterprise and the financial performance of that enterprise (Cooke 2010:73; Orlitzky, Schmidt & Rynes 2003:404). Therefore, more research is required in determining the extent to which BSR ultimately has an influence on the financial performance of SMEs.

## **CONCLUSIONS AND IMPLICATIONS AS THE RESULTS OF THE STUDY**

The main implication of the study is the resultant recommendation for future research. To achieve the primary objective of the study, namely to develop a conceptual framework regarding the BSR aspects in SMEs to empirically test in a follow-up study, the researchers developed a conceptual framework (Figure 1). The researchers recommend that the hypothesised relationships in the conceptual framework be empirically tested in a follow-up quantitative study. Various statistical procedures can be used in future analysis to test the suggested relationship between the variables identified in this study.

**Figure 1: Conceptual framework regarding BSR dimensions in SMEs**



As evident in Figure 1, the researchers recommend the following hypotheses to be tested in a follow-up quantitative study, with SME owners/managers as respondents:

- H<sup>1</sup>: There is a positive relationship between *Diversity* and *Brand Image*.
- H<sup>2</sup>: There is a positive relationship between of *Environmental Awareness* and *Brand Image*.
- H<sup>3</sup>: There is a positive relationship between *Community Development* and *Brand Image*.
- H<sup>4</sup>: There is a positive relationship between *Stakeholder Relations* and *Brand Image*.
- H<sup>5</sup>: There is a positive relationship between *Brand Image* and *Financial Performance*.

When considering the limitations of the study, it is important to note that although this study focused on providing an extensive literature overview on BSR, it may be possible that other variables influencing BSR exist. These variables are to be identified in future studies.

As a final conclusion, it is evident that this study was valuable in that it provided clear insight into prior research regarding BSR, brand image and the measure of financial performance for SMEs. The link between all three aspects (BSR, brand image and financial performance) in

SMEs, are to be considered in future research. In addition, the study led to the construction of a conceptual framework to be tested in a further study, in order to gain knowledge regarding applicable BSR activities for SMEs. Various statistical procedures can be used in further analysis to test the suggested relationships between the variables identified in this study.

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# APPROPRIATE MANAGEMENT OF SOCIAL HOUSING: A POSSIBLE SOLUTION FOR THE NIMBY SYNDROME

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## **ABSTRACT**

Social housing projects often face substantial “Not-in-my-backyard” (NIMBY) sentiment. This study considers the validity of the most pervasive NIMBY argument, the claim that social housing developments negatively affect nearby property values, by considering the property prices of 170 single-family homes in the Walmer neighbourhood, Nelson Mandela Bay, as a function of their proximity to an existing low-cost housing development. The results of this study indicate that in the case of one Nelson Mandela Bay low-cost housing development, a negative impact is exerted on the property values of nearby houses. To mitigate some of the negative effects of social housing, proper management of social housing projects is vital. Specific recommendations for future social housing programmes include the following: renovation of dwellings, the establishment of impact standards, the monitoring of tenants, the maintenance of dwellings, collaboration of neighbourhood groups and improving the image of social housing.

## **INTRODUCTION**

Social housing is a relatively new concept in South Africa (A Toolkit for Social Housing Institutions, 2010). The two primary objectives of the social housing programme are to contribute to the restructuring of South African society in order to address structural, economic, social and spatial dysfunctionalities and to improve and contribute to the overall functioning of the housing sector in order to widen the range of housing options available to the poor (Social housing policy for South Africa, 2005).

The development of this form of housing has been plagued by “local opposition”, who argue that these structures may lead to reductions in the property values of nearby houses (Iglesias,

2002). This is commonly referred to as the “Not-in-my-backyard” syndrome (NIMBY) (Iglesias, 2002).

Negative preconceptions about social housing (as it is historically defined) form the basis of the NIMBY argument (Cummings and Landis, 1993). However, the results of several international studies reveal that this is not always the case (Nguyen, 2005). Some studies have shown that social housing projects may actually have a positive influence on surrounding residential property prices (Lyons and Loveridge, 1993; Galster, Tatian and Smith, 1999; Santiago, Galster and Tatian, 2001). However, for social housing to have a positive effect on surrounding property values, the projects need to be appropriately managed (Iglesias, 2002).

In what follows, Section 2 investigates the problems associated with social housing from an individual property owner’s perspective. Section 3 defines the specific research objectives. Section 4 presents the literature overview. The research methodology is presented in section 5 and the results are presented in section 6. Section 7 concludes the paper and section 8 investigates the managerial implications of social housing.

## **PROBLEM INVESTIGATED**

There is a paucity of South African studies that examine the impact of social housing developments on nearby property prices. The aim of this paper is to fill this gap. More specifically, this paper seeks to determine the effect (if any) of an existing housing establishment (the Walmer Township), catering for low-income earners, in Nelson Mandela Bay on property values in an adjacent residential area, by applying the hedonic pricing method. In this study, the Walmer Township acts as a proxy for proposed social housing developments in Nelson Mandela Bay. The reason for selecting Nelson Mandela Bay is that the proposed social housing developments in this area have received a great deal of negative publicity and community opposition in the local media (Vermeulen, 2008). Individual home owners feel that social housing will lead to a reduction in surrounding property values. Since house ownership, coupled with retirement savings, make up the bulk of wealth most employed persons in South Africa have accumulated over their working lives, any developed that is perceived to erode this wealth will be met with resistance (Luus, 2003; Fife, 2005; Mount Road Social Housing Development: Public Participation Process, 2011).

## **RESEARCH OBJECTIVES**

The specific objectives of this paper are to:

- 1) Investigate the nature of social housing in South Africa with specific reference to the local opposition facing social housing.
- 2) Determine the effect of an existing social housing complex on surrounding property prices in Nelson Mandela Bay.
- 3) Provide solutions from a management perspective in order to assuage public perception of social housing.

## **LITERATURE REVIEW**

Well-managed social housing projects have the ability to reconnect residents to resources within cities and are also able to assist with stabilising crime ridden environments (Part 3 of the National Housing Code, 2009). Current statistics indicate that the demand for this housing option will increase significantly (Social Housing Policy for South Africa, 2005).

Plans to provide affordable accommodation options for low-income earners in South Africa officially commenced in 1996, with the establishment of the National Housing Finance Corporation (NHFC) (A Toolkit for Social Housing Institutions, 2010). The primary goal of the NHFC was to ensure the development and appropriate funding of institutions offering a variety of tenure options for residential purposes. Over the next 12 years, various policy and legislative procedures were developed, which resulted in the Social Housing Act (No. 16 of 2008), which seeks to establish and promote a sustainable housing environment. Examples of completed social housing projects in South Africa include BG Alexander (Hillbrow, Johannesburg), Botlhabela Village (Alexandra Far East Bank, Sandton), Candella Road (Durban), Elangeni (Inner City, Johannesburg), Hope City (Mpumalanga), Skyview (East London) and Haven Hills South (East London) (Project Review Series, 2009).

The Haven Hills South complex is situated 7 kilometers from the East London CBD and the project commenced in July 2002. It was completed and occupied in June 2003. In accordance with the Social Housing Policy for South Africa, low-income earners<sup>1</sup> qualified on a rental basis. A total of 258 units make up the project and these units range from one to three bedroom units. The sizes of the one, two and three bedroom units, respectively, are 25m<sup>2</sup>, 35m<sup>2</sup> and 45m<sup>2</sup>. Each unit comes standard with an open plan living area and kitchenette, which includes a sink and preparation area. Aluminum window frames and a stable front door were fitted to each unit. Tenants are charged a monthly rental of R950, R1 451 or R1 551, respectively, for a one, two or three bedroom unit. The average maintenance cost per unit is approximately R96 per month. Facilities and amenities include play areas for children, pre-paid water and electricity and one parking bay per unit. Total development costs of the Haven Hills South project in East London amounted to R29 000 000, resulting in an average cost per unit of roughly R112 403 (Project Review Series, 2009).

In Nelson Mandela Bay, the focal area of this study, certain sites have been approved for social housing developments by the National and Provincial Departments of Human Townships (Social Housing Boost for Nelson Mandela Bay, 2009). These sites include the Inner City, Lower Baakens, Walmer, Mount Croix, Despatch CBD, Uitenhage CBD and William Moffet (Social Housing Boost for Nelson Mandela Bay, 2009). To date, none of these approved sites has been developed. These proposed social housing developments in Nelson Mandela Bay have been met with severe resistance from residents, who argue that “property values will be substantially affected in a negative manner” (Vermeulen, 2008). Despite the fact that these proposed developments have not been completed, there is another low-income housing development (the Walmer Township) which can be used as a proxy for the proposed social housing developments in Nelson Mandela Bay.

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<sup>1</sup> Low-income persons are broadly defined as those whose household income is below R7 500 per month. The target market for social housing projects includes persons opting for the mobility and flexibility that rental housing allows, those who simply cannot afford inner city residential property prices, singles with dependents who tend to opt for affordable rental options and persons currently living in informal settlements because it is the only affordable option available to them.

## RESEARCH METHODOLOGY

Houses are differentiated goods which are made up of bundles of attributes (Epple, 1987). Most of the attributes that make up a house are market-induced (i.e. erf size<sup>2</sup>, number of rooms, etc.) (Haab and McConnell, 2002). A few attributes such as air pollution or proximity to a social housing complex are non-market induced (Haab and McConnell, 2002). Many studies have used the hedonic pricing method (HPM) to estimate the effect of air pollution on house prices (Kiel and McClain, 1995; Chattopadyay, 1999; Beron, Murdoch and Thayer, 2001). Other non-market applications of this method include estimating the relationship between house prices and hazardous waste sites (Kohlhase, 1991; Hite, Chern, Hitzhusen and Randall, 2001; Nelson, Genereux and Genereux, 1992), and water pollution (Hoehn, Berger and Blomquist, 1987). The theory and application of hedonic models were first rationalised by Rosen (1974).

The HPM relies on the systematic variation in house prices due to differing attribute combinations to impute the willingness to pay for the attributes (Epple, 1987; Haab and McConnell, 2002; Sirmans, Macpherson and Zietz, 2005). Typically, the estimation of a HPM entails two distinct stages. During the first stage, a hedonic pricing function is estimated by means of regression analysis. The hedonic pricing function can be specified as:

$$P = f(S,L,M) \quad (1)$$

where: P represents the sales price of a property, S represents the on-site characteristics of the property, L represents the location and surrounding neighbourhood characteristics, and M represents the market characteristics. The first-stage HPM estimates can be used to calculate the implicit prices of housing attributes. For example, the implicit price of attribute L in Equation (1) can be estimated by the following equation:

$$\partial P / \partial L = \partial P(S,L,M) / \partial L \quad (2)$$

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<sup>2</sup> Erf size can be defined as the size a plot of land, marked off for building purposes.

During the second stage of analysis, the implicit prices calculated during the first stage are used to estimate a demand function for the attribute of interest (Rosen, 1974). Consumer surplus estimates can then be derived from this function.

One of the main shortcomings of the HPM is the estimation of the demand function. This is because the second stage may not reveal any new information and, thus, the estimated demand equation simply mirrors the results of the first-stage regression (Brown and Rosen, 1982). This is often referred to as the identification problem (Brasington and Hite, 2005). Chattopadhyay (1999) overcomes this obstacle by applying the hedonic two-stage estimation technique on household level data. The literature, however, reveals that the most widely accepted solution is the use of segmented markets (Brown and Rosen, 1982; Palmquist, 1984; Brasington, 2000; Zabel and Kiel, 2000). In this case, a separate hedonic function is estimated for each metropolitan area assumed to be affected by the environmental disamenity. This will (theoretically) generate a number of different parameter estimates for the relationship between house prices and the environmental quality, thus revealing different implicit prices, from which the demand function can be estimated. From this, total welfare effects can be estimated (Brasington and Hite, 2005).

It is generally accepted that market segmentation occurs between metropolitan areas, but one cannot segment areas within the same metropolitan region (Palmquist, 1984). One possible reason for this segmentation between different metropolitan areas, and not within the same metropolitan area, is due to potentially different construction costs and job opportunities (Brasington and Hite, 2005). Of course, in order to estimate implicit prices for environmental quality in segmented markets, the environmental quality in question would have to extend to all of these markets. However, when one is dealing with a localised amenity/disamenity (for example, social housing developments) one may encounter difficulties when segmenting the market (as different metropolitan areas are not likely to be affected by the amenity/disamenity in question). Due to these difficulties, most studies only estimate the first-stage hedonic model (Haab and McConnell, 2002).

## **THE DATA AND EMPIRICAL RESULTS**

### **Study area**

The main challenge in defining the study area for the purposes of this study was to find an existing housing development, that (1) caters for low-income earners, (2) is located in close proximity to a residential neighbourhood (the Walmer one, and (3) is comparable to a typical social housing development as proposed by the South African government. The only viable option was the Walmer (Gqebera) Township. The township is located adjacent to the Walmer neighbourhood, is attractive to low-income earners, and enjoys a vibrant formal property market. An analysis of the traded properties in the township for the period 2005 to 2009 reveals an average sales price of R80 720 (South African Property Transfer Guide, 2011). This is more or less in line with the estimated cost per unit of R66 650 for the proposed New Brighton social housing project in Nelson Mandela Bay. In addition to the physical similarities between the Walmer Township and the proposed social housing development, there are also potential social similarities. These similarities are largely based on public perceptions of social housing developments. Feedback from the Mount Road Social Housing Development public participation process revealed that the public perception is that the development would be detrimental to the Mount Croix area (Mount Croix is a suburb in Nelson Mandela Bay and has been earmarked for a potential social housing development). More specifically, the public expressed concern that the development would result in an upsurge in crime and that low income tenants would encourage theft in the area. The public also expressed concern that the development would lead to overcrowding and a general disturbance of peace in the area (Mount Road Social Housing Development: Public Participation Process, 2011). These perceptions are not dissimilar to the social ills afflicting the Walmer Township and surrounding areas. The Walmer Township was thus used as a proxy for potential social housing developments in Nelson Mandela Bay.

### **The data**

The data used in this study were obtained from a variety of sources. Historical sales price data for residential property stands in the neighbourhood of Walmer, Nelson Mandela Bay that were traded at least once during the past 15 years were collected from the Municipal database.

All transactions that were not arms-length ones<sup>3</sup> were excluded from the analysis. Data from the Absa house price index were then used to adjust house prices to constant 2009 rands to control for real estate market fluctuations. Walmer neighbourhood has a total of 2 625 residential properties and a total of 1 326 transactions took place from 1995 – 2009 (excluding repeat sales) (South African Property Transfer Guide, 2011). The population in this study was thus limited to the 1 326 traded properties over the study period. Of these traded properties, a simple random sample of 170 houses was drawn. Every house in the population had an equal chance of being drawn (Fink, 2003). The generally accepted level of precision for representative samples is 10% or less (Fink, 2003) – in the case of this study it was 7.2%. Information on the structural characteristics of 170 houses (the final dataset) in the Walmer neighbourhood was collected via personal interviews during January 2010 and the sample response rate was 100%.

### **The choice of hedonic variables**

Previous research conducted by Sirmans et al. (2005) guided the selection of appropriate structural and neighbourhood characteristics for the purposes of this study. Information on the following characteristics were gathered as part of the survey: house size, number of stories, age of house, number of full bathrooms (bath, shower, toilet, basin), number of partial bathrooms, number of bedrooms, swimming pool, staff quarters, bachelor/granny flat, air-conditioning, number of vehicle storage units, irrigation system, separate dining room, number of living rooms, borehole, tennis court, boundary wall, electric access gate, security system, electric fence, distance from Walmer Township, distance to closest major shopping centre, distance to closest school and distance to airport. The distance from the subject property to the Walmer Township was measured (to the nearest metre) using Google Maps. The closest house in the sample was located 500m away from the township and the furthest house was situated 3 200m away from the township. All distances were measured from the same point, on the outer border of the Walmer Township.

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<sup>3</sup> Some property transactions are conducted for reasons other than profit maximisation.



## The hedonic model results

All models in this study were estimated using Stata Version 11.0. A complete model was estimated first, which included all variables thought to have an influence on the price of a property. Following this, a reduced model, including only the coefficients of variables that were significant at the 5% level, was estimated. For the sake of parsimony, only the reduced model is presented in this paper. Table 1 provides a summary of the descriptive statistics of the variables with significant coefficients.

**TABLE 1  
SUMMARY STATISTICS**

Variable	Unit of measurement	Min	Max	Mean	Standard deviation
Sales price	Rands	193600	4926800	1626395	774758
<i>Structural characteristics</i>					
Stories	Number of	1	2	1.18	0.387
Swimming pool	Yes = 1	0	1	0.8	0.401
	No = 0				
Electric fence	Yes = 1	0	1	0.26	0.442
	No = 0				
Erf size	Square metres	380	4600	1776.4	629
<i>Neighbourhood characteristic</i>					
Distance to Walmer Township	Metres	500	3200	1799	599

Three functional forms were employed for the estimation of the reduced hedonic model – linear, semi-log and double-log. The results of these models are presented in Table 2.

**TABLE 2  
REGRESSION RESULTS**

Variable	Model		
	Linear	Semi-log	Double-log
Constant	-637227.2 *	12.80066 *	9.194558
<i>Structural Characteristics</i>			
Stories	315564.1* (115471.4)	0.2103601 * (0.0702052)	0.2163872 * (0.0738776)
Swimming pool	379897.9 * (114494.5)	0.3246914 * (0.0696113)	0.3760579 * (0.0724281)

<b>Electric fence</b>	288136.1* (101950.1)	0.1464202* (0.0619844)	0.1698721 * (0.0653225)
<b>Erf size</b>	612.6198 * ( 71.59329)	0.0003288 * (0.0000435)	0.3427216 * (0.0581727)
<i>Neighbourhood characteristics</i>			
<b>Distance to Walmer Township</b>	234.5882* (73.9966)	0.0001467 * ( 0.000045)	0.2507972 * (0.073804)
<b>R-squared</b>	0.4698	0.4673	0.4110
<b>F-statistic</b>	29.07	28.77	22.89

\*Significant at the 1% level

The results from the all the hedonic regressions generally conform to *a priori* expectations. More specifically, the number of stories, the size of the erf, the presence of a pool and the presence of an electric fence all have statistically significant, positive effects on property values in the sample. A very encouraging result is the statistically significant relationship that exists between house prices and distance from the Walmer Township. This significance allows for the calculation of implicit prices and provides evidence that house prices in the suburb of Walmer are, in part, determined by proximity to the township. More specifically, the relationship between house prices in Walmer and distance to the township is positive and significant.

The hedonic function used in this study can be represented by the following equation:

$$Y = \alpha + \sum_{z=1}^k \beta z + \epsilon \quad (3)$$

Equation 3 can be used to calculate the implicit price of distance to the Walmer Township. This calculation entails taking the partial derivative of the price Y with respect to distance X:

$$\frac{\partial Y}{\partial X} = \beta z X z^{\theta-1} Y^{1-\lambda} \quad (4)$$

Using Equation 4, the mean implicit prices calculated for the linear, semi-log and double-log models were R234.59, R238.60 and R226.73 respectively. In other words, distance away from the Walmer Township is valued at between R226.73/metre and 238.60/metre.

## Welfare Estimates

In this section, a household's (with a mean vector of attributes) willingness to pay for a finite change (i.e. discrete improvement) in the distance to Walmer Township characteristic is calculated. In order to define the finite change, impact zones were estimated by creating a dummy variable to indicate whether the subject house was located in the impact area (i.e. the area where proximity to the Walmer Township has a statistically significant, negative effect on Walmer house prices) (Tu, 2005).

The impact area was estimated as a 1 999m radius around the Walmer Township (starting from the outer limit of the township)<sup>4</sup>. At a mean distance away from the Walmer Township of 1 799m for the average house in Walmer, the finite change was estimated to be 200m (i.e. 1 999m – 1 799m).

The results of the first-order approximations for the linear, semi-log and double log models are presented in Table 3.

**TABLE 3**  
**WELFARE MEASURES FOR A CHANGE IN DISTANCE**

Functional form	Coefficient: $\beta$	Marginal Value*	First Approximation using marginal value**
Linear ( $\lambda = \theta = 1$ )	234.59	234.59	46918
Semi-log ( $\lambda = 0, \theta = 1$ )	0.0001467	238.60	47720
Double log ( $\lambda = \theta = 0$ )	0.25	226.73	45346

Notes: \*Marginal value =  $\beta X^{\theta-1} Y^{1-\lambda}$

\*\* Marginal value \* 200

<sup>4</sup> This distance is based on the results of the base hedonic regressions, which used a single dummy variable to indicate the subject property's location relative to the township. The table below presents the results of these regressions.

### Impact zones

Impact zone	Estimated coefficient	t - value
0 - 999	-418884.7	-2.08*
0 - 1 499	-470670.2	-3.83*
0 - 1 999	-231085	-1.94*
0 - 2 499	-42991.62	-0.25

\* Significant at the 10-percent level

## **CONCLUSIONS**

This paper finds that the Walmer Township has a statistically significant negative impact on Walmer property prices. The study shows that the average household, if located in the impact zone, is willing to pay between R45 346 and R47 720 to move 200m further away from the Walmer Township.

One of the main shortcomings of this study is that it uses one residential neighbourhood in Nelson Mandela Bay as its locus – this limits the extent to which the study's results can be generalised nationally. Also, in addition to the formally traded houses, the Walmer Township also comprises of informal “shack dwellings” – these are located at the back of the township (i.e. they are further away from the Walmer neighbourhood compared to the formal houses). In this study it was impossible to separate or disentangle the distance effects of the two dwelling types on the property prices in the Walmer neighbourhood. Finally, a fairly small data set was used in the study.

## **MANAGERIAL IMPLICATIONS**

Although the results of this study reveal that social housing in South Africa may lead to reductions in nearby property prices, numerous international studies have shown that social housing is, in fact, beneficial to the surrounding area. More specifically, Santiago et al. (2001) and Lyons and Loveridge (1993) found a positive relationship between social housing and surrounding property values. Of critical importance is the correct management of these projects. Specific recommendations provided by Santiago et al. (2001) for future social housing programmes include the following: renovation of dwellings, the establishment of impact standards, the monitoring of tenants, the maintenance of dwellings, collaboration of neighbourhood groups and improving the image of social housing (Santiago et al., 2001). Attention to these aspects may also help alleviate the NIMBY syndrome (Iglesias, 2002). With regard to the renovation of dwellings, social housing site preference should be given to existing structures in need of renovation, as positive externalities are associated with the renovation of such properties (Santiago et al., 2001). The monitoring of tenants making use of social housing is another vital management aspect. This needs to be done in order to ensure that the financial and behavioural obligations of the tenants are met. Furthermore, the

appropriate management of these projects is essential in order to ensure that informal “shack dwellings” do not materialise on site and good management practices will contribute to low tenant default rates (Social Housing Policy for South Africa, 2005). The appropriate management of these projects will also aid in combating the perception that social housing leads to private residential property devaluation (Iglesias, 2002; Santiago et al., 2001; Lyons and Loveridge, 2002).

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# PERCEPTIONS REGARDING SUSTAINABILITY OF SMEs IN THE EASTERN CAPE: AN EMPIRICAL INVESTIGATION

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## ABSTRACT

The purpose of this paper is to investigate perceptions of SME's in the Eastern Cape regarding sustainability, with specific reference to roles, drivers and challenges of sustainability. 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 175 SME's from the designated population. A total of 27 null-hypotheses were formulated and tested in this study. Only six null-hypotheses indicated significant relationships between the dependent variables (perceptions regarding sustainability) and independent variables (classification data) and are reported in this paper. Various key aspects regarding the roles, drivers and challenges of SME's in terms of sustainability are outlined. Some general and practical guidelines are also provided for assisting SME's in implementing sustainability strategies.

**Keywords:** sustainability; challenges; drivers; perceptions; SME's;

*"... SME's a heterogeneous group in society ... complicated and dynamic environment for engaging SME's in corporate sustainability ... explore key drivers and barriers behind their social and environmental engagement ... current status towards sustainability a high level of concern versus low level of engagement ... most important motivator to improve image and governmental legislation ..."* (Yu & Bell, 2007:19)

## INTRODUCTION

The purpose of this paper is to investigate the perceptions of small and medium-sized enterprises (SME's) regarding sustainability, with specific reference to roles, drivers and challenges. Sustainability is defined as humanity having the ability to make development sustainable to ensure that it meets the needs of the present without compromising the ability of future generations to meet their own needs (Kates, Parris & Leiserowitz, 2005:4). An effective strategy for sustainable development brings together the aspirations and capacities of government, civil society and the private sector to create a vision for the future and to work tactically and progressively towards it. The core challenge for sustainability is to ensure productive work and a better quality of life for all people (World Bank Development Report, 2003). Bond, Curran, Kirkpatrick, Lee and Francis (2001) suggest the growing acceptance of sustainable development as an overarching policy goal has stimulated interest in assessing the impact of particular interventions on sustainability. Millar and Russell (2011:512) argue that sustainability is fast becoming a major business performance dimension that is shaping the competitive landscape for many enterprises. Jones, Shan and Goodrum (2010:971) assert that this has led to the integration of integrated assessment in terms of economic, social and environmental impact. However, Wiesner, Chadee, Best and Poole (2010) are of the opinion that the establishment, implementation and maintenance of a formal system of integrated reporting is costly and often beyond the reach of many SME's which do not have the resources. This has been the domain of research in large enterprises, but is a new direction of research in SME's. Collins, Dickie and Weber (2011:85) also state that over reliance on the financial bottom-line may be a significant barrier to SME's adopting further sustainability practices. This notion is also highlighted by Urban and Naidoo (2012:146) who argue that although SME's are regarded as the bedrock of an economy and key driver for economic growth, skills deficiencies often endanger SME's sustainability. Painter-Morland and Dobie (2011:13), on the other hand, call for strengthening of relationships between SME's and external stakeholders as to ensure sustainability.

The first aspect to be addressed in this paper is the problem statement and research objectives, followed by a literature overview regarding sustainability. This is followed by the hypotheses to

be tested and research methodology adopted for this study. Thereafter, the empirical results are highlighted. Lastly, the main conclusion and recommendations are outlined.

## **PROBLEM STATEMENT**

Most definitions stress that sustainability requires making decisions that recognise the connections between actions and effects in the environment, economy and society. Sustainability is very much about what kind of legacy should be left for future generations (Sustainability Reporting Program, 2000). According to Johnston, Everard, Santillo and Robert (2007:60), the concept of sustainable development has suffered from a proliferation of definitions, such that it has increasingly come to mean many things to many different people. However, consensus is forming that sustainable development refers to the process by which sound economic systems can operate well within the biophysical constraints of the ecosystem to provide a good quality of life that is socially appropriate for current and future generations. Higher growth should put South Africa on a higher development route that ensures improvement in quality of life for all people and protects our natural resource base for future generations. It has already been acknowledged that a majority of large enterprises in South Africa have established themselves well within the global view of sustainable development by making huge contributions to global projects that are aimed at improving sustainability worldwide (Enviropaedia, 2007). Mass and Herrington (2006) postulate that new SME's are seen as a solution to South Africa's development issues. The creation and sustainability of new SME's are vital to the economic prosperity of South Africa. Condon (2004) argues that SME's size means they are able to react very quickly to changes in the business environment. They are disadvantaged, however, by lack of information on marketplace changes that make sustainability an opportunity to innovate and to inspire employees. While some SMEs are leaders in sustainable practices, others lack the sort of strategic thinking which views changes in the business environment as opportunities, seeing the tasks which require more change as an additional burden, rather than a source of potential advantage. Murillo and Lozano (2006:3) allege public attention and government actions to promote corporate sustainable development, have stopped focusing exclusively on large enterprises and begun to concentrate on SMEs. In this respect, studies carried out to date have revealed the need to learn more about the particular culture and framework of relationships that

condition the economic and social functioning of SMEs. Sriram and Mersha (2010:257) concludes that although entrepreneurship is lauded as an engine of economic development and job creation, SME's in many countries is not sustainable and fails. This has led to the following research question to be addressed in this paper:

*What are the perceptions of SME's in the Eastern Cape regarding sustainability with specific reference to roles, drivers and challenges?*

## **RESEARCH OBJECTIVES**

### **Primary objective**

The primary objective of this paper is to investigate the perceptions of SMEs in the Eastern Cape regarding the role, drivers and challenges of sustainability.

### **Secondary objectives**

To give effect to the primary objective, the following secondary research objectives have been formulated:

- To conduct a literature review to determine the role, drivers and challenges of sustainability.
- To empirically assess the perceptions of SMEs regarding the role, drivers and challenges of sustainability.
- To suggest practical guidelines for SME's regarding aspects of sustainability.

## **LITERATURE OVERVIEW OF SUSTAINABILITY**

### **Definition of sustainability**

Dresner (2002:30) defines sustainability as the amalgamation of conservation and development to ensure that reformations and alterations to the planet secure the survival and well-being of all

people. McGraw-Hill Science and Technology Dictionary (2011) concurs by reiterating that sustainability pertains to achieving human development in a way that sustains resources of the earth, based on the recognition that human consumption is occurring at a rate that is beyond earth's capacity to support it.

### **Roles of SMEs in economic development and sustainability**

According to Fida (2008), SME's plays an important role in the development of a country. There are several ways in which SMEs contribute to the economic development of a country namely, by creating employment for rural and urban growing labour force, providing desirable sustainability and innovation in the economy as a whole, and a large number of people rely on SME's directly or indirectly. According to the United Nations Industrial Development Report (1999), SMEs play an important role for several reasons:

- The great majority of enterprises are SMEs and they are estimated to account for about three quarters of employment.
- SMEs tend to promote a more equitable distribution of income than large enterprises because they are more labour-intensive and widely dispersed throughout the country, and support the development and diffusion of entrepreneurship.
- SMEs contribute to an effective use of local resources, in particular through labour-intensive production methods.
- SMEs contribute to the establishment of dynamic and resilient economic systems in which small and large firms are interlinked.

According to the United Nations Environment Programme (2010) the role played by SME's in an economy is not to arrest development but to use the available resources in a more productive and efficient manner, ensuring better and more equitable returns to people, while at the same time lessening pressure on the environment.

## **Sustainability drivers**

According to KPMG (2010) customers are key influencers in respect of how and why enterprises are addressing sustainability and that waste and energy are the main environmental areas currently being addressed by enterprises. However, the impact of climate changes is not yet fully understood. Accenture (2011) has identified six drivers of sustainability that are both redefining the manner in which businesses and governments operate as well as redefining the value they deliver:

- People today are making purchases not only as consumers, but also as responsible world citizens which drive companies to adopt sustainability.
- Stakeholders influence the enterprise because globalisation and technology have enabled customers and citizens to have a powerful voice.
- The depletion of natural resources.
- Employee commitment and enthusiasm toward sustainability.
- Sustainability has crept onto the bottom line because investors now look at sustainability performance when evaluating a company's potential future returns.
- Regulatory requirements are also a key driver for sustainability because government and industry regulations are forcing companies to take sustainability seriously.

According to the International Institute of Sustainable Development (2011), environmental risk management is a step in the right direction towards further sustainable development. Some businesses adopt a precautionary approach which involves anticipating potential risks and preventing environmental hazards in order to minimise risk. In addition, operating costs can be reduced through waste minimisation, pollution prevention and the elimination of health and safety hazards. Starcher (2000) also identified the following five major drivers that lead entrepreneurs to act responsibly: values of the owner or the manager; cost savings, for example eco-efficiency; supply-chain engagement and business customers' requirements; potential to increase revenue and attract new business, and attraction, retention and motivation of employees. Corporate social responsibility, corporate governance and the triple bottom line were identified as other drivers that could influence SME's to adopt sustainable development and will be discussed in the following sections.

- **Corporate social responsibility (CSR)**

Corporate social responsibility can be defined as management’s obligation to make choices and take actions that will contribute to the welfare and interests of society as well as the enterprise (Daft 2008:150). Baker (2011:1) views corporate social responsibility as how enterprises manage the business processes to produce an overall positive impact on society. Table 1 describes the social perspectives of SME’s which indicate the need to participate in social responsibility.

**TABLE 1  
FOUR SOCIAL PERSPECTIVE FRAMES OF SME’S**

Profit maximisation priority	The drive for maximising profit is the enterprise's top priority.
Subsistence priority	Long-term survival through ensuring security of livelihood and maintenance of a certain standard of living.
Enlightened self-interest priority	Active in social issues with the conscious awareness of the positive influence that the owner-manager perceives this will have on their business.
Social priority	Social values and actions are integrated into business activities and take priority over maximising profit.

Source: Jenkins (2006)

Corporate social responsibility is often seen as solely the domain of the big firms who have time and resources to devote to developing their approach. There is a lot that other enterprises can learn from the way SME’s do business and approach these issues.

- **Corporate governance**

According to Hough, Thompson, Strickland and Gamble (2011:325), the word “governance” is derived from the Latin word “gubernare” which means to steer, thus referring to the process of running a government or an enterprise. Aguilera, Filatotchev, Gospel and Jackson (2007:475) define corporate governance as “mechanisms to ensure that executives respect the rights and interests of stakeholders, as well as making those stakeholders accountable for acting responsibly



with regard to protection, generation and distribution of wealth.” In 1992, the King Committee on corporate governance was formed in South Africa and considered corporate governance from a South African perspective (SAICA, 2008). King III has broadened the scope of corporate governance in South Africa with its core philosophy based on four cardinal values, namely: fairness, accountability, responsibility and transparency. Thrush (2010) suggested a formation of a King III Report, specifically aimed at SME’s, because a one-size-fits-all version does not work. The concern is that the SME sector may find that much of the King III Report is not applicable and thus dismissed the entire document.

- **Triple bottom line**

Managing for a triple bottom line suggests managing the balance among the economic, ecological and social dimensions of organisational performance, rather than maximising profits or growth (Ikerd, 2005:116). This theory suggests that true sustainability must consider not just the financial bottom line of prosperity and profit, but also other bottom lines such as environmental quality and social equity. Enterprises should when submitting their annual reports not just look at the financial bottom line of profit but also at the prosperity of environmental and social quality (Enviropedia, 2007). Triple bottom line reports reflect this broader process by finding meaningful ways of weighing short term tangible economic factors with these more elusive factors, such as human rights and environmental sustainability concepts. In order to integrate these social concepts with the profit issues, a link need to be established in the corporate decision making process that illustrates the significance or materiality of social and environmental issues (Nolan, 2007).

### **Business risks and challenges of SME’s regarding sustainability**

SME’s are particularly vulnerable because they have limited resources and are usually neither in a position of imposing on suppliers or of benefiting from economies of scale. Jones and Tilley (2003:76) described four major challenges that have been found to be a major problem for SME’s:

- The lack of environmental awareness.

- A gap between environmental attitudes and subsequent behaviour.
- Limited access to resources, finance, expertise and information.
- Inappropriate environmental management techniques.

Risk management is important to any enterprise. Managing risks in relation to direct social or environmental threats has been a recognised feature of organisational management literature for decades (Zadek, 2004). Recognising that threats to business may emerge from social or environmental problems or opportunities is an important aspect that businesses need to explore. Challenges to businesses may also come from government regulations regarding pollution or production practices. Controls put in place to reduce pollution or practices with negative social impacts can lead to costly production changes for large and small firms alike. SME's are also disadvantaged by the lack of information about the changes in the marketplace that can make the pursuit of sustainability an opportunity to become an innovator and to inspire employees. As environmental and social concerns become more and more important to global societies, failure to recognise such issues as key business concerns could expose SME's to business-threatening risks (Loucks, Martens & Cho, 2010:1).

## **INFLUENCE OF DEMOGRAPHICS ON SUSTAINABILITY PERCEPTIONS**

Various authors (see for example Cassells & Lewis, 2011:186; Lucas, Cunningham & Lamberton, 2009 and Osewa-Ediae, 2011:59) attempted to investigate the influence of various entrepreneurial and organisational characteristics on perceptions regarding sustainability of SME's, often with conflicting results. Altinay and Wang (2011:673) investigated the influence of socio-cultural characteristics such as education, previous business experience and religion, on the entrepreneurial orientation of small business owners and their views toward sustainability and did not find any significant relationships. Matopoulos and Bourlakis concur (2010:207) and provide an overview and analysis of the implementation of sustainability practices in small food retailers and its relationship with various demographical characteristics of small businesses. In contrast, Hall, Lopez, Marshall and Dennis (2010:778) focused on the barriers to adopting sustainability practices and the impact of factors such as prior experience, education, operational size and customer type and found a positive relationship between attitudes toward sustainability

and demographical characteristics. The findings of a study by Islam, Khan, Obaidullah and Alam (2011:289) concurred which examined the effect of entrepreneurial and firm characteristics on the business success of SME's in India. It was found that entrepreneurial characteristics are significantly related to business success and that only one demographical variable, namely duration of the firm's operation, is positively related to business success. However, a comparative study between manufacturing and service-based SME's in Pakistan in terms of high performance management practices in relation to various organisational dimensions and characteristics found limited relationships (Abdul, 2011).

Despite these contradicting findings, this study also investigated the relationship between various demographical characteristics and perceptions regarding sustainability of SME's. Based on the above-mentioned reasoning, the following null-hypotheses are formulated:

*H0<sub>1</sub>: There is no relationship between perceptions regarding the role SME's in sustainability and the number of years of involvement in sustainability issues.*

*H0<sub>2</sub>: There is no relationship between perceptions of SME's regarding sustainability drivers and the educational level of respondents.*

*H0<sub>3</sub>: There is no relationship between perceptions of SME's regarding sustainability drivers and the employment size of an enterprise.*

*H0<sub>4</sub>: There is no relationship between perceptions of SME's regarding sustainability drivers and the number of years of involvement in sustainability issues.*

*H0<sub>5</sub>: There is no relationship between perceptions of SME's regarding sustainability challenges and the number of years of involvement in sustainability issues.*

*H0<sub>6</sub>: There is no relationship between perceptions of SME's regarding sustainability challenges and the form of ownership of respondents' enterprise.*

The research hypotheses (H<sub>1</sub> to H<sub>6</sub>) could be stated as the exact opposite of these stated null-hypotheses.

## **RESEARCH DESIGN AND METHODOLOGY**

### **Research paradigms**

A positivistic research methodology (quantitative research) will be adopted in this research project as the data that is collected is specific, precise, objective and numeric in nature. The research approach is descriptive and exploratory in nature which describes the perceptions of SME's regarding sustainability.

### **Population**

The unit of analysis is owners or managers of SME's. The population for this study has been identified as all SME's in the Eastern Cape involved to some extent in sustainability issues.

### **Sampling**

Non-probability sampling was used and 150 SMEs located within the Eastern Cape Province targeted (convenience sample). The sample was selected based on convenience and accessibility due to time and financial constraints.

### **Data collection**

Data was collected using both secondary and primary sources. Secondary data was collected by viewing existing literature sources such as textbooks, journals and the Internet. Primary data was collected by means of a survey using self-administered questionnaires. A total of 175 self-administered questionnaires were distributed to SME's in the designated region and 120 correct completed questionnaires were returned. The effective response rate of this survey was thus 69%.

## **Questionnaire design**

A self-administered structured questionnaire was designed for this survey. The questionnaire consists of two sections:

- Section A of the questionnaire focused on biographical information of the respondents, using a nominal scale and included nine categorical variables.
- Section B investigated perceptions regarding sustainability of SMEs, using an ordinal scale of measurement (five-point Likert scale). Three factors were tested, namely roles, drivers and challenges of SME's regarding sustainability.

## **Pilot study**

A pilot study was conducted among 30 SME's from the designated population to determine any problem areas and suggestions for improving the measuring instrument.

## **Data analysis**

Once the primary data has been collected, it was analysed using tables, graphs and statistical measurements. The questionnaires received were checked for omissions, legibility and consistency and then transferred to an Excel spreadsheet. Data was analysed by means of descriptive statistics, frequency distributions; Cronbach's alpha values and ANOVA.

## **EMPIRICAL RESULTS**

### **Demographical profile of respondents**

Table 2 provides a demographical profile of the respondents of this study. Nine 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	60	50
	Female	60	50
<b>Education</b>	Grade 12 or equivalent	38	32
	Diploma/National Certificate	41	34
	Bachelor's degree	23	19
	Postgraduate degree/diploma	16	13
	Other	2	2
<b>Ethnic classification</b>	Black	40	33
	Coloured	26	22
	White	37	31
	Asian	17	14
<b>Position in business</b>	Owner	31	26
	Manager	51	42
	Partner	24	20
	Other	14	12
<b>Length of current employment</b>	1-5 years	51	43
	6-10 years	40	33
	11-15 years	19	16
	16 years +	10	8
<b>Employment size</b>	Small	103	86
	Medium	17	14
<b>Years involved in sustainability issues</b>	< 1 year	55	46
	1-5 year	46	38
	6 years +	19	16
<b>Form of ownership / business</b>	Sole proprietor	35	29
	Partnership	23	19
	Close corporation	23	19
	Private company	36	30
	Public company	3	3
<b>Industry type</b>	Retail/Wholesale	58	48
	Financial	14	12
	Architecture	2	2
	Agriculture	5	4
	Catering and accommodation	13	11
	Transport/Travelling	6	5
	Medical	4	3
	Leisure and entertainment	13	11
	Other	5	4

Table 2 clearly shows that there was an equal distribution between male (50%) and female (50%) respondents. It appears that the majority of the respondents (53%) have a diploma/national certificate or a bachelor's degree. In terms of ethnic classification, 33% of the respondents are black, 31% are white and 22% coloured. Forty-six percent of the respondents are owners or partners and 42% are in managerial positions. It further appears that 49% of respondents were employed with their current SME for between six and 15 years whilst 43% were employed for five years or less with their current SME. The majority of the respondents (86%) are employed in small enterprises and 14% are employed in medium-sized enterprises. Regarding years of involvement in sustainability issues, 38% of SME's were involved for between one and five years, 16% for six years or more and 46% for less than one year. In terms of form of ownership, 33% of SMEs are private or public companies, 29% sole proprietors and 19% partnerships and close corporations, respectively. The majority of the respondents (48%) are employed in retaining or wholesaling and 12% in the financial sector.

### **Descriptive statistics**

Table 3 indicates the descriptive statistics for Section B of the questionnaire (perceptions regarding sustainability of SME's).

**TABLE 3  
DESCRIPTIVE STATISTICS: PERCEPTIONS REGARDING SUSTAINABILITY**

<b>Items/ Variable</b>	<b>Factor</b>	<b>Mean</b>	<b>Standard Deviation</b>
B1-B10	Roles	3.78	0.55
B11-B20	Drivers	3.50	0.55
B21-B30	Challenges	2.99	0.51

With regard to the descriptive statistics of each variable, no in-depth discussion is provided, as it falls beyond the scope of this paper. It appears that the mean scores for roles and drivers of sustainability cluster around point four (agree) on the five-point Likert scale whilst the mean score for challenges is around point three (neutral). The standard deviation scores for the factors are relatively low (below one), 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 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 three predetermined factors of Section B to confirm internal reliability (refer to Table 4).

**TABLE 4**  
**CRONBACH'S ALPHA VALUES FOR SECTION B OF THE QUESTIONNAIRE**

<b>Items/ Variable</b>	<b>Factor</b>	<b>Cronbach's alpha</b>
B1-B10	Roles	0.86
B11-B20	Drivers	0.85
B21-B30	Challenges	0.74

Table 4 clearly shows that the Cronbach's alpha values for these factors are internally reliable (all above 0.70).

### **ANOVA**

The purpose of this analysis is to investigate the relationship between the independent and dependent variables and to test the stated hypotheses. Table 5 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 27 null-hypotheses were formulated. Only those ANOVA results that show significant relationships between the nine independent and three dependent variables are reported and those that exhibit no significant relationships are excluded from this discussion. The ANOVA exercises investigated the relationship between the perceptions reading sustainability of SMEs (dependent variables) and classification data (independent variables).



**TABLE 5**  
**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>
Roles	Years of involvement in sustainability issues	3	5.423	0.002	H0 <sub>1</sub>
Drivers	Educational level	4	3.162	0.000*	H0 <sub>2</sub>
	Employment size	1	7.568	0.002	H0 <sub>3</sub>
	Years of involvement in sustainability issues	3	8.920	0.000*	H0 <sub>4</sub>
Challenges	Years of involvement in sustainability issues	3	3.847	0.002	H0 <sub>5</sub>
	Form of ownership	4	3.808	0.003	H0 <sub>6</sub>

\* p value < 0.01

Table 5 indicates that the null-hypotheses (H0<sub>1</sub> to H0<sub>6</sub>) can in all cases be rejected. There appears to be a significant relationship between the perceptions regarding the role of SMEs in sustainability and the years of involvement in sustainability issues (H0<sub>1</sub> rejected at significance level of 0.05). It was further revealed that there is a significant relationship between the perceptions regarding the drivers of sustainability and educational level, employment size and years of involvement in sustainability issues (H0<sub>2</sub> to H0<sub>4</sub> rejected). The results also show that there are significant relationships between perceptions of SME regarding challenges with sustainability and years of involvement in sustainability issues and form of ownership (H0<sub>5</sub> to H0<sub>6</sub> rejected at significance level of 0.05).

## **CONCLUSIONS AND RECOMMENDATIONS**

Sustainability ensures businesses becoming corporate citizens cultivating a more active enterprise in promoting environmentally-friendly practices and building communities that can live comfortably without exhausting all of the resources. SMEs unlike large corporations are described as being less well-defined in structure and lack the necessary time, skills and resources needed to focus on environmental issues. Managing for a triple bottom line suggests managing the balance among the economic, ecological and social dimensions of organisational performance, rather than maximising only profits or growth. There are risks as well as challenges

on the route to sustainability, these challenges to businesses may come from government regulations regarding pollution or production practices or from larger corporations who can quickly adapt to change and have better technology. Recognizing that threats to business may emerge from social or environmental problems or opportunities is an important aspect that businesses need to explore.

Based on the ANOVA results, the following conclusions and recommendations can be identified:

- It appears that there are a significant relationship between the perceptions regarding the role of SMEs in sustainability and the number of years of involvement in sustainability issues ( $H_{01}$  rejected). SME's with more years of experience in sustainability issues tend to have different views of sustainability as compared to those with less experience. SME's should thus endeavor to become more proficient in sustainability issues as to ensure positive and long-term benefits for the enterprise.
- It was also indicated that there is a significant relationship between the perceptions regarding the drivers of sustainability and the educational level of respondents, employment size and the number of years of involvement in sustainability issues ( $H_{02}$  to  $H_{04}$  rejected). Respondents with different education levels have divergent viewpoints regarding the drives of sustainability. Respondents with higher levels of education tend to have more positive perceptions regarding the role of SME's in sustainable development. Thus, SMEs should strive to educate all employees of what can drive sustainability. Small and medium-sized enterprises also have different viewpoints of what drive sustainability. Smaller enterprises that struggle to survive and prosper in a turbulent environment might not have the same viewpoints regarding sustainability as compared to medium-sized enterprises. These enterprises might have the means and resources to be engaged in sustainability issues and to actively drive it. Enterprises of all sizes should realise that they should actively drive sustainability to ensure a prosperous future for all. SMEs with more years of experience in sustainability issues tend to have divergent viewpoints of sustainability as compared to those with less experience. SME's should thus strive to become more proficient in sustainability issues as to ensure the long-term survival of the enterprise.

- It also appears that there is a significant relationship between the perceptions of SMEs regarding the challenges with sustainability and the number of years of involvement with sustainability issues and the form of ownership (H0<sub>5</sub> and H0<sub>6</sub> rejected). Enterprises with longer years of experience in sustainability issues tend to be more positive and proactive towards sustainability and minimising the obstacles and challenges towards sustainability. Enterprises with different forms of ownership also have different perceptions regarding the challenges of sustainability. A sole trader or small partnership has differing perceptions regarding sustainability challenges as compared to a large private or public company. It is however important that all enterprises, regardless of form of ownership, strive to identify and proactively manage the challenges regarding sustainability.

Table 6 indicates some general guidelines and recommendations regarding the sustainability of SME's.

**TABLE 6  
GENERAL GUIDELINES REGARDING SUSTAINABILITY OF SME's**

<b>No.</b>	<b>SME's should ...</b>
1	Be more involved in the building of their communities.
2	Combine the need for conservation and development in their strategies.
3	Achieve human development in a way that will ensure sustainable use of resources.
4	Rely on the use of renewable resources.
5	Promote the eradication of poverty and create employment for all.
6	Ensure that they have adequate waste reduction measures in place and reduce pollution.
7	Have knowledge of the impact of climate change on business activities.
8	Engage in various social responsibility practices (e.g. donations and bursaries).
9	Be influenced by regulatory requirements regarding sustainability issues.
10	Have measures in place to manage risks proactively.
11	Ensure that they have the necessary information, resources and supporting services to ensure sustainability.
12	Raise awareness of environmental impacts and risks among all employees.
13	Collaborate to improve the implementation of the triple bottom line (economic, social and environment).
14	Have measures in place to tackle financial difficulties.
15	Strive to build an enduring corporate culture of sustainability.

## LIMITATIONS OF THE RESEARCH

The following are the main limitations regarding this research project:

- The sample was limited to 120 SME's only which may have impacted on the representativeness of the sample.
- The target population included only SME's in the Eastern Cape and is not representative of other regions in South Africa.
- The respondents are not equally representative in terms of ethnic classification.

The following extract seems appropriate to conclude this paper with:

*“... individually SME's may have small social, environmental and financial impacts, cumulatively their impact is significant ... key is how a single economic entity can be engaged in taking up sustainability practices ...small enterprises having accountability for their social and environmental impacts ... linking individual firm activities to sustainability ...” (Lawrence, Collins, Pavlovich & Arunachalam, 2006:242)*

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# **RELATIONAL-BASED FACTORS INFLUENCING THE PERCEIVED SUCCESS OF INTERGENERATIONAL FAMILY BUSINESSES**

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## **ABSTRACT**

This study highlights the influence of selected relational-based factors on the success of intergenerational small and medium-sized family businesses. Success, for the purpose of this study, is measured using two variables, namely *Family harmony* and *Perceived future continuity*. The primary objective of this study is twofold: Firstly, to identify the potential influence of selected relational-based factors on the success of family businesses and secondly, to make practical recommendations on actions families in business can take to ensure family harmony and 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 family members whose relationships are characterised by mutual trust and respect, who are committed to continue the business in the future, who experience a lack of conflict in the family business, who have a perception of fair treatment in the business and experience open communication, are more likely to experience good human relationships and family harmony among family members. Furthermore, the more positive the family members are concerning their relationships with regard to trust and commitment and their perception of fair treatment in the family business, the more likely it is that they see that the business will be handed over as a legacy to the next generation of family members. This study has added to the empirical body of family business research, and provides an important step in building insights into selected

relational-based factors that influence the effective functioning of intergenerational family businesses.

**Keywords:** Family business, business success, relational-based factors, small and medium-sized enterprises

## **INTRODUCTION AND PROBLEM STATEMENT**

Family-owned businesses represent the oldest and most prevalent type of business worldwide (Farrington, Venter and Van der Merwe, 2011: 51); they are stable and optimistic even in times of economic uncertainty (Ibrahim, McGuire and Soufani, 2009: 1); and they play an important role in economic development and the creation of wealth in both developed and developing countries (Farrington, 2009: 64; Ibrahim *et al.*, 2009: 1; Zahra, Hayton, Neubaum, Dibell and Craig, 2008: 1050; Venter and Boshoff, 2005: 283).

Despite their importance to national economies, the survival rate of family businesses beyond the founder's generation is extremely low (Nicholson, 2008: 104). The downfall of these family businesses not only destroys entire families, but leads to unemployment and has a significant negative impact on the national economies of countries (Ibrahim *et al.*, 2009: 2).

Even though various factors could contribute to the high failure rate of family businesses, authors highlight that the greatest threat to the growth, success and survival of a family business are primarily issues related to family relationships (Venter, 2003; Ward, 1997; Ward, 2004). Running the family business is often more about managing family relationships than managing any other aspect of the business (Ward, 2004; Zbar, 2004). Relationships are built on factors such as fairness, trust, respect, honesty, integrity, commitment, openness, the management of conflict and harmony among family members (Van der Merwe, Venter and Farrington, 2012). Consequently, this study highlights the influence of selected relational-based factors on the success of small and medium-sized family businesses. The relational-based factors are: *Fairness* as perceived by the family members, *Mutual trust and respect* among family members, *Open communication* (effective communication) among family members, *Commitment* by family

members to ensure the future continuity of the family business, and *Conflict management* among family members.

In addition to unique problems influencing family business success, success itself as a concept also poses challenges for family-owned businesses (Distelberg and Sorenson, 2009). Generally, success is viewed in terms of both financial and non-financial outcomes. However, it appears that a preference for non-financial outcomes exists among family-owned businesses (Cater and Justis, 2009: 111; Short, Payne, Brigham, Lumpkin and Broberg, 2009: 12). For the purpose of this study, the success of the family business will be measured using two variables, namely *Family harmony* and *Perceived future continuity*.

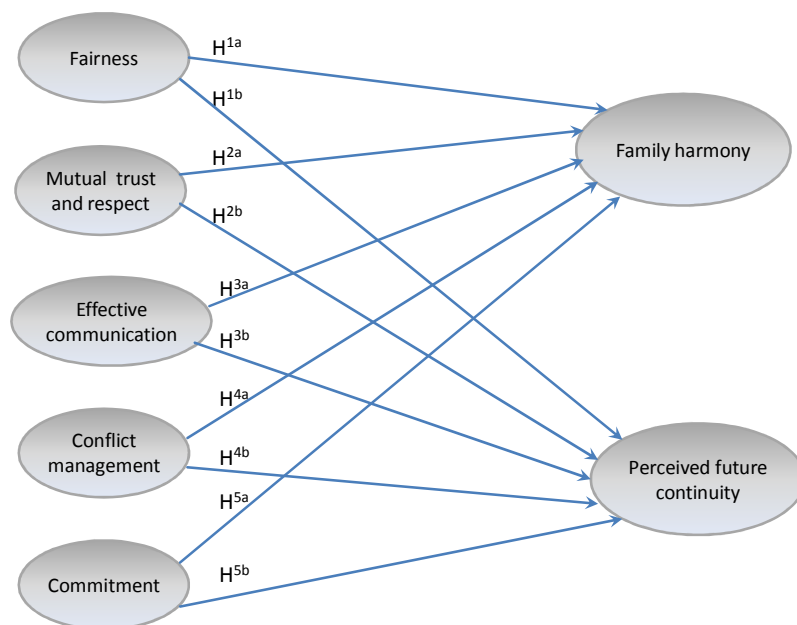
Intergenerational small and medium-sized family businesses in South Africa will be the focus of this study for three reasons: firstly, the increasingly important role of the small business sector in South Africa creating jobs and distributing wealth; secondly, because most family businesses are found in the small and medium-sized business sector; and thirdly, the unique dynamics and challenges facing intergenerational family businesses. An *intergenerational family business*, for the purpose of this study, is a business where family members of the senior generation (parents) and the younger or next generation (off-spring) are active in, or employed by, the family business.

Against this background, the primary objective of this study is to investigate the influence of selected relational-based factors on the achievement of *Family harmony* and *Perceived future continuity* in intergenerational family businesses. Furthermore, as in the case of several other studies in the South African context (e.g. Van der Merwe *et al.*, 2012; Eybers, 2010; Farrington, 2009; Van der Merwe and Ellis, 2007), a *small and medium-sized family business* is defined as 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 management or operations of the business; and where the business employees fewer than 200 full-time employees.

## OPERATIONALISATION OF VARIABLES

This study postulated that family relationships form the foundation on which the family business is built and these relationships are critical for fostering family harmony and ensuring the future continuity of the business. In Figure 1 (the hypothesised model), the selected relational-based factors influencing the dependent variables are depicted, namely *Fairness*, *Mutual trust and respect*, *Effective communication*, *Conflict management* and *Commitment*. Claims are, however, not made that all the relational-based factors including the dependent variables were included in the model, but only the ones for which most anecdotal and empirical support could be found in the literature.

**FIGURE 1**  
**THE HYPOTHESISED MODEL**



### Dependent variables

The success of family businesses have broadly been categorised as financial and non-financial in nature (Zellweger and Nason, 2009: 205). Various authors (Cater and Justis, 2009: 111; Short *et al.*, 2009: 12), however, suggest that non-economic goals take precedence over goals such as

growth and profitability. Non-economic goals include goals such as providing employment for family members (Cater and Justis, 2009: 111; Short *et al.*, 2009: 12; Chrisman, Chua and Litz, 2004); ensuring the well-being of the family (Distelberg and Sorenson 2009: 70; Chrisman *et al.*, 2004); and wanting to preserve the business so that it can be passed on to the next generation of family members (Chrisman, Kellermanns, Chan and Liano, 2010: 14; Cater and Justis, 2009: 120; Short *et al.*, 2009: 21).

For the purpose of this study the success of the family business will be measured by the well-being of the family members (*Family harmony*) and transgenerational sustainability (*Perceived future continuity* of the family business) (refer to Figure 1). The dependent variables will be operationalised (items measuring the variables) in the following paragraphs.

The importance of family harmony to the future success of the family business is well established (Adendorff, Venter and Boshoff, 2008; DeNoble, Ehrlich and Singh, 2007). Both anecdotal and empirical evidence suggests that harmonious relationships among family members are essential for successful family businesses as well as successful successions (Eybers, 2010; Farrington, 2009; Sharma, 2004; Ward, 2004; Flören, 2002). Venter (2003) revealed that family harmony is strongly related to the agreement by family members to continue the business as a family concern. Farrington, Venter and Van der Merwe (2011) support this finding, stating that it is highly unlikely that family members involved in a family business characterised by disharmonious family relationships and poor financial performance will find their involvement to be satisfying, let alone want to continue being involved.

The dependent variable *Family harmony* will be evaluated by using the following items: whether the family members prefer to cooperate with each other rather than to compete with one another; whether family members acknowledge each other's achievements; whether they encourage each other to put in their best efforts; whether the family members are emotionally attached to one another; whether the family members support and appreciate each other; whether the family members care about each other's wellbeing; and whether family members get along well both inside and outside the working environment (Van der Merwe *et al.*, 2012; Farrington, 2009; Venter, 2003; Seymour, 1993).

*Perceived future continuity* of the family business refers to the family business providing future generations with employment, wealth, involvement and a legacy (Miller and Le Breton-Miller, 2005: 38) and therefore ensuring transgenerational sustainability (Chrisman *et al.*, 2010: 14; Cater and Justis, 2009: 120; Short *et al.*, 2009: 21). Family businesses are often more concerned with the long-term continuity of the business than non-family businesses are (Short *et al.*, 2009: 21; Miller, Le Breton-Miller and Scholnick, 2008). They place much emphasis on survival (Distelberg and Sorenson, 2009: 70; Short *et al.*, 2009: 12), because they view the business as a long-term resource base to be used by the family and potentially by multiple generations (Distelberg and Sorenson 2009: 75; Castillo and Wakefield, 2007).

The continuity of the family business is reliant on many critical factors, which explains why the mortality rates of such businesses are extremely high. Wang, Watkins, Harris and Spicer (2004: 59) confirm that there are alarmingly deteriorating survival rates of family businesses being handed over from the first generation to the second. Future continuity as a goal is, however, subjective and difficult to measure. How does one establish whether future continuity has been achieved or not, if the future has not yet taken place (Farrington *et al.*, 2011: 52)? According to Distelberg and Sorenson (2009: 69), family systems theorists propose that an individual's perception of whether or not a goal has been achieved is informed by a belief system and by the individual assessment of the availability and use of resources needed to achieve that goal. As such, a belief system exists behind every tangible or objective indicator of success; therefore, the objective measure of success and the belief system work together to create *perceptions* of whether those goals have been achieved or not (Farrington *et al.*, 2011: 52; Distelberg and Sorenson, 2009: 69).

The dependent variable, *Perceived future continuity*, will be evaluated by means of the following: whether family members see the family business as a legacy to be handed over to future generations; whether continuing the business into the future will provide employment opportunities for future generations; whether continuing the business will give future generations the opportunity to be involved in the business; whether family members see the business continuing into the future and as a means to create wealth for future generations; and whether

family members see the business as a means to sustain family harmony for future generations (Van der Merwe *et al.*, 2012; Farrington, 2009; Venter, 2003; Seymour, 1993).

## **Independent variables**

Various relational-based family business values impact on family harmony and ultimately the future continuity of family businesses (Eybers; 2010; Farrington, 2009; Venter, Farrington and Boshoff, 2009). Anecdotal and empirical evidence supporting the inclusion of selected family business values in the hypothesised model will now be discussed.

### **Fairness**

No family relationship will ever be perfect, as feelings of being treated unjustly will always be present among family members (Kets de Vries, 1996: 264). A major issue regarding fairness in family businesses is that of achieving a balanced compensation system between family employees (Aronoff and Ward, 1993: 59; Spector, 2001: 9). Family business compensation practices often create problems when family members are compensated according to age and / or gender (Buchholz, Crane and Nager, 2000: 262) and not on merit (Jaffe, 1991: 199; Loeb, 2001: 59). Aronoff, Astrachan and Ward (2002: 425) believe that a compensation policy has no foundation unless job descriptions indicating the work roles and responsibilities have been prepared in sufficient detail to serve as a means of structuring wage classifications and of rating performance. Rawls (1997: 57) and Voeller, Fairburn and Thompson (2002: 73) highlight the importance that all family businesses should have a performance management system to ensure fair employment for all employees, including the family members who are employees. All employees, including family members, should be paid a competitive market-related salary for their efforts (Barrett, 2001: 19). Danes, Zuiker, Kean and Arbuthnot (1999: 246) furthermore identified unfair workloads in family businesses as generating the highest level of tension among family relationships.

Against this background, family members will perceive fairness to exist in the family business when each family member does his or her fair share of work given their compensation; when



compensation is perceived as fair for the work that the family member does; when family members are compensated according to their contribution to the family business and not according to age and/or gender; and when external stakeholders treat family members involved in the business equally. Therefore, the following hypotheses are subjected to further testing:

H<sup>1a</sup>: There is a positive relationship between the perception of *Fairness* among family members and *Family harmony* in the participating intergenerational family businesses

H<sup>1b</sup>: There is a positive relationship between the perception of *Fairness* among family members and the *Perceived future continuity* of the participating intergenerational family businesses

### **Mutual trust and respect**

Several authors have described trust and relationship commitment as vital components for maintaining harmonious relationships. In family business relationships, where results depend on the behavioural intent of partners, trust is particularly crucial (Johnson and Cullen, 2002). Family relationships that are not built upon trust are risky and will harm relationships and could eventually destroy the family business (Haynes, 2005: 34). If family members trust one another and have the necessary respect for each other, it forms the foundation for long-term perspectives, loyalty, commitment and stewardship, which provide an enormous advantage to the family business and towards family harmony (Aronoff *et al.*, 2002: 299; Cohn, 1992: 21-22; Shanker, 2000: 13).

Family businesses have a competitive advantage above non-family businesses when it comes to mutual respect and trust in the business world. Very few owners or family members in the business have grounds to second-guess the motives of their partners or colleagues (Carlock and Ward, 2001: 11; Shanker, 2000: 13; Venter and Boshoff, 2006: 19). It is very seldom that any family member will run off to business opposition. According to Venter and Boshoff (2006: 19), it is found that trust has the right potential to make family partners more secure, more open and more informed than any team of unrelated people.

For the purpose of this study, the variable *Mutual trust and respect* will be measured by the following items: whether family members respect and trust each other; whether different opinions are encouraged by family members; whether family members trust each other's ability to manage the family business and to make sound business decisions; whether family members have confidence in the integrity of other family members; and whether family members respect each other's opinions. Sufficient anecdotal and empirical evidence is presented above to hypothesise that:

H<sup>2a</sup>: There is a positive relationship between *Mutual trust and respect* among family members and *Family harmony* in the participating intergenerational family businesses

H<sup>2b</sup>: There is a positive relationship between *Mutual trust and respect* among family members and the *Perceived future continuity* of the participating intergenerational family businesses

### **Effective communication**

Poor communication is a common problem in family businesses (Ibrahim and Ellis, 2004: 164) and the absence of adequate channels of communication is a profound source of family conflict (Friedman, 1998: 33). As a result, the family's ability to resolve differences is obstructed by its conflict and communication patterns and poor communication skills (Bork, Jaffe, Lane, Dashew and Heisler, 1996: 52). Communication is an effective way of understanding and perhaps even agreeing on issues that are normally very sensitive and emotional (Adendorff *et al.*, 2008: 31), as these issues are normally avoided in family businesses. The more family members communicate and discuss their differences, the more likely conflict will be minimised and agreements might be more often reached (Friedman, 1998: 33).

Ward (2004: 115) points out that successful family businesses address communication by putting in place meetings, forums, systems or structures to promote, facilitate and assure effective, ongoing sharing of information, ideas, opinions, attitudes and feelings. Openness and inclusion create trust and family trust creates family harmony (Aronoff *et al.*, 2002: 299; Cohn, 1992: 21, 22; Leach and Bogod, 1999: 68). There is sufficient anecdotal and empirical evidence that *Effective communication* provides the basis for sound family relationships in the family as well

as conflict resolution (Maas, Van der Merwe and Venter, 2005: 119; Van der Merwe and Ellis, 2007).

For the purpose of this study, the variable *Effective communication* will be considered as an independent variable that may have an influence on *Harmonious family relationships* and the *Perceived future continuity* of the family business. *Effective communication* will be measured by the following items: whether family members communicate openly with each other; whether they freely express to each other their opinions about matters concerning the business; whether they discuss issues that may arise between them; listen to each other's opinions and share information with each other. Against this background, the following hypotheses are formulated:

H<sup>3a</sup>: There is a positive relationship between *Effective communication* among family members and *Family harmony* in the participating intergenerational family businesses

H<sup>3b</sup>: There is a positive relationship between *Effective communication* among family members and the *Perceived future continuity* of the participating intergenerational family businesses

### **Conflict management**

Various authors have indicated that family conflict is one of the major causes of failure within a family business and point out that conflict is one of the most destructive determinants impacting on family harmony (Upton, 2001: 28; Sorenson, 2000: 183; Van der Merwe and Ellis, 2007; Ward, 1997: 49). People are, however, under the misperception that healthy and successful family businesses are free from conflict (Bork, 1993: 41). It is normal for families to have internal conflict (Pickard, 1999: 153). Kaye (2005: 106) emphasised that conflict is unavoidable and indicates that it could be healthy for a family business. Avoiding conflict is, however, not the answer. Conflict needs to be managed to ensure that one finds the solution in reducing the impact of conflict on family harmony (Upton, 2001: 4).

Family businesses should strive towards a situation where serious conflict is prevented, and if it occurs, it is dealt with quickly before it has a negative impact on family harmony and ultimately the longevity of the family business. There is sufficient anecdotal and empirical evidence that the

prevention and management of conflict could ensure a higher level of family harmony in family businesses (Van der Merwe and Ellis, 2007).

For the purpose of this study, the independent variable *Conflict management* will be measured by the following items: whether family members rarely have serious differences of opinion; whether differences of opinion between family members rarely lead to serious conflict; whether conflict between family members is resolved quickly or dealt with immediately; and whether family members are able to constructively manage conflict between them. The following hypotheses are formulated in this regard:

H<sup>4a</sup>: There is a positive relationship between *Conflict management* among family members and *Family harmony* in the participating intergenerational family businesses

H<sup>4b</sup>: There is a positive relationship between *Conflict management* among family members and the *Perceived future continuity* of the participating intergenerational family businesses

### **Commitment by family members**

Organisational commitment has been the focus of many studies as it is strongly related to work-related attitudes and behaviour (Matzler and Renzl, 2007: 592; Hult, 2005). Organisational commitment is commonly defined as the personal sacrifices one makes toward an organisation's survival, cohesion between an individual and other people in the organisation, and acceptance of the business' norms (Letele-Mataboee, 2012: 16). Organisational commitment is therefore a bond to the whole organisation, not to a job or work group. It encompasses an employee's belief in the organisation's goals and values, a desire to remain a member of the organisation, and loyalty to the organisation (Yiing and Ahmad, 2009: 56; Greenberg, 1994: 85).

Family member commitment has been identified as one of the most desirable characteristics in next generation family members to contribute towards ensuring the continued success of such businesses (Eddleston, Morgan and Pieper, 2011: 113; Sharma and Irving, 2005: 14). The level of family member commitment can significantly influence the family business' overall performance and future continuity (Vallejo, 2009: 380). This commitment therefore urges family

members to conserve financial and other resources and to build them for the years to come (Miller and Le Breton-Miller, 2005: 38). Family commitment to the business is therefore critical to the continuity and survival of the family business (Ibrahim *et al.*, 2009: 9).

The independent variable *Commitment* will be measured by the following items: whether family members involved in the family business are deeply committed to continuing the business; whether family members are dedicated to, and are and willing to make personal sacrifices to ensure the success of, the family business; whether family members are willing to put in a great deal of effort beyond that which is normally expected of them in order to help the family business to be successful; whether family members are proud to tell others they work in the family business; and whether family members really care about the future of the family business. In this regard, the following hypotheses are formulated:

H<sup>5a</sup>: There is a positive relationship between *Commitment* by family members and *Family harmony* in the participating intergenerational family businesses

H<sup>5b</sup>: There is a positive relationship between *Commitment* by family members and the *Perceived future continuity* of the participating intergenerational family businesses

## **RESEARCH METHODOLOGY**

### **Development of the measuring instrument**

In order to operationalise the variables, a measuring instrument was constructed consisting of variables and items whose reliability and validity have been confirmed in previous studies (Farrington, 2009; File and Prince, 1996; Sharma, 1997; Venter, 2003). Where publicised items were not available, self-developed items were used. For the purpose of this study, five latent variables were identified to measure the dependent variables (*Family harmony* and *Perceived future continuity*). These are: *Fairness, Mutual trust and respect, Effective communication, Conflict management* and *Commitment*. A comprehensive measuring instrument was developed to measure the latent variables (Eybers, 2010; Farrington, 2009; Venter, 2003). The measuring

instrument (used in this study) assessed the five latent variables with 31 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 where family members of both the senior and successor generations are actively involved (employed) in the family business. 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 250 intergenerational 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 and Ellis, 2007; Adendorff, 2004; Sonfield and 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. A total of 114 intergenerational family businesses with 663 completed questionnaires were included in the analysis of the data.

## **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 variables was examined by means of multiple linear 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 30.31% 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). The majority of the participating family businesses (62.44%) are actively employed by the participating family businesses and 37.56% family members were inactive. A total of 43.48% of the active family members were from the senior generation (parents), 41.30% from the younger generation (off-spring), 8.70% were in-laws (married to the younger generation) and 6.52% 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 (employ fewer than 200 employees).

### **Discriminant validity and reliability of results**

The construct validity of a questionnaire measures the extent to which it measures the theoretical dimensions (Anastasi and Urbina, 1997: 126). If there is evidence of construct validity, the test then measures what it is supposed to measure. Exploratory factor analysis can be used as a technique to identify groups of variables, measuring the so-called latent variables or theoretical dimensions in a data set (Field, 2009: 628). To improve the interpretation of the extracted factors, a technique called factor rotation is used to discriminate between factors. When there is a good theoretical reason to believe that the extracted factors are correlated, an oblique rotation should be performed (Field, 2009: 642).

In order to conduct the exploratory factor analysis, the data was divided into two models. The first model related to the dependant variables, whereas the second to the independent variables. For the first model, a Principle Component Analysis with an Oblique (Oblimin with Kaiser normalisation) rotation was performed on the principal components of the exploratory factor analysis (Field, 2009: 643). Missing values were treated as missing and the pair-wise option was executed to handle missing values. This means that the correlation coefficients of each pair of variables were based on all the cases with valid data for that pair and the factor analysis was based on these correlations.

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). As recommended by Field (2009: 644) and Hair, Black, Babin, Anderson and Tatham (2006), factor loadings greater than 0.35 were considered significant. The Oblimin rotated factor matrix of the dependent variables is presented in Table 1.

**TABLE 1**  
**OBLIMIN ROTATED FACTOR MATRIX: DEPENDENT VARIABLES**

<b>Items</b>	<b>Factor 1: Family harmony</b>	<b>Factor 2: Perceived future continuity</b>
Ham5	<b>0.890</b>	-0.049
Ham6	<b>0.813</b>	0.000
Ham3	<b>0.809</b>	-0.004
Ham1	<b>0.769</b>	-0.035
Ham2	<b>0.763</b>	0.015
Ham7	<b>0.730</b>	0.081
Ham8	<b>0.726</b>	0.076
Ham4	<b>0.687</b>	-0.032
Con4	<b>0.358</b>	0.301
Con6	-0.036	<b>0.877</b>
Con2	-0.102	<b>0.869</b>
Con5	0.088	<b>0.802</b>
Con3	0.039	<b>0.775</b>
Con1	0.141	<b>0.666</b>
<b>Cronbach alpha</b>	<b>0.906</b>	<b>0.877</b>

In the model relating to the dependent variables, two factors with eigen-values greater than one, explaining 61.31% of the variance before rotation, were extracted in the exploratory factor



analysis. After rotation, these factors could be identified as the theoretical dimensions of *Family harmony* and *Perceived future continuity*, respectively. All the items demonstrated sufficient discriminant validity by loading to a sufficient extent and, therefore, no items were deleted. The item, Con4, originally intended to measure the dependent variable, *Perceived future continuity*, loaded onto the dependent variable *Family harmony*. The wording of the statements (items) measuring the dependent variables is provided in Appendix 1. The Kaiser-Meyer-Olkin measure of sampling adequacy of 0.950 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.

For the model relating to the independent variables, an Oblimin oblique rotation was performed on the principal components of the exploratory factor analysis (Field, 2009: 643). The correlation matrix for the five independent variables indicates correlations of between 0.387 and 0.547 for the variable combinations (Ellis and Steyn, 2003: 53), confirming that an oblique rotation should be used (Field, 2009: 643). Bartlett's test of sphericity yielded a *p*-value of lower than 0.001, indicating that the correlation between the variables is sufficient for factor analysis. A Kaiser-Meyer-Olkin value of 0.967 indicates that patterns of correlations are compact and that factor analysis should yield reliable factors (Field, 2009: 647). Four factors were extracted from this model, explaining 61.92% of the variance in the data. As in the case of the model relating to the dependent variables, factor loadings of greater than 0.35 were considered significant (Field, 2009; Hair *et al.*, 2006). A total of 27 of the 31 items demonstrated sufficient discriminant validity by loading to a sufficient extent and, therefore, four items were deleted. The Oblimin rotated factor matrix of the independent variables is presented in Table 2.

The two latent variables *Mutual trust and respect* and *Commitment* originally included in the hypothesised model (Figure 1) combined to form one factor. The factor was renamed as *Trust and commitment*. A total of 12 items (Commit3; Commit4; Commit5; Trust5; Commit6; Commit1; Commit2; Trust6; Trust3; Fair2; Trust4 and Trust1;) loaded onto the new factor. *Mutual trust and commitment* refers to the extent to which family members respect each other's opinions, trusting each other's integrity and ability as well as their commitment to the success

and continuity of the family business. Refer to Appendix 1 for the wording of the statements (items) measuring the factors.

**TABLE 2**  
**OBLIMIN ROTATED FACTOR MATRIX: INDEPENDENT VARIABLES**

Items	Factor 1: Trust and commitment	Factor 2: Lack of conflict	Factor 3: Fairness	Factor 4: Open communication
Commit3	<b>0.768</b>	0.137	0.008	0.172
Commit4	<b>0.767</b>	-0.023	-0.192	-0.110
Commit5	<b>0.717</b>	-0.052	0.051	-0.062
Trust5	<b>0.712</b>	-0.003	-0.063	-0.158
Commit6	<b>0.696</b>	0.165	0.098	0.226
Commit1	<b>0.693</b>	-0.061	0.009	-0.150
Commit2	<b>0.690</b>	-0.035	0.109	-0.025
Trust6	<b>0.635</b>	-0.012	0.094	-0.096
Trust3	<b>0.623</b>	-0.071	0.134	-0.155
Fair2	<b>0.622</b>	0.080	0.163	0.030
Trust4	<b>0.418</b>	0.026	0.213	-0.214
Trust1	<b>0.390</b>	0.080	0.195	-0.309
Conf3	0.070	<b>0.834</b>	-0.060	0.002
Conf1	-0.067	<b>0.822</b>	0.117	-0.041
Conf2	-0.049	<b>0.807</b>	-0.025	-0.162
Conf6	0.190	<b>0.386</b>	0.094	-0.345
Fair5	-0.039	0.004	<b>0.817</b>	0.020
Fair6	-0.052	0.052	<b>0.782</b>	-0.028
Fair4	0.180	0.016	<b>0.669</b>	-0.049
Fair3	0.246	0.115	<b>0.503</b>	-0.062
Com4	0.177	-0.019	<b>0.421</b>	-0.336
Com5	0.019	0.081	0.093	<b>-0.777</b>
Conf5	0.006	0.110	0.004	<b>-0.749</b>
Conf4	0.014	0.172	0.056	<b>-0.726</b>
Com3	0.105	0.091	-0.019	<b>-0.624</b>
Trust7	0.273	0.102	0.163	<b>-0.471</b>
Com1	0.136	0.035	0.348	<b>-0.465</b>
<b>Cronbach alpha</b>	<b>0.923</b>	<b>0.844</b>	<b>0.835</b>	<b>0.897</b>

Four of the six items originally intended to measure the latent variable *Conflict management* (Conf3; Conf1; Conf2 and Conf6) loaded onto factor 2. The items all refer to the lack of conflict in the family business and the factor was renamed as *Lack of conflict*. *Lack of conflict* refers to family relationships characterised by a lack of serious conflict among family members in the family business. Four items originally measuring *Fairness* (Fair5; Fair6; Fair4; Fair3) and one item measuring *Effective communication* (Com4) loaded onto factor 3. The factor was labelled

*Fairness*. *Fairness* refers to family members being treated fairly in terms of promotion, compensation and workload.

Three items originally identified to measure *Effective communication* (Com5; Com3; Com1) and three items measuring *Conflict management* (Conf5; Conf4; Conf6) respectively combined and loaded onto factor 4. One *Mutual trust and respect* item (Trust7) also loaded onto the factor. The items related to effective and open communication in the family business and the factor was renamed *Open communication*. *Open communication* refers to the degree to which family members are able to openly communicate and share all information with each other.

The results of the exploratory factor analysis provide evidence of construct and discriminant validity for the measuring instrument. Cronbach alpha coefficients of greater than 0.70 were reported for all constructs (Nunnally and Bernstein, 1994). Evidence is therefore provided that reliable measuring scales were used to measure the constructs under investigation.

## **Modified hypotheses**

As a result of the exploratory factor analysis, it was deemed necessary to reformulate the original hypotheses of the hypothesised model (Figure 1), which are summarised below:

- H<sup>1a</sup>: There is a positive relationship between *Trust and commitment* among family members and *Family harmony* in the participating intergenerational family businesses
- H<sup>1b</sup>: There is a positive relationship between *Trust and commitment* among family members and the *Perceived future continuity* of the participating intergenerational family businesses
- H<sup>2a</sup>: There is a positive relationship between *Lack of conflict* among family members and *Family harmony* in the participating intergenerational family businesses
- H<sup>2b</sup>: There is a positive relationship between *Lack of conflict* among family members and the *Perceived future continuity* of the participating intergenerational family businesses

- H<sup>3a</sup>: There is a positive relationship between the perception of *Fairness* among family members in the family business and *Family harmony* in the participating intergenerational family businesses
- H<sup>3b</sup>: There is a positive relationship between the perception of *Fairness* among family members in the family business and the *Perceived future continuity* of the participating intergenerational family businesses
- H<sup>4a</sup>: There is a positive relationship between *Open communication* among family members and *Family harmony* in the participating intergenerational family businesses
- H<sup>4b</sup>: There is a positive relationship between *Open communication* among family members and the *Perceived future continuity* of the participating family businesses

### 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 independent variables as identified in this study exerted a significant influence on the dependent variables, namely *Family harmony* and the *Perceived future continuity* of the family business. Two separate regression models were used (refer to Tables 3 and 4) and their results are discussed in the paragraphs below.

**TABLE 3**  
**MULTIPLE REGRESSION RESULTS: IMPACT OF THE INDEPENDENT VARIABLES TRUST AND COMMITMENT, LACK OF CONFLICT, FAIRNESS AND OPEN COMMUNICATION ON THE DEPENDENT VARIABLE FAMILY HARMONY**

Model	Non-standardised coefficients		Standardised coefficients	t-value	p-level
	B	Std. Error	Beta		
(Constant)	0.241	0.098		2.446	0.015
Trust and commitment	0.607	0.026	0.563	23.578	0.000**
Lack of conflict	0.067	0.015	0.092	4.492	0.000**
Fairness	0.104	0.021	0.116	4.938	0.000**
Open communication	0.200	0.020	0.259	10.110	0.000**

$R^2 = 0.856$  (\*\*  $p < 0.05$ )

The results of the multiple linear regression analysis show that the independent variables explain 85.6% of the variance in *Family harmony*. As can be seen in Table 3, a significant positive relationship was found between *Family harmony* and all the independent variables, namely *Trust and commitment* (23.578;  $p < 0.001$ ), *Lack of conflict* (4.492;  $p < 0.001$ ), *Fairness* (4.938;  $p < 0.001$ ) and *Open communication* (10.110;  $p < 0.001$ ). Based on these results, support is found for hypotheses  $H^{1a}$ ,  $H^{2a}$ ,  $H^{3a}$  and  $H^{4a}$ . Of the relational-based variables investigated in this study, *Trust and commitment* and *Open communication* exert the greatest influence on *Family harmony*.

**TABLE 4**  
**MULTIPLE REGRESSION RESULTS: IMPACT OF THE INDEPENDENT**  
**VARIABLES TRUST AND COMMITMENT, LACK OF CONFLICT, FAIRNESS AND**  
**OPEN COMMUNICATION ON THE DEPENDENT VARIABLE PERCEIVED FUTURE**  
**CONTINUITY**

Model	Non-standardised coefficients		Standardised coefficients	t-value	p-level
	B	Std. Error	Beta		
(Constant)	1.101	0.179		6.168	0.000
Trust and commitment	0.600	0.047	0.543	12.848	0.000**
Lack of conflict	-0.024	0.027	-0.032	-0.878	0.380
Fairness	0.226	0.038	0.247	5.927	0.000**
Open communication	0.019	0.036	0.024	0.520	0.604

$R^2 = 0.548$  (\*\*  $p < 0.05$ )

The independent variables investigated in this study explain 54.8% of the variance in *Perceived future continuity*. As reported in Table 4, significant positive relationships are evident between the relational-based factors *Trust and commitment* (14.139;  $p < 0.001$ ) and *Fairness* (5.927;  $p < 0.001$ ), and the dependent variable *Perceived future continuity*. As in the case of the dependent variable *Family harmony*, *Trust and commitment* exerts the greatest influence on the *Perceived future continuity* of the family business. No relationship was reported between *Lack of conflict* and *Open communication* and *Perceived future continuity* respectively. Based on these results, support is found for hypotheses  $H^{1b}$  and  $H^{3b}$ , but not for  $H^{2b}$  and  $H^{4b}$ .

## DISCUSSION AND RECOMMENDATIONS

The results show that the participating family members in this study perceived the following relational-based factors as influencing *Family harmony*, namely *Trust and commitment*, *Lack of conflict*, *Fairness* and *Open communication*. In other words, family members whose relationships are characterised by mutual trust and respect, who are committed to continue the business in the future, who experience a lack of conflict in the family business, who have a perception of fair treatment in the business and experience open communication, are more likely to experience good human relationships and family harmony.

Furthermore, a positive relationship was found to exist between the relational-based factors *Trust and commitment* and *Fairness*, and the dependent variable, *Perceived future continuity* of the family business. This means in practice that the more positive the family members are concerning their relationships with regard to trust and commitment and their perception of fair treatment in the family business, the more likely it is that they see that the business will be handed over as a legacy to the next generation of family members.

In order to establish an environment where trust and commitment, lack of conflict, fairness and open communication are fostered in family businesses, several suggestions are put forward. Family businesses should establish and maintain formal governance structures, such as family forum meetings and family retreats to promote, facilitate and assure the effective and ongoing sharing of information, ideas, opinions, attitudes and feelings. These meetings could create an environment characterised by family trust, which in turn enhances family harmony. Sensitive issues such as succession, as well as the commitment of the family and individual family members to the future continuity of the family business, can be discussed during family forum meetings.

The family business should also ensure fairness with regard to the treatment of all family members and ensure that a fair market-based compensation system based on the contribution that each family member makes to the success of the family business is implemented. Vehicles that

could assist in discussing issues such as performance and compensation include an advisory board and compiling a family constitution. Furthermore, family businesses should strive towards a situation where serious conflict is prevented, and if it occurs, it should be dealt with quickly before it has a negative impact on family harmony and ultimately the longevity of the family business.

Family businesses that invest time and effort in fostering family harmony based on mutual trust, respect and support, can ensure 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 seven of the nine 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. 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 relational-based factors impacting on family harmony and business continuity. Future studies could investigate various other relational-based factors and incorporate them into a more comprehensive model that describes the factors influencing family business success.

Despite the limitations identified, this study has added to the empirical body of family business research. Based on the fact that published evidence of a quantitative nature on the influence of relational-based factors on family harmony and the sustainability of small and medium-sized family businesses both nationally and internationally is still lacking, the findings of this study present challenges for further research.

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### Appendix 1: Items measuring the dependent variables

<b>FAMILY HARMONY</b>	
HARM5	Our family members support each other.
HARM6	Our family members appreciate each other.
HARM3	Our family members encourage each other to put in their best efforts.
HARM1	Our family members prefer to cooperate with each other rather than compete with one another.
HARM2	Our family members acknowledge each other's achievements.
HARM7	Our family members care about each other's wellbeing.
HARM8	Our family members get along well both inside and outside the working environment.
HARM4	Our family members are emotionally attached to one another.
CONT4	I see our family business as a means to sustain harmonious family relationships for future generations.
<b>PERCEIVED FUTURE CONTINUITY</b>	
CONT6	Continuing the business into the future will provide employment opportunities for future generations.
CONT2	I see our family business as a legacy to be handed over to 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.

### Appendix 1: Items measuring the independent variables

<b>TRUST AND COMMITMENT</b>	
COMMIT3	Family members involved in our family business are willing to make personal sacrifices to ensure the success of the business.
COMMIT4	Family members involved in our family business are willing to put in a great deal of effort beyond that which is normally expected of them, in order to help the family business to be successful.
COMMIT5	Family members involved in our family business are proud to tell others that they work for the family business.
TRUST5	I have confidence in the integrity of my family members.
COMMIT6	Family members involved in our family business really care about the future of the family business.
COMMIT1	Family members involved in our family business are deeply committed to continuing the business.
COMMIT2	Family members involved in our family business are dedicated to ensuring the success of the family business.
TRUST6	I trust the judgement of my family members in making business decisions.
TRUST3	Our family members trust each other.
FAIR2	In our family business each family member does his/her fair share of work.
TRUST4	Our family members trust each other's ability to manage our family business.
TRUST1	Our family members respect each other.

<b>LACK OF CONFLICT</b>	
CONF3	Differences of opinion between family members rarely lead to serious conflict.
CONF1	Family members rarely have serious differences of opinion.
CONF2	Conflict between family members is rare.
CONF6	Family members are able to constructively manage conflict between them.
<b>FAIRNESS</b>	
FAIR5	External stakeholders (customers, suppliers etc.) treat family members involved in our business equally.
FAIR6	Family members are compensated according to their contribution to our business and not according to age and/or gender.
FAIR4	In our family business each family member is compensated fairly for the work that he/she does.
FAIR3	The working arrangement between family members in our business is equitable.
COM4	Family members share information with each other.
<b>OPEN COMMUNICATION</b>	
COM5	Family members have the ability to communicate effectively.
CONF5	When conflict arises between family members it is dealt with quickly/immediately.
CONF4	Conflict between family members is resolved effectively.
COM3	Family members discuss all issues that may arise between them.
TRUST7	Family members in our family business respect each other's opinions.
COM1	Family members communicate openly with each other.

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## **TAKING A HOLIDAY: DOES IT IMPACT POSITIVELY ON PHARMACISTS' WELL-BEING?**

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### **ABSTRACT**

The working conditions of pharmacists in South Africa are stressful and contribute to low subjective well-being (SWB). Reducing the stress of pharmacists is thus vital to the profession as well as for the safety of the patients. However, help is at hand, as research indicates that leisure or taking a holiday may be a buffer against stress and can lead to a positive change in well-being. Therefore, the aim of this article is to determine whether taking a holiday leads to positive SWB of pharmacists. To achieve this aim, questionnaires were electronically mailed to pharmacists in South Africa from which 207 (n) completed questionnaires were obtained. Dependent t-tests were used to compare the pre- and post-mean values of pharmacists' holiday experience and the results obtained showed that pharmacists' SWB did indeed increase after taking a holiday. These results have implications for tourism destinations (who may already have products pharmacists prefer and leading them to target pharmacists as a possible market or alter their product/services) as well as for employing companies (for example, by offering financial benefits due to low staff turnover and satisfied patients).

**Keywords:** Pharmacist, destination, holiday (vacation), well-being.

### **INTRODUCTION AND PROBLEM STATEMENT**

According to Diener (2002), subjective well-being (hereafter referred to as SWB) refers to several separable components such as life satisfaction and satisfaction with different life domains (such as marriage, work, income, housing and leisure); feeling positive affect (pleasant moods and emotions) most of the time; experiencing infrequent feelings of negative affect (such as stress, depression and anger); and judging one's life to be meaningful and



fulfilling. Diener, Oishi and Lucas (2003) furthermore suggest that SWB is one of the three major ways, along with economic and social indicators, to assess the quality of life (hereafter referred to as QOL) of societies. Since SWB is one methods of measuring QOL, it also presents an indication of a “good life” which is characterises as a “happy life” (happiness) (Diener *et al.*, 2003).

Subjective well-being (SWB) is better explained by the bottom-up spill-over theory that occurs as a direct function of domain salience (Sirgy, 2002). Sirgy (2002) explains that individuals can influence their own SWB by controlling the life domains from which they draw SWB, and by determining which domains should be shut off. The basic premise is to draw from those life domains, containing positive feelings, and to close out, or shut down, those with negative feelings. Highly salient life domains are those that impact other life domains and the affects of which are more likely to spill over to other life domains and cause higher SWB as in the case with less salient life domains (Sirgy, 2002). Hence, SWB can be increased by allowing positive life domains to spill over “positive affects” in to the most super-ordinate domain, namely overall life (Sirgy, 2002). Therefore, the more positive moments an individual experiences in that life domain, the more the levels of well-being will rise (Diener & Ryan, 2009).

With this in mind, Haworth and Lewis (2005) state that enjoyable and satisfying leisure activities are vital to sustain well-being. Carr (2002) and Rojek (2005) indicate that tourism and leisure are interrelated and therefore concepts developed in one field can be used for the other. Tourism activities (such as holiday taking) therefore are in the same way vital to sustain well-being as with leisure activities. This is a fine example regarding the principle of the bottom-up spill-over theory. Sirgy, Kruger, Lee and Yu (2010) in addition explain that the greater the satisfaction with events experienced on a holiday trip, the greater the positive affect will be on the life domains housing those events. Therefore, the positive or negative effect in various life domains contributes to positive or negative affect changes in SWB (Sirgy *et al.*, 2010). In a similar vein, Haworth and Lewis (2005) furthermore indicate that not only is leisure important to sustain well-being, but paid work as well. However Carr, Kelley, Keaton and Albrecht (2011) indicate that stress in the working place is a growing problem in many organisations and may have a positive, negative or neutral effect on physical or emotional well-being (Carr *et al.*, 2011).

One specific occupation that does have a significant amount of stress in South Africa is that of the pharmacist (Rothmann & Malan, 2007). Previous studies completed by Wolfgang and Ortmeier (1993); Willet and Cooper (1996); Mott (2000); and Rothmann and Malan (2007) indicated that pharmacists experience frequent feelings of negative affect in the form of stress and therefore experience low SWB. Stress mainly originates from the intrinsic factors related to pharmacists' work (such as work overload, autonomy and the variety of tasks that need to be performed) and their role as managers (such as inability to delegate, perceived lack of influence and role ambiguity) (Willet & Cooper, 1996).

A contributing factor to pharmacists' work related stress is the fact that in South Africa there is a small pool of pharmacists that service the wider community (Misra & Cele, 2007; Rothmann & Malan, 2011). Adding to this is the fact that many pharmacists are leaving South Africa to pursue careers abroad, which is not helping the current situation (Rothmann & Malan, 2011). Consequently, it can be assumed that this negative feeling in pharmacists work life domain will spill over to other life domains and thus influence pharmacists' SWB negatively. Seeing that there are a smaller amount of pharmacists doing the work, Rothmann and Malan (2007) state that unless the levels of stress experienced by pharmacists are lessened, the profession may not only endanger the physical and mental health of the current and future practitioners, but may also possibly endanger the patient's safety. It is thus vital to lower pharmacists' stress levels and to increase their SWB in order to facilitate them being more attentive in the work place. Further to this, Steyn, Saayman and Nienaber (2004); Neal, Uysal and Sirgy (2007); Sirgy *et al.* (2010); and Haworth and Lewis (2005) all state that taking a holiday (that falls under the discipline of tourism) can lead to a positive change in well-being of the holiday goer.

The aim of this article is to determine whether taking a holiday leads to the positive SWB of pharmacists. In order to achieve this aim, the article is structured in the following manner: first the literature regarding the field of study will be reviewed; second, the method of research will be discussed; third, the results, forth the findings and their implications, and lastly concluding remarks are documented.

## LITERATURE REVIEW

According to Johnson, Cooper, Cartwright, Donald, Taylor and Millet (2005), the amount of stress a person experiences at work is likely to be a result of a number of factors, namely: the amount of support a worker receives, either at work or at home; coping mechanisms to deal with stress; and the type of work a person is doing (in this case pharmacist). The occupation of a person has a great influence on the amount of stress that person experiences. In agreement, Gaither, Kahaleh, Doucette, Mott, Pederson and Schommer (2008) state that the practice of a profession can be highly stressful, and that the stress manifests itself through decreased job satisfaction. With this in mind, Gaither *et al.* (2008) also indicate that stress adversely influences the job satisfaction of pharmacists as the amount of stress in the pharmacy work environments increases. This might happen to such an extent that even if pharmacists hold a strong commitment to their profession, it might not be enough to mitigate the day-to-day job stress. Gaither *et al.* (2008) are furthermore of the opinion that the greater the extent to which stress influences the pharmacist's job environment, the more negatively pharmacists view their current position, perhaps the profession as a whole.

According to Gaither *et al.* (2008), employers typically use economic incentives to recruit new employees and to retain current employees. Based on this, organisations typically regard financial rewards as a means to increase job satisfaction and reduce employees' stress levels. Cooksey, Knapp, Walton and Cultice (2002) indicated that a classic market response to shortages of qualified pharmacists is to give a raise in wages; however, this increase indirectly might also mean longer working hours. Conversely, Binswanger (2006) reports that happiness levels do not increase in line with income levels once income has exceeded a certain threshold level. The latter will also more likely be true in the case of pharmacists, since financial motivators will do little to alleviate the level of stress experienced by pharmacists due to the current nature of their occupation. For this reason, employers' increase in wages as a solution to the problem of stress is therefore often unsuccessful.

Carr *et al.* (2011) and Richards (1999) indicate several techniques to reduce stress such as peer support, exercise, laughter, counselling, psychotherapy, mediation, yoga, T'ai Chi, massage, acupuncture and taking a holiday. Richards (1999) proposes simply taking a holiday removes the negative stress by providing employees (pharmacists) an opportunity to rest and relax. Iwasaki and Smale (1998) are of the same opinion and point out that taking a

holiday is an important buffer against the negative effects of stressful life events. In addition, Trenberth (2005) states that taking a holiday can be seen as a soothing coping mechanism in reducing stress in two ways. First, the creation of leisure space is a means of dealing with stress and therefore creates a sense of perseverance and empowerment. Secondly, taking a holiday offers a positive diversion from stress and therefore a context for rejuvenation and renewal. Haworth and Lewis (2005), Neal *et al.* (2007), Sirgy *et al.* (2010), and Steyn *et al.* (2004) all noted that, particularly for those in working conditions with high levels of stress experiencing low SWB, taking a holiday can provide a change in well-being. Baloglu and Uysal (1996) state that it is important for destinations to make greater efforts to match the destination's attributes to the tourist's (in this case, the pharmacist's) diverse psychological needs, since this will lead to a higher SWB in tourists as well as encouraging them to go on holiday more frequently.

Gilbert and Abdullah (2004) compared people taking a holiday and people that do not take a holiday and established that holiday taking altered the SWB of holiday goers, and that the holiday taking group had fewer unpleasant feelings than a non-holiday taking group. This is confirmed by Nawijn, Marchand, Veenhoven and Vingerhoets (2010) in their study on holiday and found that holiday goers are happier than non-holiday goers, and that the holiday goers benefited more in terms of post-trip happiness if they experienced a very relaxed holiday. From the just mentioned it is proved that taking a holiday has a positive effect on SWB of people.

Destinations offering a holiday experience that is designed to address the tourist's needs and motives will lead to the tourists experiencing a change in SWB. High SWB will be obtained by means of a satisfactory experience and low SWB because of an unsatisfactory experience. If holiday goers feel that most of their tourism expectations (motives) have been met or satisfied, they will be most likely to appraise the holiday as satisfying (Gilbert & Abdullah, 2004). If, for example, a pharmacist perceives a destination as one likely to satisfy his/her needs, it would most probably be the destination which the pharmacist will select to have his/her holiday. When the outcome of this experience is satisfactory, the pharmacist will experience higher SWB if compared to a destination that satisfies only one of the necessities required for a completely satisfactory experience. From the literature discussed it is seen that taking a holiday will impact positively on peoples SWB and due to the fact that little research were found regarding taking a holiday, impact on pharmacist SWB, especially in South

Africa, it is therefore the aim of this research to establish whether taking holidays contribute to pharmacists' SWB.

## **METHOD OF RESEARCH**

This research is of a quantitative nature of which the method of research used to conduct this study will be discussed below under the following headings: (i) research design, (ii) participants, (iii) measuring instruments and (iv) statistic analysis.

### **Research design**

This study uses a cross-sectional survey indicating that pharmacists are observed in one point in time. That is, according to Neuman (2000), most consistent with a descriptive approach in research. Due the fact that a population of Pharmacists is not available at one geographical holiday destination (such as the South African Police Holiday Resort has) this research focused on Pharmacists' opinion of their perceived well-being (before and after) their last taken holiday in one point in time.

### **Population and sampling**

A database was obtained from The South African Pharmacy Council that contained a complete list of all the pharmacists in South Africa. A probability sampling method was then applied. The database consisted of approximately 8000 (N) e-mail addresses of pharmacists registered at The South African Pharmacy Council. One hundred and ninety-nine (199) questionnaires are seen as being representative and offer a 93% level of confidence with a  $\pm 7\%$  sampling error (Israel 2009). Specifically, the systematic sampling were used where a sample was selected by means of selecting every 5th ( $k$ ) element (e-mail address). This methodology resulted in 1500 e-mail addresses and represented 18.75% of the 8000 (N) population. A total of 207 (n) completed questionnaires were subsequently returned which, according to Israel (2009), results in a 93% level of confidence and is more than the 199 questionnaires required for statistical analysis.

## Measuring instruments

In the following sections the measuring instruments used to conduct this study are discussed.

### Socio-demographic

Section A of the questionnaire determined the socio-demographic profile of pharmacists and consisted out of questions concerning their age, marital status, years in service as a pharmacist, household composition, as examples. This section used both open- and close-ended questions.

### Travel motives and preferred activities

Section B of the questionnaire was based on the work of Bhatia (2007) and determined the travel motives and activities preferred by pharmacists at their destinations by rating the motives and activities on a five-point Ordinal Likert scale.

### Pharmacists' subjective well-being

Section C of the questionnaire determined the pharmacists' SWB by rating their SWB of their last taken holiday (before and after) on two well known self-reporting measurements as discussed below:

- Satisfaction with Life Scale (SWLS) (Diener, Emmons, Larsen and Griffin 1985)

The perceived SWB of the pharmacists before and after a holiday was determined in one point in time, by rating their SWB on the SWLS before (hereafter referred to as pre- holiday) their last taken holiday and after (hereafter referred to as post holiday) their last taken holiday on two seven-point Ordinal Likert scales (1 = strongly disagree; 7 = Strongly agree). The SWLS is a self-reporting measurement and asks individuals for an overall judgment of their lives in order to measure the concept of life satisfaction as a component of SWB. The SWLS contains 5 questions (such as, *In most ways, my life is close to my ideal; The conditions of my life are excellent*). A high SWLS score is between 26 and 35 which indicates a satisfied to extremely satisfied report, while a dissatisfied to extremely dissatisfied score report will entail a low SWLS score between 5 and 14. According to Diener *et al.* (1985) an alpha-reliability of 0.87 and a test-retest reliability of 0.82 should be reported for the SWLS.

- The Affectometer 2 (AFM2) (Kamman & Flett, 1983)

The other self-reporting measurement used in Section C was the AFM2 that measures 20 items to determine the affective component of SWB. These 20 items (10 positive and 10 negative statements) are rated on two five-point Ordinal Likert scales (opinion of pharmacists' SWB before and after their last taken holiday; 1 = not at all; 5 = all the time). The 20 items included questions such as "*I feel my life is on the right track; I feel I like myself; and I feel loved and trusted*" etc. (positive statements) and "*I feel like a failure; I feel my life is stuck in a rut; I wish I can change some part of my life*" etc. (negative statements). The AFM2 measures the balance between positive – (PA) and negative affect (NA) in a balance formula (PNB):  $PNA = PA - NA$ . A high SWB of an individual is forecast by the domination of the PA over NA and a low SWB therefore by the domination of NA over PA. According to Kamman and Flett (1983) alpha-coefficients between 0.88 and 0.93 give indications of validity for the AFM2.

#### Procedure

Pharmacists were e-mailed a thorough explanation of the study as well as a link that directed them to an electronic questionnaire. The completion of the questionnaire was voluntarily, however an incentive (a midweek special for two persons to any South African National Park) was used to motivate participation. One thousand five hundred (1500) e-mails were sent out during the months of June and July 2010 of which 207 completed questionnaires were obtained. Even though 207 questionnaires were obtained, some of the questions used in this study for statistical analysis were not fully completed. Thus indicating that the amount of questionnaires used in the statistical analysis will differ from the amount of questionnaires obtained for the study.

#### **Statistical analysis**

Data was captured in Microsoft<sup>®</sup> Excel<sup>®</sup> while SPSS (SPSS Inc., 2007) was used for further data analysis. The results of the study are reported in two parts: Part one compiled a general profile of pharmacists and part two determined whether taking a holiday would lead to a positive SWB of pharmacists.

As previously mentioned (see section 1.3.3.3), the SWLS and AFM2 were used to measure SWB. Pavot and Diener (2009) state that both affective and cognitive levels of well-being should be measured to determine overall SWB and is therefore the reason for using the

Affectometer 2 (AFM2 - affective measure) and Satisfaction with Life Scale (SWLS - cognitive measure) in this study. The study further determined the scores of the SWLS and the balance formula of the AFM2. In addition, the alpha-reliability coefficients of both the SWLS and AFM2 were determined. Dependent t-test was then used to establish whether the pre- and post-means scores of the same group (pharmacists) of the cognitive and affective measure scales differed significantly (Field, 2005). Cohen's *d*-values (1988) were also calculated to measure the effect size to indicate the differences between the pre- and post-mean values. A *d*-value of 0.2 indicates a small effect, 0.5 a moderate effect and 0.8 a significant effect (Steyn, 2000).

## **RESULTS**

The following section discusses the results obtained from the analyses done on the data under the following headings: (i) profile of pharmacists, and (ii) results for SWB.

### **Profile and travel behaviour of pharmacists**

More female pharmacists from Gauteng participated in the survey (see Table 1.1). The pharmacists are in their early forties, mostly speak Afrikaans (56%) and are married (72%). The largest portion of the pharmacists is employed in the private sector (51%) and has an average of 18 years service as a pharmacist. The pharmacists take an average of four weekend trips and one holiday a year. When pharmacists take a holiday, the preferred accommodation and destination are chalets (62%) at National Parks (64%). Pharmacists use a sedan (58%) as mode of transport, go on holiday for an average of between four to seven days and opt for game drives and educational excursions (67%) as activities at a holiday destination. The average number of people pharmacists are financially responsible for when on holiday is three people. Their principle motive for taking a holiday is to relax (91%) and the factor that most constrains pharmacists from taking a holiday is the availability of time (97%).



**Table 1.1: Profile and travel behaviour of pharmacists**

CATEGORY	PROFILE
Gender	Female (67%), Male (33%)
Age	Average: 42.5 years
Language	Afrikaans (56%); English (39%)
Marital status	Married (72%); Single (12%); In relationship (9%)
Household composition	Average: 3.31 persons
Employed	Private sector (51%); Industry (23%); Government (19%)
In service as a pharmacist	Average: 17.52 years
Number of weekend trips a year	Average: 3.92 weekend trips
Number of holidays a year	Average: 1.44 holidays
Length of holidays	4-7 days (40%); 9-12 days (32%); 8-9 days (21%)*
Mode of transport	Sedan (58%); Airplane (52%); 4x4 (26%)*
People pay for when on holiday	Average: 2.99 people
Province of residence	Gauteng (35%); Western Cape (17%); North West (15%)
Preference in holiday accommodation	Chalet (62%); Holiday apartment (59%); Game lodge (50%)
Preference in holiday destination	National Park (64%); Holiday resort (55%); Inland (31%)*
Activities preferred on holiday	Game drives, educational excursions (67%); Sunbathing, sightseeing (58%); shopping, casinos, dining, dancing (43%); fishing, cycling, hiking, hunting (43%); exploration of fauna and flora, watching nature videos (42%).
Travel motives for taking a holiday	To relax (94%); to be together as a family (91%); to relax from daily tension (88%); to have fun (85%); to explore new destinations (84%); to rest physically (81%)
Constraints to take holiday	Time (97%); Money (81%); Family (22%)*

\* Percentages do not calculate to a 100, since respondents could choose more than one option.

The next section focus on the results obtained for SWB of pharmacists when taking a holiday.

### Results for subjective well-being (SWB)

This section indicates the results for the cognitive and affective measures of SWB. This study found a reliability-coefficient (Cronbach's alpha) of 0.84 for the SWLS; 0.85 for the PA subscale; and 0.86 for the NA subscale.

**Table 1.2: Differences between pre- and post holiday results**

		Pre - holiday		Post holiday			
Scales	n	Pre mean	Std. deviation	Post mean	Std. deviation	t-test (p-value)	Effect size (d-value)
<b>Cognitive scale</b>							
SWLS	194	21.65	6.38	24.37	5.97	0.001	0.43**
<b>Affective scale</b>							
AFM - PA	196	31.82	7.29	39.01	5.97	0.001	0.99***
AFM - NA	195	24.75	8.46	21.85	7.24	0.001	-0.34*
AFM - PNB	195	7.12	13.44	17.29	10.97	0.001	0.75***

\* $d = 0.2$ : small effect; \*\*  $d = 0.5$ : moderate effect; \*\*\* $d = 0.8$ : significant/strong effect

SWLS (Satisfaction with Life Scale); AFM – PA (Affectometer’s positive affect); AFM – NA (Affectometer’s negative affect); AFM – PNB (Affectometer’s positive and negative balance)

The results presented in Table 1.2 indicates that there are a statistically significant differences ( $p < 0.001$ ) (Field 2005) for the cognitive and affective scales, and an overall increase in the SWLS as well as the AFM2. In addition, when looking at the effect size, a small increase can be noted when comparing the pre-trip (21.65) and the post-trip (24.37) mean values of the SWLS of which a moderate effect size (0.43) is detected. However, the balance (PNB) of the AFM2 indicates a considerable increase in mean values from the pre-trip (7.12) to the post-trip (17.29) with a significant effect size of 0.75. Furthermore, it can be noted that pharmacists showed a higher increase in positive affect from the pre-trip (31.82) to the post-trip (39.01) mean values, than a decrease in negative affect’s pre-holiday (24.75) to post-holiday (21.85) mean values. Indicated by means of the effect size in positive affect (0.99 = significant effect) and negative affect (-0.34 = small effect), the results show that pharmacists’ negative affect show little change after taking a holiday, but the positive affect increase after taking a holiday. It is clear that both the cognitive and affective measuring scales show an increase in SWB after a holiday. This indicates that pharmacists feel that taking a holiday contributes to a positive change in their SWB.

These results support research done by Gilbert and Abdullah (2004), Nawijn *et al.* (2010) and Haworth and Lewis (2005), who also found that taking a holiday contributes to the positive change in tourist’s SWB. The following section discusses the findings and implications with regard to the results obtained.

## **FINDINGS AND IMPLICATIONS**

The first and most important finding of this research is that the results of this study indicate that pharmacists indicated that by taking a holiday contributes to the enhancement of their well-being, and that taking a holiday contributes to the reduction in stress, as indicated by means of the reduction in the mean value of negative affect from the pre-holiday to the post-holiday. This corresponds with Iwasaki and Smale (1998) and Trenberth (2005) who recorded that taking a holiday is a buffer against the negative effects of stressful life events. The implications of the just mentioned is that employers of pharmacist must create a favourable conditions in the working place to encourage pharmacists to take leave more often even if it is for shorter periods of time which will lead to more positive SWB. When applying this increase in well-being to the bottom-up spill over theory, the SWB in the leisure life domain of pharmacists may spill over to other life domains such as their work life. From the literature review, work life was found to be the main contributor to low SWB of pharmacists and therefore any high well-being in leisure life would spill over to higher SWB in the work life domain. Thus, the stress, and other consequences such as low job satisfaction, increased desire to leave the employing company, (to give just two examples) and unprofessional behaviour (such as the dispensing of the wrong medication or a low quality of service) that may occur in pharmacists' occupation will be reduced.

The second finding is that the profile of the pharmacists and their travel behaviour were determined for the first time. This gives valuable insights into the profession as well as their travel behaviour. The results indicated that pharmacist take an average of three weekend trips a year, and one holiday per year, lasting an average of four to seven days. Since the results indicate that pharmacists' preferable holiday destination is National Parks and the preferable activities are nature-based (game drives, educational activities, and sightseeing) destination owners who already deliver such products may target pharmacists as a viable market. However, as the literature indicates, enjoyable and satisfying leisure activities are vital to sustain well-being (Haworth & Lewis, 2005) of which the well-being for this market are of vital importance. The destinations that would possibly target this market should meet their expectations since a satisfied tourist indicates that the expectations were met and will lead to a memorable experience.

The last finding is that pharmacist main motive for taking a holiday is to “relax” and to be together as a family. The latter confirms findings by Richards (1999) who stated that taking holidays supplied the opportunity for rest and relaxation. The implication is that tourism destination owners can develop marketing campaigns that addresses this aspect by emphasising rest and relaxation and opportunities to have fun as a family.

## **CONCLUSION**

The aim of this article was to determine whether holidays lead to a positive change in pharmacists' SWB. This is the first time that research has been undertaken in South Africa with regard to the effect of going on holidays on pharmacists' SWB. The literature review indicated that there is an urgent need to reduce the stress of pharmacists, not only to lessen the challenges of the profession, but also to prevent the possible endangerment of a patient's health. The literature furthermore revealed that tourism as a form of leisure contributes to high SWB and is a coping mechanism of which the results indeed indicated with regards to pharmacists.

The results found that holidays do alter the pharmacist's SWB positively and can, therefore, be seen as a necessity for pharmacists. It is therefore important that employers of pharmacists must create favourable conditions for an employee to go on holiday more often which will have a positive impact on pharmacists as well as on the business. Furthermore tourism destination owners, who already deliver a product preferred by pharmacists, may target them as a possible market and adapt their marketing campaigns accordingly.

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# **CUSTOMER SATISFACTION AND SUPPLIER IMAGE AS PREDICTORS OF CUSTOMER LOYALTY WITHIN A SERVICE BUSINESS ENVIRONMENT**

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## **ABSTRACT**

The primary objective of the study was to investigate the influence of customer satisfaction and supplier image on customer loyalty at a service business in Johannesburg. The methodological approach followed was exploratory and quantitative in nature. The sample consisted of 357 customers who visited an optometric practice twice or more over the previous six years. A structured questionnaire, with a seven-point Likert scale, was fielded to gather the data. Multiple regression analysis was used to analyse the results. The conclusions are that improvements need to be made in terms of personal attention given to the customer. The handling of complaints by support staff needs to be improved in order to give speedily resolve to the customer in order to retain the customer for the future. In terms of supplier image, certain functional attributes of the business such as overall appearance and comfort of furniture need attention, as these attributes scored lowly among respondents. Therefore, the service business needs to sustain and improve supplier image in order to create a higher level of customer retention and customer loyalty.

**Keywords:** Optometric practice, customer loyalty, customer retention, customer satisfaction and supplier image

## **INTRODUCTION**

The globalisation of competition, saturation of markets, and development of information technology have enhanced customer awareness and created a situation where long-term success is no longer achieved through optimised product, price and qualities (Kuusik, 2007:5). Rootman (2006:2) and Nyadzayo (2010:19) support this view and caution that fierce competition and ever-changing market conditions are forcing service businesses to adapt their

business strategies to become more customer orientated. This is the same in the optometry industry (Joubert, 2009:7).

Creating satisfied customers is critical in fostering customer retention (Gil, Hudson & Quintana, 2006:47; Marandi & Harris, 2010:147-149). However, satisfaction alone cannot be used as a measure to assess loyalty within the optometric industry. According to Kuusik (2007:11), customers who indicate that they are satisfied can still defect to other providers of service and much more needs to be done to establish customer loyalty, than just a focus on customer satisfaction. Dillehay (2006:1) confirms this view and notes that customers within the optical industry specifically defect easily to other providers. She argues that 85% of customers who defect to other service providers were satisfied with the service received just before defecting.

To assist in addressing this problem it is suggested that optometrists also focus on enhancing the image of their businesses. Supplier image is generally regarded as an important antecedent to foster customer retention, as a favourable image of the business can stimulate repeat patronage (Da Silva & Alwi, 2008:125; Hu, Kandampully & Juwaheer, 2009:117). The cultivation of a positive perception of the organisation's image enhances its ability to attract, satisfy and retain customers and at the same time stimulate the value of the intangible assets, such as trust and brand equity. A favourable view of the supplier could lead to an improved responsiveness in the market (Christopher & Gaudenzi, 2009:192).

Considering the discussion above, it is emphasised that no formal study has been conducted to investigate the influence of customer satisfaction and supplier image on customer loyalty within an optometric practice in South Africa. Insight into these variables could help businesses within the optometric services environment to retain their customers and become more profitable over the long term. Consequently, the purpose of the research conducted for this paper was to develop an understanding of the influence of the independent variables customer satisfaction and supplier image on customer loyalty within an optometric practice.

The paper commences with a literature review on customer loyalty, customer relationship management and the two independent variables that were further examined. The research objectives, hypotheses and methodology are then discussed. Based on an analysis of the research findings, the paper concludes with a number of managerial implications that

optometrists operating small businesses would need to consider to enhance customer loyalty within their businesses.

## **THEORETICAL BACKGROUND**

Customer relationship building, loyalty, customer satisfaction and supplier image were examined in this section.

### **Customer relationship building and loyalty**

Customer relationship management in a business practice focusses on the customer and can be used to attract new customers, encourage existing customers to make more frequent use of the services, and reduce the extent of turnover of existing customers to competition (Rootman, 2006:29).

Building effective relationships requires an investment from both the organisation as well as the customer. More specifically, Palmatier, Dant, Grewal and Evans (2006:140) explain that relationship investment refers to the time, effort and resources that parties invest and apply in building stronger relationships. Such investments often generate expectations of reciprocation that can help strengthen and maintain a relationship, and therefore, positively influence mutual cooperation. When customers interact with a competent seller, they receive increased value and their relationship becomes more important. Hence they are willing to invest more resources and they are prepared to work with the business in order to grow the relationship.

Rootman (2006:32) further notes that a strong relationship with customers is one in which the customer is completely satisfied, feels appreciated, feels trust towards the business, and when the customers depends on the business to fulfil their needs. Customers will remain loyal to a business when they receive superior value to what they would receive if they were to defect.

In return, the concept customer loyalty has further been defined in a number of different ways (Boohene & Agyapong, 2011:230; Evanschitzky & Plassmann, 2006:63; Kuo & Ye, 2009:753). According to Alwi (2009:4), however, in general the definition of customer loyalty outlines two key characteristics: Firstly, loyalty encompasses attitude and behaviour or behavioural intention, and secondly, loyalty is assessed and created over time. Consequently, for the purpose of the survey conducted for this paper, customer loyalty

referred to customers who visited the optometric practice twice or more over a given six year period (2005-2011).

### **Factors affecting customer loyalty**

Customer satisfaction and supplier image are relevant factors that were further examined.

#### *Customer satisfaction*

Customer satisfaction is a post-consumption experience (Hu et al., 2009:115-116) and is generally dependent on perceived quality and value (Kuo & Ye, 2009:753). More specifically, customer satisfaction reflects the degree to which a customer believes that the possession and/or use of a service evoke positive feelings. It can be regarded as the complete meeting of customer expectations of products and services. If the perceived performance expectations are met, the customer will be satisfied, if not, the customer will be disappointed. Expectations are influenced by prior experience and external advice received. When customers are satisfied with a service rendered, the customer will also feel satisfied with the business providing the service (Hoq, Sulatana & Amin, 2005:76).

Consequently, customer satisfaction is influenced by expectations, perceived service and perceived quality (Hu et al., 2009:115-116). Expectations influence total satisfaction when the customer evaluates a product or service. Satisfaction is a customer's emotional response when evaluating the discrepancy between expectations regarding the service and the actual performance perception. This perception of performance is gained through the physical interaction with the business and the product and services of the business (Salami, 2005:239). Perceived quality is measured through recent service experiences that consist of two components, namely perceived product quality and perceived service quality. There is a direct link between perceived quality and total satisfaction (Balaji, 2009:54-55). The customer first forms expectations based on needs, values, past experiences and extrinsic cues about the product. The perceived quality is based on those first expectations and the choice the customer made is then evaluated to determine satisfaction (Gounaris, Tzempelikos & Chatzipanagiotou, 2007:68). Perceived value is the customer's overall assessment of the quality of a product based on the perception of what is received, versus what is provided (Yu, Wu, Chiao & Tai, 2005:712).

### *Supplier image*

Kuo and Ye (2009:752) define supplier image as “a perception developed from the interactions among the institute, personnel, customers and the community, and is an association with the institute’s ability to position itself in the customer’s mind”.

The formation of supplier image within the customer’s mind is of a selective nature, the customer receives various experiences and promotional information from a business, which are then selectively processed, allowing the customer to establish personal impressions about the business (Kuo & Ye, 2009:752).

Supplier image has two principal components: a functional and an emotional component. The functional component involves the logical and structural analysis of an institute’s performance with the focus on the tangible characteristics that can be measured. The emotional component of a business is based on subjective characteristics, which include sentimental attachments (Alwi, 2009:2-3; Chang & Tu, 2005:198; O’Loughlin, Szmigin & Turnbull, 2004:219). Kuo and Ye (2009:752) identify three factors that influence the supplier image: corporate image, store image and credibility. Corporate image is related to the business as a member of society, hence it is viewed not only as a service and product provider, but in terms of how it contributes to and influences the surrounding society in general. Store image is defined according to how the infrastructure of the business supports the requirements and needs of customers, which include factors such as perception of product and services, policies and staff quality. Credibility is a measure of the business’s ability to meet customer requirements such as professional expertise, service and product quality and trust with regard to both service and ethical reliability.

The more positive the evaluations of service and product delivery, the higher the customer’s perceived image of the business (Hoq et al., 2005:75-77). Da Silva and Alwi (2008:125) argue that supplier image is an important antecedent of loyalty, and that loyalty will develop depending on the favourability of the supplier image formed. Friedman, Brown and Taran (2007:1) note that supplier image needs to be addressed by business as it can have both positive, however also negative consequences if not managed correctly. Customers need to know the supplier and its brands for the right reasons. Supplier image serves as an important factor influencing customer loyalty, and a favourable image can stimulate repeat patronage.

Furthermore, it is essential to maintain and improve the image of the business if existing loyal customers are to stay loyal (Hu et al., 2009:117).

## **OBJECTIVES**

Emanating from the research problem, the objectives of the survey were the following:

- Determine whether customer satisfaction and supplier image influence customer loyalty within an optometric practice.
- Establish which of the two independent variables has the largest influence on customer loyalty within an optometric practice.
- Make recommendations regarding the influence of the two independent variables on the dependent variable customer loyalty within an optometric practice.

## **HYPOTHESES**

The following hypotheses were assessed in order to assist in meeting the research objectives:

- **HA<sup>1</sup>**: There is a relationship between customer satisfaction and customer loyalty within an optometric practice.
- **HA<sup>2</sup>**: There is a relationship between supplier image and customer loyalty within an optometric practice.

## **METHODOLOGY**

Following the literature review, the empirical investigation was exploratory and quantitative in nature. The population comprised all the customers of an optometric practice (Wize Eyes Optometrist) who had visited the practice twice or more within the previous six years. (It was argued that customers would visit the optometric practice at least twice in a six year period. Permission was also obtained to disclose the identity of the organisation.) A probability sampling approach was followed and the convenience sampling technique applied. The data was gathered over an eight-week period in 2011. During this time customers who visited the practice and who matched the sampling frame were asked to participate in the survey.

A structured questionnaire, with a seven-point Likert scale, was used to gather the data. Respondents were provided with a self-administered questionnaire to complete. The

constructs in the questionnaire were developed from the literature review and previous questionnaires by Nyadzayo (2010), Du Plessis (2010) and Rootman (2006). A total of 357 questionnaires were completed and could be used in the analysis. The questionnaire was pre-tested in a pilot study involving 20 customers who visited the practice and matched the sampling frame. The internal consistency reliability test was used to measure reliability. Validity was ensured by having the content of the questionnaire aligned with the research objectives.

The data obtained from the questionnaires was coded, captured and edited. The Statistical Package for Social Sciences (SPSS version 18) was used to analyse the results. The frequency distribution of the results for each of the scale items included was first examined so as to determine whether the data was normally distributed. The normality of the distribution of results of each scale item was determined in order to assess whether parametric or non-parametric tests should be employed to test the hypotheses of the study. The distribution of the findings can be regarded as normal if it displays a skewness of less than an absolute value of 2.00, and a kurtosis of the distribution of less than 7.00 (West, Finch & Curran, 1995). All the scale items that were used for the survey fall within these parameters. Consequently, based on this analyses and the fact that the sample surveyed is relatively large ( $n = 357$ ), parametric tests were considered suitable for hypotheses testing. Multiple regression analysis was performed to assess the relationship between customer satisfaction and customer loyalty. Collinearity statistics and Pearson's correlation coefficient were also calculated to determine which independent variable has the largest influence on customer loyalty.

## **EMPIRICAL RESULTS**

Statistical techniques were applied to assess the reliability and validity of the survey and to obtain more clarity regarding the influence of the selected variables on customer loyalty within an optometric practice.

### **Reliability**

According to Pallant (2010:97), when calculating Cronbach's alpha, results exceeding 0.70 will reflect the lower level of acceptability. The reliability statistics for the questionnaire are presented in Table 1 below:

Table 1: Reliability statistics

Constructs	Cronbach's Alpha
Customer satisfaction	0.957
Supplier image	0.895
Customer loyalty	0.906

It is evident from Table 1 that the Cronbach's Alpha for all three constructs investigated is above the lower limit of acceptability, 0.70. This confirms that the measurement set that was used, was reliable.

### **Validity**

Saunders, Lewis and Thornhill (2007:614) indicate that there are two key elements that can be associated with the concept of validity, namely:

1. "The extent to which data collection method or methods accurately measure what they were intended to measure."
2. "The extent to which research findings are really about what they profess to be about."

According to Saunders et al. (2007:364–366) there are further at least four stages that must occur for a question to be considered as valid:

**Stage 1:** the researcher should at first have a clear understanding of the data that will be required and needs to design the questions accordingly.

**Stage 2:** in the second stage, the respondent has to decode the question in the manner that the researcher intended it to be.

**Stage 3:** the respondent now has to answer the question.

**Stage 4:** in the fourth stage, the researcher has to decode the answer in the manner that the respondent intended it to be.

Following Saunders et al.'s (2007:364-366) guidelines, the following actions and techniques were implemented to ensure the study is valid:



### *A clear understanding of the data required and design of questions*

A literature review was first conducted to investigate a number of theories related to the objectives of this study. Several research hypotheses were then formulated pertaining to these literature findings. This exercise was very useful to help determine the kind of information required in this study to meet the research objectives and to build the questionnaire around these requirements.

### *Pilot study and decoding of questions*

According to Altinay and Paraskevas (2009:130), a pilot study can assist to assess whether the questions asked are clear and easy to understand and whether additional questions will need to be asked to achieve the research objective. In essence the primary purpose of pilot testing is to identify any remaining problems that might occur in the questionnaire (Sudman & Blair, 1998:301) and to make the necessary adjustments so that the respondents will not have any difficulty in answering the questions and there will also not be any problem in recording the data (Saunders et al., 2007:386–387).

After the questionnaire was designed, the researcher conducted a pilot study to ascertain whether the respondents would decode the proposed questions in the manner they were intended to be and to ensure that potential problems could be addressed in advance. The pilot test revealed that the initial questionnaire was too long. Some of the questions also had to be rephrased to make certain that the respondents understood what was required of them and would be able to provide accurate information.

In conclusion, the researchers were able to perform the following activities to create a study that was valid and reliable:

- A self-administered questionnaire was designed, which was directly aligned with the research objectives.
- The necessary adjustments were made to the questionnaire, based on feedback obtained from the pilot study.
- A large sample size was used to increase and confirm the accuracy of the results.
- The expertise of STATKON (the statistical unit of the University of Johannesburg) was employed to analyse the data gathered and to ensure the correct measurement of the results.

This study has therefore made every effort to align the questionnaire with the research objectives and to follow reliable procedures that could generate consistent results if measures had to be repeated.

### **Influence of the selected variables on customer loyalty**

Concerning the first research objective, hierarchical multiple regression analysis was used to explain the relationship between the independent variables customer satisfaction, supplier image and the dependent variable customer loyalty. Preliminary analyses were conducted to ensure no violation of the assumptions of normality, linearity and homoscedasticity. After entering the variables, the total variance explained by the model as a whole was 76.8%. In the final model, all the independent variables were statistically significant, with the Customer Satisfaction Scale recording a higher beta value ( $beta = 0.185, p < 0.001$ ) than the Supplier Image Scale ( $beta = 0.113, p < 0.001$ ).

Both the independent variables, namely customer satisfaction and supplier image had a significant positive influence on the dependent variable customer loyalty. The research at hand relied on a 95% level of confidence; therefore a p-value equal to or less than 0.05 implies that the results are not subject to change, according to the Independent Sample T-test. The relationship between customer satisfaction and customer loyalty is significant at  $p = 0.027$ , and the relationship between supplier image and customer loyalty is significant at  $p = 0.007$ .

Given the above findings, it can be concluded that the hypotheses that were formulated should all be accepted. This implies that there is a relationship between the variables customer satisfaction, supplier image and customer loyalty within the optometric practice investigated.

To give effect to the second research objective of establishing which of the two independent variables has the largest influence on customer loyalty, it is necessary to discuss the collinearity between the independent variables. Table 2 depicts the collinearity statistics at hand.

**Table 2: Collinearity statistics**

Independent variables	Collinearity statistics	
	Tolerance	VIF
Overall Customer Satisfaction	0.095	10.482
Overall Image	0.389	2.570

Table 2 indicates that the correlation between the independent variables is statistically very high. Strong correlation between the different variables is good, but if high, it may also be an indicator that the researcher tested the same variable in different ways (Du Plessis, 2010:172). However, from the secondary research that was conducted, it is evident that the different constructs tested are not identical. Furthermore, the primary research was conducted after researching previous related studies and using the measurement tools from those studies – thus explaining the high correlation. Literature also shows that historically there is a close correlation between the variables researched:

- A strong link exists between satisfaction, image and loyalty (Veloutsou, Daskou & Daskou, 2004:120-126).
- Customer satisfaction acts as an intermediation between store image and customer loyalty (Chang & Tu, 2005:196-210).
- Corporate image may influence customer satisfaction directly or indirectly (Lee, Kim & Lim, 2006:7-9).

Pearson's correlation coefficient was also calculated to further investigate the correlation between the independent variables customer satisfaction, supplier image and the independent variable customer loyalty. The findings confirmed that all the independent variables had a significant influence on the dependent variable customer loyalty. Customer satisfaction had the largest influence on customer loyalty when compared to supplier image (p-value = 0.855; R squared = 0.732). Supplier image had the lowest influence on customer loyalty when compared to customer satisfaction (p-value = 0.852; R squared = 0.726).

## **MANAGERIAL IMPLICATIONS**

The findings of the conducted survey pointed to a number of managerial implications for optometric practices. Considering the fact that **customer satisfaction** had the largest influence on customer loyalty, Wize Eyes Optometrists would need to predominantly develop strategies and put procedures in place to enhance the satisfaction levels of their customers. The optometrist as well as the administrative staff must be aware of the needs of the patients and ensure their expectations are met. To accomplish this objective, Wize Eyes Optometrists could, for example, lengthen their consultation time slots in order to gain a better understanding of the needs of their patients. Staff must then be trained to deliver excellent service and performance must be measured. The customers should be treated in a professional manner at all times. Staff should listen to the concerns of customers, provide personalised attention and make an attempt to resolve complaints effectively. It is important to act in the best interest of the patients. The optometrist should also be honest with the patients and treat them with respect.

Wize Eyes Optometrists should further consider reducing the administrative workload placed on the optometrist to allow for more productive time with the customers. This strategy is important as the empirical findings have shown that the customers felt they could have received a more personalised service from the business. In addition, the business would need to ensure that the support staff are empowered and enabled to resolve the complaints from the customer effectively. Support staff should act as the representative for the business and propose and implement realistic solutions that would not only address the needs of the customer, but also be achievable from a business point of view.

Wize Eyes Optometrists would also need to pay attention to the **image of the business**, as the analyses of the empirical results have proved that this variable too had an impact on the loyalty of customers.

More specifically, the respondents felt confident in the brand of Wize Eyes Optometrists and indicated that they trusted the business to provide them with quality products and service. However, it became clear from the empirical results that there were certain aspects which could still be improved. For example, the customers felt that the practice did not have a customer-friendly design and that a modification in the appearance of the practice could possibly enhance the image of the business. Accordingly, it is recommended that Wize Eyes Optometrists upgrade the layout of their practice and consider a more modern ambience. It is also suggested that the furniture in the reception area be replaced to improve the comfort for customers who need to wait for the optometrist. The practice should be tidy and clean at all times. Wize Eyes Optometrist would in addition need to continually analyse trends in the optometric market and ensure that the business does not fall behind their competitors in their appeal and appearance. Care should be taken to address queries from patients in a timely and professional manner. The business' logo could be evaluated to ensure it is aesthetically pleasing to patients and portrays the desired image. Internet marketing, in addition to traditional media, should further be employed to promote the business. Finally, it would also be important for staff to dress appropriately to project a professional corporate image.

## **CONCLUSION**

Market and technological challenges as well as intensification in competition have created pressure for businesses within the South African marketplace. This situation also applies to the optometric market. Several practices are struggling to maintain and sustain sales. To assist in alleviating the problem, it was suggested that optometric practices focus on satisfying the needs of their patients and improving the image of their businesses. The business needs to ensure that the product or service provided matches up to the expectations of the customer, and that an impression about the business is created that will complement the image of the customer.

At the initial stage of our investigation we discovered that these elements and their managerial implications have never been formally investigated among optometric practices in South Africa. Knowledge of their influence on customer loyalty, though, could help

businesses within the optometric service environment to retain their customers and become more profitable. Accordingly, the purpose of the research conducted for this paper was to develop an understanding of the influence of the independent variables customer satisfaction and supplier image on customer loyalty within an optometric practice.

Subsequent to the empirical investigation, we then discovered that both customer satisfaction as well the image of the business had a significant influence on whether patients would remain loyal towards the practice. This implies that the optometric practice can improve customer loyalty by enhancing customer satisfaction and their supplier image.

Satisfying the needs of customers, however, should receive predominant attention, given the fact that, according to the statistical results, this variable has the largest impact on customer loyalty within the optometric practice. The optometric practice would further need to take cognisance of the fact that customer expectations are different for each customer and are conceptualised within the individual and influenced by prior experience and external advice received. The staff would subsequently need to carefully listen to the needs and concerns of the patients and consider the managerial implications highlighted in this paper to provide a satisfactory service delivery.

Optometrists or their respective managers aiming to build a loyal customer base would also need to pay attention to sustain and improve their supplier image in order to create a higher level of customer retention and customer loyalty. Special attention must be paid to improve the physical appeal of the practice, and they would need to continually analyse trends in the optometric market to ensure the business does not fall behind competitors with relation to appeal and appearance.

To close, the findings of this paper, although limited in scope, contributes to the improvement of customer loyalty within a small service business environment and could lead to larger market share, higher customer retention and greater profitability for the business. Another research study in future could continue with this investigation and examine the two factors surveyed in more depth (and at a larger scale) to further assist optometric practices in South Africa to survive and grow their businesses. It would also be interesting to determine if the same set of variables would influence customer loyalty in other business sectors in South Africa.

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**SELECTED ORGANISATIONAL-BASED FACTORS INFLUENCING THE  
SATISFACTION AND COMMITMENT LEVELS OF NON-FAMILY  
EMPLOYEES IN FAMILY BUSINESSES**

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**ABSTRACT**

The primary objective of this paper therefore was to identify and empirically test the impact that selected organisational-based factors (i.e. *Nature of the work, Physical working conditions, Leadership, Job involvement, Organisational structures and Governance*) have on two dependent variables, namely *Job satisfaction* and *Organisational commitment* in family businesses. In total 324 questionnaires were returned, of which 280 were usable for further statistical analyses. The results revealed that *Nature of the work, Working conditions* and *Job involvement* have a positive influence on the *Job satisfaction* experienced by non-family employees. The independent variables, *Nature of the work, Working conditions, Job involvement* and *Governance structures* have a positive influence on the level of *Organisational commitment* of non-family employees.

**Keywords:** Non-family employees; Organisational-based factors; Organisational commitment; Job satisfaction

**INTRODUCTION, PROBLEM STATEMENT AND OBJECTIVES**

In contrast to non-family businesses, family businesses are often managed by their owners or members of the owning family. However, in many cases, the managing responsibility is partly or even fully handed over to non-family executives. It is estimated that over 80% of people employed in family businesses are non-family members (Sharma n.d.; Mitchell, Morse and Sharma, 2003:534-535). The perspectives of non-family employees are therefore important

because they constitute a large percentage of individuals who may not think in the same way that family members do (Mitchell *et al.*, 2003:535). Hence, developing and maintaining the commitment and loyalty of non-family employees is one of the highest priority concerns of family business owners (Mitchell *et al.*, 2003:534). It is thus vitally important for family businesses to develop a satisfactory working environment for non-family employees, so that commitment can be fostered and satisfactory results for both the family and the firm can be realised (Vallejo, 2009:138).

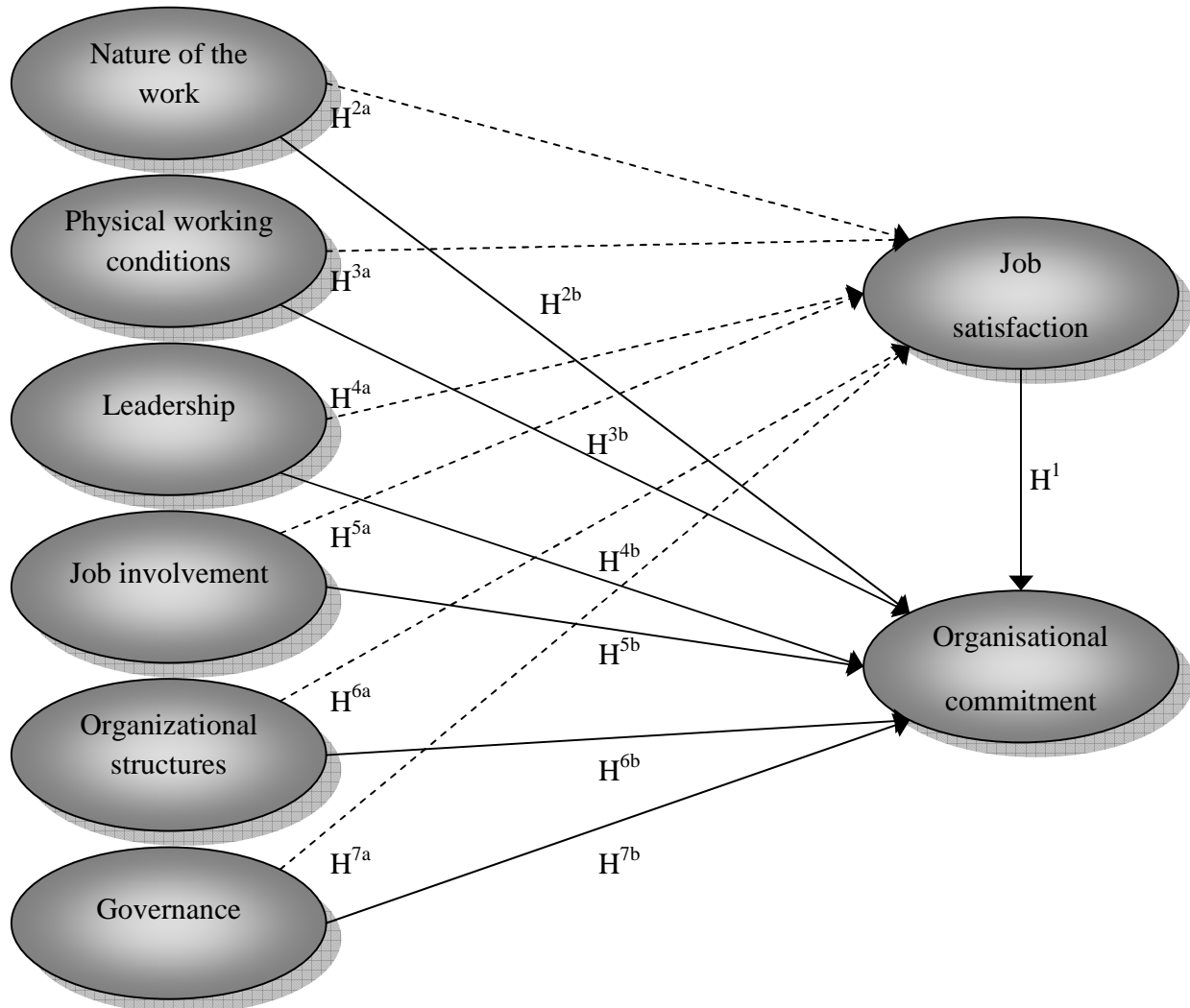
Although family business owners consider non-family employee commitment a top priority (Sharma, n.d.), little attention, in terms of proper scientific research and large empirical samples, is devoted to these important stakeholders in family businesses (Sharma, n.d.; Sharma, 2004:15; Sonfield and Lussier, 2009:23). Even though family businesses of any significant size depend on the quality and effectiveness of non-family managers to ensure their continued success and growth (Poza, 2010:231), it appears that the perspectives of non-family employees are rarely considered in the family business literature.

Given the lack of research attention focused on non-family employees in family businesses (Sharma, 2004:15; Block, 2011:11), as well as the vital role they play in family business success, the primary objective of this paper is to identify and empirically test the Organisational-based factors influencing the levels of job satisfaction and Organisational commitment of non-family employees working in family businesses.

## **PROPOSED HYPOTHETICAL MODEL**

Various factors influence the levels of job satisfaction and Organisational commitment of non-family employees. For the purpose of this paper the *Organisational-based* factors influencing the *Job satisfaction* and *Organisational commitment* of non-family employees in family businesses will be investigated. Organisational-based factors relate specifically to those factors that influence the ability of non-family employees to complete the task at hand. The hypothesised relationships and proposed hypothetical model is depicted in Figure 1.

**FIGURE 1:  
PROPOSED HYPOTHETICAL MODEL: ORGANISATIONAL-BASED FACTORS INFLUENCING THE  
LEVELS OF JOB SATISFACTION AND ORGANISTIONAL COMMITMENT**



Evidence has been found in both the family business and the Organisational behaviour literature to support the relationships hypothesised between the six independent variables identified in this study and the dependent variables (*Job satisfaction* and *Organisational commitment*). The *Organisational-based* factors include: *Nature of the work*, *Physical working conditions*, *Leadership*, *Job involvement*, and *Organisational structures* and *Governance*. The support to address these relationships is presented below.

## **DEPENDENT VARIABLES**

As mentioned above and illustrated in Figure 1, the dependent variables in this study are *Job satisfaction* and *Organisational commitment*. Sorenson (2000:186) points out that both Organisational commitment and job satisfaction are indicators of an employee's willingness to contribute to the organisation beyond role expectations.

According to Lee (2006:187), job satisfaction is a significant predictor of Organisational commitment. However, Papini (2007:28) argues that with the importance of job satisfaction to organizations and its inherent connection to Organisational commitment, it is only natural to study them simultaneously, no matter what their causal relationship. Consequently, for the purpose of this study, both job satisfaction and Organisational commitment will be considered as dependent variables.

For the purpose of this study, *Job satisfaction* refers to workers experiencing their involvement in the family business as enjoyable, rewarding and fulfilling, as well as having their job expectations realised. Job satisfaction is crucially important in retaining and attracting well-qualified employees (Mosadeghrad, Ferlie and Rosenberg, 2008:211) as it leads to an employee valuing a particular job setting enough not to leave it for other than serious reasons (Marrelli and Hilliard, 2004:180; Ibrahim and Boerhaneoddin, 2010:47). Vallejo (2009:138) is of the opinion that it is vitally important for family businesses to maintain high levels of *Job satisfaction* among non-family employees.

With the increased popularity of the concept of Organisational commitment, there have been numerous definitions of the construct (Pierce and Dunham, 1987:163; Mathieu and Zajac, 1990:171; Meyer and Allen, 1991:61). While researchers have varied their emphasis, most of them suggest that commitment represents both an attitude that describes an individual's linkage to the organization and a set of behaviors by which individuals manifest that link (Mathieu and Zajac, 1990:171; Elizur and Koslowsky, 2001:595; Jernigan, Beggs, and Kohut, 2002:564). For the purpose of this study, *Organisational commitment* refers to employees having pride in an organization, an emotional attachment and a sense of belonging to the family business, and willingness to put in a great deal of effort to ensure its success. Organisational commitment is a

vitality important factor that influences employees' productivity and an important performance indicator for an organization (Dirani, 2009:193). However, the commitment of non-family employees to the family-owned business in which they work, when not related by blood or marriage, can pose special challenges (Susco, 2009).

Although job satisfaction and Organisational commitment are both considered as dependent variables in this study, several researchers (Lok and Crawford, 2001:609; Jernigan *et al.*, 2002:564; Cullinan, Bline, Farrar and Lowe, 2008:226; Liu and Ramsey, 2008:1174) have examined job satisfaction as a factor influencing Organisational commitment. Several researchers have suggested that job satisfaction is of special significance to understanding the influence of various other variables on commitment (Byars and Rue, 1991:303; Michaels, 1994:45; Aamodt, 2004:321; Lee, 2006:185).

In contrast, Yiing and Ahmad (2009:75), as well as Hirschheim, Heinzl and Dibbern (2009:405) have found no significant relationship between job satisfaction and Organisational commitment. Elizur and Koslowsky (2001:594), as well as Mosadeghrad *et al.* (2008:211) are of the opinion that the links between Organisational commitment and job satisfaction are complex and it is not clear which is the precursor of the other. Based on the contradictory evidence provided above, the following hypothesis is subjected to further empirical testing:

*H<sup>1</sup>: There is a positive relationship between the level of Job satisfaction of non-family employees working in family businesses and their level of Organisational commitment to the family business.*

#### **INDEPENDENT VARIABLES: KEY ORGANISATIONAL-BASED FACTORS**

Organisational-based factors can be described as those factors that influence the ability of non-family employees to complete the tasks assigned to them. For the purpose of this study, these Organisational-based factors are divided into six independent variables, namely *Nature of the work, Physical working conditions, Leadership, Job involvement, Organisational structures and Governance.*

### **Nature of the work**

The nature of the work performed by an employee is important to an organization because it influences an employee's behaviour at work (Buitendach and De Witte, 2005:28). For the purpose of this study, *Nature of the work* refers to the job performed by the non-family employee as being autonomous and providing feedback, as well as having task significance, identity and variety. Doing a job that is interesting and challenging reduces the number of days that an employee is likely to be absent from work (Saari and Judge, 2004:398; Buitendach and De Witte, 2005:28; Fincham and Rhodes, 2005:218).

Previous research (Aamodt, 2004:323; Chen, 2004:434; Locke, 2004:56; Saari and Judge, 2004:398; Malik, Nawab, Naeem and Danish, 2010) has shown that the nature of work done by an employee influences his/her level of job satisfaction. Hitt, Miller, and Colella (2006:408) assert that an employee's job description must specify the tasks and responsibilities associated with his/her position. In addition, these tasks and responsibilities should be such that they enhance an employee's level of job satisfaction in the business. High employee satisfaction is a priority for managers who believe that the business has a responsibility to provide employees with jobs that are challenging and intrinsically rewarding (Appelbaum, Bartolomucci, Beaumier, Boulanger, Corrigan, Dore, Girard and Serroni, 2004:19). Similarly, Locke (2004:75), Saari and Judge (2004:398), Fincham and Rhodes (2005:218), and Bargraim *et al.* (2007:334) emphasise that the most effective way for an organization to promote high levels of job satisfaction among employees is by ensuring that the nature of the job is as interesting and challenging as possible. In addition, Al-Ahmadi (2009) asserts that satisfaction with the amount of variety and challenge in one's job influences Organisational performance. He explains that a sense of job significance and autonomy enhances an employee's level of satisfaction in an organization.

According to Meyer and Allen (1991:70), few studies have examined the relationship between the nature of work and Organisational commitment. Several studies (Aubè, Rousseau and Morin, 2007; Lambert and Paoline, 2008; Giffords, 2009; Iqbal, 2010:17; SamGnanakkan, 2010:41) have, however, reported that the job or role characteristics (e.g. variety of tasks and autonomy) of an employee influence the level of commitment exhibited by that employee to an organization (Lambert and Paoline 2008; Iqbal, 2010).

According to Piccolo and Colquitt (2006:330), no research exists supporting a relationship between the five core job characteristics (variety, task identity, task significance, autonomy and job feedback) and Organisational commitment. Based on this discussion, the following hypotheses have been formulated:

*H<sup>2a</sup>: There is a positive relationship between the Nature of the work performed by non-family employees in family businesses and their level of Job satisfaction.*

*H<sup>2b</sup>: There is a positive relationship between the Nature of the work performed by non-family employees in family businesses and their level of Organisational commitment.*

### **Physical working conditions**

According to Wallace (2001:708), the conditions under which employees perform their duties have a great bearing on their general health, efficiency and productivity. Favourable working conditions and a pleasant working atmosphere enable employees to adapt both physiologically and psychologically to their working environment (Naik and Pradhan, 2010). For the purpose of this study, *Physical working conditions* refer to a working environment with adequate and suitable conditions, resources, information and equipment.

Significant relationships and positive correlations between variables relating to physical working conditions and the level of employee job satisfaction have been reported in numerous studies (Wai, Ching and Rahim, n.d.; Byars and Rue, 1991:303; Robbins 2003:77; Kinzl *et al.*, 2005:214). According to Papanastasiou and Zembylas (2005:151), employees who are not satisfied with their physical working conditions are more likely to leave their jobs. Similarly, Byars and Rue (1991:303), as well as Robbins (2003:77), point out that poor working conditions lead to poor performance and dissatisfaction among employees. Several other studies have also found a positive relationship between physical working conditions and job satisfaction (Macdonald, 1999; Tye and O'Brien, 2002; Papanastasiou and Zembylas, 2005:151; Hitt *et al.*, 2006:420). Naik and Pradhan (2010) conclude that working conditions should therefore be compatible with employees' physical comfort, since these conditions play a vital role in enhancing their level of job satisfaction, as well as their productivity. Sharma and Kumar



(2001:772) also suggest that if the working conditions on the job in the business are better than similar jobs in other businesses, the employees will be more satisfied.

In the same manner studies show that an organization that provides a better working environment enhances the level of commitment shown by employees to that organization (Iqbal, 2010:17; Luo, 2010). Based on the discussion above, the following hypotheses have been formulated, and are subjected to further empirical testing:

*H<sup>3a</sup>: There is a positive relationship between the Physical working conditions experienced by non-family employees working in family businesses and their level of Job satisfaction in family businesses.*

*H<sup>3b</sup>: There is a positive relationship between the Physical working conditions experienced by non-family employees working in family businesses and their level of Organisational commitment shown to the family businesses.*

### **Leadership**

Good leaders are important to an organization because they are able to manipulate elements of an organization's history and tradition. In addition, good leaders provide direction to help maintain the culture of such organizations (Lok, Westwood and Crawford, 2005:497). In the present study, *Leadership* refers to the leaders of the family business as having a participatory leadership style as well as being knowledgeable and visionary.

According to Barling, Weber and Kelloway (1996), strong leadership positively influences job satisfaction. Similarly, in his study on attitudes to work, Savery (1994) has reported a positive relationship between leadership and job satisfaction. According to Byars and Rue (1991:303), as well as Aamodt (2004:323), the style and quality of a supervisor in an organization affects an employee's level of job satisfaction. An employee with a high degree of job satisfaction will seek to interact with the supervisor and take instructions willingly (Byars and Rue, 1991:303). In addition, the level of Organisational and managerial support an employee receives has an influence on his/her level of job satisfaction (Yiing and Ahmad, 2009:54,56).

Good leaders are essential to fostering a business's shared vision, aligning the business components in pursuit of that vision, and building commitment to the vision at all levels of the organization (Chawla and Renesch, 2006:96). Ample evidence exists suggesting a positive relationship between leadership and Organisational commitment (Mathieu and Zajac, 1990; Rai and Sinha, 2000; Lok and Crawford, 2004; Lok *et al.*, 2005; Yiing and Ahmad, 2009). According to Vallejo (2009:138), good leaders contribute to family business success, thereby leading to higher levels of commitment among non-family employees.

Al-Ahmadi (2009) asserts that employees who perceive their supervisors as adopting consulting behaviour and having participating leadership styles, are more committed to their jobs. Although leadership has been found to be significantly positively related to Organisational commitment (e.g. Mathieu and Zajac 1990; Rai and Sinha 2000; Lok and Crawford 2004; Yiing and Ahmad 2009), Lok *et al.* (2005:498) argue that empirical studies on this relationship are limited. In a study on the contribution of leadership styles and practices, Sorenson (2000) has found that expert leadership does not influence either employee satisfaction or commitment. However, he concludes that referent, and in particular, participative leaders, enable family businesses to achieve desired family and business outcomes. Based on the evidence presented above, it is hypothesized that:

*H<sup>4a</sup>: There is a positive relationship between the Leadership in the family businesses and the level of Job satisfaction experienced by non-family employees.*

*H<sup>4b</sup>: There is a positive relationship between the Leadership in the family businesses and the level of Organisational commitment shown by non-family employees.*

### **Job involvement**

For the purpose of this study, *Job involvement* refers to the opportunity to be heard and involved in decision-making, management, setting business goals, and strategic planning. The job involvement of non-family employees can be vital in dealing with succession planning, enhancing a family business's chances of long-term survival, and setting strategic direction for the business (Chua, Chrisman and Sharma, 2003:103; Poza, 2007:215; Sundaramurthy, 2008:94).

Word and Park (2009) suggest that an employee's involvement in a job is dependent on the extent to which his/her job satisfies his/her own needs. Both anecdotal and empirical evidence provide support for a positive relationship between job involvement and job satisfaction (Baron, 1983:214; Kreitner, Kinicki and Buelens, 1999:199; Husain, Hussain and Khan 2005:263). According to Bagraim *et al.* (2007:62) as well as Kramer (2010:135), employees with high levels of job involvement truly enjoy their work, strongly identify with their jobs, and perceive job performance to be important to their self-worth. Lambert and Hogan (2009), as well as Back, Lee and Abbott (2010) assert that empowering employees in the decision-making process will lead to higher self-esteem, which results in greater levels of job satisfaction.

Empirical evidence also exists supporting a positive relationship between job involvement and Organisational commitment (Mathieu and Zajac, 1990:171; Sorenson, 2000:194; Harris, Reid and McAdam, 2004:50). Governder and Parumasur (2010:239) maintain that job involvement means the kind of cooperation and commitment that results in people finding significance and achievement in their work. Both Sorenson (2000:194) and Harris *et al.* (2004:50) argue that it is important to involve employees in decision-making processes because involving them has been found to increase employee commitment, responsibility and effort, and ultimately the performance of the business. Being involved in decision-making allows employees to shape the organization and makes them feel that they are valued by the organization (Lambert, Hogan and Barton, 2009). On the other hand, employees who are uninvolved in their jobs demonstrate a lack of commitment to the organization (Ekore and Onomerike, 2004:126). Based on the preceding discussion, the following hypotheses are formulated:

*H<sup>5a</sup>: There is a positive relationship between the Job involvement of non-family employees and their level of Job satisfaction in the family business.*

*H<sup>5b</sup>: There is a positive relationship between the Job involvement of non-family employees and their level of Organisational commitment to the family business.*

### **Organisational structure**

In this study, *Organisational structure* refers to clearly demarcated areas of authority and responsibility, as well as reporting relationships existing in the family business. Ample evidence exists to support a positive relationship between Organisational structure and Organisational

commitment (e.g. Mathieu and Zajac, 1990:171; Mayer and Schoorman, 1998:17; SamGnanakkan, 2010:41). For example, Dex and Smith (2001:5) claim that employee commitment is related to internal Organisational factors such as the structure and policies of the organization. In addition, explicit agreements and policies ensure that decision-making processes are executed in a consistent manner, contributing to commitment and trust in the family business (Van der Heyden, Blondel and Carlock, 2005). Similarly, Holland and Ritvo (2008:126) posit that clearly-worded personnel policies that describe job expectations and criteria, are at the foundation of improving job satisfaction. Furthermore, in their study of prison healthcare staff, Garland and McCarty (2009:201) concluded that the level of job satisfaction in the healthcare units could be enhanced through an improved prison Organisational structure.

Based on the preceding discussion, it is hypothesized that:

*H<sup>6a</sup>: There is a positive relationship between the Organisational structure in family businesses and the level of Job satisfaction experienced by non-family employees in the family business.*

*H<sup>6b</sup>: There is a positive relationship between the Organisational structure in family businesses and the level of Organisational commitment shown by non-family employees to the family business.*

### **Governance structures**

According to Aronoff and Ward (1994:39) and Tàpies and Ward (2008), governance is one of the aspects that describe the Organisational structure in family businesses. Consequently, for the purpose of this study, *Governance structures*, although seen as an underlying component of Organisational structure, are considered as a separate factor. In the present study, *Governance structures* refer to a formal board of directors, policies, written plans and regularly scheduled meetings existing in the family business. Several authors have identified governance as important for the effective running of the family business (Aronoff, Astrachan, Mendosa, and Ward, 1997; Lansberg 1999:8; Hough, Thompson, Strickland and Gamble, 2008:173). Governance structures set the standard and controls for how the business operates and how the people within it conduct themselves (Hough et al., 2008:173). The following are hypothesized:

*H<sup>7a</sup>: There is a positive relationship between the existence of Governance structures in family businesses and the level of Job satisfaction experienced by non-family employees working in the family businesses.*

*H<sup>7b</sup>: There is a positive relationship between the existence of Governance structures in family businesses and the level of Organisational commitment shown by non-family employees to the family businesses.*

## **RESEARCH DESIGN AND METHODOLOGY**

### **Sampling procedure and response rate**

For the purpose of this study convenience snowball sampling was used. To get the sampling process underway, family businesses were contacted and requested to encourage their non-family employees to participate in the study. The database developed by previous researchers focusing on family businesses (Farrington, 2009; Eybers, 2010; Venter, 2003) served as the starting point for this contact process. Searches on Google were undertaken to identify additional family businesses that could be approached. Where possible, non-family employees were approached directly and requested to participate. In addition, research contacts and friends across South Africa were asked to identify any family businesses or non-family employees working in a family business. Once identified, family businesses were contacted telephonically and owners requested to pass on the questionnaire to their employees, and also to encourage their staff to participate.

The sample in this study consisted of 800 non-family employees. In total 324 questionnaires were returned, of which 280 were usable for further statistical analyses. Therefore, a response rate of 40.50% was realised for this study.

### **Development of scales and administration of measuring instrument**

The primary data in this study was gathered by means of a survey. Primary data relating to the factors influencing the levels of *Job satisfaction* and *Organisational commitment* of non-family employees working in South African family businesses was collected. A structured, self-

administered questionnaire was made available to respondents via postal mail, email or personal delivery. The measuring instrument consisted of a covering letter and four sections.

Section 1 consisted of 50 statements (items) describing aspects relating to the various Organisational-based factors influencing the *Job satisfaction* and *Organisational commitment* levels of non-family employees in family businesses. A 7-point Likert-type scale (1 = *strongly disagree* and 7 = *strongly agree*) was employed, and each respondent was requested to indicate the extent to which he/she agreed with each statement. As far as possible valid and reliable items were sourced from previous studies, but were rephrased to make them suitable for the present study. In Section 2 of the questionnaire demographic information from respondents was requested. In Sections 3 and 4 of the questionnaire respondents were given the opportunity to make comments regarding the study, and to provide contact details of other non-family employees known to them.

### **Reliability and validity of the measuring instrument**

In order to assess the validity of the measuring scales, a Confirmatory Factor Analysis (CFA) was done on the dependent variables *Job satisfaction* and *Organisational commitment*, while an Exploratory Factor Analysis (EFA) was done on the independent variables. A CFA was done on the dependent variables for two reasons. Firstly it is well recognised in the literature that *Job satisfaction* and *Organisational commitment* are independent constructs (Papini 2007:28; Griffin, Hogan, Lambert, Toker-Gail and Baker 2010:245) and a CFA was done to assess the extent to which the hypothesized factors fitted the data (Pett, Lackey and Sullivan 2003:4; Reinard 2006:428; Cooper and Schindler 2011:430 this is correct Prof, have put the reference in the list). Secondly, a CFA is common when scales from previous research are used to measure certain constructs (Reinard 2006:428), as is the case in this study. An Exploratory Factor Analysis (EFA) was done on the independent variables, namely the Organisational-based factors. The reason for using EFA on the independent variables was that many of the scales used for testing these variables have not been confirmed to the same extent as is the case for the dependent variables. As such data relating to the independent variables was divided into three models for this purpose. For the purpose of this study, factor loading of  $>0.5$  and items that loaded onto one

factor only were considered significant. Factors with two or less items loading onto them were not considered for further statistical analysis.

In order to assess the reliability of the measuring scales, Cronbach-alpha coefficients were calculated. Cronbach-alpha coefficients of 0.70 or higher are generally an acceptable level in determining the reliability of the measuring scale (Lehman, 2005:145; Slaughter, 2009:114). On the other hand, reliability coefficients of less than 0.70 are regarded as inadequate (Lehman, 2005:145).

### **Analyses to determine relationships between variables**

In order to summarise the sample data, descriptive statistics were calculated. In the present study, descriptive statistics was used to compute the mean scores, the standard deviation, and the frequency distributions of the responses. A Multiple Regression Analysis was used to determine the influence of the independent variables under investigation on the dependent variables *Job satisfaction* and *Organisational commitment*. The relationship between *Job satisfaction* and *Organisational commitment* was also assessed, using Multiple Regression Analysis.

## **EMPIRICAL RESULTS**

### **Demographic information**

More or less even number of males (47.14%) and females (52.86%) participated in the study. Most of the respondents were aged between 21 and 30 years (45.71%), followed by respondents between the ages of 31 and 40 years (30.36%) and between the ages of 41 and 50 years of age (11.43%). Most of respondents were White (45%), followed by Black (29.64%), Coloured (18.93%) and Asian (2.5%).

The family businesses in which the respondents were employed were found to operate within a variety of industries. Most indicated that they were either employed in the retail, motor trade and repair services (24.29%), hospitality (16.79%) or finance and business services (12.14%) industries. There were also respondents operating in social, personal services and clothing (10.00%), manufacturing or engineering (8.21%) and construction and building services (6.07%)

industries. The remaining were employed in transport, storage and communications (2.50%), agriculture, farming or timber (1.43%), as well as wholesale trade, commercial agents and allied services (1.07%).

The respondents were also requested to indicate how many people were employed in the family business in which they were employed. Most respondents indicated between 11 and 25 (21.79%) or between 5 and 10 (21.43%) employees working in the family business. Only 16.67% indicated that fewer than 5 employees worked in the family business. As far as the length of time the respondents had been working in the family business is concerned, the vast majority (88.57%) indicated that they had been working in the family business for less than 10 years. The rest of the respondents indicated that they had been working in the family business between 11 and 30 years (11.08%), with the smallest number having worked for between 31 and 40 years (0.39%).

With regard to the position held by the respondents in the family businesses, most held managerial or supervisory positions (42.86%), followed by administrative or clerical (33.21%), and various other operational positions (23.93%). The respondents were further requested to indicate whether they held a share in the family business in which they were employed. The vast majority (91.79%) of respondents reported not possessing any shares in the family businesses, with only 8.21% indicating that they did hold shares.

## **Results of the validity and reliability assessments**

### **Dependent variables**

Five items were developed to measure the factor *Job satisfaction*, and all five items loaded as expected. Factor loadings of between 0.928 and 0.852 were reported for this factor. Sufficient evidence of validity for this construct is thus provided. *Job satisfaction* explains 3.955% of the variance in the data. The Cronbach-alpha coefficient was *Job satisfaction* is 0.933, suggesting that the scale measuring this factor is reliable. As a result of the factor analysis the operationalisation of *Job satisfaction* has remained unchanged, which for the purpose of this



study refers to workers experiencing their involvement in the family business as enjoyable, rewarding and fulfilling, as well as having their job expectations realized.

The six items intended to measure the factor *Organisational commitment* all loaded as expected. Factor loadings of between 0.876 and 0.729 were reported for this factor. Sufficient evidence of validity for this factor is thus provided. The six items measuring *Organisational commitment* explain 4.088% of the variance in the data. *Organisational commitment* returned a Cronbach-alpha coefficient of 0.905, providing evidence of a reliable scale. The operationalisation of *Organisational commitment* remains unchanged, and for the purpose of this study refers to employees having pride in the family business and an emotional attachment and a sense of belonging to it, as well as willingness to put in a great deal of effort to ensure its success.

#### **Independent variables: Organisational-based variables**

An exploratory factor analysis was also undertaken on the various organisational-based factors. A Principal Component Analysis with a Varimax Rotation was specified as the extraction and rotation method. In determining the factors to extract, the percentage of variance explained and the individual factor loading were considered. The resulting factor structure is reported in Table 1. Four factors were extracted which explain 21.73% of the variance in the data. In Appendix A a complete description is given of the items that loaded on both the dependent and independent variables.

Four of the five items (PHYSICAL1, PHYSICAL2, PHYSICAL3 and PHYSICAL5) intended to measure *Physical working conditions* and four of the nine items (LEAD2, LEAD5, LEAD6 and LEAD7) intended to measure *Leadership* (LEAD) loaded together onto one construct. In addition, the items NATURE2, STRUCTURE2, STRUCTURE4 and GOV2 also loaded onto this construct. Given the nature of these items, the factor was renamed *Physical working conditions*. Factor loadings of between 0.747 and 0.504 were reported for this construct. The factor *Physical working conditions* explains 7.206% of the variance in the data. Evidence of validity for this factor is thus provided. A Cronbach-alpha coefficient of 0.938 is returned, indicating that the scale used to measure this construct is reliable. In the present study, *Physical working conditions* refers to a working environment with an adequate physical infrastructure, resources, information

and equipment to complete tasks, an environment with considerable, and effective and knowledgeable leaders, as well as having clear policies, reporting lines and division of labour in the family business.

**TABLE 1:  
FACTOR STRUCTURE – ORGANISATIONAL-BASED FACTORS**

	<b>Physical working conditions</b>	<b>Job involvement</b>	<b>Governance</b>	<b>Nature of the work</b>
<b>PHYSICAL2</b>	<b>0.747</b>	0.176	0.177	-0.045
<b>STRUCTURE4</b>	<b>0.645</b>	0.152	-0.033	0.137
<b>LEAD6</b>	<b>0.640</b>	0.326	0.195	0.224
<b>PHYSICAL3</b>	<b>0.633</b>	0.278	0.196	0.305
<b>PHYSICAL1</b>	<b>0.630</b>	0.314	0.234	0.266
<b>LEAD2</b>	<b>0.614</b>	0.414	0.015	0.294
<b>STRUCTURE2</b>	<b>0.613</b>	0.231	0.383	0.235
<b>LEAD5</b>	<b>0.575</b>	0.382	0.147	0.455
<b>LEAD7</b>	<b>0.544</b>	0.218	0.258	0.273
<b>NATURE2</b>	<b>0.542</b>	0.300	0.068	0.224
<b>GOV2</b>	<b>0.541</b>	0.312	0.409	0.090
<b>PHYSICAL</b>	<b>0.504</b>	0.341	0.142	0.411
<b>INVOLVE5</b>	0.155	<b>0.835</b>	0.214	0.185
<b>LEAD3</b>	0.289	<b>0.789</b>	0.151	0.206
<b>INVOLVE3</b>	0.346	<b>0.763</b>	0.111	0.223
<b>INVOLVE4</b>	0.177	<b>0.762</b>	0.107	0.156
<b>NATURE9</b>	0.241	<b>0.718</b>	0.287	0.056
<b>INVOLVE1</b>	0.024	<b>0.696</b>	0.155	0.050
<b>INVOLVE2</b>	0.235	<b>0.682</b>	0.157	0.300
<b>LEAD4</b>	0.430	<b>0.660</b>	0.200	0.305
<b>GOV4</b>	0.129	0.322	<b>0.751</b>	0.029
<b>GOV1</b>	0.026	-0.009	<b>0.661</b>	0.214
<b>GOV3</b>	0.259	0.356	<b>0.648</b>	0.272
<b>STRUCTURE1</b>	0.387	0.300	<b>0.573</b>	0.348
<b>STRUCTURE3</b>	0.201	0.202	<b>0.565</b>	0.098
<b>NATURE1</b>	0.120	0.294	0.187	<b>0.695</b>
<b>NATURE3</b>	0.281	0.366	0.201	<b>0.692</b>
<b>NATURE10</b>	0.335	0.256	0.219	<b>0.568</b>
<b>Expl.Var</b>	<b>7.206</b>	<b>7.542</b>	<b>3.558</b>	<b>3.422</b>
<b>Prp.Totl</b>	<b>0.185</b>	<b>0.193</b>	<b>0.091</b>	<b>0.088</b>

The five items (INVOLVE1, INVOLVE2, INVOLVE3, INVOLVE4 and INVOLVE5) intended to measure the factor *Job involvement* loaded together onto one factor. Three additional items (NATURE9, LEAD3 and LEAD4) also loaded onto this factor. Factor loadings between 0.835 and 0.660 were reported for this construct. *Job involvement* explains 7.542% of the variance in the data. Sufficient evidence of validity for this factor is thus provided. The Cronbach-alpha coefficient returned for *Job involvement* is 0.940 implying that the scale measuring this construct is reliable. Although three other items intended to measure other factors also loaded onto *Job involvement*, the operationalisation thereof remains unchanged. *Job involvement* refers to the opportunity to be heard and receive feedback, as well as being involved in decision-making, management, setting business goals and strategic planning.

Only three of the items (GOV1, GOV3 and GOV4) intended to measure the factor *Governance* loaded together onto one factor. Two additional items (STRUCTURE1 and STRUCTURE3) initially intended to measure the construct *Organisational structures* also loaded onto the factor *Governance*. The name *Governance* was retained for this factor. Factor loadings of 0.751 and 0.565 were reported for this construct. In addition, *Governance* explains 3.558% of the variance in the data. Thus, evidence of validity for this factor is provided. *Governance* returned a Cronbach-alpha coefficient of 0.807, showing that the scale used to measure this construct is reliable. For the purpose of this study, *Governance* refers to having a formal board of directors, written plans and regular scheduled meetings, as well as clearly demarcated areas of authority and responsibility, existing in the family business.

Of the eleven items intended to measure *Nature of the work*, only three items (NATURE1, NATURE3 and NATURE10) loaded together onto this factor. The item NATURE9 loaded onto the factor *Job involvement*, while the remaining items did not load on any of the extracted factors. Factor loadings of between 0.695 and 0.568 were reported for this construct. The factor *Nature of the work* explains 3.422% of the variance in the data. Evidence of validity is thus provided for this construct. The Cronbach-alpha coefficient returned for *Nature of the work* is 0.792, implying that the scale used to measure this factor is reliable. Because only three of the expected items loaded onto this factor, the operationalisation thereof was adjusted slightly. In

the present study, *Nature of the work* refers to the job being challenging, interesting and important.

**TABLE 2: REFORMULATED HYPOTHESES**

H <sup>1</sup> :	There is a positive relationship between the level of <i>Job satisfaction</i> of non-family employees working in family businesses and their level of <i>Organisational commitment</i> to the family business.
H <sup>2a</sup> :	There is a positive relationship between the <i>Nature of the work</i> performed by non-family employees working in family businesses and their level of <i>Job satisfaction</i> .
H <sup>2b</sup> :	There is a positive relationship between the <i>Nature of the work</i> performed by non-family employees working in family businesses and their level of <i>Organisational commitment</i> .
H <sup>3a</sup> :	There is a positive relationship between the <i>Working conditions</i> experienced by non-family employees working in family businesses and their level of <i>Job satisfaction</i> .
H <sup>3b</sup> :	There is a positive relationship between the <i>Working conditions</i> experienced by non-family employees working in family businesses and their level of <i>Organisational commitment</i> .
H <sup>4a</sup> :	There is a positive relationship between the <i>Job involvement</i> of non-family employees working in family businesses and their level of <i>Job satisfaction</i> .
H <sup>4b</sup> :	There is a positive relationship between the <i>Job involvement</i> of non-family employees working in family businesses and their level of <i>Organisational commitment</i> to the family business.
H <sup>5a</sup> :	There is a positive relationship between the existence of <i>Governance structures</i> in family businesses and the level of <i>Job satisfaction</i> experienced by non-family employees working in the family business.
H <sup>5b</sup> :	There is a positive relationship between the existence of <i>Governance structures</i> in family businesses and the level of <i>Organisational commitment</i> shown by non-family employees to the family businesses.

As a result of the factor analyses, the original hypothetical model depicted in Figure 1 and the hypotheses defined earlier, were revised. The relationships depicted in the revised hypothetical model and the reformulated hypotheses presented below in Table 2 were subjected to further empirical testing in the remainder of the study.

### **Empirical results: Multiple Regression Analyses**

In order to investigate the influence of the various independent variables on the levels of *Job satisfaction* and *Organisational commitment* of non-family employees working in family businesses, a Multiple Regression Analysis was undertaken. The relationship between the

dependent variables *Job satisfaction* and *Organisational commitment* was also assessed. Two separate regression models were conducted for this purpose.

The Multiple Regression Analysis revealed a significant (31.582;  $p < 0.001$ ) positive relationship between the dependent variables *Job satisfaction* (31.582;  $p < 0.001$ ) and *Organisational commitment*. *Job satisfaction* explains 78.2% of the variance in *Organisational commitment*. The findings of this study imply that the more non-family employees experience *Job satisfaction* in the family business, the more they are likely to be committed to that family business. Based on this evidence, hypothesis  $H^1$  is accepted. The findings of this study concur with those of Lok and Crawford (2001:607), as well as Chan and Qiu (2011:1122), who also reported positive relationships between *Job satisfaction* and *Organisational commitment*.

From Table 3 below, it can be seen that Organisational-based factors investigated in this study explain 81.6% of the variance in *Job satisfaction*. Based on the Multiple Regression Analysis, positive linear relationships were identified between *Nature of the work* (5.326;  $p < 0.001$ ), *Working conditions* (11.900;  $p < 0.001$ ) and *Job involvement* (6.079;  $p < 0.001$ ), and the dependent variable *Job satisfaction*. In other words, the *Nature of the work*, *Working conditions* and *Job involvement* experienced by non-family employees in the family businesses exert a significant influence on their levels of *Job satisfaction* in the family business. No relationship is reported between *Governance structures* and *Job satisfaction*. Whether *Governance structures* exist in the family business or not, has no influence on the levels of *Job satisfaction* experienced by non-family employees. Against this background, hypotheses  $H^{2a}$ ,  $H^{3a}$  and  $H^{4a}$  are accepted whereas  $H^{5a}$  is not.

**TABLE 3: INFLUENCE OF THE ORGANISATIONAL-BASED FACTORS ON JOB SATISFACTION**

<b>Dependent variable: Job satisfaction</b>		<b>R-Square = 0.816</b>	
<b>Independent variables</b>	<b>SC. Beta</b>	<b>t-value</b>	<b>Sig.(p)</b>
Intercept	-0.622	-3.361	0.001
Nature of the work	0.235	5.326	0.000***
Working conditions	0.662	11.900	0.000***
Job involvement	0.245	6.079	0.000***
Governance	-0.040	-1.083	0.280

(\*p<0.05; \*\*p<0.01; \*\*\* p<0.001)

As is the case in this study, several researchers (Aamodt, 2004:323; Chen, 2004:434; Locke, 2004:56; Saari and Judge, 2004:398; Malik *et al.*, 2010) also report significant positive relationships between *Nature of the work* and *Job satisfaction*. This finding implies that the more challenging, interesting and important the job is, the more likely non-family employees are to be satisfied with their jobs.

The results of this study report a positive relationship between *Working conditions* and *Job satisfaction*. This result concurs with several other empirical studies (Sharma and Kumar, 2001:772; Papanastasiou and Zembylas, 2005:151; Naik and Pradhan, 2010). The findings of this study suggest that the more a working environment has an adequate physical infrastructure, resources, information and equipment to complete tasks, an environment with considerate, effective and knowledgeable leaders, and has clear policies, reporting lines and division of labour, the more likely non-family employees are to be satisfied with their jobs.

As is the case in this study, several authors report a significant positive relationship between *Job involvement* and *Job satisfaction* (e.g. Baron, 1983:214; Kreitner *et al.* 1999:199; Husain *et al.*, 2005:263). This implies that the more non-family employees have the opportunity to be heard and receive feedback, as well as being involved in decision-making, management, setting business goals and strategic planning, the more likely they are to be satisfied with their jobs.

No relationship was, however, reported between *Governance structures* and *Job satisfaction* in this study. Whether a formal board of directors, written plans and regular scheduled meetings as well as clearly demarcated areas of authority and responsibility exist in the family business or not, has no influence on the level of *Job satisfaction* experienced by non-family employees.

The Organisational-based factors investigated in this study explain 77.6% of the variance in *Organisational commitment*. From Table 4 it can be seen that positive linear relationships are reported between the independent variables namely *Nature of the work* (9.290;  $p < 0.001$ ), *Working conditions* (6.192;  $p < 0.001$ ), and *Governance structures* (6.979;  $p < 0.001$ ). In other words, the *Nature of the work*, *Working conditions*, and *Governance structures* experienced by non-family employees working in family businesses exert a significant influence on the level of *Organisational commitment* experienced by these employees. However, a negative relationship between *Job Involvement* (-3.295;  $p < 0.01$ ) and *Organisational commitment* is reported, implying that the *Job involvement* of non-family employees in the family business in which they are employed exerts a negative influence on their level of *Organisational commitment*. Consequently, support is found for hypotheses  $H^{2b}$ ,  $H^{3b}$  and  $H^{5b}$  and not for hypothesis  $H^{4b}$ .

**TABLE 4: INFLUENCE OF THE ORGANISATIONAL-BASED FACTORS ON ORGANISATIONAL COMMITMENT**

<b>Dependent variable: Organisational commitment</b>		<b>R-Square = 0.776</b>	
<b>Independent variables</b>	<b>SC. Beta</b>	<b>t-value</b>	<b>Sig.(p)</b>
Intercept	0.221	6.979	0.000
Nature of the work	0.313	9.290	0.000***
Working conditions	0.527	6.192	0.000***
Job involvement	0.254	-3.295	0.001*
Governance	-0.125	6.979	0.000***

(\* $p < 0.05$ ; \*\* $p < 0.01$ ; \*\*\*  $p < 0.001$ )

In the present study, a significant positive relationship was found between *Nature of the work* and *Organisational commitment*. This finding suggests that the more non-family employees regard their jobs as challenging, interesting and important, the more likely they are to be

committed to the family businesses in which they are employed This result is supported by previous empirical studies (Lambert and Paoline, 2008; Giffords, 2009; Iqbal, 2010:17; SamGnanakkan, 2010:41) where positive relationships have been reported between the job or role characteristics of an employee and the level of commitment to an organization exhibited by that employee.

Empirical support for a significant positive relationship between *Working conditions* and *Organisational commitment* is reported in this study. This finding implies that the more a working environment has an adequate physical infrastructure, resources, information and equipment to complete tasks, an environment with considerate, effective and knowledgeable leaders, as well as clear policies, reporting lines and division of labour, the more likely are employees to be committed to the family businesses that employ them. This finding concurs with that of Iqbal (2010:17), who asserts that organizations that provide a better working environment for their employees are able to enhance their employees' levels of commitment to that organization.

A significant negative relationship was reported between the independent variable *Job involvement* and *Organisational commitment* in this study. This result contradicts that of Sorenson (2000:194), Harris *et al.* (2004:50) as well as Govender and Parumasur (2010:239), all of whom reported positive relationships between *Job Involvement* and *Organisational commitment*. When non-family employees have the opportunity to be heard and receive feedback, as well as being involved in decision-making, management, setting business goals and strategic planning, their levels of commitment to the family businesses in which they are employed are negatively influenced.

The results of this study report a significant positive relationship between *Governance* and *Organisational commitment*. In other words, the more a formal board of directors, written plans and regular scheduled meetings, as well as clearly demarcated areas of authority and responsibility exists in the family business, the more likely non-family employees are to show commitment to the family business.



## **CONCLUSIONS AND RECOMMENDATIONS**

Based on the empirical findings of this study, the extent to which non-family employees experience their involvement in the family business as enjoyable, rewarding and fulfilling, as well as having their job expectations realized, has a positive influence on their level of Organisational commitment to the family business. The more they experience job satisfaction, the more likely they are to have pride, an emotional attachment and a sense of belonging to the family business, as well as a willingness to put in a great deal of effort to ensure its success.

Owing to the vital role that non-family employees play as a source of intellectual and human capital for family businesses, it is essential that family business owners ensure that conditions in the business are such that an enjoyable, rewarding and fulfilling working life is experienced. Family business owners should treat non-family employees in a manner that will make them feel appreciated for the contribution they are making to the success of these businesses.

The nature of the work performed by non-family employees working in family businesses has a significant positive influence on their levels of both job satisfaction and Organisational commitment. In other words, the more challenging, interesting and important the job, the more likely they are to experience satisfaction and fulfillment in their jobs, and the more likely they are to have pride in the family business and an emotional attachment to it. To ensure that non-family employees are in jobs that are challenging, interesting and important, employees should be given the opportunity to perform tasks that are challenging and that make the best use of their skills and abilities.

The findings of this study show a positive relationship between the conditions under which non-family employees work and their levels of job satisfaction experienced, as well as their commitment shown to the family businesses in which they are employed. In other words, the more non-family employees are provided with a working environment characterized by an adequate physical infrastructure, resources, information and equipment to complete tasks, an environment with considerable, effective and knowledgeable leaders, as well as having clear policies, reporting lines and division of labour, the more likely they are to be fulfilled in their jobs and committed to the organizations in which they are employed.

The extent to which non-family employees are involved and included in the operations of the family businesses in which they are employed has a significant positive influence on their levels of job satisfaction and Organisational commitment. This finding implies that the more non-family employees have the opportunity to be heard and receive feedback, be involved in decision-making, management, setting business goals and strategic planning, the more likely they are to experience enjoyment and fulfillment in their jobs, as well as having an emotional attachment and a sense of belonging to the family businesses in which they are employed.

The findings of this study show that the existence of governance structures in the family business has a significant positive influence on the level of Organisational commitment experienced by non-family employees working in a family business. This implies that the more a formal board of directors, written plans and regular scheduled meetings as well as clearly demarcated areas of authority and responsibility exist in the family business, the more likely non-family employees will be to show commitment to the family businesses in which they work. No relationships were, however, reported between governance and job satisfaction, implying that whether governance structures exist or not has no influence on the levels of job satisfaction experienced by non-family employees. A possible explanation for this finding is that governance structures do not exist in many family businesses.

Despite governance having no influence on job satisfaction, the influence it has on Organisational commitment highlights its importance. To ensure that governance structures exist in a family business, clearly demarcated areas of authority and responsibilities should be outlined so that employees know what is expected of them. This could be achieved by providing employees with formal written job descriptions which clearly define their roles and responsibilities at the beginning of their contract with the family business. Policies and plans should be clear and in written form, so that employees know the procedures to be followed when decisions are made or actions undertaken.

## LIMITATIONS OF THE STUDY AND RECOMMENDATIONS FOR FUTURE RESEARCH

While this study has attempted to make an important contribution to the family business literature, some limitations should be explained. Although non-family employees working in family businesses from all provinces in South Africa took part in this study, because of the use of a non-probability sample technique (convenience snowball sampling), the sample is not representative of the population as a whole. Care should therefore be exercised in the interpretation of the results, as the findings of the study cannot be generalized to the entire family business population. Future research should strive to develop a more comprehensive database from which probability samples can be drawn.

Even though the items used to develop the measuring instrument have been proved valid and reliable in previous studies, several items did not load as expected. As a result several of the factors identified as influencing *Job satisfaction* and *Organisational commitment* in the literature were eliminated from further statistical analyses, and several new factors emerged. In future studies the original scales developed to measure the various factors identified in the literature as influencing job satisfaction and Organisational commitment should be reconsidered and redeveloped to ensure that the influence of the eliminated factors can be assessed.

High positive correlations were reported between the factors investigated in this study, and as a result the possibility of multicollinearity arises. Siegel (2011:372) points out that high correlation between variables indicate strong associations, which imply that two variables are measuring something similar, thereby bringing overlapping information to the analysis. Multicollinearity can therefore cause a substantial decrease in “statistical power” (Das and Chatterjee, 2011:4). The findings of this study should thus be interpreted in light of this shortcoming. Nonetheless, multicollinearity does not violate any of the regression assumptions (Brooks and Tsolacos, 2010:174; Das and Chatterjee, 2011:4).

The data collected for this study relies on the perceptions of respondents, which could introduce a degree of bias into the findings of this study. Furthermore, *Job satisfaction* and *Organisational commitment* served as the dependent variables in this study. Millán, Hessels, Thurik and Aguado

(2011:4) assert that job satisfaction is a heterogeneous phenomenon, and self-reports of job satisfaction may reflect satisfaction with different aspects of the job depending on the individual perception of job satisfaction. Similarly, Organisational commitment is a multidimensional concept consisting of affective commitment, continuance and normative commitment (SamGnanakkan, 2010:41) with each aspect reflecting a distinct nature of Organisational commitment (Lok and Crawford, 2001:595). However, in this study, Organisational commitment was considered as one-dimensional. Future research should account for these limitations associated with the factors job satisfaction and Organisational commitment.

A further limitation of this study is that it focuses on selected Organisational factors only and does not consider the numerous other factors, such as relational-based and reward-based factors, the personal circumstance of non-family employees and the culture of the family business, which could potentially influence the *Job satisfaction* and *Organisational commitment* levels of non-family employees working in family business. Future studies could investigate these factors.

This study focused on non-family employees in family businesses only. Using the revised and improved measuring instrument, a future study could be undertaken among employees in non-family businesses to establish whether the results reported by employees in non-family businesses vary significantly from those reported in this study.

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## APPENDIX A

### Dependent and independent variables

<b>JOB SATISFACTION</b>	
SATISFIED1	I am satisfied with my job in this family business.
SATISFIED2	I enjoy working in this family business.
SATISFIED3	I experience my involvement in this family business as rewarding.
SATISFIED4	I experience my involvement in this family business as fulfilling.
SATISFIED5	I am satisfied with the way that we work together in this family business.
<b>ORGANISATIONAL COMMITMENT</b>	
COMMIT1	I am proud to tell others that I am employed by this family business.
COMMIT2	I feel a strong sense of belonging to this family business.
COMMIT3	I feel emotionally attached to the business.
COMMIT4	This family business has a great deal of personal meaning for me.
COMMIT5	I really care about the fate of this family business.
COMMIT6	I am willing to put in a great deal of effort beyond that which is normally expected of me, in order to help this family business to succeed.
<b>WORKING CONDITIONS</b>	
PHYSICAL1	In this family business I have the necessary infrastructure required to do my job effectively.
PHYSICAL2	The physical working conditions (lighting, safety, cleanliness, space) in this family business are conducive to my effectively doing my job.
PHYSICAL3	In this family business I have adequate access to the necessary equipment required for me to do my job.
PHYSICAL5	In this family business I have sufficient access to the technology and information that will enable me to do my job effectively.
NATURE2	My job in this family business is such that I have the chance to complete entire tasks from beginning to end.
LEAD2	The leader(s) in this family business is(are) considerate towards me.
LEAD5	The leader(s) in this family business inspire(s) loyalty in me.
LEAD6	The leader(s) in this family business has(have) the ability to effectively lead the business.
LEAD7	The leader(s) in this family business is(are) knowledgeable about the family business operations.
STRUCTURE2	Clearly defined division of labour exists in this family business.
STRUCTURE4	I am clear on who I report to in this family business.
GOV2	This family business has policies (ground rules) which guide (govern) actions and decisions.
<b>JOB INVOLVEMENT</b>	
NATURE9	In this family business I get regular feedback on how well I am doing the job.
LEAD3	The leader(s) in this family business consider(s) my opinions when making decisions.
LEAD4	The leader(s) in this family business encourage(s) me to voice my opinions.
INVOLVE1	I am included in decision-making in this family business.
INVOLVE2	In this family business I have the opportunity to form part of the management team.
INVOLVE3	In this family business my ideas are heard and given consideration.
INVOLVE4	In this family business I have the opportunity to be involved in setting up business goals.
INVOLVE5	In this family business I have the opportunity to be involved in strategic planning.
<b>GOVERNANCE</b>	
STRUCTURE1	Clearly demarcated areas of authority and responsibility exist in this family business.
STRUCTURE3	No overlapping of responsibilities exists between people working in this family business.
GOV1	This family business has a formal board of directors (or an advisory board).
GOV3	In this family business there are written plans (e.g. business, succession and/or estate plans) which guide actions and decisions.
GOV4	In this family business regular scheduled meetings are held about business-related issues.
<b>NATURE OF THE WORK</b>	
NATURE1	My job in this family business is challenging.
NATURE3	My job in this family business is interesting.
NATURE10	My job in this family business is an important one.

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# THE USE OF CORPORATE SOCIAL RESPONSIBILITY ACTIVITIES BY SMES IN UGANDA

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## ABSTRACT

The primary objective of this paper is to investigate the impact of CSR activities in SMEs, and its impact on *Increased competitiveness*, by subjecting various hypotheses to empirical testing, and making recommendations to enhance the competitiveness of SMEs in Uganda. The data collected from 383 usable questionnaires was subjected to various statistical analyses such as the Structural Equation Modelling (SEM), ANOVA and the Multiple Linear Regression analyses. The empirical findings obtained from 383 useable questionnaires revealed that *CSR activities* significantly impact on SMEs' competitiveness. Furthermore, *Employee satisfaction*, *Business reputation*, *Customer loyalty* and Stakeholder trust exert a significant influence on the competitiveness of SMEs.

**Keywords:** Corporate social responsibility, ethics, small and medium-sized enterprises, competitiveness

## INTRODUCTION AND PROBLEM STATEMENT

Small and medium-sized enterprises (SMEs) are universally acknowledged as effective vehicles for employment generation and economic growth (Basil, 2005: 4). In Africa, where the private sector in general is not well developed, SMEs could play a critical role in stimulating economic development and alleviating poverty (Beyene, 2002: 1). SMEs have been recognised to play a significant role in key-driving the sustainable economic growth over the next ten years in Africa (Mpolokeng, 2009: 1). Some African countries

such as Morocco, Uganda, Botswana, Zambia and Tanzania have prioritised their investment in SMEs (Gordon, 2003: 5 and Republic of Botswana, 2003: 4).

In Uganda, SMEs are increasingly becoming the backbone of the economy. They play a crucial role in creating job opportunities that make the attainment of equitable and sustainable growth and development possible. It is estimated that there are over 1,069,848 SMEs in Uganda, providing employment and income generation opportunities to low income earners of the economy (Hatega, 2007: 3; Uganda Ministry of Finance, Planning and Economic Development, 2011). However, more than half of SMEs in Uganda fail during their first year (Harorimana, 2009: 71; Tushabomwe-Kazooba, 2006: 2). Despite their growing importance, their high failure rate is thus a cause for concern.

Analytical and practical case studies on appropriate strategies that can aid the competitiveness of SMEs in Uganda are limited. Owing to global competition, technological advances and changing needs of consumers, competitive paradigms are continuously changing. These changes are driving businesses into stiff competition in areas such as design and development of products, manufacturing, distribution, communication and marketing (Singh, Garg and Deshmukh, 2008: 527). As global competitiveness continues to take momentous trends, the notion of Corporate Social Responsibility (CSR) is proposed as an effective strategy to invigorate the operations and competitiveness of SMEs. CSR is viewed as a vital concept that businesses of all types and sizes need to understand and address.

CSR is the continuous commitment required of a 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 (World Business Council for Sustainable Development WBCSD, 2000: 2). CSR is also a strategy businesses can use to manage their activities to produce an overall positive impact on society through economic, environmental and social actions (D'Amato, Henderson and Florence, 2009: 8). *For the purpose of this study*, focus is set on CSR activities that impact on the SMEs' workforce, the society/community, the market (i.e. customers,

suppliers, business partners etc.) and the physical environment to enhance their competitiveness.

While there is a great deal of optimism for the role that SMEs can play in improving business responsibility, most researchers such as Silberhorn and Warren (2007: 5) have focused their research efforts on large businesses. Most initiatives tend to take the tried and tested 'business models' developed in large businesses and shrink them to fit SMEs (Jenkins, 2006: 2). Despite the widespread practical and academic interest in CSR and its impact on the competitiveness of SMEs, few theoretical and empirical contributions exist. Conclusions resulting from quantitative and qualitative research with respect to CSR in SMEs are limited in Africa and in Uganda in particular. In light of the perceived effects of CSR practices on SMEs, a closer examination of the relationship between CSR and the competitiveness of SMEs in Uganda is therefore necessary. Thus, this research will analyse and document the CSR-related factors that may potentially impact on the competitiveness of SMEs and identify possible mechanisms of enhancing their competitiveness within the framework of CSR.

### **PROPOSED HYPOTHESISED MODEL OF CSR ACTIVITIES AND THEIR INFLUENCE ON COMPETITIVENESS**

The proposed hypothesised model is depicted in Figure 1 and it illustrates the relationships between the independent, mediating and dependent variables of the study.

**FIGURE 1: HYPOTHESED MODEL OF CSR ACTIVITIES AND COMPETITIVENESS**

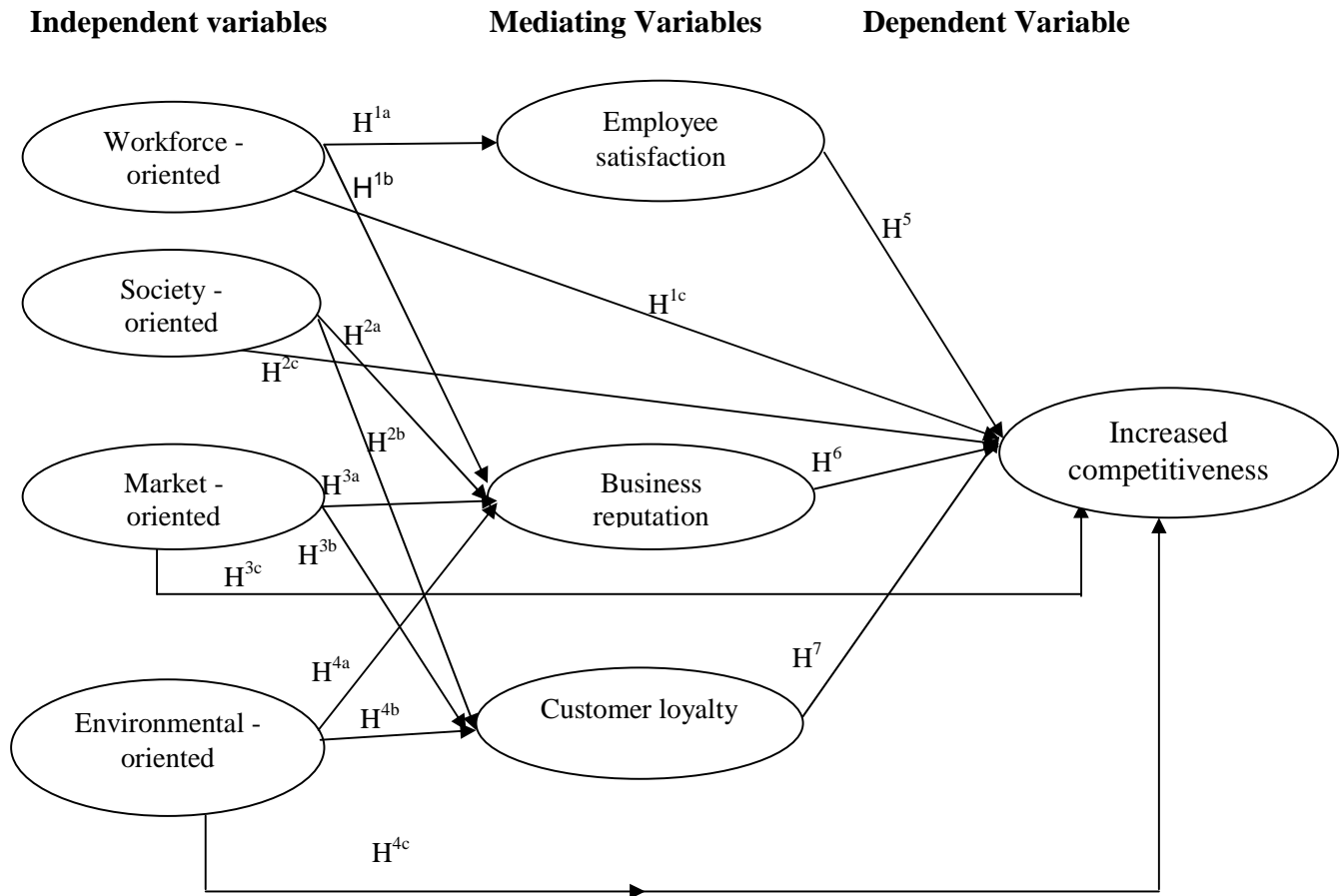


Figure 1 illustrates how the independent variables (*Workforce-oriented*, *Society-oriented*, *Market-oriented* and *Environment-oriented CSR activities*) impact on the mediating variables, namely *Employee satisfaction*, *Business reputation* and *Customer loyalty*. These in turn impact on *Increased competitiveness* (dependent variable), which is measured by profitability, market share, sales and growth rate. These relationships were derived from a thorough screening of the literature and are based on strong anecdotal and empirical support (Turyakira, 2012).



## METHODOLOGY

### Scale Development

Factors under investigation were operationalised using reliable and valid items obtained from validated measuring instruments utilised in previous empirical studies, as well as various self-generated items based on secondary sources. Table 1 below depicts a brief outlay of sections contained in the measuring instrument as well as corresponding number of items generated to test a particular variable in the proposed hypothesised model.

**TABLE 1: QUESTIONNAIRE DESIGN ACCORDING TO SECTIONS AND FACTORS**

Section	Factors	Number of items
A	Workforce-oriented CSR activities	9
	Society-oriented CSR activities	8
	Market-oriented CSR activities	10
	Environmental-oriented CSR activities	8
	Employee satisfaction	8
	Business reputation	6
	Customer loyalty	6
	Increased competitiveness	5
	B	Gender
Number of years in business		1
Position or title in the business		1
Level of education		1
Form of enterprise		1
Branch/sector		1
Size of the business		2

### Sampling and Data Collection

A purposive sampling technique utilised to select respondents from different industrial sectors in Kampala district, whose workforce ranged from 5-100 employees. This data was obtained from UBOS (2007) Business Register Update which covered all the sectors of the Ugandan economy except the public sector and it provided an updated list of businesses employing 5 or more persons.

A survey technique was utilised in this study and a self-administered structured questionnaire was distributed to potential respondents. Section A of the questionnaire consisted of 60 statements (items) related to CSR factors and mediating variables that influence SMEs' competitiveness. With the use of a seven-point Likert-type interval scale, respondents were requested to indicate their extent of agreement with regard to each statement. Section B of the questionnaire sought demographic information relating to both the respondents and the SMEs in which they operate. The data collected from 383 usable questionnaires was subjected to several statistical analyses. Correspondingly, an exploratory factor analysis was undertaken and Cronbach-alpha coefficients calculated to assess the discriminant validity and reliability of the measuring instrument. The relationships proposed in the hypothesised model (Figure 1) were assessed using Structural Equation Modelling (SEM).

### **Sample Description**

The majority of respondents in the present study were male (63.4%). The overwhelming majority of respondents (71.5%) had been in operation between three and five years while only a few of the respondents (6.0%) had been in operation for more than 10 years. Furthermore, the overwhelming majority of respondents (84.9%) were employed managers (CEO or functional manager) in areas such as Financial or Marketing and only a few of the respondents were owner/active managers (8.6%) and owner/silent partners (6.5%). Most respondents (59.8%) had attained a National Certificate or Diploma and only a few of the respondents (2.9%) had a Masters Degree and higher.

Regarding the form of enterprise, the great majority (67.0%) were private businesses followed by partnerships (15.4%) respectively. Manufacturing/Food Processing constituted the majority of the industrial sectors (21.4%), followed by Business services (19.8%), Hotels and Restaurants (19.6%), Education (16.2%) and Trade (10.7%). Regarding the number of full-time employees, the majority of the respondents had between 11 and 20 employees (39.6%), followed by those between five and 10 (34.0%), and between 21 and 50 (19.3%) employees respectively. As expected, very few businesses (6.3%) had more than 50 full-time employees. Finally, with regard to the

annual turnover, the majority of the respondents (49.1%) were unwilling to disclose this information. This is typical of many SMEs in developing countries. Of those that were willing to disclose information, 26.2% of respondents indicated that they generated less than UGX 50 million per annum and 16.0% of respondents generated UGX 51-100 million per annum. Only a few businesses (3.7%) generated more than UGX 200 million per annum.

### **Discriminant Validity and Reliability Results**

A number of factors and the items loading onto each factor must be known prior to conducting a SEM analysis (Hair, Black, Babin, Anderson and Tatham, 2006). Accordingly, an exploratory factor analysis (EFA) using SPSS 18 for Windows was conducted to identify the unique factors available in the data before applying SEM. To effectively conduct the EFA, the data were divided into two models. The first model related to the independent variables (CSR factors), while the second related to the mediating variables (Outcomes factors). The percentage of variance explained and the individual factor loadings were considered while identifying the factors (constructs) to extract for each model.

Owing to the relational nature of independent and mediating variables, a Principal Axis Factoring with an Oblique (Oblimin with Kaiser normalisation) Rotation was specified as the extraction and rotation method. For the purpose of this study, data with KMO's  $>0.7$  ( $p < 0.05$ ) was considered factor-analysable. The Cronbach-alpha coefficient for each factor identified by means of the EFA was established using the software programme SPSS 18 for Windows. In the present study, a Cronbach-alpha coefficient of greater than 0.70 was used to indicate a factor as reliable.

The relational nature of the CSR factors (*Market-oriented CSR activities, Environmental-oriented CSR activities, Workforce-oriented CSR activities, and Society-oriented CSR activities*) suggests that the factors in the sub-model *CSR factors* were correlated with each other. As a result, Principal Component Analysis with Kaiser-Meyer-Okin Rotation

was specified as the extraction and rotation method. Bartlett's Test of Sphericity reported a KMO of 0.810 ( $p < 0.001$ ), which confirmed that the data was factor analysable.

The initial measuring instrument included 17 items measuring *Market-oriented CSR activities*, *Environmental-oriented CSR activities*, *Workforce-oriented CSR activities*, and *Society-oriented CSR activities*. The items measuring *Market-oriented CSR activities* and *Workforce-oriented CSR activities* loaded as expected. However, the items measuring *Environmental-oriented CSR activities* loaded onto two separate factors which were renamed *Environmental-oriented CSR activities* and *Regulated CSR activities*. In addition, one of the items originally expected to measure the construct *Society-oriented CSR activities* loaded onto *Environmental-oriented CSR activities*, leaving three items which loaded together onto the *Society-oriented CSR activities* factor.

For the sub-model termed *Outcomes*, it was expected that the factors within this model would be correlated. As a result, Principal Component Analysis with Kaiser-Meyer-Okin Rotation was specified as the extraction and rotation method. Bartlett's Test of Sphericity reported a KMO of 0.717 ( $p < 0.001$ ), ascertaining that the data was factor analysable.

The items likely to measure the *Outcomes* factors (*Customer loyalty*, *Business reputation*, and *Employee satisfaction*) were assessed for discriminant validity by means of an Exploratory factor analysis. Four outcomes factors were obtained from this sub-model, namely *Customer loyalty*, *Stakeholder trust*, *Business reputation*, and *Employee satisfaction*.

In the present study, items that displayed no cross-loadings and loaded to a significant extent on one factor only, and reported factor loadings of  $\geq 0.4$ , were considered significant and retained for further analysis (Hair *et al.*, 2006). As such, factor loadings of  $\geq 0.4$  were reported for all factors. 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. Accordingly, the Cronbach-alpha coefficients imply that reliable measuring scales were used to measure the constructs under

investigation. Table 2 summarises the operational definitions of factors and details concerning the validity and reliability of the measuring instrument.

**TABLE 2: MEASUREMENT INSTRUMENT ANALYSES**

<b>Operationalisation of factors</b>	<b>Item</b>	<b>Loadings</b>	<b>Cronbach-Alpha</b>
<i>Market-oriented CSR activities</i> refer to the way in which a business focuses on the needs of its customers by responding quickly to consumers' orders and complaints about its products and services, how it is open at convenient times, how it treats customers fairly, and whether it charges fair prices and makes profit without cheating customers.	7	Max: 0.699 Min: 0.607	0.800
<i>Environmental-oriented CSR activities</i> refer to the business being involved in supporting environmental awareness programmes and sponsoring sporting and cultural events as well as striving to reduce waste.	3	Max: 0.868 Min: 0.770	0.804
<i>Workforce-oriented CSR activities</i> refer to the business believing in the staff development for all employees and providing them with a sense of job security.	2	Max: 0.850 Min: 0.800	0.713
<i>Regulated CSR activities</i> refers to the business taking the government regulations about the environment beyond what the law requires and using packaging materials that are environmentally-friendly.	2	Max: 0.852 Min: 0.801	0.713
<i>Society-oriented CSR activities</i> refer to the business providing the community with donations, assisting them with projects and sharing some of its profit with the community.	3	Max: 0.716 Min: 0.628	0.758

### **Modified Hypotheses**

Owing to the exploratory factor analyses, it became necessary to reformulate the original hypotheses or the hypothesised model (Figure 1), which are summarised below (Table 3):

**TABLE 3: MODIFIED HYPOTHESES**

<b>Hypotheses</b>	
$H^{1a}$ :	There is a positive relationship between the existence of <i>Workforce-oriented CSR activities</i> and the <i>Satisfaction</i> of SMEs' employees.
$H^{1b}$ :	There is a positive relationship between the existence of <i>Workforce-oriented CSR activities</i> and the <i>Business reputation</i> of SMEs.
$H^{1c}$ :	There is a positive relationship between the existence of <i>Workforce-oriented CSR activities</i> and the <i>Increased competitiveness</i> of SMEs.
$H^{2a}$ :	There is a positive relationship between the existence of <i>Society-oriented CSR activities</i> and the <i>Business reputation</i> of SMEs.
$H^{2b}$ :	There is a positive relationship between the existence of <i>Society-oriented CSR activities</i> and <i>Customer loyalty</i> .
$H^{2c}$ :	There is a positive relationship between the existence of <i>Society-oriented CSR activities</i> and the <i>Increased competitiveness</i> of SMEs.
$H^{3a}$ :	There is a positive relationship between the existence of <i>Market-oriented CSR activities</i> and the <i>Business reputation</i> of SMEs.
$H^{3b}$ :	There is a positive relationship between the existence of <i>Market-oriented CSR activities</i> and <i>Customer loyalty</i> .
$H^{3c}$ :	There is a positive relationship between the existence of <i>Market-oriented CSR activities</i> and the <i>Increased competitiveness</i> of SMEs.
$H^{3d}$ :	There is a positive relationship between the existence of <i>Market-oriented CSR activities</i> and <i>Stakeholder trust</i> of SMEs.
$H^{4a}$ :	There is a positive relationship between the <i>Environmental-oriented CSR activities</i> and the <i>Business reputation</i> of SMEs.
$H^{4b}$ :	There is a positive relationship between the <i>Environmental-oriented CSR activities</i> and <i>Customer loyalty</i> .
$H^{4c}$ :	There is a positive relationship between the <i>Environmental-oriented CSR activities</i> and the <i>Increased competitiveness</i> of SMEs.
$H^{5a}$ :	There is a positive relationship between <i>Regulated CSR activities</i> and the <i>Business reputation</i> of SMEs.
$H^{5b}$ :	There is a positive relationship between <i>Regulated CSR activities</i> and the <i>Stakeholder trust</i> of SMEs.
$H^{5c}$ :	There is a positive relationship between <i>Regulated CSR activities</i> and the <i>Increased competitiveness</i> of SMEs.
$H^6$ :	There is a positive relationship between achieving <i>Employee satisfaction</i> and the <i>Increased competitiveness</i> of SMEs.
$H^7$ :	There is a positive relationship between the <i>Business reputation</i> of SMEs and the <i>Increased competitiveness</i> of SMEs
$H^8$ :	There is a positive relationship between achieving <i>Customer loyalty</i> and the <i>Increased competitiveness</i> of SMEs.
$H^9$ :	There is a positive relationship between achieving <i>Stakeholder trust</i> and the <i>Increased competitiveness</i> of SMEs.

The above hypothesised relationships were tested by means of Structural Equation Modelling (SEM) and the results are discussed in the subsequent sections.

### **Structural Equation Modeling Results**

The hypothesised relationships were depicted in path diagrams, and the structural and the measurement models were specified. A covariance matrix was used as the input matrix. There are several indicators of goodness-of-fit. According to Hoe (2008: 2), the commonly applied fit indices are NNFI and CFI (>0.90 indicates good fit), RMSEA (<0.08 indicates acceptable fit), and commonly used  $\chi^2$  statistic ( $\chi^2$ / d.f. ratio of 3 or less). For the purpose of this study, the indicator loadings for both the measurement and structural models were deemed significant if the p-values related to each loading exceeded the critical value for the 5% (critical value 1.96) significance level, the 1% (critical value 2.58) significance level and the 0.1% (critical value 3.30) significance level. Different fit indices, such as the Satorra-Bentler scaled Chi-square ( $\chi^2$ ), the ratio of Chi-square to degrees of freedom ( $\chi^2$ /df), the Root Mean Square Error of Approximation (RMSEA), and the 90% confidence interval for RMSEA, were determined to ascertain the degree to which the proposed models were an acceptable approximation of the data.

In order to determine the degree to which the proposed model represents an acceptable approximation of the data, various fit indices were considered. Apart from the ratio  $\chi^2$  to degrees of freedom, the indices provide evidence that although the data does not fit the model perfectly, it can be described as having a reasonable fit.

### **Significant Relationships identified by SEM**

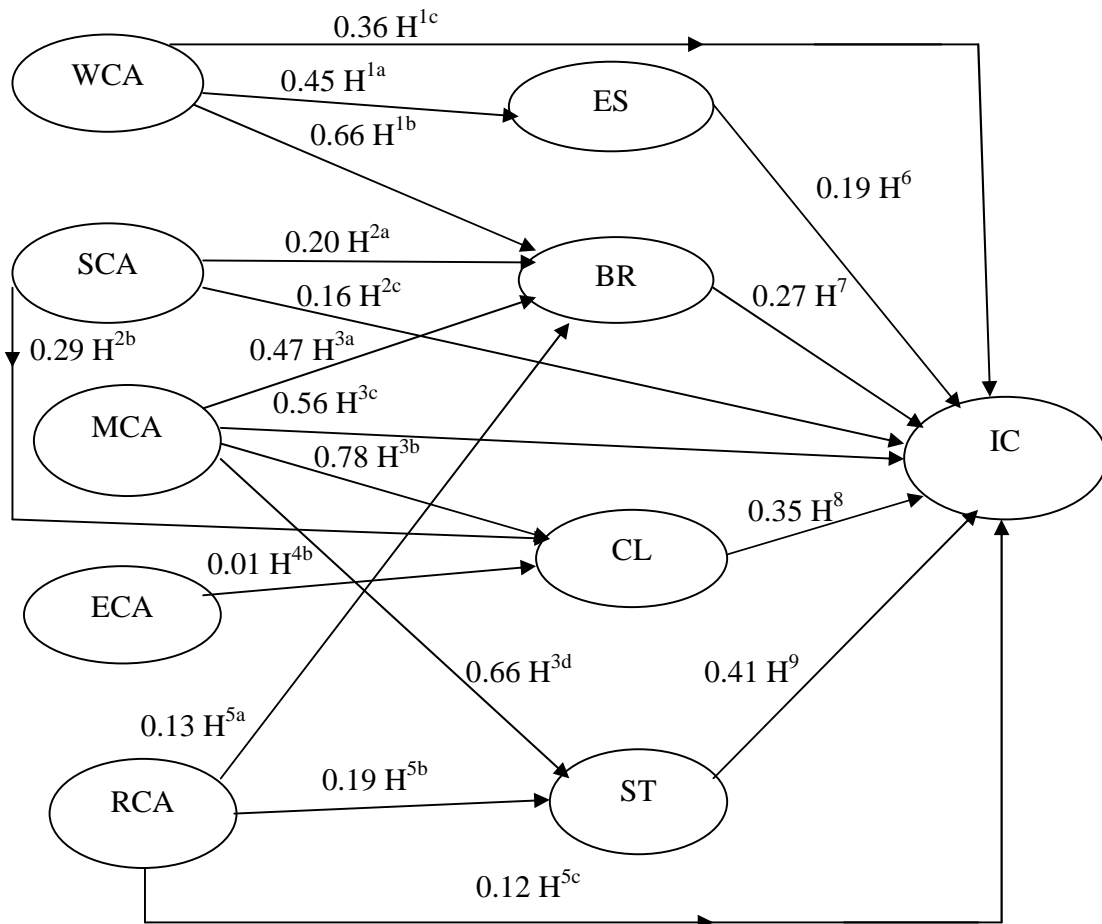
Several significant relationships emerged between the various independent and dependent variables. A summary of 18 significant relationships is depicted in Figure 2 below. The significant relationships identified represent only those factors that have a positive influence on the mediating variables (*Employee satisfaction*, *Business reputation*, *Customer loyalty* and *Stakeholder trust* of the SMEs, as well as the dependent variable (*Increased competitiveness*) of the SMEs.

From Figure 2 above, it can be seen that all the mediating variables (*Employee satisfaction*, *Business Reputation*, *Customer loyalty* and *Stakeholder trust*) are positively related to the independent variable (*Increased competitiveness*). In particular, a significant relationship between *Employee satisfaction* and *Increased competitiveness* (path coefficient = 0.19;  $p < 0.000$ ) of SMEs is reported. This implies that if a business has employees who see their part in the business as satisfying, and they enjoy the way they work together, it is more likely to enhance its competitiveness in the long-run. As a result, hypothesis  $H^6$  has been accepted, and satisfactory evidence has been found to support this relationship. This empirical relationship is supported by previous research (e.g. Tsai et al., 2005: 9) which confirms the positive relationship between employee satisfaction and SME competitiveness. Results of this study indicate that *Employee satisfaction* is in turn influenced by *Workforce-oriented CSR activities*.

Furthermore, a significant positive relationship emerged between *Business reputation* and *Increased competitiveness*, as a path coefficient of 0.27 ( $p < 0.000$ ) in the present study is reported. In other words, if a business is well-known for making reliable products and/or services, and is well-known among its stakeholders, it will have a positive influence on its increased competitiveness. As Flatt and Kowalczyk (2006:2) have argued, a business can use its reputation as an intangible asset to create a competitive advantage, by distinguishing itself from others. Empirical findings by Shamma and Hassan (2009: 334) also demonstrated that business reputation is an important source of long-term sustainability and competitive advantage. Furthermore, empirical results from previous research (Roberts and Dowling 2002: 14) suggested that superior-performing businesses have a greater chance of sustaining superior performance over time if they also possess relatively good business reputations. The reputation of a business at its location, its image as an employer and producer, but also as an actor on the local scene, certainly influences its competitiveness (Polášek, 2010: 56). *Business reputation* is, in turn, influenced by *Workforce-oriented CSR activities*, *Society-oriented CSR activities*, *Market-oriented CSR activities*, and *Regulated CSR activities*.



**FIGURE 2: SUMMARY OF SIGNIFICANT RELATIONSHIPS IN THE STRUCTURAL MODELS**



$p < 0.000$  for all the Hypotheses except H<sup>1a</sup> where  $p < 0.336$

**Key:** WCA (Workforce-oriented CSR activities); SCA (Society-oriented CSR activities); MCA (Market-oriented CSR activities); ECA (Environmental-oriented CSR activities); RCA (Regulated CSR activities); ES (Employee satisfaction); BR (Business Reputation); CL (Customer loyalty); ST (Stakeholder trust); IC (Increased Competitiveness).

The results of this study demonstrate a significant positive relationship between *Customer loyalty* and *Increased competitiveness* (path coefficient = 0.35;  $p < 0.000$ ) of SMEs (Hypothesis H<sup>8</sup>). This implies that if a business has customers that are willing to support it by recommending its products and/or services, and who are committed to buying its products/services in the future, it is more likely to gain and sustain a

competitive advantage. A customer who has the intention to repurchase and recommend is very likely to remain with the business. There exists sufficient evidence to support this relationship. Previous research findings (Gable, Fiorito and Topol, 2008: 14) showed that customer loyalty is key to business success and retaining existing customers costs far less than acquiring new ones. Customer loyalty creates customer retention thereby improving a business's competitiveness (Gan, Cohen, Clemes and Chong, 2006: 14). Furthermore, results from a survey of the Bangladeshi Mobile Phone Operator Industry (Islam, 2008: 10) revealed that increases in customer retention rates can have a significant positive effect on market share and a business's net operating cash flow and profit. In this study, *Customer loyalty* is in turn influenced by *Market-oriented CSR activities* and *Society-oriented CSR activities*.

Although *Stakeholder trust* is a new construct that emerged in this study, empirical results revealed a significant positive relationship between *Stakeholder trust* and *Increased competitiveness* (path coefficient = 0.41;  $p < 0.000$ ) of SMEs (Hypothesis H<sup>9</sup>). In other words, if a business is regarded as trustworthy among stakeholders, having stakeholders who enjoy working in the business and has customers who are willing to recommend the business to other customers, it is more likely to gain and sustain a competitive advantage. It should be noted that *Stakeholder trust* is in turn influenced by *Market-oriented CSR activities* and *Regulated CSR activities*.

In this study, a positive relationship exists between the *Workforce-oriented CSR activities* of SMEs and *Employee satisfaction* (path coefficient = 0.45;  $p < 0.336$ ). In other words, a business which believes in the staff development for all its employees and provides employees with a sense of job security is likely to achieve employee satisfaction. There is thus sufficient evidence to support hypothesis H<sup>1a</sup>. The empirical results of this study agree with a survey of small and medium firms (Saleem, Shahid and Naseem, 2011: 1) which reveals that employees who are trained regularly are well motivated, well-mannered and have enhanced confidence and self-esteem.

Furthermore, the results of this study revealed a positive relationship between *Workforce-oriented CSR activities* and *Business reputation* (path coefficient = 0.66;  $p < 0.000$ ) of SMEs (Hypothesis  $H^{1b}$ ). This implies that a business which believes in the staff development for all its employees and provides employees with a sense of job security is likely to build a positive business reputation as the preferred local employer. The empirical results of this study are supported by a survey among Danish SMEs (European Commission, 2005: 11) which showed that workforce-oriented CSR activities had a positive impact on business reputation and the ability of the business to attract and retain employees. Furthermore, a survey of Romanian SMEs (European Commission, 2007: 22) revealed that the business's public image improved as a result of refining the working atmosphere of their employees.

In this study, a positive relationship exists between *Workforce-oriented CSR activities* and *Increased competitiveness* (path coefficient = 0.36;  $p < 0.000$ ) of SMEs (Hypothesis  $H^{1c}$ ). In other words, businesses that meet employee expectations such as job security, training and development, are likely to be more competitive than those that ignore the plight of their employees. The empirical results of this study are in line with a survey of Danish SMEs (European Commission, 2005: 11) which showed that the businesses which had implemented workforce-related CSR activities experienced a positive financial impact, and that such activities have a positive influence on the long-term competitiveness of the SMEs. In addition, a survey of Romanian SMEs (European Commission, 2007: 21) revealed that businesses which showed constant concern for employee training experienced an increase in their profits.

As is evident in Figure 2, a positive relationship exists between *Society-oriented CSR activities* and *Business reputation* (path coefficient = 0.20;  $p < 0.000$ ) of SMEs (Hypothesis  $H^{2a}$ ). This relationship suggests that the more a business voluntarily participates in local community activities such as providing the community with donations, assisting them with projects and sharing some of its profit with the community, the more positive its perceived business reputation is likely to be. Sufficient empirical support for this relationship exists in previous research. The European

Commission, (2002: 13) reported that support to sporting activities is the preferred activity amongst SMEs in nearly all the countries in Europe. Furthermore, a survey of Czech SMEs (Polášek, 2010: 140) revealed the benefits associated with society-oriented CSR activities which include improvement of the business's reputation and image.

The results of this study do indicate that there is a positive relationship (path coefficient = 0.29;  $p < 0.000$ ) between *Society-oriented CSR activities* and *Customer loyalty* (Hypothesis  $H^{2b}$ ) of SMEs. This implies that businesses which engage in community initiatives such as assisting with community projects and sharing some of its profit with the community are likely to attract and retain customers than those which do not. Substantial evidence for this relationship exists in previous research. For example, a survey of the Czech SMEs (Polášek, 2010: 140) reported that those businesses which engage in *Society-oriented CSR activities* are likely to improve the loyalty of their customers and employees. Furthermore, a survey of Italian SMEs (Longo, Mura, and Bonoli, 2005: 9) revealed that their customer loyalty was a result of their CSR engagement.

The results of this study further show that a positive relationship exists between *Society-oriented CSR activities* and *Increased competitiveness* (path coefficient = 0.16;  $p < 0.000$ ) of SMEs (Hypothesis  $H^{2c}$ ). This result implies that the more a business engages in local community activities, the more likely it is to become more competitive in the future. The findings of this study are supported by Polášek's study (2010: 140) who reported a significant positive relationship between *Society-oriented CSR activities* and *Increased competitiveness*. Furthermore, a business which invests in socially deprived communities will have its presence felt, thereby enhancing its competitiveness (Steinerová and Makovski, 2008: 6). In addition, a survey of Romanian SMEs (European Commission, 2007: 17) showed that businesses which supported local community projects realised better sales and financial results.

This study has revealed empirical support for a positive relationship (path coefficient = 0.47;  $p < 0.000$ ) between *Market-oriented CSR activities* and *Business reputation*

(Hypothesis  $H^{3a}$ ). This implies that if a business focuses on the needs of its customers by responding quickly to consumers' orders and complaints about its products and services, if it opens at convenient times, treats customers fairly, charges fair prices and makes profit without cheating customers, it is more likely to develop a positive business reputation. Sufficient empirical evidence exists to support this relationship. For instance, a survey of the telecommunications industry in the United Kingdom showed that market-oriented CSR activities are important drivers of business reputation (Tuppen, 2004: 5). Furthermore, a survey of Danish SMEs revealed that market-oriented CSR activities have a positive impact on the reputation and financial performance of a business (European Commission, 2005: 6). Empirical findings by Helm (2007: 8) revealed that consumers consider quality of products, value for money, customer orientation, and credibility of advertising as the most important business reputation attributes. Hence, a business which adopts market-oriented CSR activities is more likely to be well-known among its stakeholders.

In addition, a significant positive relationship between *Market-oriented CSR activities* and *Customer loyalty* (Hypothesis  $H^{3b}$ ) has been identified as a path coefficient of 0.78 ( $p < 0.000$ ) is reported. This means that the more a business conducts market-oriented CSR activities, the more it is likely to attract and retain customers. In their study, Berger and Drumwright, as cited by Ali, Rehman, Yilmaz, Nazir and Ali (2010: 2), confirmed that businesses with sound market-oriented CSR activities develop positive social identity and enjoy increased customer loyalty. Similarly, market-oriented CSR activities help businesses attract and retain customers (European Commission, 2005: 6). A business which implements market-oriented CSR activities is therefore likely to have customers who are committed to buying its products/services in the future.

A significant positive relationship emerged between *Market-oriented CSR activities* and *Increased competitiveness*, as a path coefficient of 0.56 ( $p < 0.000$ ) was reported in the present study. This implies that the more a business adopts market-oriented CSR activities such as treating customers fairly and responding quickly to their orders and complaints about its products and services, the more it is likely to enhance its

competitiveness in the long-run. As a result, hypothesis  $H^{3c}$  has been accepted, as satisfactory evidence has been found to support this relationship. This empirical relationship is supported by previous research (e.g. European Commission, 2005: 6) which reported that market-oriented CSR activities had a positive impact on sales growth, market share and profitability of a business. Furthermore, treating customers with respect has a direct positive effect on the business's profits (Uddin, Hassan and Tarique, 2008: 6). To remain competitive, a business must be willing to satisfy the desires and needs of its customers because they are the business's foundation.

This study also established a significant positive relationships between *Market-oriented CSR activities* and *Stakeholder trust* (path coefficient = 0.66;  $p < 0.000$ ) of SMEs (Hypothesis  $H^{3d}$ ). In other words, if a business responds quickly to consumers' orders and complaints about its products and services, and treats its customers fairly by charging fair prices, it is more likely to be regarded as trustworthy, and will have stakeholders who enjoy working with it and are willing to recommend its business to other customers. It should be noted that the *Stakeholder trust* construct emerged as a new factor during the factor analysis, and empirical support from previous research is lacking.

In this study, a positive relationship between *Environmental-oriented CSR activities* and *Customer loyalty* (path coefficient = 0.01;  $p < 0.000$ ) for SMEs (Hypothesis  $H^{4b}$ ) is reported. This implies that if a business takes measures such as supporting environmental awareness programmes, reducing waste, and sponsoring sporting and cultural events, it is more likely to attract customers that are willing to support the business by recommending its products and/or services. A negative relationship, on the other hand, was reported between *Environmental-oriented CSR activities* and *Business reputation* and *Increased competitiveness* respectively ( $H^{4a}$  and  $H^{4c}$ ). The possible explanation is that SMEs, particularly in developing countries like Uganda, lack the experience to integrate environmental aspects into their operations in order to develop a positive business reputation and enhance their competitiveness. Environmental-oriented CSR activities generally tend to be of low priority for SMEs if they are not required to comply with

legislation, especially if they view such undertakings as costly to integrate and unlikely to generate immediate returns.

The results of this study show a positive relationship between *Regulated CSR activities* and *Business reputation* (path coefficient = 0.13;  $p < 0.000$ ) of SMEs (Hypothesis  $H^{5a}$ ). In other words, if a business takes the government regulations about the environment beyond what the law requires and uses packaging materials that are environmentally-friendly, it is more likely to be well-known among its stakeholders, thus developing a positive business reputation. Furthermore, a positive relationship was found between the *Regulated CSR activities* and *Stakeholder trust* (path coefficient = 0.19;  $p < 0.000$ ). This implies that a business which takes the government regulations about the environment beyond what the law requires is more likely to be regarded as trustworthy, and will have stakeholders who enjoy working with it. As already noted, these two constructs emerged during factor analysis and empirical evidence about their relationship (Hypothesis  $H^{5b}$ ) from previous research is limited. Finally, the results of this study show a significant positive relationship between *Regulated CSR activities* and *Increased competitiveness* (path coefficient = 0.12;  $p < 0.000$ ) of SMEs (Hypothesis  $H^{5c}$ ). This finding implies that if a business takes the government regulations about the environment beyond what the law requires and uses packaging materials that are environmentally-friendly, it is more likely to gain and sustain a competitive advantage in the future.

## **CONCLUSIONS AND RECOMMENDATIONS**

The results of this study reveal that *Workforce-oriented CSR activities* exert a significant positive influence on the *Employee satisfaction*, *Business reputation* and *Increased competitiveness* of SMEs. In other words, if a business believes in the staff development of its employees and provides them with a sense of job security, it is more likely to achieve employee satisfaction, improve its image and enhance its competitiveness in the long-run. As such, an SME that is committed to meeting employees' welfare is more likely to have positive, engaged and more productive employees than those businesses which ignore the plight of their employees. Hence, SMEs can be competitive by attracting and retaining motivated employees through, amongst others: the provision of

training; promoting the well-being of the workforce by providing the employees with a sense of job security; improving the emotional and physical working environment; providing equal opportunities and diversity through training programmes, equal opportunity workshops, or support to certain minority groups; providing responsible and fair remuneration; as well as financial support to employees e.g. pension systems and interest-free loans.

The findings further indicate that *Society-oriented CSR activities* exert a significant positive influence on the *Business reputation*, *Customer loyalty*, and *Increased competitiveness* of SMEs. A business which voluntarily participates in local community activities such as providing the community with donations, assisting them with projects and sharing some of its profit with the community, is more likely to develop a positive business reputation, and attract and retain more customers. This will in turn enhance its competitiveness.

The empirical results of this study have also identified significant positive relationships between *Market-oriented CSR activities* and *Business reputation*, *Customer loyalty*, *Stakeholder trust* and *Increased competitiveness* of SMEs. A business which conducts its activities in a transparent manner is more likely to develop positive relationships with its stakeholders, improve its image, attract and retain more customers, thus enhancing its competitiveness in the long-run. In other words, if a business has customers that are willing to support it by recommending its products and/or services and who are committed to buying its products/services in the future, it is more likely to gain and sustain a competitive advantage in the long-term. Customer loyalty is key to business success and retaining existing customers cost far less than acquiring new ones. Customer loyalty creates customer retention, thereby improving a business's competitiveness. Increases in customer retention rates can have a significant positive effect on market share and a business's net operating cash flow and profit. Hence, SMEs can create a memorable customer experience by for example quickly responding to customer orders and requirements. Customer loyalty can be enhanced through higher responsiveness to customer needs and wants. Training and empowering employees to participate in



decision-making are important and is one of the best ways to retain happy customers. Competent and motivated employees are likely to provide professional and superior services to customers, thereby winning their loyalty.

A weak positive relationship between *Environmental-oriented CSR activities* and *Customer loyalty* was reported. The rest of environmental-oriented CSR activities hypotheses had negative relationships *Business reputation* and *Increased competitiveness* of SMEs. This is understandable because little attention has been paid to the issues of environmental awareness, particularly in developing countries like Uganda.

The results of this study further show a positive relationship between *Regulated CSR activities* and *Business reputation*, *Stakeholder trust* and *Increased competitiveness* of SMEs. This means that a businesses which taking the government regulations about the environment beyond what the law requires and using packaging materials that are environmentally-friendly is likely to improve its image, gain stakeholder trust and become more competitive in the long-run.

The empirical results of this study also indicate that the *Employee satisfaction*, *Business reputation*, *Customer loyalty* and *Stakeholder trust* individually exert a positive influence on the *Increased competitiveness* of SMEs. Businesses with satisfied employees, positive image, loyal customers and stakeholder trust are more likely to gain and sustain a competitive advantage in the long-run. Increases in customer retention rates can have a significant positive effect on market share and a business's net operating cash flow and profit.

Against this background, SMEs can achieve increased competitiveness without necessarily increasing their actual size, but rather by adapting specific CSR activities. CSR is not a short-cut to business success, but an investment that can pay off in the long-term. Implementing CSR can be valuable in terms of staff recruitment, motivation, retention and development; customer loyalty; business reputation; and overall business competitiveness.

SMEs from the same sector often face common social and environmental issues. Addressing these issues collectively, through strategic alliances and networks, can reduce the costs and result in improvements that an individual SME acting alone cannot achieve. Furthermore, particular attention should be given to the integration of CSR into relevant training for SME managers and staff. Ethical aspects, personal responsibility towards society, and awareness of social and environmental issues can be imparted through the appropriate education system.

Governments also need to create appropriate enabling environments to reward SMEs for more socially and environmentally responsible behaviour. Governments should also create the right policy framework that allows businesses to grow and create more and better jobs. The policy framework should ensure fair competition and reward SMEs that adopt and successfully implement CSR activities. SMEs should be encouraged to start with small steps. There is no need for a business to try to address all aspects of CSR from the beginning. For example, an initial focus on simple measures to reduce costs, safeguard the environmental, or to give the first priority to the local community during staff recruitment, could be good ways to start CSR activities.

### **LIMITATIONS AND FUTURE RESEARCH**

The present study focused exclusively on theoretical-oriented aspects of CSR. This study is also purely quantitative in nature, yet the integration of quantitative and qualitative research has become increasingly common in recent years. The target population (SME owners/managers) of this study is a limitation in itself. Given the large number of variables proposed in the hypothesised model, different SME stakeholders could have been investigated.

Despite the limitations identified, this study has added to the empirical body of SMEs research, and provides an important first step in gaining insights into specific CSR activities influencing the competitiveness of SMEs in Uganda.

To overcome the above limitations in future studies, researchers should consider broadening the target population by including other major SME stakeholders such as customers. Further research should be encouraged on action-oriented areas such as: the success of different policies and techniques to increase the uptake of CSR amongst SMEs; the economic, social and environmental impact of CSR at sector level; and a typology of SMEs with regard to their engagement in CSR. Future research should integrate quantitative and qualitative techniques (methodological triangulation) in order to enhance the credibility and validity of research findings.

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# **USE OF AND ATTITUDES TOWARDS TECHNOLOGY: A SURVEY OF DIGITAL NATIVES**

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## **ABSTRACT**

Technology is constantly changing and new technologies are being introduced at an escalating rate. This study investigates university students' attitudes and self-efficiency to computers, cell phones, and the Internet within a university and social setting. The results suggest that male and female students do not differ in their attitudes concerning optimism about technology; however male students have a more positive attitude towards technological innovativeness. Furthermore, there are no discrepancies between students' ethnic background and their attitude towards technology.

## **INTRODUCTION**

Today's fast-paced world is resulting in the constant introduction of new technologies and innovations. Prensky (2001:1) argues that today's university students are fundamentally different from past students, and describes them as being digital natives. These students have grown up in a world full of technology and the digital culture and environment in which these students have been raised has changed the way they think. As digital natives, university students have a natural affinity to technology as well as the ability to effortlessly adapt to the introduction of new technologies (Waycott, Bennett, Kennedy, Dalgarno & Gray, 2009:1202). Examples of some of the main technologies that students may encounter on a daily basis include the Internet, computers or laptops, and mobile phones. This study will investigate some of the main stream technologies that university students may own or make use of in order to understand if students really are the 'digital natives' that they are portrayed as being.

Numerous research studies have been published on the topic of students and their relationship to technology; however not many studies were conducted in a South African context. Previous research has addressed students' experiences with different technologies and their attitudes towards technologies (Kennedy, Judd, Churchward & Gray, 2008:108-122; Waycott *et al.*, 2009:1202-1211). Studies have also been conducted on Internet attitudes and Internet self-efficiency (Peng, Tsai & Wu, 2006:73-86; Gray *et al.*, 2010:31-46), as well as on the subject of gender and cultural differences with regards to technology (Smith & Oosthuizen, 2004:352-371; Peng *et al.*, 2006:73-86; Gray, Chang & Kennedy, 2010:31-46).

Academically, it is important to understand students' affinity towards technologies and the Internet in order to make these technologies available at a university level and incorporate them into the study environment. From a practical perspective it is vital for marketers to understand which technologies university students make use of in order to improve communications with this target market.

## **RESEARCH OBJECTIVES AND HYPOTHESES**

The purpose of this paper is to investigate university students' use of and attitude towards current and emerging technologies in a social and university setting. More specifically this study is aimed at investigating university students' attitude towards and use of computers, cell phones, and the Internet. The research objectives of this study are:

- To determine whether there are gender differences in students' attitudes towards technology.
- To determine if students from different ethnic backgrounds differ in their use of technologies.
- To determine if students from different ethnic backgrounds differ in their attitudes towards technologies.
- To investigate whether students want universities to utilise technology in order to assist them in their studies.

## **DIGITAL NATIVES**

Digital natives, also known as the Net Generation or 'Gen Y', refer to persons born between 1972 to 1994 (Daugherty & Zhang, 2009:55). They have grown up with technology, have a natural



affinity to it, as well as the ability to adapt quickly to new technologies (Waycott *et al.*, 2009:1202). According to Prensky (2010:11), digital natives can be thought of as rockets as they are able to operate faster than any generation before them. Furthermore, they use communication technologies to carry out social and professional relations (Kennedy *et al.*, 2008:109) and expect technology to play an integral role in their education (Murphy, 2010).

Current university students world-wide are entering their tertiary education with a high technological ability (Kennedy *et al.*, 2008:117). As such, this Net Generation has developed a new set of learning styles and a fundamental new cognitive capacity (Prensky in Margaryan, Littlejohn & Vojt, 2010:429). It is said that digital natives demand instant access to information (Murphy, 2010) but suffer from short attention spans and the inability to concentrate (Prensky, 2010:2).

Technology is making peoples' lives more convenient and comfortable, but at the same time more complex, confusing, and even treacherous (Postma, 1999:1-2). The perceived effectiveness of technology is based on three factors; previous educational conditions, characteristics of the students', and the students' perceived characteristics of technology (O'Malley & McCraw in Baytak, Tarman & Ayas, 2011:141). Digital natives are confronted with various different types of technologies and are familiar with a variety of technologies. Technology can be made up of physical technologies, such as computers, cell phones, and MP3 players, and communication technologies, for example email and social networking sites such as Facebook (Prensky, 2010:1). The following section expands on the various types of technology available to digital natives.

## **TYPES OF TECHNOLOGY**

The following section highlights various technologies that students make use of.

### **Desktop computer / Laptop**

The majority of students have access to a desktop computer or a laptop. Most students use computers to create digital documents, such as word documents, slide shows, and multimedia presentations, and for general study purposes (Kennedy *et al.*, 2008:112). University students are comfortable reading documents from a computer screen and are more at ease sitting at a computer keyboard preparing a document than writing it out by hand (Oliver & Goerke, 2007). Computers are

also used in a personal capacity for listening to music, watching movies or videos, and storing personal documents such as photos or letters.

### **The Internet**

In 2008 South Africa had a population of over 48 million people, in which there was an estimated 4 590 000 Internet users. This accounts for approximately 10.5% of the total South African population. This figure has and will continue to increase (Optimus01, Not dated a).

The Internet is increasingly used in today's university environment for educational purposes (Peng *et al.*, 2006:74). The introduction of the Internet has fast changed the accessibility and utilisation of information, and has led to the introduction of new concepts to the teaching process (Omotayo, 2006:215). It is believed that the Internet offers an individualised, interactive, inquiry-based learning approach, and promotes meaningful learning. Students' Internet self-efficiency has a definite impact on their study outcomes (Peng *et al.*, 2006:74). Students use the Internet to communicate with lecturers and class mates, to conduct research, and to access library material (Jones, 2002:2).

Students also use the Internet to enhance their social lives (Jones, 2002:3). The Internet allows students to log into social networks, search for recreational information, download music or videos, share blogs, photos or information online, and to keep in contact with friends and family through emails or Internet calls.

### **Mobile phones**

A mobile phone is a pocket sized device that has features similar to that of a computer (Optimus01, Not dated b). According to Prensky (2010:116) most phones can be thought of as enormously powerful computers. More than two thirds of the world's population has a mobile phone (Prensky, 2010:1). The South African population in 2008, consisting of 48 million people, boasted 45 million mobile phone subscriptions (World Factbook of 2010 in Makoe, 2010:251).

Currently, mobile phones are used for so much more than just making phone calls. Mobile development allows individuals to access the Internet via their mobile devices through the

improvement of devices, applications, software, and websites. The benefit of having a mobile device is that the Internet is available to those individuals who do not have access to a computer (Optimus01, Not dated b).

For individuals who live in secluded rural areas, mobile phones are sometimes the only resource available for communication. Mobile phones are therefore suited to distance education as they increase the possibility of learning without being anchored to the student's location (Makoe, 2010:251).

Mobile phones have evolved from a business necessity to an important facilitator of social relationships (Wei & Lo in Beaver, Knox, & Zusman, 2010). Female students are reported using their mobile phones more often than male students. This could be attributed to females being more relationship orientated than male students (Beaver *et al.*, 2010).

It should be noted that not all students are comfortable with technology. Technophobia, or computerphobia, is described as the fear of or negative attitude towards technology or computers (Smith & Oosthuizen, 2004:353). Computer anxiety refers to negative feeling towards computers and can bring about emotions such as fear, stress and worry associated with the use of or anticipated use of a computer (Tekinarslan, 2007:1573). In 2000, a study conducted by Anthony, Clarke and Anderson (in Smith & Oosthuizen, 2004:353), observed the amount of technophobia in South African students. The results indicate that technophobia was inversely associated with the level of prior computer experience. Similarly, Tekinarslan, (2007:1581) states that as students' computer usage levels increase there is a significant decrease in the level of anxiety. Intermediate users have a higher anxiety level when compared to advanced users of computers.

The following section highlights the use of technology in education.

## **LEARNING THROUGH TECHNOLOGY**

Digital technology is an important part of a student's education (Prensky, 2010:3). In a study done by Isman, Caglar, Dabaj, Altinay and Altinay (2004), students acknowledged that computers are a part of their lives and thus have a positive attitude towards them. Smith (2002) found that students find technology useful and are willing and open to the use of technology. In the 2005 EDUCAUSE

Centre for Applied Research (ECAR) study, it is noted that students prefer taking courses that use a moderate amount of technology. Furthermore, Speaker (2004:244) reported that students mostly felt that their learning could be improved by incorporating technology into the learning experience. It is evident that there is a visible trend in increasing the amount of technology used in education (Jones, 2011:69).

University students spend a considerable amount of time using technologies for academic activities such as emailing lecturers or peers, preparing academic documents, and accessing course management sites via the Internet (Caruso & Kvavik, 2005:2-3). Course management sites are university specific webpages that allow students to access subject specific information, for example study guides, course notes, test or assignment results, and announcements. According to the 2005 ECAR study, the most valued features of course management sites include the ability to track grades, access sample exams and quizzes, and handle course administration. However, students' main concerns when using technology are computer viruses, worms, Trojan horses, spam, and slow network access.

Numerous other technologies can be used to help improve and enhance the learning experience, for example videos and mobile phones. New technologies, such as podcasting, are constantly emerging to assist in the learning process at a university level (Learning Point Associates, 2005).

Following is a discussion on gender and cultural differences towards technology.

## **GENDER DIFFERENCES RELATING TO ATTITUDES TOWARDS TECHNOLOGY**

Traditionally men and women have been assigned different social roles. With regards to technology, men are mostly regarded as having “technological and sophisticated minds” and thus fulfil a superior role. Conversely, women are regarded as being “non-technological” and are likely portray socially inferior roles (Li & Kirkup, 2005:314).

Attitude is defined as “a learned predisposition to behave in a consistent, favourable, or unfavourable manner, with respect to a given object” (du Plessis, Rousseau, Boshoff, Ehlers, Engelbrecht, Joubert & Sanders, 2007:369). There are distinct differences between male and female students' attitudes towards computers. Smith and Oosthuizen (2004:353) state that males have a

more positive view of computers whereas females have a greater fear of and a less technical appreciation for computers.

Male and female students also differ with regards to their attitudes towards the Internet. Males have a more positive attitude regarding the Internet than females. Females are inclined to see the Internet as a tool and males perceive it more as a toy (Peng *et al.*, 2006:84). Tsai (2007:23) adds that male students show a lower anxiety and a higher control when using the Internet than female students.

## **CULTURAL DIFFERENCES CONCERNING TECHNOLOGY**

Culture can be defined as “the mental frame and meanings shared by most people in a social group” (Peter & Olson, 2010:278). In this study the word ‘culture’ will be used as a means to identify ethnicity, specifically African and Caucasian students.

Collis (1999:210) argues that culture plays a vital role in accepting technologies. Individualistic cultures are established when loosely associated social relationships are valued and individuals are only expected to care for themselves and their direct members. Conversely, collective cultures value tightly knit relations and individuals are likely to look after extended social relatives. The difference between these two cultural designs can influence an individual’s cognition, motivation, emotions, and social behaviour, and result in different technology adoption behaviours (Chau, 2008:1-2).

Empirical evidence points towards national cultures influencing attitudes, perceptions, and usage of technology (Li & Kirkup, 2005:303-304). South Africa’s cultural diversity, brought about by multiple official languages, diverse economic situations, and various ethnic backgrounds, could result in cultural differences with regards to attitude towards technology.

Hauffman, Novak and Schlessler (in Omotayo, 2006:216) note that there is a definite gap between African and Caucasian students’ use of and access to the Internet in the USA. The Internet has the ability to create a learning environment that can restructure a students’ perception of the world. The Internet has predominantly been designed and programmed by Caucasian males of western origin. In order to provide all students with the same opportunities, Joo (in Li & Kirkup, 2005:303) argues that there is a need to eliminate the Internet’s linguistic and cultural obstacles.

## RESEARCH METHODOLOGY

### Sampling

The target population for this study consisted of undergraduate students studying on the main campus of the University of Pretoria. It is important to assess university students' attitudes towards current and emerging technologies, as it is these individuals who stand at the forefront of the country's future economy, and their technological abilities and competences are fundamental. A non-probability quota sample was used and consisted of 50 Caucasian males, 50 African males, 50 Caucasian females and 50 African females. All 200 questionnaires were analysed.

### Data collection

The questionnaire was pre-tested using Cooper and Schindler's (2011:358) participant pre-testing method. Data for the main study was collected from undergraduate students via campus intercepts at the University of Pretoria's main campus. Undergraduate students were approached according to gender and ethnic background to complete a self-administered survey. Researchers were on hand while students completed the survey to assist with any confusion encountered by respondents. Previous researchers surveyed students in a similar manner (Gray *et al.*, 2010:31-46; Kennedy *et al.*, 2008:108-122; Peng *et al.*, 2006:73-86). No incentives were provided to respondents to complete the questionnaire.

### Questionnaire

The scales used to measure the use of technologies were adapted from Kennedy *et al.*, (2008:112-114). The 'Technology Readiness Index' (Parasuraman, 2000:312) was adapted to the South African context and aims to measure students' attitude towards technology. This 17-item scale is a six-point Likert scale; six-points were used to avoid having a midpoint. The scale points were labelled ranging from 1 ("Strongly disagree") to 6 ("Strongly agree"). The first ten items of the scale measure optimism about technology and the last seven items measure innovativeness concerning technology. A higher overall score indicates a more positive attitude towards technology. A reliability analysis of the ten items measuring optimism towards technology revealed

a Cronbach alpha coefficient of 0.81. The seven items on innovativeness concerning technology scored a Cronbach alpha coefficient of 0.90. The questionnaire also contained questions to determine respondents' demographic profile. A final question asked if students want the University to utilise technology in order to facilitate the study experience.

## RESULTS

### Descriptive statistics

Due to purposive quota sampling there was an equal representation of male (50%) and female (50%) respondents as well as African (50%) and Caucasian (50%) respondents.

University students have access to numerous technologies. Table 1 below provides a list of technologies that students use and the frequency with which they are used.

**Table 1: University students' use of technology**

Hardware	Daily	Weekly	Monthly	Less than once a Month	Not used
Mobile phone	97%	2%	0.5%	0%	0.5%
Laptop / notebook computer	62.5%	15.5%	3.5%	9.5%	9%
Memory stick	54.8%	32.2%	9%	2%	2%
Desktop computer	50.3%	26.4%	4.6%	7.6%	11.2%
MP3 Player / IPod	30.8%	18.7%	11.1%	6.6%	32.8%
External hard drive	21.5%	22.1%	13.3%	12.3%	30.8%
Digital camera	3.6%	24%	33.2%	23.5%	15.8%
iPad	3.6%	2%	4.6%	6.1%	83.8%
GPS	3%	10.6%	19.2%	20.2%	47%

Table 1 indicates that the technologies that are used by the majority of students on a daily basis are mobile phones (97%), laptops (62.5%), memory sticks (54.8%), and desktop computers (50.3%).

Cross-tabulations were formulated to determine if students from different ethnic backgrounds differ in their use of technologies. Chi-squared tests were performed on each individual item in Table 1 above and the items with significant results are reflected in Table 2.

**Table 2: Mean scores, standard deviations and chi-squared tests**

Race		Desktop computer	MP3/ iPod	External hard drive	GPS
Caucasian	Mean	2.59	2.60	2.22	1.18
	<i>N</i>	98	100	97	100
	Std. Deviation	1.52	1.47	1.47	1.11
African	Mean	3.34	1.55	1.61	0.87
	<i>N</i>	99	98	98	98
	Std. Deviation	1.08	1.71	1.59	1.21
Total	Mean	2.97	2.08	1.91	1.03
	<i>N</i>	197	198	195	198
	Std. Deviation	1.36	1.67	1.56	1.16
<b><i>p</i>-value</b>		0.002	0.000014	0.031	0.00075

Note: Items were measured on a 5-point scale with scale points labelled; 0 (“Not used”), 1 (“Less than once a month”), 2 (“Monthly”), 3 (“Weekly”), and 4 (“Daily”). A higher mean score indicates a higher frequency of use of each specific item of technology on the scale. *n* = sample size

Significant differences were found between African and Caucasian students’ use of desktop computers, MP3/iPods, external hard drives, and GPS’s. It should be noted that for memory sticks, the assumption that not more than 20 per cent of the frequencies should be below five was not satisfied (Field, 2009:692). As such no statistical results will be reported

Table 2 suggests that African students ( $M = 3.34$ ,  $SD = 1.08$ ) use desktop computers more frequently than Caucasian students ( $M = 2.59$ ,  $SD = 1.52$ ). The results further suggested that Caucasian students use MP3/iPods ( $M = 2.60$ ,  $SD = 1.47$ ), external hard drives ( $M = 2.22$ ,  $SD = 1.47$ ) and GPS’s ( $M = 1.18$ ,  $SD = 1.11$ ) more frequently than African students ( $M = 1.55$ ,  $SD = 1.71$ ;  $M = 1.61$ ,  $SD = 1.59$ ;  $M = 0.87$ ,  $SD = 1.21$ , respectively).

Table 3 below indicates the percentage of students who use the Internet for various tasks and the frequency with which they use the Internet.

**Table 3: University students’ use of the Web**

Web	Daily	Weekly	Monthly	Less than once a month	Not used
Use social networking software on the Internet (e.g. Facebook, MySpace).	69%	23.5%	3.5%	2.5%	1.5%
Use the web to access the university portal (e.g. ClickUP).	65.5%	32%	2%	0.5%	0%



<b>Web</b>	<b>Daily</b>	<b>Weekly</b>	<b>Monthly</b>	<b>Less than once a month</b>	<b>Not used</b>
Use the Internet for instant messaging/chat (e.g. Facebook chat, Google chats).	61.8%	25.1%	4.5%	3.5%	5%
Use the Internet to send or receive email.	50.8%	33.7%	13.1%	0.5%	2%
Use the web to browse for general information (e.g. News, holidaying, events timetable).	36.5%	38.5%	17%	6.5%	1.5%
Use the Internet to download MP3 files (e.g. Music, videos, podcasts).	29%	26.5%	17%	12.5%	15%
Use the web to look up reference information for study purposes.	24.5%	43.5%	23.5%	6.5%	2%
Use the Internet to listen to sound recordings (e.g. via streaming audio or <i>iTunes</i> ).	9.5%	29.5%	15.5%	18.5%	27%
Use the Internet to read other people's blogs.	9.5%	13.5%	12.5%	12%	52.5%
Use the Internet to upload and share MP3 files (e.g. Music, videos, podcasts).	9%	11.5%	14.5%	16.5%	48.5%
Use the Internet to build and maintain a personal website.	7.5%	8%	6%	11.1%	67.3%
Use the Internet to play networked games.	7%	9%	10%	13.5%	60.5%
Use the Internet to make voice calls (e.g. Skype).	6%	7.5%	8.5%	17.5%	60.5%
Use the Internet for other services (e.g. banking, paying bills).	5%	15%	23%	21%	36%
Use the Internet to keep your own blog.	5%	8.5%	4.5%	4.5%	77.5%
Use the Internet to buy or sell things (e.g. air tickets, <i>Gumtree</i> ).	2.5%	3.5%	12.5%	14%	67.5%

The above results indicate that 69 per cent of students use the Internet to access social networking sites, such as Facebook, on a daily basis. Other daily web activities include accessing the University portal (65.5%), instant messaging or chatting (61.8%), and sending and receiving emails (50.8%). Students, however, do not use the Internet to keep a blog (77.5%), for purchasing or selling items (67.5%), or maintaining a personal website (67.3%).

Table 4 below highlights various tasks that students perform on a computer and the frequency with which they are performed.

**Table 4: University students' use of computers**

Computer	Daily	Weekly	Monthly	Less than once a Month	Not used
Use a computer to play music without accessing the internet.	59.5%	19%	8.5%	5%	8%
Use a computer for general study, without accessing the internet.	37.9%	30.3%	14.6%	12.6%	4.5%
Use a computer for writing documents (e.g. Word).	28.5%	53.5%	15%	3%	0%
Use a computer to play games without accessing the internet.	19.5%	21.5%	16.5%	15%	27.5%
Use a computer to create graphics or manipulate digital images (e.g. Photoshop).	8.5%	18.5%	21.5%	20%	31.5%
Use a computer to create multimedia presentations (e.g. PowerPoint).	7.5%	18.5%	31%	30.5%	12.5%
Use a computer to create web pages.	4%	5%	5.5%	9%	76.4%

With reference to daily use, students mostly use computers to listen to music (59.5%), for general study purposes (37.9%), and to write documents (28.5%). Caruso and Kvavik (2005:2) found that university students spend considerable time using technology for study activities, such as writing documents. The results in Table 4 above echo this as only 4.5 per cent of respondents indicated that they never use computers for general study purposes. In addition, all students reported using a computer to prepare a written document.

In today's technologically driven society, it is almost expected that the majority of individuals will own a mobile phone, or at least have access to a mobile phone. Table 5 indicates that 94 per cent of the respondents use a mobile phone to text/sms people daily, 88.5 per cent use mobile phones to call people, and 62.8 per cent use mobile phones to access the Internet. Nineteen per cent of respondents reported never using their mobile phones to send or receive emails. This can be attributed to the limited features and functions on some respondents' mobile phones.

**Table 5: University students' use of mobile phones**

Mobile Phones	Daily	Weekly	Monthly	Less than once a month	Not used
Use a mobile phone to text/sms people.	94%	5%	0.5%	0.5%	0%
Use a mobile phone to call people.	88.5%	10.5%	0%	0.5%	0.5%

<b>Mobile Phones</b>	<b>Daily</b>	<b>Weekly</b>	<b>Monthly</b>	<b>Less than once a month</b>	<b>Not used</b>
Use a mobile phone to access information on the internet.	62.8%	21.1%	6.5%	4%	5.5%
Use a mobile phone to send or receive emails.	49%	18.5%	9%	4.5%	19%
Use a mobile phone to take digital photos or movies.	42%	32.5%	12.5%	7.5%	5.5%
Use a mobile phone as a personal organiser (e.g. Diary, address book).	41%	22%	12%	11.5%	13.5%
Use a mobile phone to send pictures or movies to other people.	35.5%	28.5%	17%	11%	8%

Table 6 contains descriptive statistics of each individual item in the multi-item rating scale concerning students' attitude towards technology.

**Table 6: Attitude towards technology (n = 200)**

<b>Attitude Towards Technology</b>	<b><i>M</i></b>	<b><i>SD</i></b>
<b>Optimism about technology</b>	<b>4.95</b>	<b>1.01</b>
Technology makes you more efficient in your daily lives/studies.	5.28	0.80
Technology gives people more control over their daily lives.	5.22	0.84
Technology gives you more freedom of mobility.	5.20	1.00
Products and services that use the newest technologies are much more convenient to use.	5.16	0.80
You like computer programs that allow you to tailor things to fit your own needs.	5.04	1.00
You prefer to use the most advanced technology available.	4.99	1.05
You like the idea of doing your studies via computers because you are not limited to regular university hours.	4.72	1.35
Learning about technology can be as rewarding as the technology itself.	4.70	1.09
You feel confident that machines will follow through with what you instructed them to do.	4.62	1.00
You find new technologies to be mentally stimulating.	4.61	1.15
<b>Innovativeness concerning technology</b>	<b>4.00</b>	<b>1.40</b>
You find you have fewer problems than other people in making technology work for you.	4.34	1.32
You can usually figure out new high-tech products and services without help from others.	4.28	1.32
You keep up with the latest technological developments in your areas of interest.	4.11	1.34
You enjoy the challenge of figuring out high-tech gadgets.	4.09	1.52

<b>Attitude Towards Technology</b>	<i>M</i>	<i>SD</i>
It seems you are learning more about the newest technologies than your friends are.	3.94	1.32
Other people come to you for advice on new technologies.	3.89	1.49
In general, you are among the first in your circle of friends to acquire new technology when it appears.	3.32	1.51

Note: Items were measured on a 6-point scale with scale points labelled; 1 (“Strongly disagree”), 2 (“Disagree”), 3 (“Slightly disagree”), 4 (“Slightly agree”), 5 (“Agree”), and 6 (“Strongly agree”). A higher mean score indicates a more positive attitude towards technology. *M* = mean, *SD* = standard deviation

Overall students have a more positive attitude towards optimism about technology ( $M = 4.95$ ,  $SD = 1.01$ ) than innovativeness concerning technology ( $M = 4.00$ ,  $SD = 1.40$ ). The respondents agree that technology makes their lives and studies more efficient ( $M = 5.28$ ,  $SD = 0.80$ ) and provides them with a sense of control ( $M = 5.22$ ,  $SD = 0.84$ ) and freedom of mobility ( $M = 5.20$ ,  $SD = 1.00$ ). However, the respondents only slightly agree with the statement that they have fewer problems with technology than others ( $M = 4.34$ ,  $SD = 1.32$ ) and indicated that they are not necessarily the first in their circle of friends to acquire new technology ( $M = 3.32$ ,  $SD = 1.51$ ).

Of the 200 respondents, 185 (92.5%) indicated that they want the University to make use of technology to facilitate learning. Table 4 indicated that 68.2 per cent of students already use a computer for general study purposes on a weekly basis. In Table 6 students indicated that they liked the idea of doing their studies via a computer ( $M = 4.72$ ,  $SD = 1.35$ ), thus supporting the use of technology in education. This is in line with the findings of Smith (2002) who argues that students find technology useful for their studies

### **Hypothesis testing**

$H_1$  and  $H_2$  are both composite hypotheses that consist of two sub-dimensions.

**$H_{1(\text{null})}$ : There is no difference between males and female students’ attitudes toward technology.**

**$H_{1(\text{alt})}$ : There is a significant difference between male and female students’ attitudes towards technology.**

$H_{1a(\text{null})}$ : There is no difference between male and female students’ optimism about technology.

$H_{1a(alt)}$ : There is a significant difference between male and female students' optimism about technology.

$H_{1b(null)}$ : There is no difference between male and female students' innovativeness concerning technology.

$H_{1b(alt)}$ : There is a significant difference between male and female students' innovativeness concerning technology.

**$H_{2(null)}$ : Students from different ethnic backgrounds do not differ in their attitudes towards technology.**

**$H_{2(alt)}$ : Students from different ethnic backgrounds differ significantly in their attitudes towards technology.**

$H_{2a(null)}$ : Students from different ethnic backgrounds do not differ in their optimism about technology.

$H_{2a(alt)}$ : Students from different ethnic backgrounds differ significantly in their optimism about technology.

$H_{2b(null)}$ : Students from different ethnic backgrounds do not differ in their innovativeness concerning technology.

$H_{2b(alt)}$ : Students from different ethnic backgrounds differ significantly in their innovativeness concerning technology.

The 'Technology Readiness Index' (Parasuraman, 2000:312) scale was measured at an interval level of measurement for which the appropriate parametric significant test is the independent samples *t*-test. The independent samples *t*-test has three assumptions; normality, homogeneity of the variance and the independence of the observation. The Kolmogorov-Smirnov test for normality was used to assess the assumption of normality, as well as visual inspections of histograms and normal probability plots. The results indicated slight departures from normality. However, the independent samples *t*-test is robust for mild departures from normality with large samples (Pallant 2007:198), hence it was used to test the two sub-hypothesis for both  $H_1$  and  $H_2$ .

Both two-tailed (non-directional) hypotheses were tested at a 5% level of significance (i.e.  $\alpha = 0.05$ ).

Table 7 below provides the descriptive statistics and summarises the results of the independent samples *t*-test conducted to test Hypothesis 1.

**Table 7: Descriptive statistics and results of the independent samples *t*-test test conducted to test hypothesis H<sub>1</sub>**

Hyp.	Motive	Gender	<i>N</i>	<i>M</i>	<i>SD</i>	Results: <i>t</i> – test
H <sub>1a</sub>	Optimism about technology	Male	100	4.99	0.63	2-tailed <i>p</i> value: 0.424 Conclusion: No significant difference, H <sub>1a(null)</sub> accepted
		Female	100	4.92	0.61	
H <sub>1b</sub>	Innovativeness concerning technology	Male	100	4.33	0.96	2-tailed <i>p</i> value: 0.000 Conclusion: Significant difference, H <sub>1b(null)</sub> rejected
		Female	100	3.67	1.17	

Note: *n* = sample size, *M* = mean, *SD* = standard deviation

Male students' optimism about technology ( $M = 4.99$ ,  $SD = 0.63$ ) was slightly higher than that of female students ( $M = 4.92$ ,  $SD = 0.61$ ). As such, it is concluded that H<sub>1a</sub> does not show a significant difference between male and female students' optimism concerning technology, therefore H<sub>1a(null)</sub> is accepted.

With regards to innovativeness concerning technology, the results suggest that male students ( $M = 4.33$ ,  $SD = 0.96$ ) have a more positive attitude than female students ( $M = 3.67$ ,  $SD = 1.17$ ). The results show that male and female students' differ significantly in their innovativeness concerning technology; therefore the stated null hypothesis for H<sub>1b</sub> is rejected in favour of the alternative hypothesis.

Table 8 provides the descriptive statistics and summarises the results conducted to test Hypothesis 2.

**Table 8: Descriptive statistics and results of the independent sample *t*-test conducted to test hypothesis H<sub>2</sub>**

Hyp.	Motive	Race	<i>n</i>	<i>M</i>	<i>SD</i>	Results: <i>t</i> -test
H <sub>2a</sub>	Optimism about technology	Caucasian	100	4.93	0.52	2-tailed <i>p</i> value: 0.651 Conclusion: No significant difference, H <sub>2a(null)</sub> accepted
		African	100	4.97	0.71	
H <sub>2b</sub>	Innovativeness concerning technology	Caucasian	100	4.07	1.13	2-tailed <i>p</i> value: 0.374 Conclusion: No significant difference, H <sub>2b(null)</sub> accepted
		African	100	3.93	1.11	

Note: *n* = sample size, *M* = mean, *SD* = standard deviation

The results suggest that there is statistically no significant difference between African and Caucasian students' attitude towards technology. Caucasian and African students do not differ in their innovativeness and optimism concerning technology. As such the stated null hypothesis for H<sub>2a</sub> and H<sub>2b</sub> is accepted.

## CONCLUSION

The majority of respondents (92.5%) indicated their desire for the university to make use of technology to facilitate learning. African and Caucasian students differ slightly in their use of technologies. African students are reported using desktop computers more frequently than Caucasian students. The results further indicate that Caucasian students use MP3/iPods, external hard drives, and GPS's more frequently than African students. Hoffman, Novak and Schlessler (in Omotayo, 2006:216) noted in their study conducted in 2000 that there was a definite gap between African and Caucasian students' use of and access to the Internet. This study suggests that there are no statistically significant differences between African and Caucasian students' use of the web.

With regards to gender differences in students' innovativeness concerning technology, male students have a more positive attitude and indicated that they enjoy the challenge of using high-tech gadgets and keeping up with the latest technological trends. These results are in line with previous research studies. Li and Kirkup (2005) suggest that males have technologically and sophisticated minds. However, gender differences do not exist relating to students' optimism about technology. This finding is in contrast with Smith and Oosthuizen (2004:353) that found that females have less appreciation for technologies.

Ethnicity does not cause differences in students' attitudes towards technology. The results indicate that there is no difference in African and Caucasian students' attitude regarding optimism about technology or innovativeness concerning technology. The absence of a significant relationship between ethnicity and attitude towards technology could be attributed to the dynamic change in South Africa's social and economic climate or one may assume that there is social and economic equality among students who attend the University of Pretoria.

## **MANAGERIAL IMPLICATIONS**

Today, managers and academics need to understand the importance of identifying any dissimilarity in use patterns of technology or technological attitudes between different gender and ethnic groups in order to accommodate any differences. This study found that there is a slight difference in students' attitudes towards technology when concerning students' gender. Female students' were less positive about using new technology than males. As such, marketers and universities may want to ensure that they provide thorough instructions or training on how to use new technology to ensure that females are comfortable using new technology, whether in a social or university setting. No significant differences were recorded in students' attitudes towards technology when ethnicity was considered. These results indicate that ethnicity will not affect the marketing of technological products to students or decisions pertaining to which technology to utilise at universities. However, this study does indicate that students from different ethnic backgrounds do differ slightly in the frequency with which they use various technologies. Companies could market specific hardware to specific ethnicities, or place more emphasis on the technologies not used by the different ethnic groups to create a greater awareness.

The study has indicated that the majority of students want the university to utilise technology to facilitate learning. This provides a great opportunity on which universities or companies can capitalise. As the majority of students already access the university portal on a daily basis, the university portal is a good platform with which to further and improve communication with students. Academics can expand on their use of this platform by supplying more academic material, narrated PowerPoint presentations for example. Companies can also approach universities to advertise on these portals. In addition, universities and marketers must make more use of mobile phones for marketing and academic purposes as all students use their mobile phones on a daily



basis. Although sms messages can be used for communication, QR codes (Quick response codes), scanned and accessed via smartphones, can also be used very effectively. QR codes provide marketers and academics with the opportunity to give student more information either through visuals such as short video clips, links to websites, Google map destinations, or a link to iTunes.

In conclusion, this study has highlighted the importance of technology to students and found that the majority of students have positive attitudes towards technology. This then proves that students are in fact the “digital natives” they are claimed to be.

### **LIMITATIONS AND RECOMMENDATIONS FOR FUTURE RESEARCH**

A non-probability sampling method was used and a consequence thereof is that this study’s results cannot be generalised to a larger population on statistical grounds (Kotzé, 2007:73). Some researchers may believe that a sample consisting solely of students is a major limitation. However, for the purposes of this study, students are an important market segment. Students are described as being “digital natives” and are as such major consumers of technological products and innovations. This study could be improved upon by having a larger sample size and making use of more than two ethnic groups.

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# **THE EFFECT OF INTERNAL MARKETING ON ORGANISATIONAL COMMITMENT IN A SELECTED RETAIL OUTLET IN SOUTH AFRICA**

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## **ABSTRACT**

Organisations are becoming increasingly aware that they need to improve the services they offer to customers. However customer satisfaction can only be achieved when employees are well equipped to meet or even exceed customers' expectations. Therefore the success of an organisation depends on its human capital. Traditionally organisations always strived to meet the customers' expectations without meeting the expectations of the employees. This challenge has resulted in the development of internal marketing. Internal marketing occurs when an organisation promotes itself to its employees as if they were customers, internal marketing creates awareness and visibility of the product or service to the employee.

The purpose of this study was to investigate the effect of internal marketing criterion on organisational commitment of employees in a selected retail outlet in South Africa. The main criteria for internal marketing adopted from the literature that were used in this study were: job satisfaction, employee motivation and employee training. In order to achieve the aim of the study, a survey was conducted in the retail sector to determine the relationship between internal marketing criterion and organisational commitment. A questionnaire was issued to employees and the results indicated that there is a positive relationship between internal marketing criterion and organisational commitment. The main findings of the study pointed to the existence of a significant relationship between: job satisfaction and organisational commitment; employee motivation and organisational commitment; and lastly employee training and organisational commitment.

**Keywords:** Internal marketing; Organisational commitment; Motivation; Satisfaction

## **INTRODUCTION**

The retail sector is one of the major employers in the South African economy. The major retail players include the Shoprite Holdings; Pick n Pay, Woolworths, Massmart and Edcon. In June 2009 a total of 597 370 people were employed in the retail sector in South Africa (Statistics South Africa, 2009:4). As the South African economy is slowly recovering from the global recession, the retail sector has also recovered significantly as it has increased investments on new infrastructures and technologies, for example, in 2009 capital expenditure was R7 544 million. The business environment has become competitive and organisations do not only compete in terms of price but also the service they offer to customers.

The increase in competition and the economic meltdown has caused organisations to search for other methods that would make them more competitive and profitable. Organisations are becoming increasingly aware that they need to improve the services they offer to customers. However customer satisfaction can only be achieved when employees are well equipped to meet or even exceed customers' expectations. Therefore the success of an organisation depends on its human capital (Shiu and Yu, 2010:793).

According to Rafiq and Ahmed (2000:454) internal marketing is "a planned effort using a marketing-like approach to overcome organizational resistance to change and to align, motivate, co-ordinate and integrate employees towards the effective implementation of corporate and functional strategies in order to deliver customer satisfaction through a process of creating motivated and customer orientated employees". Internal marketing refers to the treating of both employees and customers with equal significance through positive programs in order to accomplish organisational goals (Farzad, Nahavandi and Caruana, 2008:1480). The lack of commitment from employees can be detrimental to an organisation resulting in poor performance arising from inferior service to customers. According to Gounaris (2008: 409) studies have revealed a strong positive impact of internal marketing on employee job satisfaction through the provision of training opportunities. Ting (2010: 3) argues that internal marketing improves organisational commitment and job satisfaction because it encourages team work and communication throughout the organisation.



Organisational commitment is influenced by a number of factors including open and regular two-way communication, leadership style of a particular organisation, autonomy in terms of decision making, job satisfaction, motivation and training and development (Rego and Cunha, 2006:19; Yiing and Ahmad, 2009:56; Harris *et al.*, 2004: 50).

For the purposes of this study organisational commitment is going to be measured based on job satisfaction, employee motivation and employee training. Therefore the study at hand seeks to establish if there are any relationships between: job satisfaction and organisational commitment; employee motivation and organisational commitment; and lastly employee training and organisational commitment.

This paper begins with the context of research where the literature will be reviewed and empirical research relating to internal marketing criterion's effect on organisational commitment. This section will review organisational commitment and its impact on employee performance and the overall achievement of organisational goals and objectives. This will be followed by the research methodology which identifies the research hypothesis, research population and sample, research instruments, data collection process and data analysis methods. Furthermore, research findings and limitations will be discussed. Recommendations and implications for management will be discussed and finally suggestions for further research will be given.

## **PROBLEM INVESTIGATED**

The retail sector is one of the major employers in the South African economy. The major retail players include the Shoprite Holdings; Pick n Pay, Woolworths, Massmart and Edcon. In June 2009 a total of 597 370 people were employed in the retail sector in South Africa (Statistics South Africa, 2009:4). The business environment is complex and continually changing requiring organisations to be strategic and innovative in their business processes to ensure that they remain competitive and profitable (Felfe *et al.*, 2007:81). Organisations have become increasingly aware of the importance of human capital in obtaining a competitive advantage. Failure to pay attention to human capital will result in high employee turnover and absenteeism which affects productivity and service delivery. Organisational commitment is one of the determinants of organisational performance. An organisation with committed

employees is more likely to perform at a higher level. Employees willingly go beyond what is required of them; therefore committed employees serve as source of competitive advantage as the attainment of organisational goals depends on the commitment of members of the organisation (Nehmeh, 2009:1).

A study in Taiwan by Ting (2010) focused on the effect of internal marketing criterion on organisational commitment: job involvement and job satisfaction as mediators. The results showed that internal marketing, job involvement and job satisfaction all have a direct impact on organisational commitment. Moreover, job involvement and job satisfaction play partial mediating roles in the relationship between internal marketing and organisational commitment.

Organisations have started to recognise the need to market the organisation not only to external stakeholders but also to employees through the process of internal marketing. The question then arises how can organisations manage organisational commitment to remain competitive? The study at hand therefore seeks to establish the effect internal marketing criterion on organisational commitment in the retail sector, which is a major employer in South Africa. Based on the findings of Ting (2010) job satisfaction, employee motivation and employee training were the three constructs for internal marketing criterion chosen for the purposes of this study.

## **RESEARCH OBJECTIVES**

The primary aim of this study is to determine the effect of internal marketing criterion on organisational commitment in the retail sector in South Africa. To achieve the primary aim of this research, the objectives of this research are to:

- To establish the relationship between job satisfaction and organisational commitment.
- To investigate the relationship between employee motivation and the organisational commitment.
- To determine the relationship between employee training and organisational commitment.

To give effect to the above objectives, the following hypotheses have been formulated;

Research Hypothesis

- Ha<sub>1</sub>: There is a positive relationship between job satisfaction and organisational commitment.
- Ha<sub>2</sub>: There is a positive relationship between motivation and organisational commitment.
- Ha<sub>3</sub>: There is a positive relationship between training and organisational commitment.

## **LITERATURE REVIEW**

The business environment is complex and continually changing requiring organisations to be strategic and innovative in their business processes to ensure that they remain competitive and profitable (Felfe *et al.*, 2007:81). Organisations have become increasingly aware of the importance of human capital in obtaining a competitive advantage. Organisational culture should be that which ensures employee commitment in order to achieve organisational goals and objectives. This will result in organisations being profitable and competitive (Naude *et al.*, 2003:1209).

Organisational commitment is one of the determinants of organisational performance. An organisation with committed employees is more likely to perform at a higher level. Employees willingly go beyond what is required of them; therefore committed employees serve as source of competitive advantage as the attainment of organisational goals depends on the commitment of members of the organisation (Nehmeh, 2009:1).

Ranjendran and Randuan (2005:1079) define organisational commitment as an organisational force that guides and directs the behaviours of employees to the achievement of organisational goals and objectives. Similarly Swanepoel *et al.*, (2003:23) define organisational commitment as the relative strength of an individual's identification with and involvement in a particular organisation. The commitment of the individual to the organisation will go beyond loyalty to a more active contribution. Commitment is less likely influenced by day-to-day events at work as it is more stable. It takes a good fit between the nature of the individual and the characteristics of the employing organisation to obtain the right level of commitment (Swanepoel *et al.*, 2003:23).

Internal marketing as defined by Caruana and Calleya, (1998:109) is the “task of successfully hiring, training and motivating able employees to serve the customer well”. Therefore,

successful implementation of internal marketing results in employees demonstrating commitment, and a positive attitude towards their work (Ting, 2010:6).

Employee motivation plays an essential role in achieving organisational goals and objectives. Employee motivation determines the levels of performance and commitment (Steers *et al.*, 2004:379). Motivation is the willingness of an employee to act in a specific, goal directed way to achieve the goals of the organisation. It refers to the forces internal or external to the individual stimulating, channelling and maintaining human behaviour in order to achieve goals (Nieuwenhuizen and Rossouw, 2008:73). Similarly Ramlall (2004:52) defines motivation as psychological practices that result in the stimulation of direction and determination on a voluntary basis to achieve set goals. Motivation deals with the relationship between independent and dependant variables that clarify the persistence of individual behaviour holding constant factors which affect individual employee's competency in performing the task i.e. skill and expertise (Steers *et al.*, (2004:379).

Job satisfaction is influenced by personal and organisational aspects which results in an emotional reaction affecting organisational commitment. Accordingly employees who are satisfied with their jobs will have positive attitudes thus being motivated. On the contrary, dissatisfied employees have negative attitude towards their work (Luddy, 2005:21). Brown and McIntosh (2003:1242) argue that there is a negative relationship between job satisfaction and employee turnover. Similarly Teck-Hong and Waheed (2011:77) argue that satisfied employees achieve better performance which then translates into improved customer satisfaction.

Organisations have recognised the need to market the organisation not only to external stakeholders but also to employees. According to Broady-Preston and Steel (2002:384) internal marketing occurs when an organisation promotes itself to its employees as if they were customers. This means that internal marketing creates awareness and visibility of the product or service to the employee. Furthermore, Rafiq and Ahmed (2000:450) suggest that internal marketing aligns employee behaviour to the overall organisational objectives and goals through a participative approach at all levels of the organisation.

Employee training consists of a planned programme of activities designed to help improve current performance at individual, group and organisational level by helping employees to acquire and improve job-related skills (Nieuwenhuizen and Rossouw, 2008:220). Through

training the individual employee will be in a better position to make decisions and this increases job satisfaction. This will in turn benefit the organisation (Swanepoel, 2003:453).

Internal marketing is advantageous for organisations in that when employees are convinced and believe in the value of the brand then it will become relatively easy for employees to convince customers (Gounaris, 2006:436). This results in higher levels of job satisfaction because employees are empowered, for example, autonomy. Organisations involved in internal marketing become learning organizations in that employees are trained and equipped to achieve or realise their full potential (Bell and Bulent, 2002:131-146). Effective internal marketing will result in motivated employees willing to go the extra mile in providing customers with superior service; this can be done through the rewarding of excellent performance intrinsically or extrinsically (Ballantyne, 2000:275).

This study therefore seeks to establish the effect of the above mentioned factors on organisational commitment in a selected retailer in Gauteng, South Africa.

## **RESEARCH METHODOLOGY**

In order to investigate the effect of internal marketing criterion on organisational commitment in the retail sector, a positivist research approach was followed (Remenyi, 1996:11). The study was quantitative in nature. The sample for the study was identified by means of non-probability sampling method. Convenience sampling was used as it easy and less expensive (Welman *et al.*, 2005:69-70). Zikmund (2003:426) explains that the convenience sampling method allows researchers to obtain sampling units that are available and convenient, and so it is used when researchers need to obtain data quickly and inexpensively. The research focused on employees of a selected Pick n Pay store in Midrand, Gauteng. The sample was taken from a population of a selected retailer comprising of 40 employees.

Data was gathered by a means of a structured questionnaire developed and adapted from previous studies. Organisational commitment was measured using the Organisational Commitment Questionnaire (OCQ) by Meyer and Allen (1997). The instrument consists of 18 questions in which the respondents will rate the questions on a scale ranging from 1 to 5 with one being strongly disagree and 5 being strongly agree. The instrument has been used extensively in the past decades dating back to 1985.

Job satisfaction and motivation were used to measure work satisfaction and a Motivation Questionnaire by De Beer (1987) was used. The instrument consists of 43 questions which are based on Herzberg's two factor theory of motivation; it is based on the nine dimensions identified by Herzberg as motivation and job satisfaction factors. The author conducted an item and factor analysis to evaluate the inter-term consistency of work satisfaction and motivation questionnaire.

The research instrument consisted of the OCQ and the WSMQ. Organizational Commitment Questionnaire (OCQ) consists of 18 questions and it was developed by Meyer and Allen (1997) has an estimated Cronbach's alpha .85 (Feather and Rauter, 2004). The internal consistency of the Work Motivation and Satisfaction Questionnaire was determined by calculating the coefficient alphas, carrying out an item analysis and factor analysis. The results showed a coefficient alpha that is consistently high, ranging from .82 to .93, with a median of .90 for the instrument (Prinsloo, 1996).

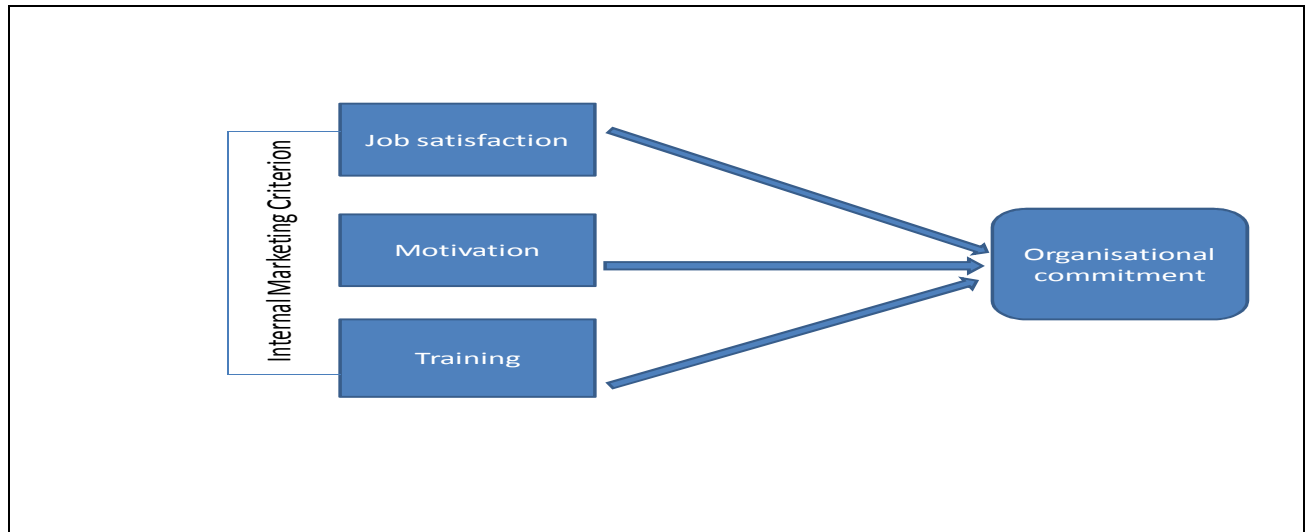
Descriptive and inferential statistics were used to analyze results of the questionnaire, in forms of tabulations, correlations, Chi-square analysis, to test for association between different elements, and statistical graphics (pie graphs, bar graphs, histograms and frequency distribution curves) (Statsoft, 2009).

## **RESULTS**

This section deals with the analysis and interpretation of data obtained from the respondents in the study area through structured questionnaires. The findings of the research as presented in the section below show that both the OCQ and the WSMQ are reliable measures of organisational commitment and the internal marketing criteria i.e. job satisfaction, motivation and training.

The chi square ( $X^2$ ) statistic was used to test the statistical significance of the relationships job satisfaction, motivation, training and organisational commitment.

**Figure 1: Conceptual framework of relationship between internal marketing and organisational commitment**



### **Response rate**

A response rate represents the number of people actually surveyed as a percentage of the total number of people originally sampled and eligible to be included in the survey. There is no 'standard' for an acceptable response rate, but published view designates that a response below 80% is likely to be less representative of the population, and a response rate above 50% is just about acceptable. Poor response rates decrease sample size, and consequently correctness, and are a probable source of bias, reducing the confidence with which findings can be accepted and generalised (Colasanto, 2011). 40 employees were issued out with questionnaires, 33 of the questionnaires were completed fully. The response rate was 82.5%. Therefore the response rate of this research is deemed to be acceptable.

### **Demographics**

**Figure 2: Gender**

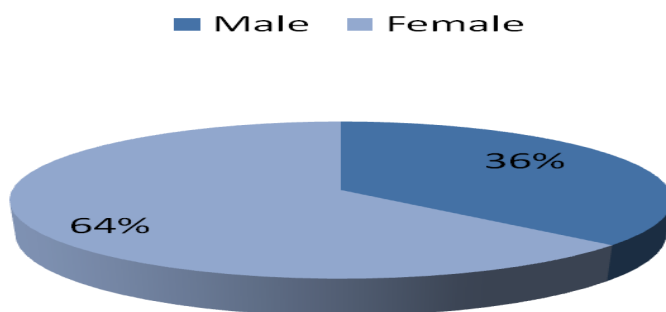


Figure 2 illustrates that the majority of respondents were females with 64%, followed by males with 36%.

**Figure 3: Age**

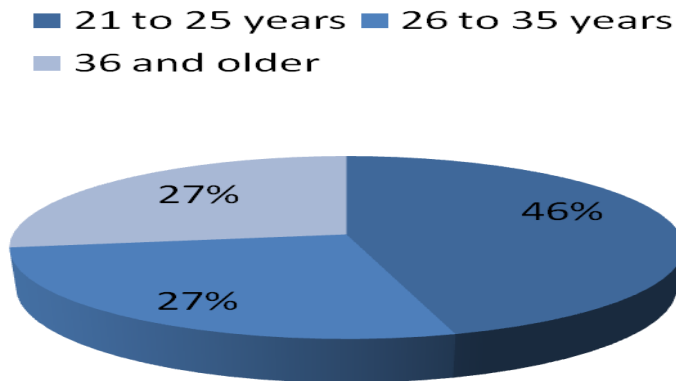


Figure 3 illustrates that 46% of the respondents were between the ages of 21 and 25 while respondents who were between 26 to 35 years; 36 years and older were 27% in each category.

**Hypothesis Ha<sub>1</sub>: There is a positive relationship between job satisfaction and the level of organisational commitment.**

From Table 1 below it is evident that there is a strong, significant and positive relationship between job satisfaction and organisational commitment ( $X^2 = 2.0281$ ,  $df = 2$ ,  $p\text{-value} = 0.036273$ ) at the 5% level of significance. A p-value of 0.05 (5%) is generally regarded as sufficiently small to reject the null hypothesis. If the p-value is larger than 0.05 we fail to reject the null hypothesis and accept H<sub>0</sub>. As a result we accept Ha<sub>1</sub> and conclude that there is a positive relationship between job satisfaction and organisational commitment.

**Table 1: Relationship between job satisfaction and organisational commitment**

Chi2 (Pearson's)	2.028157623
df	2
P value	0.0362736425
Error report	No errors encountered



The findings in Ha<sub>1</sub> support the research conducted by Maxwell and Steele (2003) which shows that the more employees are satisfied with their jobs the more likely they are to be committed to the organisation. Lumley, Coetzee, Tladinyane and Ferreira (2011) conducted a research on the relationship between job satisfaction and organisational commitment in the information technology sector in South Africa. They found that there is a positive relationship between job satisfaction and organisational commitment. Furthermore, Stander and Rothmann (2006) found that there is a positive relationship between organisational commitment and job satisfaction in selected organisations in South Africa.

**Hypothesis Ha<sub>2</sub>: There is a positive relationship between the level of motivation and organisational commitment.**

From Table 2 it is evident that there is a strong, significant and positive relationship between motivation and organisational commitment ( $X^2=2.2417154$ ,  $df= 2$ ,  $p\text{-value}= 0.032600$ ) at the 5% level of significance. A p-value of 0.05 (5%) is generally regarded as sufficiently small to reject the null hypothesis. If the p-value is larger than 0.05 we fail to reject the null hypothesis and accept H<sub>2</sub>. As a result we accept Ha<sub>2</sub> and conclude that there is a positive relationship between organisational commitment and motivation.

**Table 2: Relationship between motivation and organisational commitment**

Chi2 (Pearson's)	2.2417154
df	2
P value	0.0326000064
Error report	No errors encountered

Similarly findings in Ha<sub>2</sub> support the research conducted by Steers *et al.*, (2004) which shows that motivated employees perform better thus are more committed to the organisation. Research conducted by Altindis (2011) found that there is a positive relationship between job motivation and organisational commitment among state care health professionals. In addition, Aydogdu (2011) conducted research that showed a positive relationship between

organisational commitment and employee motivation in selected private organisations in Istanbul.

**Hypothesis Ha<sub>3</sub>: There is a positive relationship between employee training and the level of organisational commitment.**

From Table 3 it is evident that there is a strong, significant and positive relationship between employee training and organisational commitment ( $X^2=2.0281$ ,  $df= 2$ ,  $p\text{-value}= 0.03627$ ) at the 5% level of significance. A p-value of 0.05 (5%) is generally regarded as sufficiently small to reject the null hypothesis. If the p-value is larger than 0.05 we fail to reject the null hypothesis and accept H<sub>3</sub>. As a result we accept Ha<sub>3</sub> and conclude that there is a positive relationship between organisational commitment and training.

**Table 3: Relationship between training and organizational commitment**

Chi2 (Pearson's)	2.028157623
df	2
P value	0.0362736425
Error report	No errors encountered

Previous research conducted on the relationship between organisational commitment and training support the findings in Ha<sub>3</sub> which show that there is a positive relationship between organisational commitment and training. A number of studies revealed that training provision leads to improvements in organisational commitment. Studies conducted suggested that investment in training can be warranted by the role it plays to improve individual and organisational performance. Ahmad and Baker (2003) carried out in Malaysia, established that there is a significant relationship between five training variables and organisational commitment. Al-Emadi and Marquardt (2007: 63) investigated the senior staff perceptions of the Qatari petrochemical industry on the apparent benefits of training participation and the impact it has on organisational commitment. They discovered that there is a positive relationship between perceived training benefits and organisational commitment.

## **CONCLUSION**

The aim of this research was to determine the effect of internal marketing criteria of organisational commitment in the retail sector in South Africa. The constructs used as a criterion of internal marketing were employee training, motivation and job satisfaction. The results show that there is a strong, positive and significant relationship between organisational commitment and internal marketing criteria. In other words organisational commitment is strongly influenced by motivational levels of employees; the training they receive to enhance their levels of performance and how satisfied are they with their job. This research draws attention to the need for further research on internal marketing on a wide range of South African retailers and other sectors in the economy.

## **MANAGERIAL IMPLICATIONS**

Organisational commitment is an important determinant of employee performance. Managers can consciously take active steps to ensure that employees are committed to the organisation in order to ensure that the organisation will meet its goals and objectives. Managers should find out what satisfies or does not satisfy employees because motivation is a determinant of organisational commitment. Furthermore managers should find out what motivates their employees and try to meet employee needs; in addition training should be provided to increase the competency of employees which will then have positive spinoffs for both the organisations and the employees. Employee training should also be prioritised in order to harness organisational commitment.

## **LIMITATIONS OF THE RESEARCH**

The research was conducted on one Pick n Pay store; therefore the findings in this research may not be generalised to the entire retail sector in South Africa. The limitation of this research presents an opportunity for further data collection and analysis.

## **SUGGESTIONS FOR FURTHER RESEARCH**

Internal marketing plays an essential role in increasing the level of organisational commitment in any organisation. There is need for more research into how organisations can develop and implement internal marketing. Research on internal marketing was conducted in the South African context; it however concentrated on the car rental services industry.

Therefore, research on internal marketing can be conducted on other sectors other than the retail sector using different variables such as retention and turnover of employees.

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**THE INFLUENCE OF SELECTED DEMOGRAPHIC VARIABLES ON THE  
CHOICE OF BOOTSTRAP FINANCING METHODS AMONG SMALL OWNER-  
MANAGED BUSINESSES IN ZIMBABWE**

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**ABSTRACT**

In recent years (2008 -2011), Zimbabwe has experienced a massive growth of small owner-managed businesses. The majority of the owner-managers are (i) victims of retrenchment that characterised Zimbabwe's large businesses during the country's economic downturn period (2000-2008), and (ii) graduates from various universities and colleges who are finding it difficult to penetrate the work market. Today, reports confirm that the country's economy is on the recovery path, but access to finance for the small owner-managed businesses is still a huge challenge due to high borrowing costs and demands (Dekker, 2009). On the other hand, the contribution of small owner-managed businesses compared to large and well established ones in employment creation and Gross Domestic Product (GDP) is reported as very significant (Central Statistic Office, 2010 & Zimstat, 2009). The question that remains unanswered therefore is: In an environment constrained by limited access to finance from banks, what strategies are these small owner-managed businesses employing that makes them survive and make a significant contribution to the economy?

In order to survive, small businesses need to embrace other funding alternatives other than the traditional and external long term funding. One method that is becoming common among small business in the world is *bootstrap financing* (Bhide 2000). The strategy refers to the use of methods such as borrowing from friends, delay in payment, and sharing offices in order to meet the needs and sustain the business without relying on long term external funding (Winborg & Landstrom, 2001). Small businesses prefer to use bootstrap financing in running their businesses because it is easy to obtain, convenient, non-bureaucratic and does not require a formal business plan or collateral (Van Auken, 2004).

There is evidence from developed economies that the extent to which small business managers use different bootstrap finance methods is influenced by their age (Adler and Kwon 2002, Neeley and Van Auken, 2010), gender (Brush, Carter, Gatewood, Greene, and Hart 2006), education (Hanlon and Saunders, 2007), and past experience (Carter and Auken (2005)). While the contribution of these studies is acknowledged, most of them can be criticised for (1) assuming that their findings are generalisable to different contexts (2) only focusing on appointed ‘managers’ leaving out small businesses that are ‘owner-managed’.

Invariably, research on bootstrap financing, in particular the influence of ‘owner-manager’ characteristics on the choice and use of bootstrap financing in developing economies is limited. *The purpose of our study therefore is to provide empirical evidence of bootstrap financing among small owner-managed businesses in a developing context on an economic recovery path.* Principally, the study aims to answer the following questions: (1) What bootstrap financing strategies are small-owner managed businesses using in financing and sustaining there ventures? (2) Can the preferred strategies be linked to specific demographic characteristics of the owner-managers of the small business under survey?

### **Research Objectives**

The main objectives of the study are:

1. To identify bootstrap financing strategies preferred by small owner-managers of small businesses operating across different sectors.
2. To establish the extent to which selected owner-manager characteristic (age, education and experience) influence the choice and use of a bootstrapping strategies amongst the small businesses operating in different sectors.

### **Research design, approach and method**

The study will adopt a cross-sectional design and use a questionnaire developed by Freear *et al.* (1995), Winborg and Landstorm (2001) and Van Auken (2001 and 2005) on bootstrap financing for data collection. Participants will be a sample of small owner-managed businesses from different sectors in Manicaland Province of Zimbabwe.

**Preliminary findings:**

Preliminary results indicate that the choice and use of bootstrap financing strategies is positively influenced by owner manager's age, education and level of experience and that the most preferred bootstrap financing strategies are those that raise funds without bank support. Implications of the results are given.

**Practical/managerial implications:**

Small owner-managed businesses need to understand fully and adopt alternative financing options other than external long term funding in order to strengthen and better manage their cashflow positions.

**Contribution/value added:**

This will be a first of its kind research on bootstrap financing in a recovering and developing economy, using owner-managed small businesses. The study therefore becomes a pace setter for other similar studies in other developing countries. The results of the study will also give owner-managers of small businesses who have limited access to finance, a useful insight into what specific owner-manager characteristics influence the choice and use of bootstrap financing. Such information might have a snowballing effect on small businesses' survival in other developing economies

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# **MARKETING TO MUSLIM CONSUMERS: ARE ISLAMIC BRANDS THE ANSWER?**

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## **ABSTRACT**

It is said that Islam is the world's fastest growing religion and is represented by one in every four people on the globe. As such, the question arises whether marketers should consider positioning their product and service offerings as Islamic brands to appeal to the Muslim market. The objectives of the study were to examine the relations between religiosity and subjective norms with respect to consumer attitudes towards Islamic brands. It also investigated differences between age and gender groups in terms of their attitudes towards Islamic brands. A convenience sample of 104 questionnaires was collected in South Africa and Mozambique. Findings indicated significant positive, but weak, relationships between customer religiosity and subjective norms in terms of consumer attitudes towards Islamic brands. Young adults (18-24 year olds) had significantly more positive attitudes towards Islamic brands than respondents aged over 35 years. Marketers must be aware that religiosity and the subjective norms consumers experience may relate to their attitudes towards Islamic brands. However, as these relationships are weak, marketers should look into other aspects that drive consumer attitudes.

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## **THE DEMAND FOR ENVIRONMENTALLY LITERATE GRADUATES – VIEWS FROM EMPLOYERS IN THE MINING AND AUTOMOTIVE INDUSTRIES**

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### **ABSTRACT**

Mounting scientific evidence suggest that humanity will face an unprecedented ecological crisis in the future. To avoid many of the predicted environmental risks associated with climate change and environmental degradation, an environmentally literate citizenry is required. Higher education institutions (HEIs) have an important role to play in this regard and are expected to produce future leaders who can function effectively in a low carbon economy. HEIs have, however, been criticised for not adequately meeting the needs of the private sector. This study aimed to explore the demand for environmentally literate business graduates in two important economic sectors in South Africa, namely the mining and automotive industries. More specifically, this study set out to identify which ecological and business knowledge, green management skills, environmental values and pro-environmental behaviours are required from business graduates entering these two industries. Semi-structured personal interviews were conducted with eight environmental experts and revealed a number of pertinent environmental issues which need to be addressed in tertiary business curricula. The most important of these include legal compliance, ecology, technology and environmental management. The study has implications for business educators and researchers as well as Human Resource practitioners.

**Keywords:** Automotive industry, Business education, Environmental literacy, Environmental education, Mining industry



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# **THE EFFECT OF SOCIAL PRESENCE ON INITIAL TRUST FORMATION IN A HIGH PRODUCT INVOLVEMENT E-COMMERCE ENVIRONMENT**

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## **ABSTRACT**

E-commerce has become an integral part of consumers' lives, as well as a key topic in marketing research. This online environment has started to replace certain physical retail environments. The level of social interaction between consumers and sales staff within an e-commerce setting, however, is highly impersonal or non-existent in comparison to a physical store environment. Increasing the social presence in a website is an attempt to counteract the possible impact of this characteristic of websites. This study investigates the effect of social presence, through the form of a live text chat box, on a consumer's initial trust in an e-commerce website. The results should assist e-commerce vendors in deciding if social presence is an appropriate tool for increasing a consumers' trust in their e-commerce websites. A static group experimental research design looking at the impact of a live text chat box on consumers initial trust in the website was employed, with the responses then being analysed using PLS structural equation modelling. The results found that perceived social presence positively impact consumer's initial trust in the website, although the live text chat box was not, by itself, an effective tool for increasing perceived social presence. It is recommended that should consider integrating various forms of social presence in order to increase customer trust in their websites. We suggest various forms of social presence that companies could use. Increasing the level of social presence in a website can lead a long term increase in sales and improve their business performance.

# **MANAGING IN TURBULENT TIMES: A CASE STUDY ON THE ROLE OF LEADERSHIP COACHING AS A DRIVER OF SUCCESSFUL ORGANISATIONAL CHANGE**

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## **ABSTRACT**

One of the critical determinants of an organisation's success in navigating the challenges associated with operating in turbulent times, is the organisation's leadership. The specific nature of the leadership approach adopted has a potentially significant impact on the extent to which an organisation is successful in meeting the challenges inherent in a business landscape characterised by continuous change. Leadership coaching is a strategy gaining increasing recognition as a driver of successful organisational change interventions within this broader environmental change context. In particular, leadership coaching can be used as an integral part of a strategy to bring about change in an organisation's culture including the enhancement of employee engagement. However, there is little empirical research on the success of coaching initiatives in bringing about change, at both the individual and group levels, over a long period of time. This case demonstrates how leadership coaching at an individual and team level can facilitate successful organisational culture change reflecting enhanced employee engagement.

**Keywords:** leadership coaching, organisational culture change, organisational development, employee engagement

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**RETENTION OF SENIOR ACADEMICS BY INSTITUTIONS OF HIGHER  
LEARNING IN SOUTH AFRICA: THE STRATEGIES, COMPLEXITIES  
AND REALITIES**

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**ABSTRACT**

The competition for top academic staff and researchers across the higher education and research landscape of South Africa has assumed a prominent dimension, and this phenomenon has resulted in the ever increasing attrition of this category of employees from one institution to the next. Skills shortage has been generally and consistently identified as the single most important constraint to accelerated and sustainable economic growth in South Africa. An appropriate and critical starting point for addressing the issue of human resource capacity building and, by extension, socio-economic development, is the university. Also, many South African universities have developed a vision to be ranked amongst the very top universities in the world. These imperatives can only be achieved through the engagement of highly qualified academic staff, and this does have implications for human resource practice. This study examines the influence of certain work attributes on the retention of 255 senior academic staff in 10 universities across South Africa. Results of the study indicates that most of the respondents place greater importance on challenging work, inter-personal relationship, access to research resources and job security. Results are discussed in terms of the implications for retention practices in the universities.

**MODELLING INDIVIDUAL WILLINGNESS TO BECOME ORGAN DONORS IN  
THE WESTERN CAPE: A SURVEY OF POTENTIAL ORGAN DONORS TO  
INFORM FUTURE SEGMENT SPECIFIC PROMOTIONAL APPROACHES**

**Megan Davidson**, University of Cape Town

**Odette Grimsell**, University of Cape Town

**Bradley Wickham**, University of Cape Town

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**ABSTRACT**

Approximately ninety of patients over the preceding years that are awaiting donor organs are not receiving the required transplant under the current voluntary altruistic approach as a result of a chronic undersupply of donor organs. This results in often fatal consequences. Whilst previous studies have found that the majority of South Africans are willing to donate their organs it is imperative to understand the underlying reasons and attitudes which shape this willingness before inferences can be made about how to influence their willingness to donate in future. The application of social marketing theory as a possible avenue to alleviate the acute shortage of donor organs in South Africa via stimulating supply has received little attention. The primary objective of this research is twofold. Firstly, this research aims to specifically model an individual's willingness to become organ donor in the Western Cape so as to inform future segment specific promotional approaches. Secondly, this research aims to assess individuals' perceived moral appropriateness and perceived efficacy of alternative approaches to organ donation procurement through monetary and non-monetary incentivising of the donor and/or surviving family. The insights and recommendations derived from the output of this study could potentially aid in alleviating the excess demand for donor organs. This study adopted and adapted the Lwin *et al.* (2002) expansion of the seminal Horton and Horton (1991) model for the decision to become a potential organ donor as the theoretical conceptual base for this study. The role of prior experience to organ donation was adjoined to this theoretical model and statistically supported. A convenience sample of 268 respondents was surveyed via an online questionnaire. The resultant sample was biased towards a younger, female and white demographic due to the sensitive nature of the topic and resultant hesitancy to partake by non-white respondents. The proposed theoretical model was validated



via structural equation modelling except for the correlation between attitude towards organ donation and spiritual and paranormal beliefs. Furthermore, this study found support for the previous findings of moderately high levels attitudes towards organ donation independent of age and race. However, these positive attitudes did not necessarily translate into high levels of willingness to donate and ultimately donation commitment. This failure to translate attitudes into behaviour is concluded to be of chief concern and may be a fruitful avenue to expand the supply of donor organs if addressed. The role of incentives in organ donation commitment was met with trepidation by the sample, with monetary incentives being perceived as morally reprehensible. In addition to this finding, respondents were not of the opinion that the adoption of incentives to drive organ donation would be any more effective than the current voluntary altruistic approach. Specific recommendations based on the findings of this study are presented so as to address these findings. This study contributes to the literature by offering the first through application of social marketing to organ donation procurement in South Africa.

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# **IMPROVING THE ORGANISATIONAL PERFORMANCE OF SCHOOLS BY INCREASING THE EFFECTIVENESS OF SCHOOL MANAGEMENT TEAMS**

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## **INTRODUCTION**

The principal together with the school management team (SMT) of a public school is responsible for ensuring that all areas in the school function effectively (Manual for School Management, 2001). Effective school-based management is no longer a choice in South Africa but, rather, a must (Botha, 2007). Seventeen years into democracy, the Grade 12 pass rates in the Eastern Cape for the past three years were 50.6% in 2008, 51.0% in 2009 and 58.3% in 2010 (Qwase, 2008; Motshekga, 2011). Although there has been an improvement over the past three years, the Eastern Cape was still number seven out of the nine provinces in 2010. Against this background, this study investigates how the organisational performance of public schools in the Eastern Cape could be improved by exploring the relationship between the perceived effective implementation of basic managerial tasks (planning, organising, leading and controlling), on the one hand, and organisational performance of schools, on the other hand.

## **METHODOLOGY OF THE STUDY**

Convenience sampling was used to select 100 out of a possible 139 senior management team members from 26 public schools in the Uitenhage education district. The sample was stratified to include principals, deputy principals and heads of departments. Self-constructed measuring instruments were used to measure the variables in the hypothesised model. All these instruments were anchored on a five-point Likert scale ranging from strongly disagree (1) to strongly agree (5). The STATISTICA Version 10 (2010) computer software program was used to analyse the data.

## **RESULTS**

The empirical results revealed that the management tasks, leading and controlling, were the main determinants of the organisational performance of participating schools. The empirical results showed that planning and organising do not have a significant influence on the organisational performance of these schools. The managerial implications of the results are discussed and recommendations are made on the basis of these discussions.

## **CONTRIBUTION OF THE STUDY**

Most of the studies on school management followed a qualitative approach to investigate the problems that beset schools. On the other hand, most studies with regard to the application of the general management tasks, namely planning, organising, leading and controlling, focus on the generic understanding and application of these tasks in business firms. The present study however focuses on how these tasks manifest in schools and provides therefore pertinent activities that school managers should perform in order to improve the organisational performance of their schools.

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The references are available on request.



## **GEARING UP – GUERRILLA MARKETING TO ENHANCE BRAND EQUITY**

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### **ABSTRACT**

Guerrilla marketing, described as an unconventional form of marketing, has increasingly grown into a prominent marketing strategy as an attention grabbing and creative technique which has evolved in reaction to the increasing competitive marketing environment, decrease in traditional marketing effectiveness as well as through marketing trends such as engagement, the internet, the mobility of media and User-generated media (Mughari, 2011; Trusov, Bucklin & Pauwels, 2009; Keller, 2009; Shao, 2009; McNaughton, 2008; Ferguson, 2008; Christensen, Torp & Fuat Firat, 2005). This study aims to explore how guerrilla marketing strategies can enhance the brand equity of a firm using a sample of 1200 postmodern consumers.

The success of guerrilla marketing is linked to the creation of buzz marketing in which aims to create a connection with consumers in order to create word of mouth through factors that influence consumers in disseminating the content therefore exploiting the opportunity of utilising user generated media; created by the consumers through social media. This innovative marketing trend is compelling firms to utilise and research into communications which consumers value as well as how the buzz will become effective; in an online environment in order to distinguish and adapt to the societal change that is occurring within the postmodernist culture (Tariq & Wahid, 2011; Simmons, 2008). According to literature, guerrilla marketing strategies comprise of flexibility, buzz generation, creation of emotional ideology, differentiation through originality, stealth marketing, word-of-mouth (WOM) establishment, viral marketing and producing a connection with consumers (Lastauskaite, 2011; Mughari, 2011; Serazio, 2010; Liebing & Baltes, 2008; Keller & Lehmann, 2006).

The buzz marketing even though is a popular promotional strategy, the techniques that form the basis of buzz as well as a means to create buzz needs to be explored. With this, explore

the effectiveness of this promotional tool (Notarantonio & Quigley, 2009). Empirical evidence is currently limited regarding the relative effectiveness of WOM marketing in increasing firm performance. This raises the need to study how firms can measure the effects of WOM producing communications and buzz marketing (Trusov, Bucklin & Pauwels, 2009; Ross & Harradine, 2011). Non-traditional media campaigns often include controversial methods which attract attention and experiences; the problem is whether or not these non-traditional media enhances consumer's perceived value of the brand as well as its effect on brand reputation and appropriateness (Ay, Aytakin & Nardali, 2010; Dahlen, Granlund & Grenros, 2009). For many years, brand equity is one of the most important concepts of marketing and research on the ability of individual marketing activities to strengthen or weaken brand equity has been lacking (Clayten & Leo, 2011). The study will therefore exploit the current gaps in the literature as well as a model to enhance brand equity using selected Guerrilla marketing strategies.

An established model and scale created by Keller (2008) will be used to explore the effects of guerrilla marketing, conducted traditionally then exhibited online (through social media and UGM) and its effects on consumers brand image and awareness of a product. UGM having experienced immense traffic growth; has effectively changed communication, and while marketing continues to provide people with a wide range of communication platforms and content, it is considered an appropriate perspective for investigating why consumers choose to share and engage with UGM (Sweeny, Soutar & Mazorrol, 2012; Shao, 2009). These factors will therefore be implemented in the scale of the study developed by Shao (2009) as a contributing factor to the success of guerrilla marketing.

This paper provides an overview of the opportunities proffered to marketers by guerrilla marketing while researching its effectiveness as a substantial marketing tool through an established concept of brand equity, which remains a prominent and important objective in firms (Keller, 2008; Pappu, Quester & Cooksey, 2005).

This study addresses a new trend of obtaining buzz marketing and WOM in branding and promotion strategies. This use of guerrilla marketing is an under-researched area of online and offline branding. The outcomes will provide a guideline for marketers to enhance brand equity by differentiating the brand in the market in order to create a competitive advantage using guerrilla marketing based campaigns. This will provide firms with a platform to employ

current marketing trends in order to increase the firm's growth into the market and to cut through clutter.

**Keywords:** Guerrilla Marketing, Postmodern Consumers, Brand Equity

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## **AN EVALUATION OF THE SUCCESS OF MARKETING AND MANAGEMENT STRATEGIES IMPLEMENTED BY SMMEs**

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### **ABSTRACT**

This study is aimed at evaluating the management and marketing strategies implemented by small, medium and micro enterprises (SMME) that led to their success. In evaluating the strategies implemented, it was also necessary to determine the various challenges that small, medium and micro enterprises face. The need to understand the success of SMMEs is fundamental to the economic prosperity of various regions. It is also currently internationally accepted and acknowledged that the SMME sector is an essential factor in promoting and achieving economic growth and development, as well as in the creation of wealth and employment.

A survey was conducted among 120 entrepreneurs in the Port Shepstone area with the aid of a questionnaire. The findings confirm that traditional marketing strategies, the use of technology and management capacity led to the success of these entrepreneurs.

**Keywords:** SMME Strategies, Success Factors, SMME Challenges.

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# MANAGEMENT COMPETENCIES AND THE SUCCESS OF SMALL SCALE COMMERCIAL FARMERS IN ZIMBABWE.

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## ABSTRACT

This study investigates the impact and importance of management competencies on the success of small scale commercial farmers in Zimbabwe. Resettled farmers in Beatrice area, Zimbabwe are the target population. The objectives of the study are to identify management competencies that are crucial for the success of small scale commercial farmers in Zimbabwe, establish the relationship between management competencies and the success of small scale commercial farmers, investigate the effectiveness of government support in developing management competencies of farmers and also in improving their success rate. This study also seeks to propose strategies that can be adopted to improve the success of small scale commercial farmers. Both primary and secondary data sources were used. Triangulation, a research design that combines both qualitative and quantitative techniques was used to conduct this study. Interviews were used to gather qualitative data while a structured questionnaire was used to gather quantitative data. Quantitative data was analysed using chi-square test, regression and Pearson correlation. The preliminary results of this study proved that there is a positive relationship between management competencies and the success of small scale commercial farmers in Beatrice, Zimbabwe. Business education and entrepreneurship education are proposed as some of the strategies that can be implemented to improve the success of the commercial farming community.

**Keywords:** management, competencies, success, commercial

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# **THE EFFECTS OF INSTITUTIONAL FACTORS ON CUSTOMER RELATIONSHIP MANAGEMENT PRACTICES IN NIGERIA: EMPIRICAL EVIDENCE FROM THE MOBILE TELEPHONY INDUSTRY**

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## **Introduction**

Over the past three decades, there has been a growing literature on the importance of institutional forces and how they shape up organisations (Scott, 2008; Dacin, 1997). Institutional theorists such as DiMaggio and Powell (1983) posit that coercive, normative and mimetic motives are underlying reasons for a company's adoption of a business practice.

## **Problem statement**

Organisational factors have widely been cited in the literature as drivers of CRM practices. Whilst a recent stream of research undertaken by Hillebrand, Nijholt and Nijssen (2011) reckons that institutional forces are the underlying reason behind the adoption of CRM practices, this study has only documented one of the types (namely mimetic) of organizational isomorphisms. In the same vein, Humphreys (2010)'s study on the casino and gambling industry focuses on regulatory and normative isomorphisms. Prior research in management practices have yet to address in a single study all the three types of isomorphisms as defined by Powell and DiMaggio (1983); namely Coercive, mimetic and normative.

This research aims at investigating the effects that coercive, normative and mimetic institutional forces have on the adoption of given CRM practices in the mobile telephony sector of Nigeria.

## **Literature review**

The extant literature on CRM success and failure has primarily focused on organizational factors (Foss, Stone and Ekinci, 2008; King and Burgess, 2008; Mendoza, Marius, Perez and Griman,

2007). However, empirical studies conducted by some marketing scholars have identified institutional pressures as drivers of marketing practices adopted by companies (Connolly, Ketchen and Slater, 2010; Grewal and Dharwadkar, 2002; Grewal, Comer and Mehta, 2001). These studies suggest that companies operate in a social context and as such social pressures can be “strong predictors for adoption and isomorphism” across companies (Hillebrand, Nijholt and Nijssen, 2011:593).

### **Research design and methodology**

In this study, we examine the effects of institutional factors on managing relationship with customers using data from 13 semi-structured, face-to-face interviews with employees of a mobile telephony operator in Nigeria.

### **Preliminary results**

The results from the preliminary analysis of the effects of institutional factors on CRM practices in Nigeria are profound. Specifically, it was found that the regulatory factors did not in the long run have a negative impact on CRM practices as they were geared towards the betterment of the end-user; and most importantly, these were put in place by the Nigeria Communications Commission (NCC) after a consultation process with industry players. From the normative aspect, it was found that whilst Nigeria has over 300 languages, by adapting its communication messages to the languages mostly used by Nigerian, the mobile operator improved its campaign results. Key languages used were Pidgin (Nigerian English), Yoruba, Hausa Ibo and English. It was also found in the analysis that issues related to continuous power outages, vandalism of base stations, safety of company equipments, have made it difficult for the operator to strengthen its relationship with its customers as damaged/stolen base stations negatively impact on the network. Without a strong network, customers can't make or receive calls. As the company is the last entrant in the Nigerian market, it did not find it relevant to mimic its competitors; but rather, it innovated by launching unique customer solutions that have so far been well-received in the market.

Political factors such as the presence of Boko Haram, a terrorist organization based in the northern part of Nigeria, have shown to have a negative impact on the company's CRM practices and to some extent limiting the company's customer acquisition efforts in that specific region of Nigeria.

### **Conclusion and managerial implications**

Practitioners will find this study useful as an understanding of the positive and negative effects of institutional factors can help them mitigate the risk of failure of their CRM programmes.

The possible avenues for future research could incorporate a comparative analysis of the effects of institutional forces on CRM between developed and emerging markets. A cross-industry analysis could also be conducted.

**.Keywords:** Customer Relationship Management, Institutional theory, Nigeria, mobile telecommunications

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# THE DETERMINANTS OF SUSTAINABLE MARKETING PRACTICES IN SOUTH AFRICAN SMALL BUSINESSES

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**Keywords:** Sustainable marketing, Business performance (BP); Small-Medium and Micro Enterprises (SMMEs)

## INTRODUCTION

Little is known about the factors underlying the sustainable marketing practices behaviour of small businesses. This paper explores the factors that influence the sustainable marketing behaviour of owner-managers of small tourism businesses in South Africa.

In many respects the concept of sustainable marketing is a paradox. A market orientation, which underpins most current marketing practices espouses that, in order to remain profitable, firms should focus on the (short/medium term) needs and wants of their target market (Lamb, Hair, McDaniel, Boshoff, Terblanche, Elliott and Klopper, 2011). On the other hand sustainability is generally understood to mean meeting the needs of the current cohort of consumers without compromising the interests of future generations of consumers and the environment (Ferdous, 2010): However, the values of contemporary society are in a state of flux, consumers are demanding that firms must not only produce excellent goods and services at a reasonable price, but also be concerned with their relationship with society at large as well as with the environment (Mitchell, Wooliscroft and Higham, 2010). Consequently, for this study, sustainable marketing is defined as an activity that makes a net positive contribution to society in terms of environmental, social, and economic development (Jamrozy 2007; Rosell, Carlos and Moisander 2008) while meeting the needs and wants of the consumer at a profit.

The focal point of this study is on small business enterprises, which constitute the vast majority of firms in South Africa (Ntsika, 2002) as in most European countries (Avlonitis and Salavou, 2007). Small businesses contribute significantly to job creation, social stability and economic welfare across the globe and in South Africa (Ladzani and Van Vuuren, 2002; Paulson and Townsend, 2004). However, sustainability and the compliance with environmentally friendly practices are perceived as an additional cost and consequently adopting sustainable marketing practices is not a feasible strategy for small businesses.



## **STATEMENT OF THE PROBLEM**

Despite the acknowledgement that small business enterprises are an important source of economic growth in South Africa, the influence of sustainable marketing behaviour on firms' performance has received very little attention by researchers. Accordingly, in addition to investigating the influence of sustainable marketing behaviour of owner managers on the performance of small enterprises in South Africa, this study will investigate the influence of the constructs of *Subjective norms*, *Sustainable marketing intent* and *Attitude towards sustainable marketing* as well as such 'demographic' factors such as gender, education, income and their impact on the dependent variable of *Sustainable marketing behaviour*.

## **PRELIMINARY LITERATURE REVIEW**

Globally, countries are facing similar challenges of overpopulation, increased pressure on natural resources, changing climate and overreliance on fossil fuels (Baker, 2003). At the same many developing nations are facing the challenges of poverty which is directly related to unemployment and a slow growth rate. In South Africa, small business growth has been touted as a panacea to many of the socio-economic tribulations facing the economically disenfranchised. However, although some studies have investigated consumers' views of sustainable marketing, fewer studies have investigated firms' sustainable marketing practices (Baker and Ozaki, 2008). Nevertheless, the media coverage of sustainability issues has influenced consumer environmental awareness as well as their values and norms. Consequently small firms will have to embrace sustainable marketing in one form or another (Thorgersen, 2010) if they are to continue meeting the needs and wants of their consumers.

This study will be based on the Fishbein and Ajzen's (1975) theory of reasoned action (TRA) and Ajzen's (1985, 1991) theory of planned behaviour (TPB). Both theories hold that attitudes toward an activity and the subjective norms related to that activity predict a person's intention to participate in an activity. These theories have informed the formulation of the constructs (*Subjective norms*, *Sustainable marketing intent*, *Attitude towards sustainable marketing* and *Sustainable marketing behaviour*) which will be used to measure attitude in this study.

## **RESEARCH DESIGN AND METHODOLOGY**

The population in this study is small tourism businesses in South Africa. The instrument developed by Ferdous (2010) will be used to measure *Subjective norms*, *Sustainable marketing intent*, *Attitude towards sustainable marketing* and *Sustainable marketing behaviour*. Lastly the scale developed by Yau *et al.*, 2007 will be adapted to measure business performance. Furthermore, data analysis will be in three phases; calculating Cronbach Alpha coefficients to establish reliability; a factor analysis to establish validity and a multiple regression analysis to test the hypothesised relationships between variables.

## **CONCLUSION**

In addition to establishing the factors which influence sustainable marketing behaviour in small businesses in South Africa, this study will present the results of the assessment of reliability and validity of the constructs mentioned above. In so doing this study will extend the generalisability of the results found in Ferdous (2010) as well as extend the model to include other variables.

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**THE INCREASED APPLICATION OF SOCIAL MEDIA IN THE SOUTH AFRICAN  
MARKETING AND COMMUNICATION (PR) INDUSTRY: AN INTERNATIONAL  
REPLICATION AND COMPARISON STUDY**

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**ABSTRACT**

Over the past few years, social media have become both a part of everyday life and a topic of research interest. The impact of the increased use of social media and their integration into society is important from the human science, business and organisational perspectives. This study set out to establish the factors influencing the increased application of social media in the South African public relations (PR) industry. Research conducted in other countries indicates that the impact of social media on PR practice is profound, and there exists a research gap for similar insights in South African PR practice. Specifically, all research on the topic has so far been conducted on developed economies and in first world countries. There is therefore a need to conduct research in a third world country with an emerging economy such as South Africa.

The main purpose of the study was to investigate how social media are impacting on organisations, and therefore PR practice, in the South African context by replicating a study carried out internationally. The secondary purpose was to compare the results of the South African study with those of the original study, which was conducted mainly in first world countries with developed economies. The study aimed to contribute to the theoretical body of knowledge as follows: first, from a practical perspective, the findings will be of future assistance to South African PR practitioners in identifying the possible impact and effects that social media could have, and might already have had, on communication strategies and objectives. Secondly, the study determined the extent to which social media are impacting on the PR industry in South Africa. Finally, the study adds an academic theoretical dimension to the research, having been conducted in the context of a meta-theoretical framework. IT therefore offers offered an

academic explanation of the study and its results, as an additional contribution to the existing body of knowledge.

The 11 research objectives for the study were empirically tested by using a cross-sectional quantitative survey design. The survey was a replica of the one used in the original study. Data collected from the Likert-type scale questions were analysed using the Chi square method to determine probability results.

The theoretical and literature review confirmed that the impact of social media on communication and PR practice is significant. The review also indicated that it is important to investigate this impact in a third world country, as internet penetration into these countries is very different from that of first world countries. The empirical section of the research showed that most of the respondents in the South African study agreed that the emergence of social media has changed the ways in which organisations communicate and handle both internal and external communication.

Results indicated that, overall, social media are having a positive effect on PR practice in South Africa. However, the overall perception by PR practitioners is that, in comparison with traditional media, social media have a long way to go in terms of accuracy, truth and ethical standards. If these platforms do perform as badly on the ethical level as PR practitioners perceive, there must surely be a significant need for organisational reputation management. There is also a significant need for organisations to design and implement research structures to monitor social media communication on their organisations, brands and messaging. Findings suggest that PR managers could use traditional media communication together with social media, as the two seem complementary to each other, and will become even more so in the future. PR communications strategies should allow for organisations to respond more rapidly to criticism than in the past. They should also incorporate transparency and ethical practice into organisational communication, as the nature of social media demands that organisations hold to higher ethical principles.

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**THE IMPACT OF MOTIVATIONS, PERSONAL VALUES, MANAGEMENT SKILLS OF MANAGERS ON THE PERFORMANCE OF SMEs IN SELECTED TOWNS (PORT ELIZABETH AND PORT ALFRED) IN THE EASTERN CAPE PROVINCE, SOUTH AFRICA**

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**ABSTRACT**

The study seeks to investigate the impact of motivation, personal values and managerial skills of managers on the performance of Small and Medium-Sized Enterprises (SMEs) in South Africa. The failure rate of SMEs in South Africa is very high and it is of great importance to investigate the factors that can impact on the performance of SMEs. Financial and non-financial methods will be used to measure SMEs performance. Data will be collected through the use of self-administered questionnaire in a survey. Exploratory factor analysis will be used to improve the research problems and enhance the validity of the research. Data analysis for this study will include descriptive statistics, Pearson correlation and regression analysis. Reliability will be tested using the Cronbach's Alpha while validity will be ensured by using a statistician and by pre-testing the research instrument in a pilot study.

**KEYWORDS:** Personal Values, Motivations, Managerial Skills, SMEs. Performance



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## **THIRD YEAR BUSINESS MANAGEMENT STUDENTS' ABILITY TO DEMONSTRATE HIGHER ORDER THINKING SKILLS**

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### **Abstract**

This article reports on the ability business management students to demonstrate higher order thinking skills (HOTS) such as non-routine problem solving, evaluating, analysing and synthesizing. In a fast-paced, ever changing and demanding business environment, today's business managers need to demonstrate HOTS, which should be taught and learned when studying business management at higher education institutions. An analysis of several South African higher education institutions' curriculum statements and level descriptors indicate that HOTS in business management are emphasised from the first year of study. However, many business management lecturers today only focus their teaching on the mastering of subject matter without a definite teaching focus on the development of HOTS (Wilson, 2000). Without a purposeful focus on HOTS, students will enter the workplace with little or no understanding of how to argue reasonably, solve problems intellectually or think critically. For Spady (2008, 1), a teaching focus on subject matter alone has long gone. Nowadays, the focus in higher education should be on the holistic development of students, which includes a focus on subject matter as well as cognitive skills. However, a pedagogical approach which focuses on subject matter as well as cognitive skills will not suffice if students are not able to demonstrate HOTS on appropriate levels of complexity. According to Facione (2007, 10-12) and Garrison *et al.* (2004, 1-24) students who are able to show high levels of critical and creative thinking will be able to demonstrate more complex thinking skills. Subsequently, students' levels of critical and creative thinking will be indicative of their ability to demonstrate HOTS in accordance with their age and cognitive developmental levels (Sparapani, 2005). A pedagogical approach which enables business management students to demonstrate HOTS on appropriate levels of complexity will effectively prepare them for the demands and challenges of the business environment.

Since preliminary findings in this research study shows that business management students are not suitably equipped to demonstrate HOTS, it is derived that many of these students are ill equipped for the critical and creative demands of the work place.

In this article, the researcher will investigate the concept HOTS from literature sources such as scholarly articles, books and databases such as Emerald, EBSCO, SAE-publications and SABICAT. Empirically, this qualitative research study will be conducted using the six steps for case studies proposed by Soy (2006) to identify the ability of final year business management students to demonstrate HOTS. This research study will conclude with a proposed teaching strategy which lecturers at higher education institutions can use to develop business management students' HOTS.

**Keywords:** Higher order thinking skills, problem solving, critical thinking, creative thinking

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# **CHALLENGES AND SOLUTIONS IN SUPPLY CHAIN MANAGEMENT: THE CASE OF MUNICIPALITIES**

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## **ABSTRACT**

In its endeavours to improve service delivery, the new democratic South African government has soon realised the importance of a cost-effective public procurement framework. When the new government took office and during their first years in office, a number of general procurement-related problems existed which made effective service delivery very difficult. These procurement-related problems included:

- a lack of uniformity and understanding of procurement policies, procedures and documentation
- insufficient procurement planning
- limited alignment of procurement with budgeting processes
- no systematic data collection on contracts awarded and completed.

For these reasons, the new government embarked on a major review and transformation process which culminated in the introduction of a new Municipal Supply Chain Management (SCM) system. The new SCM system consists of various acts, regulations and guidelines which are based on internationally accepted best practices. It is designed to address all procurement-related matters in all spheres of the public sector, including municipalities, in an effort to enhance the economic and social well-being of all South Africans.

Unfortunately, notwithstanding the new SCM system, many practical service delivery challenges and problems are currently experienced by communities throughout the country. These include: political interference; the appointment of inexperienced and unqualified officials and contractors; qualified technical and professional experts not being members of the respective bid committees; and non-compliance to Municipal SCM policy. This often leads to social unrest as well as general frustration and unhappiness among citizens.

This paper is based on challenges and solutions identified and recommended by senior municipal management trainees who attended various Municipal SCM training workshops

that were facilitated by the author. These senior municipal management trainees include: directors, assistant-directors and Chief Financial Officers (CFOs), middle management, accounting officials, financial officials, heads of SCM, and SCM officials in various parts of the Cape Province.

The objectives of this paper are as follows:

- To highlight a number of the more prominent acts, regulations and guidelines which form part of the new Municipal SCM system.
- To identify the main practical challenges and problems currently experienced with the execution of the Municipal SCM system.
- To propose practical solutions to address the identified challenges and problems.

**Keywords:** Supply Chain Management (SCM); Municipal SCM system; policies; challenges; solutions

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**OCCUPATIONAL STRESS IN RELATION TO SOME DEMOGRAPHIC AND  
OCCUPATIONAL VARIABLES AMONG NURSES IN BUFFALO CITY  
MUNICIPALITY**

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Tarisai Chikungwa, University of Fort Hare

Sharon Terera, University of Fort Hare

**INTRODUCTION**

A stable and productive health service is of vital importance to any country. The health service would include the nursing profession, which comprises by far the greatest component of this service sector. Nursing is seen as a stressful and emotionally demanding profession (Carson, Bartlett & Croucher, 1991; Coffey & Coleman, 2001; Fagin, Brown, Bartlett, Leary & Carson, 1995; Schaufeli & Janczur, 1994; Snellgrove, 1998), which makes nurses exceptionally susceptible to occupational stress. There is therefore a great need to find out what variables may be the precursors or precedents of occupational stress as such information may help in attempts to reduce the amount of stress in organisations. Many studies have tried to establish the role that certain demographic and occupational variables may play as forerunners of occupational stress, but the results have been largely inconclusive (Marais & Mostert, 2008; Mostert & Oldfield, 2009; Pieterse & Mostert, 2005; Rost, 2006). The present study seeks to take this work a step forward by further investigating the relationship between occupational stress and some demographic and occupational variables. It might be interesting to find out how employees experience occupational stress in the African context, especially in South Africa where the cultural context is different from those of the developed countries. Changing the testing ground and the participants might yield different research findings, hence the decision to investigate occupational stress in relation to some demographic and occupational variables in the nursing service in Buffalo City Municipality in the present study. The objectives of the study are to identify some of the correlates of occupational stress in the South African nursing profession and to analyse stress in relation to individual differences (gender, age, marital status, educational level, job tenure and occupational level).

## **ENVISAGED RESEARCH DESIGN AND METHODOLOGY**

This research will utilise a quantitative design. The study population will consist of approximately 1200 nurses in public hospitals within Buffalo City Metropole in the Eastern Cape Province. Using a web based Raosoft sample size calculator, the sample size will be 291(www.raosoft.com). A random stratified sampling procedure will be used. Questionnaires will be used to collect data. The Nursing Stress Inventory (NSI) developed by Van der Colff and Rothmann (2009) will be used. In terms of data analysis, Correlation analysis will be carried to test the relationship between age and occupational stress. ANOVA will be used to test the relationship between educational level and occupational stress; occupational level and occupational stress and marital status and occupational stress. To determine the relationship between gender and occupational stress the *t*-test will be used. Standard multiple regression analysis will also be carried out to assess the contribution of the independent variables (occupational and demographic variables) to the variance in the dependent variable (occupational stress). In a multiple regression test, two or more independent variables are applied to explain or predict the dependent variable (Grauri & Gronhaug, 2005).

## **PRELIMINARY FINDINGS**

Previous literature indicates that there is a significant relationship between age and occupational stress in which younger nurses will experience more occupational stress than older one. Dua (1994) noted that nurses who are less than 30 years old experience higher levels of occupational stress than nurses between the ages 31 and 40. This is because older nurses have reached a stage where career development is not their major concern, and hence a number of job characteristics which may cause stress to younger staff, who have their career ahead of them, do not cause stress to older staff (Antoniou, Polychroni, Vlachakis, 2006; Ben-Bakr, Al-Shammari, Jefri, 1995 & Sharpley, Reynolds, Acosta, Dua, 1994). In terms of gender, there is a significant relationship between gender and occupational stress in which women will experience higher levels of occupational stress than men. Females are usually victims of work-family conflict to a higher degree than men because they usually have more duties to perform at home than men. Such work-family conflict is likely to lead to more occupational stress among women than among men (Fotinos-Ventouratos & Cooper, 2005). Concerning educational level, literature points out that there is a significant relationship between educational level and occupational stress in which nurses with higher



educational qualifications will experience less stress than those with lower educational qualifications. Highly qualified nurses usually experience a lower degree of occupational stress than those with lower educational qualifications because educational level influences the degree of control and autonomy over work-related decisions (Dua, 1994). In terms of marital status, there is a significant relationship between marital status and occupational stress in which unmarried nurses will experience significantly lower stress than married ones. Unmarried employees usually experience significantly lower levels of occupational stress than married employees. Grzywacz and Marks (2000) found that unmarried employees experienced less negative spill-over from work to family and with less spill-over from family to work, compared to that of their married counterparts. There is also a significant relationship between tenure and occupational stress in which nurses with short job tenure will experience higher levels of stress than those with long job tenure. Nurses with a shorter period of service in a hospital usually have a higher degree of occupational stress than those with a longer period of service in the same hospital. This is because nurses with longer service will have become accustomed to the work environment and the conditions of work (Kirkcaldy & Furnham, 1999). In terms of occupational level, preliminary findings indicate that there is a significant negative relationship between occupational level and occupational stress. Nurses occupying high job levels usually experience less stress than those employed at lower job levels. Different levels of management influence preference for specific stress-coping styles. Specifically, at the more senior levels of management, delegation and maintaining style relationships are considered the most useful coping styles (Kirkcaldy & Furnham, 1999 & Dua, 1994).

## **CONCLUSIONS AND MANAGERIAL IMPLICATIONS/RECOMMENDATIONS**

In the nursing profession, as noted by Clegg (2001), occupational stress affects job performance and satisfaction and consequently compromising nursing care and putting patients' lives at risk. To managers, having practical knowledge on sources of occupational stress among nurses is a first step towards reducing their occupational stress. In line with that, understanding individual experiences on occupational stress in relation to some demographic and occupational variables might also help in dealing with stress. Hence the rationale of this study is to offer a deeper understanding of the precedents of occupational stress. It is further hoped that the study will generate empirical data which could be of value to policy and

decision makers, organisational managers, health administrators and other professional associations in the health service sector in South Africa.

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## **SMME GROWTH AND QUALITY CONTROL IMPLEMENTATION IN GAUTENG: AN EMPIRICAL INVESTIGATION**

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### **ABSTRACT**

The global economic downturn and financial crisis has led to many changes in policies with regards to Small Medium Enterprises (SMEs). SMES have become an important channel for improving economies specifically in terms of poverty alleviation and job creation (Abor & Quartey, 2010; Ghobadian & Gallear, 1996; Wolf, 2001). However, in order for them to survive and be prosperous in the near future, specific methods and measures have to be emphasised to ensure continuous improvement within operations (Ghobadian & Gallear, 1996). South Africa is behind certain other developing nations in elevating growth and sustainability of small businesses (SBP, 2009; Visagie, 1997).

Quality control management is has been an interested topic in past literature since the Japanese revolutionised manufacturing by introducing new concepts and process to improve overall production (Ghobadian & Gallear, 1996). Research has shown that quality control and its techniques can improve organisational performance as well as market share over time (Ghobadian & Gallear, 1996). However, compared to larger organisations, SMEs have been lagging behind with adopting quality management techniques (Ghobadian & Gallear, 1996; Hölzl, 2008).

This study aims to look at the impact of specific quality control techniques in relation to SME growth, in conjunction with the growing need for successful entrepreneurial activities to better the economy, as measured by the birch index and SBP ( Hölzl, 2008; SBP, 2009). The literature review will extensively cover the impacts of the business life cycle, the effects of internal and external factors , the business life cycle and the role that funding plays in relation to quality control techniques (Littunen & Niittykangas, 2010). The hypothesis will then be formulated from the literature.

A quantitative study using statistical measures will be used to analyse results. This paper will utilise both exploratory as well as descriptive research methods to gain insight on the relationship between specific quality control techniques and SME growth in Gauteng. Empirical research will be conducted by means of self-administered questionnaire which will be e-mailed to over 500 randomly selected SMEs in Gauteng from a directory. Statistical programming will capture the results. Multi-linear regression and factor analysis will be performed to determine the specific correlations, relationships and significant associations.

The findings should contribute to literature in terms of understanding the impact of the application of operations management (quality control) measures in SME growth; determine the specific, and relative, potential influence of certain operations techniques upon SME growth as well as make recommendations on how quality control measures can be used effectively to increase overall growth in such enterprises.

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# **EXPLORING THE SOCIETAL AND INSTITUTIONAL CHALLENGES FACED BY AFRICAN IMMIGRANT ENTREPRENEURS IN THE INFORMAL SECTOR OF THE JOHANNESBURG CBD**

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## **ABSTRACT**

Over the past two decades, South Africa has undergone political, social and economic change, as a result of the advent of democracy (Perbedy and Rogerson, 2000). One of the most significant and controversial post-democratic shifts is the influx of African immigrants into South Africa. An indication of this is the sheer vastness of the volume and diversity of people crossing into South Africa's borders (Crush, 2000). Consequently there has been immense growth in immigrant entrepreneurship as the country's new residents have been forced to survive. African immigrant entrepreneurship is fast becoming a progressively integral part of discourses concerning African immigration to South Africa (Ojong, 2005). Whilst immigrant entrepreneurs have the potential of contributing significantly to South Africa's informal and SMME economy, they are faced with a hostile social and institutional climate that restricts their productivity and economic potential.

Xenophobia among South Africans towards foreigners has burgeoned since 1996 and comparative data corroborates that South Africans are amid the most intolerant and hostile of people towards outsiders (Perbedy and Rogerson, 2000). As a result, immigrant entrepreneurs have increasingly been the subject of deprecation, antagonism and violent attacks (Perbedy and Rogerson, 2000). Anti-immigration stances have culminated in numerous deaths of immigrants as a result of xenophobic and hostile attitudes of South Africans

South Africa prides itself in having one of the most progressive constitutions in the world and the Bill of Rights guarantees a variety of basic rights to all residents of the country (Crush, 2000)). Nonetheless, there have been relentless accounts of violation of immigrant human



and constitutional rights. Moreover, South Africa's immigration policy has failed to sufficiently safeguard the passage and ultimate residence of immigrants in the country. In addition, The Department of Home Affairs has consistently failed in assisting immigrant entrepreneurs to acquire mandatory business and trade licenses (Crush, 2000). These are among some of the challenges faced by immigrant entrepreneurs in South Africa.

This study presents the findings of an empirical study conducted in 2012 on the struggles faced by African immigrant entrepreneurship and it includes qualitative face-to-face interviews with 20 African entrepreneurs in the informal sector of the Johannesburg CBD. The findings will be triangulated with five non-governmental institutions that interact with African immigrants in South Africa. By interrogating these struggles through the lens of immigrant entrepreneurs, this study aims to provide policy recommendations that will ensure that the local climate in which they operate is conducive to the entrepreneurial process. This study unearths the societal struggles of immigrating and trading in South Africa faced by immigrant entrepreneurs. In addition, it reveals aspects of immigration policy as well the South African legal environment that present themselves as barriers to the entrepreneurial process. As a corrective study, this dissertation seeks to open a form of dialogue from immigrant entrepreneurs from which to facilitate curative discourse between South Africans and policy-makers.

**Keywords:** Immigration, Entrepreneurship, Xenophobia, Democracy

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# **PREPARING FOR THE NEXT GENERATION OF BUSINESS MANAGERS' EXPECTATIONS ABOUT THE WORK-FAMILY INTERFACE**

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## **ABSTRACT**

Reflecting changing values, young adults (both male and female) increasingly expect and demand greater balance between their future work and family role responsibilities (Peake and Harris, 2002). Studying business students' expectation about their future life roles and their plans regarding how they wish to balance their anticipated work and family responsibilities will assist both students (the aspirant managers) and business organisations (future employers) to better manage career decision-making and strategic business planning.

To understand the expectations that future business managers have with regards to the interrelationship between their future work and family roles this study focuses on the importance these students attribute to future life roles using the role salience construct (Super, 1982). Salient roles attract greater investments of time and energy than less salient roles (Greenhaus and Beutell, 1985). In this study, the effect of role salience on the anticipated work family interface will be examined by developing role salience profiles that can be compared to different sets of expectations regarding the work-family interface. The effect of personality characteristics (such as self-efficacy and positive or negative affectivity) and parental work patterns on expectations regarding the work-family interface will also be investigated.

Recent studies have emphasised both the positive and negative aspects of combining work and family roles in life (Westring and Ryan, 2011). Negative aspects include expectations that work and family role commitments will conflict with one another (e.g., conflicting time demands). Positive aspects include the extent to which experiences in one role (work or family) will improve the quality of life in the other role. For example, training at work may help an employee manage conflict at home and emotional support at home may help an

employee manage stress at work (Greenhaus and Powell, 2006). Unlike the young adults of previous generations, the current generation of young adults entering the world of work and embracing the first stage of their careers tend to anticipate a positive relationship between their work and life roles, (Cinamon, Most, and Michael, 2008). Although positive, this positive expectation set may reflect unrealistic expectations about the future and thereby impact negatively on the comprehensiveness of life planning for these multiple roles (Wietzman, 1994).

A cross-sectional, descriptive research design will be applied. A self-administered online questionnaire will be distributed to 500 senior undergraduate business students at a South African university. Statistical analyses will include cluster analysis, regression analysis, ANOVA and MANOVA. Results will be presented. At present, we are still recruiting participants.

The findings of this study will be of interest to both business managers and scholars of management science. In an increasingly competitive labour market, the so-called war for talent will be won by those organisations that are able to attract and retain skilled employees. This study contributes to knowledge regarding the expectations and values of future business managers who are likely to enter the job market soon. With greater knowledge regarding the values and expectations of aspiring managers, employing organisations will be better able to design career paths and interventions to attract, retain and manage these human resources in these turbulent times.

Organisations may address the expectations about the work-family interface through career management programs as well as induction programs that assist new employees with greater levels of awareness regarding future multiple roles and approaches that ensure effective career planning. In addition, the results of this study will provide organisations with a way to profile their employees according to the importance they place on various future roles, creating (HR) practices that target specific profiled groups.

**References available on request.**

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# **DETERMINANTS OF TICKET SALES AT A SOUTH AFRICAN THEATRE PRODUCTION**

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**Key words:** determinants, ticket sales, theatre, South Africa

## **INTRODUCTION**

Even though a variety of theatre productions are held in South Africa throughout the year “empirical academic research exploring performing arts attendance is nearly non-existent” (Hume, Mort & Winzar, 2007:136; McCarthy & Jinnat, 2001:11). Little is therefore known about theatre attendees in the country or their ticket purchasing behaviour. With this in mind, attracting more people to the arts, including theatre, is a major goal of theatre houses and companies around the world. However, according to Scollen (2007:3), with an ageing population, and fewer of the younger generations attending live theatre performances, audiences are declining which leads to serious concerns regarding the future sustainability of theatre productions. Arts are furthermore perceived by many as a luxury good which is disproportionately consumed by the rich and the educated (Browning & Crossley, 2000; Levy-Garboua & Montmarquette, 2002:4). With these challenges in mind, performing arts research suggests that for the survival of the cultural arts in the long term it is essential that audiences retention and growth be increased and attention is given to audience development (Rentschler, Radbourne & Rickard, 2002). Knowledge of the aspects that influence ticket purchasing behaviour of theatre attendees could provide possible solutions for these challenges. This research therefore aims to identify the socio-demographic and behavioural determinants that lead to ticket purchasing behaviour among South African theatre attendees at production of the Phantom of the Opera.

## **PRELIMINARY LITERATURE REVIEW**

According to Grisolia and Willis (2011:379), theatres supply a niche market, and need a heterogeneous programme of shows to maintain theatre-attendee interest and demand. Analysing theatre attendance in terms of their motives, interests and ticket purchasing

behaviour are therefore useful for both marketing and policy purposes (Grisolia, Willis, Wymer & Law, 2010:225). Grisolia and Willis (2010) add that theatre managers can use information about theatre attendance and preferences for the attributes of different productions to determine ticket prices for different types of shows. Adreasen and Belk (1980:112) state that there is a variety of aspects that can influence theatre attendance and ticket purchasing behaviour such as income, educational and occupational attainment among others. An in-depth literature review will be done to analyse and identify these contribution aspects.

### **RESEARCH DESIGN AND METHODOLOGY**

Surveys consisting of a self-administered questionnaire were conducted at various mid-week and weekend shows of the Phantom of the Opera held at the Teatro, Montecasino during the period 31 January to 22 April 2012. A total of 820 questionnaires were administered and will be included in the analysis. A regression analysis will be done to identify the determinants that influence ticket purchasing behaviour.

### **PRELIMINARY FINDINGS AND CONCLUSION**

It is envisaged that the results of this research will provide valuable insights into the nature and characteristics of South African theatre attendees and the factors that influence their ticket purchasing behaviour. According to Hume *et al.* (2007:137), a better understanding of the drivers of attendee retention and repurchase in general terms, theatre houses can design service offerings including programmes/shows, structure alliances and design programme delivery which best retain and enhance audience members. Other benefits include forecasting of future trends, determining whether theatre engages with all society or just elite sections and also present information about the sections of society who engages in theatre to public grant awarding bodies (Grisolia *et al.*, 2010:225).

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**THE RELATIONSHIP BETWEEN ORGANIZATIONAL CULTURE, HIGH  
COMMITMENT WORK SYSTEMS AND ORGANIZATIONAL COMMITMENT IN  
SELECTED CHINESE ORGANIZATIONS IN SOUTHERN AFRICA**

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**ABSTRACT**

China's presence in and involvement with Africa has been an increasing phenomenon, with China recently becoming Africa's third largest trading partner (Jackson, Louw and Zhao, 2010:5). Furthermore, at the Beijing Summit of the Forum on China-Africa Cooperation in 2006, China pledged to play an even bigger role in African countries, in sectors that include infrastructure, construction, mining and trade (Brautigam, 2009).

China's presence in Africa has been outlined by Gill, Huang and Morrison (2007, cited in Jackson, Louw and Zhao, 2011:3), who expressed that they believe China is in Africa because of its need for: 1) Resources to fuel China's development goals; 2) Markets to sustain its growing economy and 3) Political alliances to support its aspirations to be a global influence. It is worth noting that despite these macro-level issues, China's presence in Africa will have implications at micro-economic or organizational and community level scales. However, presently little empirical research and literature exists at these micro levels (Jackson, Louw and Zhao, 2011:2).

Unfortunately, Chinese organizations in Africa have been confronted with human resource management challenges that include: poor work conditions, worker safety, labour practices and labour unions (US Congress, 2011; Brautigam, 2009). These problems can be further aggravated by the language and cultural barriers that exist between Chinese management and African employees (Horwitz, Hemmant and Rademeyer (2008). The above problems can lead to low commitment and performance, as well as inferior work systems.

## **RESEARCH PURPOSE AND OBJECTIVES**

The primary purpose of this research will be to determine what the predominant organizational culture type is in Chinese organizations and to examine its relationship with the organizations' High Commitment Works Systems (HCWS) and the consequences on organizational commitment. Specific objectives for this research therefore are to: identify the dominant organizational culture types; assess the organizations' existing HCWS; determine what consequences the HCWS have had on organizational commitment and to give recommendations on how Chinese organizations can enhance their human resource management systems and create superior commitment.

## **ORGANIZATIONAL CULTURE**

According to Kotter and Heskett (1992, cited in Øgaard, Larsen and Marnburg, 2005:24) organizational culture can be defined as an interdependent set of shared values and ways of behaving that are common to the organization and tend to perpetuate themselves, and it has been assumed to have important implications for organizational performance. Organizational culture has also been linked to other outcomes in the literature such as commitment, job satisfaction, productivity and ethical behaviour (McKinnon, Harrison, Chow and Wu, 2003).

## **HIGH COMMITMENT WORK SYSTEMS**

On the other hand, HCWS have been defined as a system of human resource management practices that aim to elicit employees' commitment to the organization (Walton, 1985 cited in Xiao and Bjorkman, 2006:403). Furthermore, evidence from organizations in previous studies has established HCWS as capable of not only predicting employee commitment, but also of emphasizing the superior organizational performance the system can bring (Xiao and Bjorkman, 2006:405). Finally, organizational commitment has been defined by Rashid, Sambasivan and Johari (2003:708) to be a psychological state that characterizes the employee's relationship with the organisation and that it has the potential to impact organizational performance. Allen and Meyer (1990) identified three forms of organizational commitment: affective, continuance and

normative commitment. Consequently, Xiao and Bjorkman (2006) treated affective commitment, intention to stay and job satisfaction as consequences of HCWS.

## **RESEARCH METHODOLOGY**

The phenomenological research paradigm which tends to produce rich and subjective qualitative data (Collis and Hussey, 2003:55) is proposed for this research and will be used along with the case study methodology located within the paradigm to establish valid and reliable evidence (Remenyi, 1996). Purposive sampling will be used in selecting Chinese organizations in southern Africa where the research will be conducted. Respondents in this research will incorporate Chinese and African managers, as well as employees. Semi-structured and in-depth interviews will be used to elicit descriptive responses from respondents. To guide this data collection, data will be gathered using Cameron and Freeman's (1991) organizational culture types framework and Xiao and Bjorkman's (2006) measure of HCWS. Xiao and Bjorkman's (2006) HCWS measure will also facilitate gathering data on the organizational commitment. Content analysis will be used in analysing the data collected.

## **CONCLUSION**

Finally, the conclusions to be drawn from this study, will inform Chinese organizations in southern Africa, on how organizational culture affects HCWS and the consequences thereof, on employee commitment. In particular, this research will add to the body of management knowledge being currently gathered at the organizational level of China's presence in Africa. Ultimately, this research will assist managers at these Chinese organizations to address the human resource challenges they face in the southern African context.

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# **COSTS AND COST MANAGEMENT STRATEGIES OF THE TAXI INDUSTRY IN GRAHAMSTOWN**

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## **ABSTRACT**

The primary aim of this research is to investigate the factors that affect the cost of running a taxi with a main emphasis on the cost of fuel in Grahamstown and to analyse the strategies available to the taxi operators in order to cope with the rising fuel prices. To achieve the primary aim of this research, the objectives of this research are to:

- 1) To identify the effects of high fuel prices on Commuter Transport operators in South Africa, within the Grahamstown area.
- 2) To identify other cost drivers that affect the efficient management of a taxi
- 3) To identify the strategies available to Transport Commuter Operators in order to cope with the high fuel prices.

The minibus taxi industry is a critical pillar of the South African public transport sector, operating and competing with the heavily subsidised bus industry for more than five decades without receiving a cent from the government in the form of grants or subsidies. At the present time, the taxi industry is the most easily accessible mode of transport to the largest number of transport 'customers' across a variety of income and need segments. As such according to SANTACO History (2008), taxis carry 65% of the 2,5 billion annual passenger trips in the urban environment and serve as the base-load public transport carrier, both during peak and off-peak transport times.

There exists a number of studies on the factors that affect commuter ridership (Clower, Graves & Sexton, 1992; Hanly & Dargay, 1999; Taylor & Fink, 2003; Litman, 2004 and Mattson, 2008). Although not directly related to the fuel price movements it does help to clarify some of the probably impacts of changes in fare prices.

Data required for the research was gathered using interviews. Short 10-15 minute interviews were conducted with various drivers of taxi's in order to find out how the rising fuel prices affect their business at an individual level and what the strategies available to them are in order to cope with the rising fuel prices.

The major themes that were identified from the interviews were:

- The major cost drivers of all the participants that where interviewed where fuel and repairs. The average number of litres used per day were 30-40 litres a day and the average number of trips taken per day was 3- 4 trips a day.
- Due to the industry structure the taxi operators where inflexible in changing both price fares and routes
- The effect of prices fare changes to the change in the volume of customers who use the taxi's seemed to indicate that there was an inverse relationship between the upward movement in fare prices and the volume change in customers using taxi's.
- It was found that two major strategies were available to taxi's to cope with cost pressures. These were focussing on shorter routes and getting transport contracts for school children and functions.

The respondents appear unclear of who really sets the taxi fares. Most of the participants believe that the fares are set by the government, whilst the taxi fares are set by the local taxi associations (SANTACO History. 2008)

In conclusion, there are a number of factors that affect the taxi industry. The taxi industry in Grahamstown is regulated by the local taxi association, prices and routes are determined by the association and this creates a lot of inflexibility to the local taxi operators, especially in times when the fuel price is very volatile. The inability to change price and routes creates a difficult challenge for the taxi operators. The challenge is further heightened by the fact that the elasticity of demand for commuter taxi is positive. This means that an increase in fares will result in a decrease in demand for the taxis.

The taxi industry is one of the most critical and powerful industries in South Africa. Research on this industry has been sorely lacking and the researchers hope that further studies will be done.



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**AFRICA AND GLOBALIZATION: DEBUNKING THE CHALLENGES OF  
GLOBALISATION ON MARKETING STRATEGY WITH SPECIAL REFERENCE TO  
ZIMBABWE'S CLOTHING AND TEXTILES SECTOR**

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**BACKGROUND TO THE STUDY**

While other sectors are flourishing in the face of globalization, Zimbabwe's clothing and textile sector seems to have fallen victim of the "blindness" of globalization. Statistics indicate that the share of the manufacturing sector's Gross Domestic Product (GDP), declined from a high of 27% in 1992 to 19.2% by 1995 and 7.2% by 2002. The current 'Look East Policy' pursued by Government, has exacerbated the situation, resulting in an influx of cheap, poor quality imports of Asian origin, especially from China.

**MOTIVATION FOR THE STUDY**

This research has been driven by the need for crafting sustainable competitive strategies which can help the clothing and textile sector to recover from its current coma. Understanding the challenges of globalisation from an African researcher's perspective will certainly bring a new dimension to the body of knowledge. Africa, for example, is responsible for only 1% of the world's scholarly publications (Britz & Lor, 2003; Gibbs, 2000; De Koker, 1995). Although many scholars often discuss the effects of globalization, a review of related literature reveals that empirical work on such effects and business firms is still scarce (Clougherty, 2001; Eden and Lenway, 2001; Oxley and Schnietz, 2001). The results of this research will thus help bridge this gap and assist policy makers in policy formulation and implementation.

## **THE RESEARCH PROBLEM AND QUESTION**

The main question therefore is: *What sustainable competitive strategies can Zimbabwean clothing and textile companies employ to mitigate the impact of globalization on the sector?*

### **Research Objectives**

- a) To explore the effects of globalisation on the clothing and textile sector;
- b) To identify weaknesses in current marketing strategies and explore appropriate strategies for survival and success in a globalized market; and
- c) To identify the role of policy in mitigating the effects of globalization.

## **PRELIMINARY LITERATURE REVIEW**

### **Globalization**

O' Brien (1992) links the definition of globalization to geographical borders. Redding (2000) defines globalization as the increasing integration between the markets for goods, services and capital. Klein (2007) argues that the globalization processes are powered by neo-liberal policies. (Bhagwati, 2004) emphasized that globalization has made the world a better place.

### **The role of strategy**

Des, Lumpkin and Covin (1997, cited in Knight 2000) propose that in uncertain and complex environments, it is imperative that managers take on a strong entrepreneurial posture in strategy making. Globalisation can indeed be seen as such an environment. Knight (2000), mentions that such an entrepreneurial posture is required to successfully activate a marketing strategy.

### **Marketing strategy and competitive advantage**

Strategy can be defined as a firm's positioning to gain a competitive advantage in the marketplace (Aaker 1998). Porter (1990) advocates for a dynamic strategy in today's more dynamic business environment given the impact of globalisation.

## **RESEARCH PHILOSOPHY/PARADIGM**

A phenomenological/interpretive research paradigm will be used in this research study. It is an approach to research which seeks to understand human behavior from the participant's own frame of reference; Denscombe (1998).

## **RESEARCH DESIGN AND METHODOLOGY**

While guided by the phenomenological thinking, this research will be exploratory in nature. A combined approach, using both inductive and deductive elements, will be used for this study. This triangulated approach to research is vital in the understanding of the impact of globalisation. A combination of a holistic case study and grounded theory strategies will be used. The sample will be purposively selected from identified clothing and textiles companies. Group interviews and one-on-one interviews with company representatives, policy makers and industry leadership will be conducted.

## **CONCLUSION**

Globalisation can only benefit African economies when all actors take their positions and play their part; with government creating business friendly policies and industry driving the wheels of trade and commerce. Through this way, Zimbabwean companies can be able to compete once again with the rest of the global family of companies.

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## **MOTIVES FOR THE NEIL DIAMOND CONCERT ATTENDEE**

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**Keywords:** Major music events, Neil Diamond, Travel motives

### **INTRODUCTION**

According to Earl (2001:342) a ticket to a live music costs approximately the same as a compact disc and Rondàn-Cataluna and Martin-Ruiz (2010:1410) add that various versions of music can also be downloaded from the internet and shared cheaply by millions of users, which includes pirated copies of music CDs and DVDs. Still, apart from this, a magnitude of people continue to attend live music performances or listen to recordings of music performances (Earl, 2001:345-346; Goebel, Dixon, De Poli, Friberg, Bresin & Widmer, 2008: 196). Therefore, this leads to the question: “Why do people still choose to travel and attend live music concerts?” The answer to this question can be determined by means of determining the motives of individuals who attend these live music concerts.

The purpose of this research will be to identify the travel motives for visitors who attended the live music concerts of Neil Diamond in South Africa and to cluster them according to these motives. This will be the first time that the motives of visitors are determined at live music concert held at four different venues across South Africa.

### **PRELIMINARY LITERATURE REVIEW**

Crompton and McKay (1997:427) state that tourism motivation is conceptualised as a dynamic process of internal psychological factors (wants or needs) that generate a state of tension or

disequilibrium within individuals. Understanding consumer motivation is one of the most effective ways of gaining competitive differential benefits as the increasing number and variety of events lead to heightened antagonism (Hudson, 2008:41; Nicholson & Pearce, 2011:499). Motives differ from event to event and no one set of motives can be generalised for all genres of music and visitors as it can be seen as homogenous. The literature review that will be conducted will analyse the motives in the study.

### **RESEARCH DESIGN AND METHODOLOGY**

A structured questionnaire served as the instrument for collecting the data at the Neil Diamond concerts held in Johannesburg, Durban, Port Elizabeth and in Cape Town. The questionnaire used to determine the socio-demographic information of visitors, the critical management factors important for a memorable visitor experience, and the visitor's behaviour and musical interest. A total of 2 000 questionnaires were administered and 1 820 completed questionnaires was included in the analysis. The analysis will be done in three stages where stage one will include the factor analysis, stage two the cluster analysis based on the motives and lastly an analysis of significant differences between motivational clusters of visitors at the four Neil Diamond concerts.

### **CONCLUSIONS AND MANAGERIAL IMPLICATIONS/RECOMMENDATIONS**

From a methodological point of view, through clustering the attendees according to their motives the results will enable management not only to ensure effective marketing strategies for future music concerts but it will also provide a holistic analysis of how the different music genre attendee, according to their profile and behaviour, look like at live music performances. This will also ensure the improvement of management strategies as event managers will be aware of different aspects, visitors to different music genres regard as important to ensure a more satisfying and to ensure a memorable visitor experience at the various live music performances.



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# **PERFORMANCE MANAGEMENT IN AN INTERPRETIVE SETTING: TOUR GUIDES IN SOUTH AFRICAN NATIONAL PARKS (SANPARKS)**

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## **ABSTRACT**

The aim of the study was to study performance management methods used by South African National Parks (SANParks) to evaluate the effectiveness of interpretive tour guiding. Effectiveness of interpretation impacts on tourist enjoyment and sustainability of natural resources in national parks and other protected areas. The study reported in this paper was exploratory and used descriptive stance to seek views of both park managers and interpretive tour guides in six of the 12 SANParks that offer interpretive tour guiding. There was no agreement among park managers and tour guides regarding performance appraisal methods adopted by SANParks. SANParks have some form of performance appraisal mainly through its website which offers tourists an avenue to air their views on the effectiveness of interpretive guiding. However, the internal customers, the employees and park managers are either unaware of its existence or do not use it effectively. The researchers recommend that SANParks should develop a performance management system in consultation with both park managers and tour guides.

**Keywords:** Performance evaluation, interpretation, Tour guiding, South Africa, National parks.

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# EXAMINING AND OPTIMIZING DYNAMIC FACTORY-LAYOUTS UNDER THE INFLUENCE OF RANDOM DISRUPTIONS

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## ABSTRACT

Today's production systems are universally dynamic and stochastic in nature, thus flexible tools and controls are required for efficient systems management. Real-life production operations are subject to a large amount of unexpected disruptions that invalidate preplanned production schedules. In this case (following emergence of disruptions), production rescheduling becomes essential to minimize the impact of disruptions. However, introducing frequent schedule changes give rise to additional costs such as setup costs, material handling costs, storage costs, penalties and results in with undesired consequences like late deliveries. In this paper, random disruptions are considered under different factory-layouts. This paper assesses efficiencies of different factory-layouts that are subject to random disruptions in terms of productivity and monetary value with aim of *systems improvement*.

One of the shortcomings in the scheduling literature is represented by reflecting the economic performance of the scheduling system with efficiency performance measures such as make-span, maximum flow time and earliness. It is currently not apparent as to how random disruptions affect the overall economies. In make-to-order environments, orders will eventually be delivered late which in many cases can be associated with penalty fees for late delivery costs or losses. To-date, in production rescheduling literature, there are no records to suggest aggregate monetary implication following disruption factors, therefore it is fair to suggest that national economic implications of unforeseen disruptions still remain unknown. Therefore, this paper seeks to examine these implications to unearth how random disruptions affect South African national economic standing (or gross domestic product).

This study proves that disruption factors impact companies differently, based on the factory-layouts. Operations disruptions have led to increased cost of manufacturing costs, while at the same time they have led to loss of revenue. Unplanned disruptions increase manufacturing costs; as they move a system away from its optimal settings. Annual disruption costs from surveyed companies are as follows: for 61% of the companies, the cost of leading supply chain disruptions are slightly less than R1million, while for 16%, losses range from R1million to R5million, and for 3% loss is between R5million and R13.5million. Depending on the type of system layout, we estimated more than a total of R19million disruptions in a fixed factory-layout. Supply chain disruptions are identified as the primary cause of dominating productivity losses. Monetary implications of various disruptive factors are immense. We further demonstrate aggregately that the South African economic system is losing billions of Rand annually due to these random disruptions. Future research: This study serves as a foundation and spawns new ideas for forthcoming operations management research community to focus more research on how random disruptions affect companies in specific locations and their impact globally.

**Keywords:** Production Scheduling, Production Rescheduling, System Modeling, Random Disruptions, Stochastic Theory, Factory-Layouts

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# **THE STRATEGIC ROLE OF HUMAN RESOURCES MANAGEMENT IN CORPORATE GOVERNANCE: AN INVESTIGATION OF ROLE ANTECEDENTS AND CHALLENGES WITHIN KEY SOUTH AFRICAN ECONOMIC SECTORS**

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**Keywords:** Strategic human resources management, corporate governance, King III Report, compliance antecedents.

## **INTRODUCTION AND BACKGROUND OF THE STUDY**

Although good governance custodianship should, as a matter of principle, rest with all the board members and senior management (Teen, 2006), the strategic furtherance of corporate governance in most organisations seem to be largely in the domain of some board members than it is in others. As Jacoby and Saguchi (2002) points out, throughout corporate history, the ‘hard’ management positions of chief executive officer (CEO), finance managers, managing directors and general managers have always been endowed with greater governance powers than that available to ‘soft’ management, human resource management in particular. This, according to the SABPP (2009), has been the major cause of corporate governance frailties especially in critical business matters as corporate social responsibility, risk and compliance, ethics, senior management remuneration and succession planning among others. Arguing further, the SABPP (2009) points out that the same so-called ‘soft’ issues such as cultural incompatibility[and concomitant resistance to change] has led to major business failures during strategic operations such as mergers, acquisitions and international joint ventures, even more-so than ‘hard’ factors such as cash flow and debt structure. Several other researchers such as Brewster, Carey, Grobler, Holland and Warnich (2009) have also emphasised the importance and benefits of treating HR

management as business partners/ strategic human capital managers. This has all been argued to contribute towards goal accomplishment and survival of the company; supporting and successfully implementing given corporate and business strategies of the company; creating and maintaining a competitive advantage for the company and improving the responsiveness and innovation potential of the company.

## **RESEARCH PROBLEM**

Despite the push for HR to assume a more strategic role in key corporate matters mainly from human capital management proponents and practitioners themselves, there are still debates and questions on the importance and strategic value of HR in key corporate governance matters that, for years, have been largely dominated by hard management functions such as finance, operations and marketing. Indeed there are various, often contrasting perspectives and unresolved debates over the strategic importance (or lack of) of human resources leadership in corporate governance matters. Pieterse (2002) points out that despite a renewed global shift towards tight and all-encompassing corporate governance systems following recent internationally publicised high-level corporate scandals, the HR leadership's full assumption of a strategic role in corporate governance matters is still to be realised, particularly in emerging economies such as South Africa. Some researchers like Pambos (2002), argues that this could be due to a lack of sound quantitative empirical evidence on the importance of HR, and especially in its involvement with business drivers and the perception of it by business leaders. It could also be that much of what proponents and research (Brewster, 2009; Deloitte, 2008) refer to as HR strategic value to core business cannot easily be enumerated, making it difficult for core business 'hardliners' such as finance to accept the role as important. In South Africa, the King Reports on governance especially King III has, unfortunately, also taken the core business 'hardliners' position by maybe inadvertently omitting direct reference to HR governance whilst openly emphasising IT governance for instance (SABPP, 2009).

In the wake of all these debates and developments, it's worthwhile to explore 1).the extent to which HR executives or senior management plays a role in the key corporate governance facets as addressed by the King III Report. These key governance facets are: *Ethical leadership and*

*corporate citizenship; boards and directors; audit committees; compliance with laws, rules, codes and standards; governance of IT; governance of risk; internal audit; governing stakeholder relationships, and lastly integrated reporting and disclosure.* 2). factors that could be impacting on the effectiveness of HR executives as strategic business partners particularly with regard to issues of corporate governance in emerging economies, despite a large body of empirical evidence arguing for the strategic importance of HR in corporate governance and attendant risks of lack of HR involvement.

## **PRINCIPAL OBJECTIVES OF THE STUDY**

To investigate the nature and extent of HR senior management involvement in key corporate governance matters in South Africa in the wake the King III Report on governance.

To determine factors that impact on the nature and/or level of HR involvement in corporate governance

## **SECONDARY OBJECTIVES**

*From the findings, it will be anticipated that the secondary objectives will be:*

To develop a theoretical model that links strategic human resources management (SHRM) and key corporate governance issues as highlighted in the King III Report

To develop a hybrid model that links factors affecting HR participation in corporate governance to the developed SHRM-corporate governance model.

## **RESEARCH DESIGN AND METHODOLOGY**

In terms of research design, the study will follow *mixed approach* (both quantitative and qualitative methods). Data will be largely primary and will be collected through *questionnaires and in-depth interviews*. Secondary sources of data that will be used include the King III Report of governance and some company reports (if need be).



### **Population, sample and sampling procedure**

The study's population will be constituted of the senior HR executives, senior line management (Chief Financial Officers, finance managers, general managers, managing directors, and marketing managers) of South African organisations listed on the JSE for two selected sectors, mining and telecommunications.

The *sample* shall be comprised of two groups. The first and largest group will be that of HR Executives/managers and the second group will be that of non-HR managers (line management). In terms of *sample size*, the target shall at least a sample of 100 managers (both HR and non-HR), although the sample might ultimately be lower given the modest nature of the target population. A random *sampling method* will be used where the data collection instrument will be emailed randomly to HRM Executives (HRMEs) and non-HR Managers of companies until the targeted sample size is attained.

### **Data collection**

*Secondary data:* The King III Report will be the main unit of analysis complemented by companies' annual, sustainability, governance reports and reviews (where necessary). Only relevant sections of these reports as deemed fit for the purpose will be used.

*Primary data:* The *survey method* will be adopted for this study and more specifically both *questionnaires* and *in-depth interviews* will be used to collect data from both HR managers and line managers. Firstly questionnaires will be randomly emailed to the target population based on a drawn sampling frame. The questionnaires will include both closed ended questions and open ended questions to enable the respondents to expand more on some of their closed ended questions to make the responses more meaningful. The response from the questionnaires will be used to prepare follow-up *in-depth interviews* with some randomly selected questionnaire respondents.

### **Data analysis**

The study will largely follow quantitative data analysis with the qualitative data (both primary and secondary) providing more meaning to the quantitative data. The King III Report will be compared against current HR governance roles as alluded to by the respondents. The ultimate aim of the analysis will be the development of two models: one that links strategic human resources management (SHRM) and key corporate governance issues as highlighted in the King

III Report and another that factor in the antecedents for effective HR participation in corporate governance to the SHRM-corporate governance model.

## **CONCLUSIONS**

This study has the potential of contributing to the literature of corporate governance and strategic human management. As noted in the afore-going discussion, literature is mainly abundant on the concept of corporate governance, expected role of human resources leadership and the attendant risks of lack of strategic involvement of all management functions, particularly HR. However, the issue of antecedent factors for full HR participation in corporate governance matters and the related challenges remains a lowly explored area especially in emerging economies like South Africa. This should be a worthwhile exploration amidst the recent corporate scandals, blamed in some circles on a lack of all-encompassing governance structures, structures that have put too much emphasis on hard business issues at the expense of so-called soft matters. Although the study will focus on one management dimension, human resources, it can nonetheless also add some valuable insights into other functional management areas as well or it can be a foundation for furthering the study into other functional management areas.

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## **IMPLEMENTING SUPPLY CHAIN MANAGEMENT IN A NON-AUTOMATED SMALL MANUFACTURING ENVIRONMENT: POSSIBILITIES AND CHALLENGES**

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### **ABSTRACT**

This paper endeavours to explain the practicality of implementing supply chain management (SCM) in a small manufacturing environment that is not automated; where there are no computerised systems integrated into the value chain. Following a qualitative approach, this exploratory study used a case study of 3 clothing factories in Lesotho, that are non-automated, to explain observations and interviews. Lesotho is a small country with limit access to computer and Internet facilities. The sample was purposively selected and common responses were clustered into themes. Small manufacturers can put strategy into action towards the development of a moderately successful SCM throughout the chain that originates with the supplier and end with the customer, notwithstanding the fact that they are small entities and non-automated. The implementation of such strategies may be confronted with some challenges. The implication of this study is that small manufacturing entities, with proper training, can still benefit from the advantages of SCM, despite not being automated, and thereby increase their chances of growth, innovative operations, value creation and sustainable business practices.

**Keywords:** Supply chain management, Supply chain performance, Small-medium enterprises (SMEs), small manufacturing business environment, value chain and sustainability.

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## **ONLINE APPLICATIONS AS A DRIVER TOWARDS IMPROVING WEB TRAFFIC.**

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### **ABSTRACT**

The growing strength of the Internet has given consumers more control which has resulted in a decentralised pull, thus marketers are now striving for new and innovative ways to attract consumers' attention and create awareness. Consumers, today, spend a large amount of time online and digital marketing is a valuable manner for communicating with this generation. Thus, marketers are now joining consumers online, in their social networks, search engines, and other favourite trading grounds. This alone is not enough; marketers must find ways to pull the modern consumer to their websites and into a relationship (Smith, 2012; Okazaki et al., 2007).

Marketing efforts flood consumers wherever they go and ordinary campaigns tend to go unnoticed (Diffley et al., 2011). Statistics clearly indicate the platform that customers are flocking to and where businesses' infiltration is essential as social networking sites. For example, in 2010 there were more than 500 million active users on Facebook, by March 2010, more than 10 billion messages, or Tweets, had been sent through Twitter since its launch in 2006 and by July, that number had doubled to 20 billion (Baird & Parasnis, 2011). In South Africa; cost and lack of infrastructure are additional drivers towards the rapid growth in the adoption and usage of mobile internet and social websites (Buchanan et al., 2001). For example, over five million tweets were sent by South Africans alone in the last quarter of 2011 whilst the mobile penetration rate stood at 80% in 2011, up 30% from 2010 (Times Live, 2012). Some organisations are of the view that these social websites distract their workers, but other organisations have managed to look beyond this threat to productivity and regard social websites as a promotional vehicle of rich possibilities which has resulted in increased awareness, online sales and profits (Colliander & Dahlén, 2011). If a corporations' success depends on web traffic flow, the power of social websites can no longer be ignored

because social websites have become an increasingly domineering force in driving traffic flows on the Internet.

The use of social media marketing creates instant awareness and its inexpensive nature allows companies to cut costs, which in turn provides producers and consumers with many benefits thus it is important to examine the success of online applications as drivers towards increasing Web traffic. Most research conducted in this field, focused on web analytics (for example: Liao et al., 2011; Jana & Chatterjee, 2004; Chaffey et al., 2003; Prabhaker, 2000) but none seem to explain from a marketing perspective what the main drivers of web traffic are and how these influence awareness and sales. Furthermore, prior research has failed to examine the benefits that social media and mobile internet provide for a company in terms of website traffic. A conceptual model which aims to explain the relationships between the main drivers of Web traffic has been developed and will be tested using observations of approximately 5000 consumers' online behaviour of server log-analysis, page tagging and click analytics over a period of six months. The effects of certain demographic factors on the sources of web traffic will be examined as well as the relationship between search engines and social media applications and how these can be used as a marketing tool to drive website traffic.

**Keywords:** Social, Media, Website, Traffic

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# **ENHANCING BRAND ADOPTION THROUGH POST AFRO-PESSIMISTIC COMMUNICATIONS**

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## **ABSTRACT**

This paper delineates the nature and impact of racialization (through Afro-pessimism) in marketing communications to urban youth and surmises the consequent effects on brand adoption. A theoretical model illustrating the inter-connectivity of these ideas will be established and tested. The expected findings of the study are; that the lack of significance of the various roles of marginalised race groups within marketing communications and the consequent disconnect with the advertised brand stifles brand adoption.

Advertising, facilitates the introduction of new brands, increases the demand for those existing in the market and is premised to persuade the recipient to take some form of action, presently or in the future (Shimp, 2010). Given the reality of market conditions where product innovation could be easily replicated, effectively homogenising the products combined with advertising contexts characterised by saturation and clutter, it becomes pertinent that marketers acquire optimal value from these communication efforts. In this study value will translate into brand equity optimisation through brand adoption (Kotler, Brown, Burton, Deans and Armstrong, 2010; Britten, 2005).

This paper contends that the core duty of advertising, capturing the prevailing realities of the target (Escalas & Bettman, 2005), is poorly executed with regards to the emergent black middle class (Parker, 2009). Firms who wish to successfully pursue the urban youth market need to amalgamate their understanding of the communication of the symbolic cues of their brand, the need for marketing communications congruent with consumer realities and the effects of the self-congruency theory. This requires cognisance of the complexity in the interplay between advertising and racialisation (through Afro-pessimism) but also an understanding of this relationship on brand adoption.

This study will analyse the interplay between the depiction of marginalised race groups in South Africa in advertising communications and the self-congruency of urban youth. Moreover the impact of this cause-and-effect relationship between the aforementioned concepts a brand adoption will be assessed using a sample of 1500 urban consumers.

Congruency between consumers' self-concepts and various marketing elements such as brands or advertisements has been found to be a mediatory force on consumer behaviour. By drawing from self-congruency theory as well as the significant growth in the size of the black middle class and the economic power thereof (Zuckerman, 2003), one can logically conclude the necessity of the creation of advertising messages that this market can relate to. This premise will form the central tenet of the study

In light of existing research on the depiction of marginalised race groups in marketing communications, this study builds upon this foundation by establishing the relationship between racialised representations in advertising and the theory of self-congruency with regards to urban youth. Although there is a prevalence of research in terms of both concepts there is paucity in studies that examine the interplay between the two concepts and their consequent effects on consumer behaviour – particularly in terms of brand adoption.

Furthermore the framework provides an approach to aid marketers in not only developing distinctive brand positions that echo the perceived images of their target consumer but to also communicate images that are developed to closely match the typical consumers' self perception. Additionally, significant contributions to considerations of globalisation, and the appropriation of brands, with regards to customisation and standardisation will also be made, thereby providing directive for marketers to optimise brand equity and to create a competitive advantage through post Afro-pessimistic communications.

**Keywords:** Brand, Adoption, Afro-Pessimistic, Communications

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# **THE IMPACT OF SERVICE QUALITY AND CUSTOMER RELATIONSHIP MANAGEMENT ON CUSTOMER RETENTION LEVELS IN THE RETAIL SECTOR**

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## **ABSTRACT**

In the past decade it has been noted that business to consumer (B2C) companies have moved from transaction based to relationship focused approaches in their marketing, which reflects a paradigm shift in the discipline (West, Ford and Ibrahim, 2006:178). This shift to building long term relationships with customers as opposed to strategies to attract new customers is increasingly becoming common practice in the contemporary market; and is generally accompanied by improved customer satisfaction and loyalty and, ultimately in higher levels of customer retention (Mostert and De Meyer, 2010; Beneke, Lykiardopulos, De Villiers and Rawoot, 2011).

Service quality has been distinguished as a “critical requirement and determinant of competitiveness for establishing and sustaining relationships with customers” (Ojo, 2010); and Venetis and Ghauri (2004) reveal that service quality influences customers’ repurchase intentions (loyalty), which leads to more interactions and transactions being made. “High quality customer service is the key to improving relationships with customers, and an enhanced relationship with one’s customers can ultimately lead to greater customer retention, customer loyalty, and more importantly, profitability” (Berndt and Brink, 2008:55). Finally Yuen and Chan (2010) show that positive perceptions of service quality increase the chance of customers being involved in supporting the firm and developing loyalty behaviour. Despite having an influence on the customers’ repurchase intentions, it has been found that service quality is an important indicator of customer satisfaction and by implication of customer loyalty (Spreng and Machoy, 1996). In South Africa it has been found that there is poor service quality mainly



common with the food and retail industry and that supermarket customers have a “ shallow commitment” to the store they shop from (Brink and Berndt, 2008; Beneke *et al.*, 2011).

In order for businesses to build relationships and loyalty, there is need for a Customer Relationship Management (CRM) function, which increases the competitiveness and profitability of the business (Chen and Popovich, 1996). Stone and Woodcock (1996:10 cited in De Meyer, 2008) adds that effective CRM enables a business to increase its rates of customer retention and of customer loyalty.

Although other studies have been conducted in some sectors of the South African economy, include banking, airline and the fast food sector (De Meyer, 2008; Rootman, 2006 and Lombard, 2009), no studies looking exclusively at the retail supermarket industry have been located at the time of writing this proposal. Accordingly, this research project will aim to determine the links between service quality, customer satisfaction, customer loyalty and CRM in the South African supermarket industry by undertaking an exploratory, in-depth study of a single supermarket in Grahamstown. The project aims to gain a better insight into the industry and to make recommendations to the management of the supermarket on CRM and service quality management in order to ensure optimum customer retention and loyalty.

This research will be conducted from a mixed methods approach or triangulation, because it uses different research methods (Collis and Hussey, 2009:85). This entails that methodological triangulation approach will be utilised as two methods will be used to collect and analyse data (Collis and Hussey, 2009:85), from the supermarket’s customers and management, namely a survey and in-depth interviews.

Data collection will be done at a local retail supermarket in Grahamstown. In terms of the survey, the sample size will consist of 250 customers and the management of the supermarket. The sample for this research study will be identified by means of non-probability sampling method. Convenience sampling will be used because it is the easiest way to obtain our sample and is less expensive (Welman, Kruger and Mitchell, 2005:69-70). Data will be collected using questionnaires adapted from previous studies in the same subject, in-depth interviews with the

management of the supermarket and document analysis. The data obtained from the questionnaires will be analysed by means of descriptive and inferential statistics. Content analysis which involves examining the contents of an interview and analysis of documents (Welman *et al.*, 2005:221) will be used to analyse the information gathered from the supermarket's management.

This research will comply with all ethical research requirements of the Department of Management Ethics Committee. The researcher is aware of the ethical considerations and has ensured confidentiality and non-disclosure be adhered to all the time.

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# **CONSTRUCTION LABOUR MARKET TRENDS AND DYNAMICS IN TIMES OF CRISIS: EVIDENCE IN ZIMBABWE**

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## **ABSTRACT**

A major challenge that Zimbabwe faces is the need to create sustainable jobs in the construction industry market. The construction industry is highly dependent and thereby sensitive to the strength or weaknesses of the economy. Construction sector is made up of commercial, residential and infrastructure segments. In the commercial and to a lesser extend the residential segment; construction sector has a cyclical nature in the sense that it is project based. Workers and companies migrate from one job to the next, which is a unique arrangement .A major challenge the construction industry is facing is the absence of a stable business environment. This problem has led to high levels of unemployment and underemployment of the workforce. A solution is required to develop sustainable projects which will create jobs to curb work migration. This paper looks at how the nature of construction sector has influenced human resources development and economic growth.

**Keywords:** mobility, systems of innovation, human resources, labour markets

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# CUSTOMER EQUITY DRIVERS PREDICTING BRAND SWITCHING: A MULTINOMIAL LOGIT MODEL

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## ABSTRACT

The combination of value, brand and relationship strategies to acquire and retain customers has been described as customer equity management. This study used a multinomial logistic model to investigate the economic utility gained by switching brands, as driven by the value offering, the brand and relationship building. A total of 1600 online questionnaires were emailed to an Australian consumer panel. Customers from four mobile telephony networks returned 409 eligible questionnaires. The results confirm larger logistic regression coefficients for value equity. A second model, included the control variable  $\beta_{5,BA}prepost$  as a dummy to test the effect of prepaid (no contract) from postpaid (24 months contractual plan) customers. As expected, value is more important to postpaid customers locked in by long-term airtime contracts. Brand and relationship are significant drivers predicting probability of brand choice, but remain secondary to value equity, especially in prepaid markets.

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# **JOB SATISFACTION, ORGANIZATIONAL COMMITMENT AND OCCUPATIONAL STRESS IN A MERGED AND AN UNMERGED INSTITUTION IN SOUTH AFRICA**

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## **INTRODUCTION**

The post-1994 aftermath period have seen South African institutions of higher learning undergoing tremendous transformation in the form of mergers (Bainbridge, 1996). Section 23 of the *Higher Education Act 101 of 1997* defines a merger as the combination of two or more separate institutions into a single entity with a single governing body, whereby all the assets, liabilities, and responsibilities of the former institution are transferred to the single new institution. This transformation aimed at ensuring increased accessibility to, and equity in, the provision of higher education for all. Although the mergers may have had good intentions, they may also have had unintended negative effects on worker attitudes. According to Barkhuizen and Rothmann (2008), mergers lead to stress and anxiety among employees who feel that their job security is threatened; the stress and anxiety, in turn, have negative effects on worker attitudes such as job satisfaction, and organizational commitment.

## **RESEARCH PROBLEM**

Although much research has been done on the general impact of mergers, it does not shed much light on the impact mergers have on employee job satisfaction, organizational commitment and occupational stress in higher learning institutions. Some of the findings attribute low job satisfaction, high levels of occupational stress and low employee organizational commitment to mergers. Conversely, some of the findings relate mergers to high employee job satisfaction, low levels of occupational stress and high levels of commitment (Arnolds & Boshoff, 2004).

Therefore it is necessary to explore the matter further. In this regard, the present researchers propose to investigate the extent of job satisfaction, organizational commitment and occupational stress among the employees of a merged/merging higher learning institution as compared to those of a similar institution that did not result from a merger of previous institutions.

This study will also investigate the role of uncertainty as a moderator of the relationship between a merger on the one hand and job satisfaction, organizational commitment, and occupational stress on the other. In this regard, the study contends that it is not just the fact that there has been a merger that may lead to job dissatisfaction, low organizational commitment, and high occupational stress, but it is whether there is uncertainty about retaining one's job or securing a job that is as satisfying as or more satisfying than the present one in the organization after the merger.

## **PRELIMINARY LITERATURE REVIEW**

### **Job satisfaction, Organizational commitment and Occupational stress**

Carswell and Allen (2000) viewed job dissatisfaction as an essential component of occupational stress and the relationship between job satisfaction and occupational stress has been negative. The greater the job satisfaction, the less the likelihood that the individual will experience occupational stress, and the higher the organizational commitment levels of the employee, the lower the predicted occupational stress. Yousef (2002) also pointed out that job satisfaction is closely associated with organizational commitment and mediates the influence of several other variables on organizational commitment.

In a merger situation, anxiety about possible occurrences such as downsizing, layoffs and increased workloads may cause employees to experience workplace stress (researcher's opinion). This might be so because mergers are often associated with lowered morale and job dissatisfaction rather than with increased financial performance as expected (Ivy Akua, 1996).

## **RESEARCH DESIGN AND METHODOLOGY**

Using a quantitative research design, self-administered questionnaires will be distributed to a sample of 200 respondents in the two institutions. A random sampling procedure will be utilised. Descriptive statistics, Pearson product –moment correlation coefficient, and Standard multiple regression will be utilised to analyse the data.

## **PRELIMINARY FINDINGS**

Employee who is uncertain as to whether he/she will retain his/her job or obtain one that is as satisfying or more satisfying than the present one will be more dissatisfied, less committed to the organization, and more occupationally stressed than the employee who is certain.

Organizational change (a merger) will result in high levels of uncertainty which will promote occupational stress.

High levels of occupational stress are associated with low job satisfaction, leading to low organizational commitment.

## **CONCLUSIONS AND MANAGERIAL IMPLICATIONS/RECOMMENDATIONS**

- At a time of institutional change, open two-way communication is critical to ensure that all parties understand and buy – in to the change plan, especially since communication serves as a key process through which the beliefs and values that inform culture are formed. In turn this will reduce the risk of uncertainty which will lead to high occupational stress, less job satisfaction and low organizational commitment.
- Organizations need to develop and communicate compelling employee propositions that highlight the availability of counseling, training and career development opportunities, as well as providing them with personal mentors during and after a merger process.
- The Division of Human Resources and Finance are key support units in an organization and have a critical role to play in ensuring that the co-ordinating mechanisms are operating effectively.

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# THE FACTORS INFLUENCING THE ORGANISATIONAL COMMITMENT OF LOCAL EMPLOYEES IN CHINESE ORGANISATIONS IN SOUTH AFRICA

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## ABSTRACT

Over the past decade, Chinese bi-lateral trade and investment has grown remarkably in Africa (Brautigam, 2011a: 1), following rapid commercial and political engagement within the continent (Corkin & Burke 2006: 8). Chinese interaction with the African continent currently includes, but is not limited to; commercial trade, foreign direct investment, construction and engineering contracts, development finance, humanitarian assistance, and military aid and cooperation (Brautigam 2011a: 1). This has resulted in China becoming a vital role player in African politics and economics. Chinese organisations are furthermore benefiting from increasing support from the Chinese government to enter into Africa (Corkin & Burke 2006: 7). So much so, that bilateral trade between China and Africa rose from 10.6 billion US dollars in 2000, to over 120.9 billion US dollars in 2010 (Abkowitz 2009: 57; Brautigam 2011a: 1). It is believed that in 2011, over 2 000 Chinese organisations were operational in Africa, contributing greatly to African employment (Latham 2011: 1).

China has furthermore contributed to the African continent through various aid schemes, with roughly 40-50 percent of China's total aid being received by Africa (Brautigam 2011a: 2). Additionally, China has committed to training and educating Africans, including diplomats, and offers roughly 4 000 full scholarships to African students each year (Shinn 2011: 4), an equivalent of roughly 80 percent of Rhodes University's undergraduate student body in 2012. For these reasons, many African leaders have welcomed China into their countries and view Chinese investors as welcomed competition against Western investors with their poor history of exploitive behaviour (Zadek *et al.* 2009: 21; Muyakwa 2009:8).

Concerns have however been characterised by China's reputation for a lack of work, health and industry standards, often resulting in poor working conditions and a lack of basic worker rights (Brautigam 2011b: 4; Zadek *et al.* 2009: 21). Furthermore, China's need for natural resources is ever growing (Muyakwa 2009:3), and concerns have been raised about the destructive and exploitive consequences it will have on Africa, if trade is not managed

carefully (Zadek *et al.* 2009: 22). Concerns have also been expressed about the limited Chinese knowledge of local African culture and practices, which may result in a large amount of imported Chinese labour instead of focusing on local training and employment (Zadek *et al.* 2009: 22). It is reported that in 2009, roughly 187,396 Chinese citizens were working within the African continent (Brautigam 2011a: 1). If a lack of such cultural understanding and cooperation between Chinese employers and African employees exists, together with a range of other possible factors, including poor employment standards, this could lead to a negative effect on the organisational commitment of local employees and therefore a negative effect on Chinese business interests within the continent.

Organisational commitment is widely regarded as a significant element of business research, as it often has a close relationship with work-related constructs such as employee turnover, profits, long-term survival, job satisfaction, internal dispute resolution and leader-subordinate relations (Chen 2009; Arnolds & Boshoff 2004: 53). As employee commitment is believed to often differ across cultures and nationalities within international organisations (Luthans, McCaul & Dodd 1985: 219; Randall 1993; Chen 2009), and considering the differences in cultural and managerial practices between the Chinese and South Africans (Hempel 2001: 203); gaining an understanding of South African employee's commitment within Chinese organisations, and the factors which influence them, is therefore crucial in order to promote Chinese business success and the use of local labour.

Despite this, very little research has been done on individual and organisational issues within Chinese organisations operating within Africa (Jackson 2012: 1), and more specifically the local employee's organisational commitment to such organisations. Furthermore, comparative work has started to emerge on organisational commitment theory within developing countries, across cultures and within international firms. The importance of such research has been highlighted by (Chen 2009) and (Cheng & Stockdale 2003). Additionally, Venter, Farrington and Finkelstein (2010: 25) highlighted the need to investigate factors influencing organisational commitment within a non-family organisation, so as to compare with the factors influencing commitment in family organisations. This research therefore builds on the knowledge towards this agenda.

As China has become such an important and influential player within South Africa (Corkin & Burke 2006: 7), such a study promoting Chinese business success and the efficient use of



local labour is therefore of worth. The study furthermore addresses the question of whether commitment levels of local employees differ within international organisations, compared to within local organisations, and which factors will affect such commitment. Do the dynamics unique to Chinese organisations operating in South Africa alter local employee commitment, and the factors which influence it? This study adds to current organisational commitment literature, begins important inroads into organisational issues within Chinese organisations in Africa, as identified by Jackson (2012), and will have important managerial implications for the better management of local human capital for Chinese organisations.

The primary purpose of this exploratory study is to identify the most influential factors on local employee commitment in selected Chinese organisations operating in the Eastern Cape Province in South Africa. The focus of this research is on Chinese owned organisations operating within the Eastern Cape, employing local South African employees. For the purposes of this study, a Chinese organisation refers to an organisation operating in South Africa, in which at least 51 percent is owned and controlled in China or by Chinese nationals. A local employee will refer to a South African employee, who is employed within a Chinese organisation operating in South Africa.

After a comprehensive literature review, factors will be identified as being most important for influencing employee commitment within the context of this study. Based on the literature review, a conceptual framework of the factors influencing local employee commitment to Chinese organisations will be compiled. Provisional factors include open communication, leadership style, shared values, physical working conditions, compensation, promotional opportunities, autonomy, trust, job security, and recognition (Venter, Farrington & Finkelstein 2010; Bagraim 2004; Rijs, Paterson & Atherton 2011; Finegold, Mohrman & Spreitzer 1999). These factors will then be empirically tested among a sample of employees working within Chinese organisations within the Eastern Cape.

It is envisaged that this study will 1) identify current commitment levels amongst local employees; 2) identify key factors influencing local employee commitment; 3) propose recommendations to improve local employee commitment, and therefore the better use of human capital.

For the purposes of this study, a multiple case study approach, which is located within the phenomenological research paradigm, will be used (Collis & Hussey 2003: 66). Three Chinese organisations located in the Eastern Cape Province will be identified to participate in this study. Preferably each organisation should be in a different industry sector so as to provide a cross sector analysis. Data will be collected by means of in-depth, semi-structured interviews with local employees within three Chinese organisations in the Eastern Cape. Participants will ideally represent different hierarchical levels within each organisation. In order to assist with the interview process, an interview guide will be developed. The identified factors making up the conceptual framework will serve as the basis for the interview guide, and will comprise of specific questions relating to each of the identified factors.

The data will be analysed using content analysis in order to identify common themes, supported by NVivo Version (V) 8. In assessing the quality of the analysis, the four criteria for reliability as identified by Lincoln and Guba (1985, cited in Golafshani, 2003:602) will be used, namely confirmability, credibility, transferability and trustworthiness. In this study adherence to the research ethical considerations such as voluntary participation, confidentiality, non-disclosure, anonymity and the use of research data will be ensured.

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# **AN INVESTIGATION OF CONSUMER ETHNOCENTRISM AND ATTITUDES OF SOUTH AFRICAN CONSUMERS TOWARD A BUY LOCAL CAMPAIGN**

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**Keywords:** international marketing, consumer ethnocentrism, buy local campaigns

## **INTRODUCTION**

The continued growth of international trade has resulted in levels of global product availability that is not only unprecedented, but would have been regarded as impossible in the not too distant past. Today, products of almost every imaginable national origin are freely available in several countries throughout the world. As the “country of origin” label of a product is an element that could influence the buying behaviour of consumers, discerning international marketers know that they need to investigate consumer attitudes toward both domestic and imported products and the findings of these investigations should be used to formulate more effective marketing strategies.

## **BACKGROUND**

Research into the “country of origin” phenomenon has highlighted the concept of consumer ethnocentrism as a possible reason why consumers would rather buy a domestic than an imported product. The basic premise of the concept of consumer ethnocentrism is that the attitudes and purchase intentions of consumers can be influenced by what could be called nationalistic emotions. One way to influence consumer attitudes and purchase intentions towards supporting locally produced products is to use a buy local campaign.

## **PROBLEM STATEMENT**

Buy local campaigns are mostly used as a marketing tool to positively influence consumer attitudes and purchase intentions toward locally produced products. In South Africa, the Proudly South African campaign was launched in 2001 to mainly increase the demand for South African products and stimulate economic growth.

To date, very little formally published research has been conducted on the relationship between consumer ethnocentrism and buy local campaigns – even less so investigating these concepts in developing countries. As a result, it is strongly believed that by exploring the relationship between consumer ethnocentrism and the attitude towards the Proudly South African campaign will contribute to the existing body of knowledge in this field of research. The results of this study could also enable South African firms to develop more suitable marketing strategies to encourage the sales of locally produced products.

## **PRIMARY OBJECTIVE**

This paper is a work in progress and forms part of a broader study. The primary objective of this study is to assess the relationship between consumer ethnocentrism and the attitudes of South African consumers towards a buy local campaign (the Proudly South African campaign) and to suggest a number of marketing strategies based on the results.

Other (secondary) objectives of the study will be to:

- investigate consumer attitudes toward South African-made products.
- investigate consumer attitudes toward the Proudly South African campaign.

## **METHODOLOGY**

Quantitative research will be conducted and primary data will be collected by means of a self-administered questionnaire from a student sample. Data will be captured, cleaned and analysed and based on the results appropriate marketing strategies for South African firms will be suggested.

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# **IS IT STILL ABOUT THE ARTS? THE PERCEIVED CONTRIBUTION OF KKNK TO THE ARTS**

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**Keywords:** Arts festival, arts contribution, perception, KKNK.

## **INTRODUCTION AND PROBLEM STATEMENT**

Arts festivals have grown in both number and size, especially in South Africa. This growth could be assigned to the numerous benefits associated with arts festivals. These benefits include the enhancement of the local community's well-being; the economic injections for local businesses; the creation of career opportunities; the provision of quality performances; and especially, its role in contributing to the livelihood of the arts. Arts festivals in South Africa have incorporated the latter in their mission statements, however, to date, the contribution of such a festival to the various arts forms and the extent thereof, is still unclear. It should be noted that not all visitors visit the arts festival for artistic fulfilment, but for the socialisation and other festivities (Hauptfleisch, 2004). The extent of this paper should give a clear indication to whether an arts festival still contributes to the arts.

## **PURPOSE OF RESEARCH**

The aim of this study is to determine the contribution of South Africa's largest arts festival, the Klein Karoo National Arts Festival, to the arts, from the festival attendees' perception.

## **LITERATURE REVIEW**

The acknowledgement of the uniqueness of arts festivals is clearer within the divisions of the arts. These art forms include the performing arts, such as live theatre, dance, and music, and the visual arts, such as literature, photography, fine arts exhibitions and craft markets (Snowball,

2008:193). For the purpose of this study, the definition of arts will be restricted to those art forms available at the arts festival. Arts festivals were developed to showcase different art forms, and to ultimately contribute to the arts (Quinn, 2005; Kruger & Petzer, 2008:113). Aspects that contribute to the enhancement and development of the arts were identified, which included the economic, emotional, educational, quality, growth and developmental and marketing contributions of the arts festival towards the arts. These contributions were applied to the Klein Karoo National Arts Festival (KKNK) during the 2012 festival, which aided in the determination of the festivals level of contribution towards the arts.

### **RESEARCH DESIGN AND METHODOLOGY**

A total of 600 completed self-administered questionnaires were collected from the visitors at the various festival venues. A factor analysis was conducted to analyse the collected data.

### **PRELIMINARY FINDINGS AND CONCLUSIONS**

The aim of the study is to determine whether arts festivals still contribute to all forms of the arts. By evaluating the arts presented at an arts festival, the factors of an arts festival that contributes to the arts and the extent thereof can be identified. Based on the results, managerial implications will consequently be proposed for the festival organisers of the Klein Karoo National Arts Festival. These recommendations include ways to incorporate the aspects that contributes to the arts forms to ensure that the arts festival stay true to its mission statement for the development and enhancement of the arts.

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## FLIES IN AMBER: CAPTURING BRAND EQUITY-EFFECTS IN SOUTH AFRICAN ROSÉ WINES

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### ABSTRACT

Studies confirm the effect of extrinsic cues such as price, area-of-origin, and expert ratings on sighted appreciation. We present findings from a tasting room experiment seeking to establish the prevalence and impact of wine brands across a sample of young South Africans between 18 and 30 years old. Specifically, we sought to examine the influence of entry-level type wine brands on sighted quality assessments. In a pre-test/post-test experimental design-format, 83 subjects (45 males; 38 females) participated in a two-round blind-to-sighted wine-tasting. We tested six wine brands: *Robertson's Winery* (employed as dummy comparator), *St Claire*, *Es La Vida*, *4<sup>th</sup> Street*, *Cellar Cask* and *Four Cousins*.

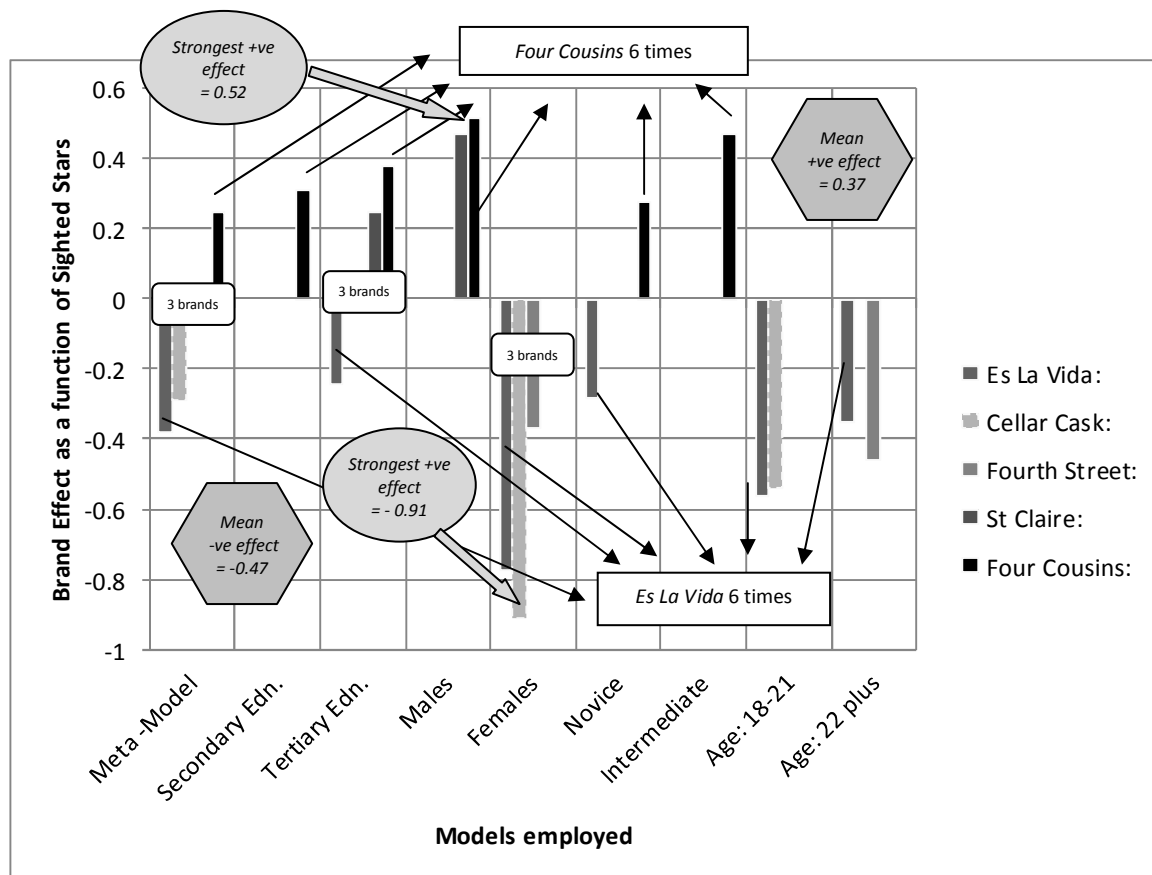
With controls in place, a stepwise regression was run against the sighted scores so as to identify the presence of any placebo-type brands. The meta-model equation modelling all sighted scores for each wine ( $i$ ), is as follows, all factors being statistically significant:

$$\text{Sighted score } i = 1.49 + 0.52 \text{ Blind rating } i + 0.25(\text{Four Cousins}) - 0.25(\text{Secondary Education}) - 0.38 (\text{Es La Vida}) - 0.29 (\text{Cellar Cask}) + \varepsilon_i$$

With the mean blind score of 2.35 stars, the variable effect of blind ratings contributes an average 1.22 stars to the equation as a whole; less than half of the mean sighted rating of 2.51. The five candidate brand cues now become relevant. We note that only three of the five present as placebo type brands in the meta-model: *Four Cousins* (0.25 stars), *Es La Vida* (-0.29 stars) and *Cellar Cask* (-0.38 stars). Of these, the former, *Four Cousins*, is by far the strongest, contributing a positive quarter of a star to its sighted rating regardless of its intrinsic merit. This is 0.54 and 0.63 stars more than the *Cellar Cask* and *Es La Vida*

brand-effects, respectively. Put differently, the *Four Cousins* brand effect carries more than twice the strength of its next strongest rival. This said the 0.25 *Four Cousins* brand effect constitutes less than a tenth of its 2.90 mean average sighted score.

These findings, summarised in Figure I below, demonstrate the extent to which certain wines configure with statistically significant brand effects, while others do not, and the methodology employed in this study demonstrates how one might more cost effectively test for particular brands within particular user categories.



**Figure I: Notified brands and their effect sizes per each of the nine estimated models including the meta model reported above.** Observe how *Four Cousins* appears in six of the models – with brand effects of varying sizes though all positive. *Es La Vida* also appears six times, though by comparison, on all occasions the effect is negative. The remaining three brands appear fleetingly, with *St Claire* presenting with positive effects; *Cellar Cask* and *Fourth Street* with negative effects.

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## IMPROVING CONVERSION RATE ON E-COMMERCE WEBSITE

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**Key words:** conversation, rate, analytics, websites, e-commerce

### ABSTRACT

The world has witnessed a surge in the business-to-customers (B2C) e-commerce activities, such as shopping, downloading, and other online activities over the internet in the past few years (Kuan, Bock & Vathanophas, 2008). Despite the high penetration of regular internet users, the number of customers using the internet to shop for consumer goods and services is still growing (Forrester Research, 2001). The study by Cases (2002) shows that online shopping is developing rapidly on the internet today, however the revenue generated from online shopping is still relatively low.

Several studies have been conducted on the factors that lead to abandonment of online transactions on e-commerce websites (Engle & Joseph, 2012; Moore & Mathews, 2006; Moe & Fader, 2004 and Cases, 2002) but most of these studies have not looked at the ways in which visitor conversion rate can be improved on e-commerce website. Converting online visitors into buyers is one of the biggest problems that many online business face in daily bases. (Hahn & Kim, 2009). A lack of understanding regarding visitor conversion rate support the need for this research paper.

The purpose of this paper is to develop a conceptual model to improve visitor conversion rate on e-commerce Websites. To explore the role of brand knowledge, consumer trust, consumer benefits and perceived risk online and how they can help to convert internet browsers to potential online purchasers.

According to Winch and Joyce (2006), Consumer trust is a strong influential factor for making a purchase in both online and offline environments. During online shopping, trust can be a vital factor for consumers to make a purchase decision (Winch & Joe, 2006; Bart, Shankar, Sultan & Urban, 2005; Li & Zhang, 2002). Haung, Schrank & Dubinsky (2004) and Chen & He (2003) found that brand knowledge will reduce perceived risk. Brand knowledge & Consumer trust has a direct and positive effect on the willingness to buy online and this effect is mediated by perceived risk to a large extent.

A sample of 800 prospective online customers will be collected and the above mentioned constructs will be tested after formulation of hypothesis. The research will mainly focus on service and product industry (such as hotel bookings, downloading music, etc), that's the data that will used.

Planners of marketing campaigns and managers for online shopping or suppliers of products or services can use the framework presented in this paper as a basis for formulation of effective strategies to improve poor visitor conversion rate on e-commerce websites and convert current web-browsers into future internet shoppers, and therefore benefit fully from the advantages of online distribution channel.

This paper will help marketing managers to understand the factors that affect visitor conversion rate from the consumer's point of view. Online retailers will know the importance of brand knowledge, perceived reputation, etc. that contribute to low visitor conversion rate.

The proposed framework will help online retail managers to improve their visitor conversion rate. This study will contribute in improving the knowledge of marketing managers and website designers to know what contribute to low conversion rate besides the design of the actual e-commerce website.

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## **INTRAPRENEURSHIP WITHIN ORGANIZATIONS: A SOCIAL EXCHANGE PERSPECTIVE**

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### **ABSTRACT**

Due to rapid technological change, the ongoing economic/financial crisis and increasing international competition, the abilities of firms to change, improve and create new value have become ever more important. In the scholarly literature, CE (also called intrapreneurship), in this respect, has become an important research topic (Covin and Lumpkin, 2011). CE has proven to increase a firms financial performance, especially for firms that operate in hostile and dynamic/turbulent environments (Kraus et al., 2012).

An strong focus on CE at the top-management level does not automatically result in intrapreneurial behaviours by employees (Burgelman, 1983). Organisations, and large organisation in particular, are often not suitable environments for intrapreneurial behavior (Sharma and Chrisman, 1999) and disagreements between employer and employee are a major reason why many intrapreneurs leave their employer and start-up an independent business (Klepper, 2001). In a recent survey of the literature on the topic intrapreneurship Stam *et al.* (, 2012) identify six groups of important antecedents: dispositional traits, demography, cognitive abilities, job design, work context and broader environment. Of these antecedents, job design and work context are of particular interest for managers that seek to improve the level of intrapreneurship within their organisation, as they can directly be influenced by organisational policies and managerial actions.

Within this study, an organisational characteristics approach is combined with social exchange theory (SET). Although the organisational characteristics approach

acknowledges the value of individual entrepreneurship, this approach concentrates on internal contexts (incentive systems, organisational structures, etc) that can act as a catalysts or barriers to intrapreneurship (Burns, 2008). By using SET (see Cook and Rice, 2006) the importance of reciprocity in the relationship between employer and employee and, interpersonal treatment is highlighted. The process of stimulating intrapreneurship within firms is, within the present study, conceptualized as a two step model in which the organization first stimulates intrapreneurial behaviours amongst employees and in which the employees makes an individual decision to be involved in intrapreneurial projects.

Within this research project data from individual employees working at six different Dutch organisations (N = 176) is collected. Structural equation modelling is used to analyze the data. The preliminary results highlight the importance of organizational structures and procedures and support the hypothesized two step model. Social exchange processes play a key role in promoting intrapreneurship within companies as trust between the manager and the employee changes the way formal procedures within the company are interpreted by the employee.

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# VALUE CREATION THROUGH ONLINE CONTENT MARKETING

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**Key words:** Online marketing, content marketing, customer value

## ABSTRACT

The online environment has evolved from basic network connectivity into a platform for users to engage with firms in a completely new way (Strauss and Frost 2009; Gay et al. 2007). This then lead to the ability for users to produce unique, custom content and to make it accessible worldwide. It was not long before businesses realised the immense demand for interesting content. This was how online content marketing was born. Previous research on online content marketing by Rowley (2008) refers to how value is a key concept that requires further research.

Customer value is a key construct through which online content marketing can be evaluated due to the very nature of its definition as the difference between the benefits the customer perceives in terms of what is given and the sacrifices the customer makes in order to gain those benefits (Chang and Wang 2010). Therefore in terms of online content marketing the value that customers gain from the content itself will be examined.

The study by Holbrook (2005) has developed sound theory from which to examine customer value. This applies directly to the context of this study of online content marketing in terms of the relational aspect with the firm's offerings; the offerings provide specific situations; consumers have a preference for specific content; and that the many forms of content provide unique experiences.

The final aspect examined involves informational social influence theory. This is a psychological construct which explains how people gain advice from those whom they have never met before (Lee et al. 2011). In the context of this study, the content through which the

firm uses to engage with the consumer online will become more attractive as more consumers interact with it. These consumer interactions serve as recommenders of the content.

Online content marketing is an area that is under researched especially in terms of how customers gain value from it and how informational social influence has an effect on that value. This research addresses this gap in knowledge by examining the determinants customer value in providing online content as a marketing tool with informational social influence theory as a moderating construct.

The 1200 consumers examined within the study will be those who frequently engage in online content provided by firms on a regular basis. The scales used will test the relationships between the concepts of lock-in (loyalty); efficiency (costs to the consumer); novelty of the content and informational social influence in order to examine how they affect the consumer's perception of value of the online content which will then influence their level of engagement with the brand online (Amit and Zott 2001).

This research will provide new insights into the behaviour of online consumers. From a managerial perspective, firms will gain the ability to not only track their consumer base better through online content marketing but will also be able to utilise this versatile marketing tool to greater advantages.

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# WHAT ARE THE REAL BENEFITS TOURISM CREATES FOR COMMUNITIES? A CASE STUDY OF TWO SOUTH AFRICAN COMMUNITIES

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**Keywords:** Tourism, social impacts, tangible benefits, intangible benefits, community.

## INTRODUCTION

The tourism industry has a social impact (positive and negative) on communities of various geographical areas (Archer, Cooper & Ruhanen, 2005:79). In order to ensure the sustainability of the tourism industry it is important to maximise the positive impacts and minimise the negative impacts (McDowall & Choi, 2010:37). Various studies have been conducted on the social impacts of tourism, with most of these studies focussing on the tangible impacts such as creation of jobs and infrastructure development while mostly ignoring the intangible impacts (Gursoy, Chi & Dyer, 2010; Jurowski & Gursoy, 2004).

## PROBLEM

Solely focussing on direct benefits of tourism for a community generates problems, especially in developing countries where community participation in the tourism planning process is important, but mostly limited to operational-, structural- and cultural constraints (Tosun, 2000:614). South Africa is an example of a developing country where residents do not always (or rather just a small number of residents) derive direct benefits from tourism. This in turn could lead to negative attitudes towards the tourism industry. The aim of this paper is thus to identify the real benefits (tangible and intangible) of tourism for communities.

## LITERATURE REVIEW

The role of intangible benefits should not be underestimated and might even play a more important role in the creation of positive attitudes towards the industry (Gursoy, Jurovski & Uysal, 2002:79; Jurovski & Gursoy, 2004:297; Kuvan & Akan, 2005:691; Williams & Lawson, 2001:270). Intangible benefits might include aspects such as community pride and skills development among others (Goeldner & Ritchie, 2006:31-32). If not managed correctly, tourism can also have negative intangible impacts such as: social problems in the community and degradation of the cultural environment (Goeldner & Ritchie, 2006:32). Hence, it is important to identify and manage the intangible impacts of tourism.

## RESEARCH DESIGN AND METHODOLOGY

To achieve the aim of this research, a questionnaire will be developed and distributed between two tourism dependent communities in South Africa, namely Soweto and Dullstroom. Stratified sampling will be used to obtain the necessary number of questionnaires and it is foreseen that 500 questionnaires will be distributed. The two case studies also allow for an urban and rural comparison.

## PRELIMINARY FINDINGS AND CONCLUSIONS

Seeing as it will also address the intangible benefits of tourism, this research is important for the sustainability of tourism as an industry, especially in third world countries where economic benefits do not always filter through to the communities. This is part of a PhD. Further research will be conducted based on the results of the research to develop a model that will show how to maximise the tangible and intangible benefits within tourism dependent communities.



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# **UNDERSTANDING THE MARKET PROFILE OF SCUBA DIVERS AND THE TOURISM VALUE EXPERIENCED AT SODWANA BAY**

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**Keywords:** Marine tourism, Dive tourism, SCUBA diving, value analysis, tourism value

## **INTRODUCTION AND BACKGROUND TO THE STUDY**

Tourism activities set in coastal and marine environments have evolved far beyond the traditional passive leisure experiences of the classic resort holiday (Bramwell, 2004 as cited by Higham & Lück, 2008:1). While the traditional beach holiday remains a contemporary mass tourism phenomenon, Marine tourism now extends far beyond beach activities to a wide-spread spectrum of activities, including scuba diving, with over 14 million divers worldwide (Viders, 1997:5). Since tourists of today are value driven (Levy, 1999:5) and so many people participate in scuba activities, the questions are raised “who are these divers, how can effective marketing strategies be done to reach this market and what is the tourism value of scuba diving and the marine environment in which it takes place?”

## **MAIN PROBLEMS OR ISSUES INVESTIGATED**

Sodwana Bay is well known as a scuba diving site. High volumes of visitors flocking to this area interact with the locals, spend money and participate in the scuba experience. These visitors form part of the tourism industry by experiencing the hospitality of the area and participating in activities. This experience is therefore part of a leisure experience that creates a certain experienced value. However, the profile of the divers and tourism value created by the scuba experience at Sodwana are unknown and demand investigation.

Knowing the value created will enable Sodwana Bay and small enterprises surrounding the area to develop more accurate marketing, utilise marketing strategies effectively and gain a competitive advantage. Sodwana Bay as a tourism destination will therefore become a specialist in a niche market, building a loyal market while upholding sustainable development.

Therefore, the purpose of this research is to determine the profile of scuba divers and assess the tourism value of a marine destination by assessing the emotional value, social value, price functional value, performance functional value, versatility functional value, perceived risk value as well as the epistemic value based on the model developed Sweeney and Soutar (2001:211).

## **PRELIMINARY LITERATURE REVIEW**

The tourism product carries both the characteristics of service product and the characteristics unique to the tourism industry, which makes the tourism product different from physical/tangible goods. Therefore, tourism destinations involve a multiple of industries (e.g. hospitality, transportation, entertainment) that contribute through their value-added activities to the overall competitive position in the marketplace. Tourism value can be seen as a combination of a product's (destination's) perceived quality and associated price that a visitor will summarise as the value received (Chang & Wildt 1994 quoted in Murphy & Pritchard, 2000:11). Morrison (1989:9) agrees with this and states that the mental estimates that consumers make of the travel product are where perceptions of value are drawn from personal cost/benefit assessment. Stevens (1992:46) also noted that value perceptions arose from an assessment of the goods and services purchased at the destination. Value in tourism has been seen as a definite option to improve a destinations competitive edge (Pechlaner, Smeral & Matzler, 2002 in M. Gallarza, I. Saura, 2006:438). Tourism development is about adding value in a way that is consistent with market demand (Hassan, 2000:240). Murphy and Pritchard (2000:11) found that a high sense of trip value corresponded with a traveller's intent to return to a destination.

As tourism value is created within the destination (Braun, 2005:6), it holds various benefits, including that destinations will achieve high market growth and hence become more competitive due to successful value-added programmes (Hassan, 2000:242). Oh (2000:136) states that, in the

tourism industry, by offering new insights into consumer behaviour surrounding price-quality tradeoffs, customer value may unveil deep-seated driving forces of purchase decisions and brand quality. Destinations are winning competitive battles by careful analysis and response to the core values and needs of the segmented travel marketplace (Hassan, 2000:240).

This study was based on four distinct value dimensions, developed by Sweeney, which are termed emotional, social, quality/ performance and price/ value for money. Sweeney and Soutar's model (2001:211) was examined to determine its appropriateness for an intangible product in the service sector, namely scuba diving. Two modifications to Sweeney and Soutar's model (2001:211) were required for this study. The modifications that were utilised in this study included perceived risk value, which was introduced by Hall, Robertson and Shaw (2001:4) and epistemic value developed by Hall and Weiler (1992 as cited in Williams & Soutar, 2009:417).

## **RESEARCH DESIGN AND METHODOLOGY**

A destination-based survey was undertaken at Sodwana Bay from 29 March to 8 April 2012. The most recent and available data, which was gathered by iSimangiliso, indicated that 5 885 dives were launched in March 2011 and 8 386 dives in April 2012. Sodwana Bay received an average of 1 635 divers per month in 2011. Since there is no information available indicating who these divers are, it was decided to conduct the survey by implementing availability sampling.

According to Krejcie (1970:608), using an availability sampling method with a population (N) of 1 000 000 respondents, the recommended sample size (S) should be 384. For the purpose of this study, to ensure definite, adequate and relevant analysis, it was decided that 500 surveys would be distributed among scuba divers at Sodwana Bay. Divers who were willing to participate in the research and to uphold honesty were asked to complete a self-administered questionnaire.

Fieldworkers were trained to ensure that they understood the importance of the study, as well as the goals and objectives of the questionnaire. The fieldworkers were divided into research teams that worked along the beach during the mornings and various campsites during the evenings.

Of the 500 questionnaires distributed, a total of 402 were completed and could be used for coloration of data.

## **PRELIMINARY FINDINGS**

### **Demographic profile**

The main scuba diving market for Sodwana Bay is Afrikaans-speaking (50%) male (62%) divers who are aged between 20 and 24 years. They are not married (46%) and live mainly in Gauteng (56%) and KwaZulu-Natal (17%). These respondents have obtained a diploma or a degree (32%) and earn an annual gross income of more than R500 000 (37%). Most visitors have visited the Park between one to three times before (54%). Divers stay at Sodwana Bay between four to six nights (56%) and pay for their own expenses (52%). Therefore, one can say that the diver profiles are fairly young, Afrikaans-speaking men who are well educated, earn a high income, and originate from Gauteng.

### **Factor analysis of tourism values**

To examine the factors underlying the value scale, a principle axis factor analysis with oblique rotation (Direct Oblimin) was undertaken. The twenty-two factor aspects yielded five factors with eigenvalues greater than 1.0 (Kaiser 1960, cited in Cliff, 1988:1). These factors explained 64% of the variance and were labelled: 'Emotional value', 'Functional value', 'Social value', 'Perceived risk value' and 'Epistemic value'. Twenty-one aspects had loadings of over 0.418, with only one item having a factor loading of 0.251. Reliability (Cronbach's  $\alpha$ ) was computed to verify the internal consistency of aspects with each factor. All factors with a Cronbach Alpha above 0.63 were deemed acceptable for the purposes of this exploratory study. Bartlett's test of sphericity was significant ( $p < 0.001$ ) and the Kaiser-Meyer-Olkin measure of sampling adequacy (KMO) was 0.874, which is acceptable for the purpose of this study.

## **CONCLUSIONS AND RECOMMENDATIONS**

From this study, the following is evident:

That tourism value is experienced by participants who scuba dive.

These values can be accurately categorised according to Sweeney and Soutar's value model (2001:211). These categories are emotional value, social value, epistemic value, functional value and perceived risk value.

According to the results captured, the most important value is Epistemic Value with a mean of 3.43. Epistemic Value included factors such as scuba diving gives me the opportunity to acquire more knowledge; broadens my knowledge; it arouses curiosity and provides novelty. Participants see their participation in scuba diving as a way of enhancing their knowledge. This should be utilised to effectively market Sodwana Bay as a scuba diving destination.

The second most important value recorded was Functional Value which had a mean of 3.28. This value included factors such as the accessibility to the dive sites, the quality of the coral reef/ marine life and value for money.

The least important values according to the data captured were Perceived-risk Value (2.70) and Emotional Value (2.70). Perceived-risk Value included factors such as the various aspects/people that encouraged the dive trip to Sodwana Bay (e.g. Family, friends, experts and promotions). Emotional Value included factors such as scuba diving enhances my self-image, social status, helps me to acquire social approval, makes me unique and makes me belong to a certain group of people.

It is recommended that this study is repeated at other diving sites and also various other tourism products to determine difference and/or similarities between tourism values. Marketing strategies can be utilised through the identification of these and various other values, which will improve current marketing efforts.

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## USING VIDEO GAME CHARACTERS AS BRAND ENDORSERS

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**Keywords:** Brand Endorsement, Video Game Characters, Celebrities, Advertising

### ABSTRACT

Celebrity endorsements have been established as one of the most preferred methods of advertising by marketers (Patel, 2009). This popularity springs from the numerous benefits which advertisers experience when employing a celebrity endorser (Pornpitakpan, 2003). Biswas et al (2009) enumerates five specific benefits of employing celebrity endorsers for a brand, they can be summarised as follows: drawing attention, crisis management, brand repositioning, global marketing, and boosting sales.

However there are also a number of potential risks which can cause major problems when using a celebrity as part of a brands marketing campaign (Erdogan, 1999). The benefits of using a celebrity endorser can be markedly reversed if the celebrity, is involved in a controversial incident, loses credibility by endorsing too many brands, suddenly changes their image, overshadows the brand which is being endorsed, experiences a drop in popularity, is the centre of negative publicity, or fails to perform within their specific career (Erdogan, 1999).

As a solution to this problem this research will investigate the use of video game characters as celebrity brand endorsers. This is because video game characters are celebrities in their own right but they are not plagued by the same risks and problems as ordinary celebrities (Avery, et al., 2006; Shimp & Till, 1998). This type of endorsement has been done in the past, an example being the use of Lara Croft to endorse Lucozade (Avery, et al., 2006), and this kind of endorsement has been shown to boost sales (Bustami & Fikry, 2012).

The use of video game characters as brand endorsers is an area of marketing which is under researched. This research will address this gap in knowledge by investigating the plausibility of using a video game character in place of a celebrity to endorse a brand. This research will apply the Source Credibility Model developed by Ohanian (1990) to video game characters in order to investigate the positive characteristics which consumers perceive about video game characters and how these characteristics affect their interests in purchasing the products. The video game characters will be examined across the hypotheses of attractiveness, trustworthiness, and expertise and the effects which each of these have on purchase intentions respectively.

This research will entail a quantitative research questionnaire. The questionnaire will be distributed at Wits University to a sample group of around 1500 students between the ages of 18 to 25. Fictitious adverts will be used as stimuli during the questionnaire. The data collected will be analysed using statistical analysis to investigate any trends or patterns which may emerge. Convenience sampling will be used because of time and monetary constraints.

The contribution of this study is in addressing an area of marketing which has not been well researched as yet. It will also address consumer perceptions about video game celebrities as well as current market trends. Lastly this research will investigate an advertising tool which has the potential to become a future marketing trend.

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# **TOWARDS A CLIENT-BASED BRAND EQUITY MODEL FOR SELECTED BUSINESS-TO-BUSINESS SERVICES**

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## **ABSTRACT**

The customer-based brand equity (CBBE) model was developed to guide brand building in a consumer product or individual brand context, but the model is proposed to be applicable to any context, including the B2B and service contexts. However, consumer branding strategies are not directly transferable to B2B markets (Mudambi et al., 1997: 445). There are documented differences (Kotler & Keller, 2006: 210–212) between the B2B and business-to-consumer (B2C) contexts, as well as doubt regarding the validity of the claim that the CBBE model is applicable, as is, to the B2B sector (Kuhn et al., 2008: 41). In addition research is needed to develop a tailored services branding model (McDonald et al., 2001: 350).

## **PROBLEM STATEMENT**

There is no comprehensive, validated and accepted brand equity model for the B2B services context specifically.

## **RESEARCH OBJECTIVES**

The primary research objective is to develop a brand equity model that guides the strategic brand management process for B2B services. To achieve this, the secondary research objectives are:

- To test the applicability of the existing CBBE model for B2B services.



- To identify the brand-building blocks and sub-dimensions of the CBBE model that are relevant to B2B services.
- To identify the brand-building blocks and sub-dimensions of the CBBE model that are not relevant to B2B services.
- To establish what other brand-building blocks and sub-dimensions may be relevant to B2B services.

## **RESEARCH DESIGN AND METHODOLOGY**

Both an exploratory and descriptive empirical research design is required to address the research problem. The research population, from which the sample will be drawn, comprise the B2B service demand-side client organisations of short-term insurance providers in the Cape Town metropole of South Africa. A survey instrument was developed from the literature to address the research objectives. Some of the questions are open-ended and some structured. Descriptive and inferential statistics will be used for the analysis.

## **CONTRIBUTION**

The research will contribute to three areas of brand equity, namely 1) the offering type – by investigating service offerings rather than product offerings; 2) the brand level – by investigating organisation-level brands rather than product-level brands; and 3) context – by investigating a B2B context rather than a B2C context.

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# **IDENTIFYING THE SUCCESS FACTORS FOR REDEVELOPMENT IN CITY CENTRES**

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**Keywords:** Urban redevelopment, City development

## **ABSTRACT**

Urban redevelopment has become prevalent around the world in order to combat urban decline. Cities have shown to employ different strategies to overcome their degradation. These different methods have been identified and assessed in order to create a model that may be useful for the city of Johannesburg to apply. The case of Johannesburg has been chosen as it is the researcher's city and is in need of rejuvenation but the model should be applicable to other cities wishing to employ an urban redevelopment strategy. A qualitative approach has been used where 120 academic articles have been sourced and of these 50 have been deemed relevant to the subject as well as ten books. These sources had to meet certain criteria in order to make it into the literature sample. Qualitative research design has been selected as it is the most flexible of the various experimental techniques, comprising of an assortment of accepted methods and structures. The final model is expected to solve the problems that urban degradation creates and thus help the city rebuild its urban economy and initiate growth. The most common problems that occur due to urban decline are a rise in crime rates (Middleton, 2003) and lack of employment (Raphael and Winter-Ebmer, 2001), little cultural and tourism offerings (Nasser, 2003 and Pratt, 2009) and poor growth management and lack of competitive advantage (Berridge, 2006) among many others.

The purpose of the study is to analyse the relevant literature environment thoroughly in order to identify what the problems are that are evident in the cities that have been reviewed. The success factors are then identified: success factors refer to what strategies the reviewed cities used in order to successfully combat the problems they experienced due to the decline in the

city centre and what has led to their rejuvenation. These success factors are then used to create the model that is to be applied to the city of Johannesburg as it too is in much need of redevelopment. (Urban Environmental Management Programme, 2012)

Urban redevelopment is important as it encourages economic activity and helps create a sustainable city. It produces many opportunities within the urban environment and ultimately encourages growth (Murphy and Boyle, 2005) but as a city divulges into this process it must take the necessary steps to communicate its progress to the public in order to create interest and support among potential visitors, both foreign and local. The communication aspect is paramount for the success of the redevelopment process and is thus a vital step. The research will determine what variables must be communicated as success factors of the redevelopment of city centres as well as how the message should be expressed.

There exists no model that cities can use to aid their redevelopment process and it is for this reason that this research will contribute much in the area of redevelopment. This has been identified by Pratt (2009). This model will assist in rebuilding the urban economy and thus create economic gain. The issue of urban redevelopment is of global concern. In the current economic climate cities find themselves desperate for income. Urban development can aid Greece in finding a solution for the crisis that it is facing. Tourism counts for 15-18% of Greek GDP and about 20% of Greek employment. (Loud Sauce, 2012) Urban redevelopment has the potential to re-start countries' economies by addressing their concerns using the model that this research will attempt to create.

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# **MEASURING THE EFFECTS OF SPONSORSHIP FOR PREMIER SOCCER LEAGUE ON FOOTBALL SPECTATORS IN SOUTH AFRICA**

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**Keywords:** sponsorship; branding; brand image

## **ABSTRACT**

The growth of sponsorship has been notable over the last decade, especially within the South African context. Football in South Africa has been one of the most benefiting sporting codes, where we noticed an sponsorship of R1,5 billion in 2008 from Supersport, and R 500 million from ABSA and R 400 million from Nedbank in 2008 for a period of five years. These new developments in sport, particularly in football taking into account its historic background in South Africa, have been a course for attention to the researcher.

The purpose of the sponsorship deal, from the corporate perspective, is, amongst other objectives, to burnish the image of the corporate through this association. The idea that the sponsorship can help enhance the brand image of the corporate is an interesting one, looking at all the measures that have to be considered in how this can take place. Studies have revealed that the brand image transfer as result of the sponsorship has not been fully understood (Arcodia and Novais, 2010).

In this study the researcher intends to establish how sponsorship effectiveness can be measured and what factors are critical to the measurement of sponsorship effectiveness. In this way it will also establish the image that the consumers have of the corporate sponsor. This will be done through the distribution of the questionnaire and followed by a focus group, which will seek to find more specific information related to the consumers understanding of the concepts under study. Analysis of the questionnaire will be done using the SPSS and data from the focus group will be coded and put into themes. When the analysis is done, the

researcher, on the basis of the results obtained, will determine the managerial implications of the research and further propose further research studies not covered in this research.

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## **ANALYZING ONLINE CONSUMER BEHAVIOUR TO IMPROVE ONLINE PURCHASING**

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**Keywords:** online consumer behavior, online purchase intention, online purchase adoption,

### **ABSTRACT**

The development of the internet as both a distribution and a communication channel has produced many opportunities for an extensive scope of online organization-customer interaction (Rose, Hair & Clark, 2011). Advances in technology have also created new innovative opportunities for online purchase in improving the way consumers are able to interact with businesses. It is crucial to understanding consumer behaviour in the online market, as well as in the physical world, in order to understand how individual consumers make purchase choices decisions (Chang, Cheung & Lai, 2004). That, is if online businesses know how the purchase decision is made, then they can analytically follow through in developing marketing strategies. Understanding the key drivers that may be slowing adoption has become a relevant topic for online businesses (van der Heijden, Verhagen & Creemers, 2002). In order for marketers and businesses to exploit the new medium of online markets requires understanding of how consumer behaviour and the consumer decision making process, as well as how these new technologies challenge the traditional assumptions which underpin conventional theories and models (Bandyopadhyay, 2009).

This research aims to empirically test an integrated framework for the study of online consumer behaviour. By analyzing the online consumer behaviour of 1200 online shoppers this research will provide new insights into online consumer behaviour and help companies improve their online performances in the developing online market. Multiple linear regression analysis and

moderated regression analysis will be used to test the effects of purchase intention on online purchasing.

According to Cheung *et al* (2003) early studies in online consumer behaviour largely sought to explore how consumers adopt and use online purchase specifically; the emphasis was on the antecedents of online consumer purchasing intention and adoption. Companies however, have started to realize that in the online market, competitors are just a click away. Initial adoption by consumers is only the first step towards overall success, and companies that succeed in their online initiatives are adept at creating and maintaining long-term sustainable relationships with loyal customers (Hellier *et al*, 2003; Tsai & Huang, 2007). Thus research in the consumer continuance behaviour (repurchase) becomes increasingly salient. The following research topics will be reviewed in order to gain a complete understanding for this research topic; postmodern consumers; the online environment; online purchase intention; online purchase adoption and lastly online purchase continuance.

Although researchers from a variety of business disciplines have made noteworthy advancements over the years, the scope of these studies is rather broad, the studies appear relatively fragmented with contradictory results and no unifying theoretical model has been found in this research area (Cheung, Zhu, Kwong, Chan & Limayem, 2003; Soopramanien & Robertson 2007). According to Cao and Mokhtarian, 2007; Kim, Galliers, Shin, Ryoo & Kim, 2012 as well as Cheung *et al*, 2003 no single theory appears capable of capturing the complexities of online consumer behaviour therefore this study will be based on integrating the following theories; the Theory of planned behaviour; the Theory of planned behaviour and the Technology acceptance model (Ajzen & Fishbein, 1980; Ajzen, 1991; Davis, 1993; Davis, 1989). These established theories highlight the significant contribution of consumers' attitudes, since attitudinal factors explain most of the variation in online consumer behavior.

The purpose on this study is to add real value to how firms and marketers will operate in the future by means of increasing profits as well as market share. In order for firms to correctly plan their online marketing strategies they require relevant valid information regarding how consumers view and feel towards the online environment. This will help businesses to provide

their customers with better product offerings as well as providing businesses with more insight into how customers operate in order to advance their strategic marketing.

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# **LEADERSHIP PRACTICES OF FIRST AND SECOND GENERATION FAMILY BUSINESS OWNERS AND THE CORRELATION WITH BUSINESS PERFORMANCE**

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**Keywords:** Family business, founders, successors, leadership practices, performance

## **INTRODUCTION**

Family businesses make an important contribution to economic growth and wealth creation in the world (Basu, 2004:13, Morck & Yeung, 2004:391; Astrachan & Shanker, 2003:212; Ibrahim, Soufani & Lam, 2001:245). South Africa is no exception in this regard, as Van der Merwe (1998: 3) points out that family business have been making a positive contribution towards the South African economy for the last 300 years.

Maas, Van der Merwe and Venter (2005:52) are of the opinion that, because of the important role family businesses perform in the South African economy, their survival is of the utmost importance. However, very few family businesses survive to the second generation and considerably less continue to the third (Bareither & Reischl, 2003:21; Lea, 1991:13). A large number of family businesses fail mainly as a result of inadequate succession planning (Bareither & Reischl, 2003:21; Lansberg, 1999:37) and lack of managerial competencies to remain or sustain a family business (Aronoff, Astrachan & Ward, 2002).

## **THE PROBLEM STATEMENT**

In the United States, only 30 percent of family businesses successfully transfer to the second generation and merely 12 percent survive to the third generation (Astrachan & Shanker, 2003; Tio & Kleiner, 2005; Bareither & Reishi, 2003). According to Maas (2005), the survival percentage of businesses in South Africa to the second and third generation is 30 percent and 10 percent respectively. The aim of the founding business owner to transfer the business to future generations is a key defining element of continuing a family business



(Astrachan & Shanker, 2003). The first generation family business leader is often perceived to be entrepreneurial in his or her leadership style.

However, in the case of the succeeding generation, there is lack of research concerning the style of leadership used by the successor in the family business (Cater & Justis, 2009). The specific problem is the succeeding generation might not have developed sufficient leadership practices to sustain the economic performance of the business. This study will analyse the leadership activities of founders and successors in family businesses.

## **PRELIMINARY LITERATURE REVIEW**

Researchers in family business literature acknowledge that leadership is vital to the success and survival of the firm (Fiedler, 1996; Chau, Chrisman & Steier, 2003). The process of leadership succession is far more important for family firms than nonfamily firms because of a stronger link to firm survival (Rubenson & Gupta, 1996; Morris, Williams, Allen & Avila, 1997; Aronoff *et al*, 2002). Leadership therefore, can be seen as a process of influencing the activities of an organised group in its efforts toward goal setting and goal achievement (Stogdill, 1950).

## **OBJECTIVES OF THE STUDY**

The main objective of the study, using a validated leadership index developed by Kouzes and Posner (2003a), is to determine the leadership practices in first and second generation family business owners and the correlation to performance.

## **ENVISAGED RESEARCH DESIGN AND METHODOLOGY**

Firstly, a literature review of the theoretical concepts of family businesses and leadership practices will be covered.

Secondly, the quantitative method is selected for this study because this method enables the use of a scientific approach to collect narrowly defined numerical data in an objective manner and a statistical analysis of the data (Creswell, 2005). The primary research design for the study is correlational research. Correlational research is an appropriate design for this study

because correlational analysis supported the assessment of the associations between and among variables without inferring cause and effect of variables (Creswell; Salkind, 2004).

## **MANAGERIAL IMPLICATION OF THE STUDY**

It is envisaged that the survival rate for family businesses could improve if the identification of successful leadership practices is distinguished. Founders may then encourage successors to take certain steps to develop such practices or otherwise consider the presence or absence of such practices when deciding on a successor.

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# **THE PERCEIVED SERVICE DELIVERY AND PRODUCTIVITY IN THE HOSPITALITY INDUSTRY**

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**Keywords:** food and beverage service employees, work life domains, quality of service deliver and productivity.

## **INTRODUCTION**

The satisfaction that employees experience at work, contributes to their quality of work life and in return job satisfaction is a major contributor to quality of work life that influences the quality of service delivery and productivity (Sirgy, Efraty, Siegel & Lee, 2001:241; Lau, 2000:426.) Customer satisfaction is a very important component for designing quality services (Victorino, Verma & Wardell, 2008:4). According to Seth, Deshmukh and Vrat (2004:913) quality of service delivery and productivity has been a major area of attention for practitioners, managers and researchers, seeing as it has a strong impact on business performance, lower costs, customer satisfaction, customer loyalty and profitability. The notion that good service is a result of employee satisfaction has nevertheless found little support in empirical research (Sturman & Way 2008:4). However the importance of good service delivery in the food and beverage industry is a vital component, as it directly influences customer satisfaction.

## **PROBLEM STATEMENT**

The purpose of this research will be to determine whether or not work life domains (job satisfaction, creativity, feelings and actualization issues) of food and beverage service employees, influence the quality of service delivery and productivity.

## **PRELIMINARY LITERATURE REVIEW**

Satisfied employees will offer superior service delivery as stated by Liao and Chuang (2004:41). According to Davis, Lockwood, Pantelidis and Alcott (2008:37) the food and

beverage service employees should complement the meal experience in a variety of ways including personal appearance and tempo of service delivery among others. The literature will explore the relationships between employee satisfaction through quality of work life resulting in improved quality of service delivery and productivity.

### **RESEARCH DESIGN AND METHODOLOGY**

A self-administrated questionnaire will be distributed among food and beverage service employees at selected establishments in Potchefstroom. A random stratified sampling method will be applied to collect the data. Data will be programmed into SPSS 20.0 (SPSS Inc., 2012) to ensure the accuracy of the results and Amos (Amos Development Company, 2009) will be utilised for the Structural Equation Model (SEM). The statistical analysis will include an exploratory factor analysis (EFA), reliabilities and a SEM to determine the influence of quality of work life domains on service delivery and productivity.

### **PRELIMINARY FINDINGS AND MANAGERIAL IMPLICATIONS**

This research will help to examine the importance of quality of work life and the influence that it produces on food and beverage service employees' quality of service delivery and productivity. The South African food and beverage industry will benefit from the research as it examines the influence of quality of work life satisfaction of employees in relation to the quality of the service delivery and productivity they provide in the food and beverages industry.

### **CONCLUSION**

Food and beverage service employees who are satisfied in the current working environments will be more likely to deliver a higher quality of service and be more productive, resulting in more satisfied customers. This is vital for the sustainability and competitiveness of the food and beverage industry.

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# NEED FOR UNIQUENESS AND WORD-OF-MOUTH: AN ANALYSIS OF PRODUCT INVOLVEMENT

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**Keywords:** Need for uniqueness, word-of-mouth, product involvement

## ABSTRACT

The relationship between consumers' need for uniqueness and their engagement in positive word-of-mouth will be studied across high and low involvement products using a sample of 3000 South African consumers. Cheema and Kaikati (2010) established a negative relationship between consumers' need for uniqueness and their engagement in positive word-of-mouth for publicly consumed products. The present study will adapt the existing model and test whether this relationship differs for high versus low involvement publicly consumed products as well as across gender.

Word-of-mouth is a driver of consumer behaviour that is highly valued by organisations as it is perceived to be highly credible and consequently more influential than traditional means of advertising in terms of receptiveness and persuasion of the consumer (Berger & Schwartz, 2011; Cheema & Kaikati, 2010; Simpson & Siguaw, 2008; Harrison-Walker, 2001). It is therefore vital that marketers are effective in stimulating word-of-mouth around their products, specifically positive word-of-mouth, in order to ensure the most value out of their promotional efforts, ultimately translating into product sales (Berger & Schwartz, 2011; Clark & Goldsmith, 2005; Mangold, Miller & Brockway, 1999).

However, it has been established that this isn't an option for all products among certain consumers. An inhibitor of positive word-of-mouth was identified for publicly consumed products and relates to one's need for uniqueness. Those consumers with a high need for uniqueness were found to be less likely to engage in positive word-of-mouth for publicly

consumed products they own, as others may then purchase them and ultimately reduce their uniqueness (Cheema & Kaikati, 2010).

This finding emphasises that characteristics of both the consumer and the product are influential in positive word-of-mouth engagement. Therefore this study will focus on further narrowing down which types of publicly consumed products these consumers are not likely to talk about by studying how this relationship between consumer's need for uniqueness and word-of-mouth engagement differs across publicly consumed high and low involvement products. Involvement has been shown to influence numerous consumer behaviours and therefore forms a critical marketing construct (Michaelidou & Dibb, 2008), it is therefore logical to expect that it may too influence this relationship.

This study has critical marketing implications as it identifies which products consumers with a high need for uniqueness are not likely to spread positive word-of-mouth for. Therefore investing resources into stimulating positive word-of-mouth for these products is not effective among these consumers. Organisations can also use information provided to identify which products they cannot rely on word-of-mouth for and will therefore have to find alternative ways to promote them in order to be successful.

Marketers can use this information to fine tune their marketing strategies effectively and appropriately for the different product categories, concentrating on stimulating positive word-of-mouth only for those products that are likely to be spoken about, by consumers who are likely to speak about them. Further, this has huge implications for high involvement products as these products rely on word-of-mouth to reduce the information search involved for these products as well as the risk and anxiety associated with the purchasing of these products (Xue & Zhou, 2011; Khammash, 2008; Harrison-Walker, 2001). Ultimately this study will aid marketers in tailoring effective marketing strategies for their products.



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# ACHIEVING BUSINESS SUCCESS THROUGH INTERPERSONAL INFLUENCE AND ITS PSYCHOLOGICAL MOTIVATION FACTORS

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**Keywords:** Consumer Behaviour. Opinion Leadership, Opinion Seeking, Brand Equity

## ABSTRACT

Contribution towards the economic development in a country could be attributed towards a firm improving its business success (sales growth and brand equity) in different industries and thus collectively developing those industries (Dayan, 2010). Sales success and brand equity are concepts both measured in order to determine the success and profitability of a company (Christodoulides & de Chernatony, 2009). Sales and profits are seen as essential elements for a business's success as they allow the organisation to continue doing business (Hawkins & Mothersbaugh, 2010). Sales growth is viewed as the firm achieving their sales target, which then in turn increases their market share as well as generates the sale of products with profitability in the long-term in mind (Dayan, 2010). Another indicator of a business's success is seen to be brand equity. Brand equity reflects consumer's attitudes towards a branded product which, if positive, could then lead to increased profits for the business (Slotegraaf & Pauwels, 2008).

Consumer behaviour is seen as one of the fundamental requirements of marketing. A common problem faced by marketers in trying to influence consumer behaviour is that traditional marketing efforts are seen as becoming less effective in influencing consumer behaviour, and are being replaced with forms of interpersonal influence such as seeking and giving information (Van Eck, Jager & Leeftang, 2011; Shoham & Ruvio, 2008; Steffes & Burgee, 2008).

The concepts opinion leadership and opinion seeking are seen as forms of interpersonal influence. These term describes two types of consumers namely, consumers who influence or

are influenced when purchasing a product respectively (Bertrandias & Goldsmith, 2006). Psychological motivations of opinion leaders and opinion seekers are seen as the need for uniqueness and attention to social comparison information (Goldsmith & Clark, 2007). Opinion leaders and opinion seekers and their motivations for buying a product are recognised to be increasingly important as individuals have been found to trust each other more than they would trust marketing campaigns (Shoham & Ruvio, 2008; Goldsmith & Horowitz, 2006).

According to Goldsmith and Clark (2007) and Bertrandias and Goldsmith (2006) the relationships between interpersonal influence and the psychological motivations factors have been established. Research explains that opinion leaders purchase products that display their unique identity and opinion seekers compare themselves to opinion leaders and seek out information and approval from them before purchasing a product (Workman & Kidd, 2000; Flynn, Goldsmith & Eastman, 1996).

The purpose of the study is to test the set of interpersonal influence factors opinion leadership and opinion seeking and the psychological motivations factors, need for uniqueness and attention to social comparison information, on the business success of a firm.

Although previous researchers have established positive relationships between interpersonal influence and the psychological motivations factors, researchers have failed to determine whether these relationships have any effect on a firm's business success (Slotegraaf & Pauwels, 2008; Goldsmith & Clark, 2007; Bertrandias & Goldsmith, 2006). This present study will investigate how interpersonal influence and its psychological motivations factors can contribute to improve business success of firms by focusing on the fashion and the technology industries. A sample of 500 South African consumers focusing on the two industries will be used. ANOVA's and regression analysis will be used in order to determine the relationships. Data will be gathered from the University of the Witwatersrand and through the social networking sight Facebook.

Marketing managers can utilize the findings in order to gain a competitive advantage in their industry. The overall business success of a firm in such industries is a prerequisite for overall economic growth in countries.

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