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SOUTHERN AFRICA

# SAIMS 2013 Conference Proceedings

Southern African Institute  
for Management Scientists

North-West University

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Slabbert | Petzer | Myburgh



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# 1

## Southern Africa

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# PREFACE

Dear participants

On behalf of the organising committee, it is my great pleasure to warmly welcome you to the 25th conference of the Southern Africa Institute for Management Scientists in Potchefstroom. This is indeed a prestigious event as we celebrate the 25 years of existence of this organisation. The theme “Celebrating 25 years of Management Resilience” highlights the continuous growth of this field of study and also challenges the future research opportunities thereof.

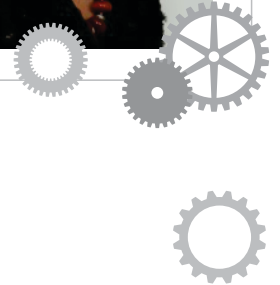
The conference is organised by (NWU) School of Business Management, with the aim to disseminate knowledge amongst academics, students, research scholars and industry partners. We wish this conference to be highly interactive by bringing together researchers of different management fields with the aim of collecting, exchanging and promoting the knowledge and new advances in Management Sciences. We hope that the papers presented in the conference will stimulate and inspire future studies in Management Sciences. The conference offers about 133 oral presentations by researchers from various national and international universities. Also make sure not to miss the events offered during the conference as this is where you have ample time to network with colleagues and exchange your fantastic ideas.

I take this opportunity to express my sincere thanks to the Conference Organising Committee. Each and everyone of you are a star and really carried your weight! Thank you to the SAIMS-Board for trusting us with this conference. A big word of thanks to the Scientific Committee, the Session Chairs, the Reviewers and the volunteers for their great efforts to make this conference possible. We thank all our sponsors for their continuous support in some cases and novel support in other cases. You made our task as organising team so much easier.

Many thanks to Oxford University Press, specifically Janine Loedolff and her fantastic team for making these conference proceedings the best ever. I am extremely proud of this publication.

Finally, we thank you for choosing to participate in the SAIMS-conference 2013. Happy readings.

**Prof Elmarie Slabbert**  
Conference Organiser





# MESSAGE

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) is a special one as SAIMS celebrates its 25th birthday.

Our proud hosts, the School of Business Management from the (NWU) has chosen as theme for the conference: “Celebrating 25 Years of Management Resilience”. Truly a thought provoking topic that challenges our paradigms as we will reflect on how management theory, research and practice has evolved over the past 25 years in an ever-changing global environment.

On behalf of the Board I want to seize this opportunity to Prof Elmarie Slabbert and her organising committee for arranging this, our prestige event. An event of this nature would of 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 2013 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 2013



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# REVIEW PROCESS

The SAIMS 2013 conference organising committee 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 25th Annual Conference to be held from 15-17 September 2013 in J. Chris Coetzee Building at North-West University. This was done through the official Call for Papers which was sent to all Universities concerned and published on the conference website.

All competitive (full) papers received were sent anonymously to two reviewers (Scientific Committee included) with the following request: "Attached please find a competitive paper that was entered for the SAIMS 2013 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 126 competitive papers sent to reviewers (114 reviewers), 87 were accepted; leading to a 69% 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. 2 authors decided to only publish an abstract of their full paper and deliver it as a work-in-progress. 65 work-in-progress papers were received and 55 were accepted.

Added to this process two special conference editions are published based on the review process of the conference: one edition for Management Dynamics with four selected quantitative conference papers and one edition for Acta Commerci with three selected conference papers. Prof C Boshoff manages the special edition of Management Dynamics and Dr G Goldman manages the special edition of Acta Commerci as they are the editors of these two respected journals. Their papers were not included in the conference proceedings.

A full list of the scientific committee for the competitive papers and the work-in-progress papers is included.

**Prof E Slabbert**  
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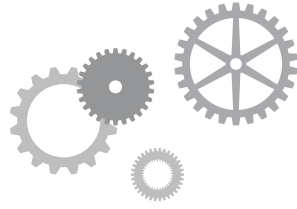
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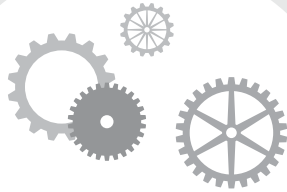
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## Section 1: Entrepreneurial Resilience

# THE IMPACT OF ENTREPRENEURIAL ORIENTATION ON THE PERCEIVED IMPLEMENTATION OF RETURN ON INVESTMENT IN CORPORATE TRAINING DIVISIONS OF SELECTED SOUTH AFRICAN BANKS

1



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## ABSTRACT

There is a requirement of banks to stay at the forefront of change and innovation, due to the fact that technological advancements and heightened competition are changing the face of banking as we know it. Corporate training divisions within the banking industry operate against the backdrop of a severe skills shortage within South Africa. Furthermore, the necessity of corporate training divisions to be able to show a return on investment for money spent on training is evident. Hence, there is a requirement of both the banking industry as well as corporate training divisions to function entrepreneurially. A relationship is evident in the literature between the performance of organisations, which is seen as a multidimensional construct and entrepreneurial orientation. The primary objective of this research study was to investigate the impact of entrepreneurial orientation on the perceived success of corporate training divisions within selected South African banks. The dimensions of entrepreneurial orientation assessed included *Innovativeness*; *Competitive Aggressiveness*; *Autonomy*; *Risk-Taking* and *Proactiveness*. For the purpose of this study, the *Perceived success* of the corporate training divisions was defined in terms of the perceived implementation of Return on Investment (ROI) measures. The respondents were identified by means of a convenience sampling technique, and the survey yielded 291 useable questionnaires from the training divisions in 14 banks in South Africa. To assess the validity and reliability of the measuring instrument, the data collected were analysed by means of an exploratory factor analysis and Cronbach alpha coefficients were calculated. The hypothesised relationships were assessed by means of Multiple Regression Analysis. The results show that *Competitive aggressiveness* and *Risk-taking* exert a positive influence on the perceived implementation of *Return on Investment* in the participating training divisions. There were no significant relationships between *Innovativeness* and *Autonomy* and the dependent variable perceived implementation of *Return on Investment*, respectively. Based on the findings of the empirical study recommendations were made to cultivate and foster entrepreneurial orientation within corporate training organisations within the banking industry.

## KEYWORDS

Entrepreneurial orientation, Return on Investment, Corporate training

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## INTRODUCTION

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Organisations must have the capacity to innovate faster than its competitors to be successful. This capacity is about identifying new ways of doing business, developing new technologies and products and entering new markets in new organisational forms (Teng, 2007: 119). The relentless pressures of competition stemming from, for instance globalisation and technological changes today are increasingly hampering the success of organisations (Seshadri & Tripathy, 2006: 17). One of the pathways for organisations to weather these storms is to unleash the entrepreneurial spirit hidden or suppressed in employees. Therefore, intrapreneurship is a major driver for organisations' renewal or reinvention (Seshadri & Tripathy, 2006: 17).

Miller (1983: 771) provided an early definition of entrepreneurial orientation. It was stated that an entrepreneurial organisation or being entrepreneurially orientated is one that engages in product market innovation, undertakes somewhat risky ventures and is first to come up with proactive innovations, beating competitors to the punch. Covin and Lumpkin (2011: 857) stated that an entrepreneurial orientation may be understood as a usually general or lasting direction of thought, inclination or interest pertaining to entrepreneurship. A firm that is willing to pursue opportunities, initiate actions rather than react to the actions of others and emphasise new and innovative products and services can be described as an entrepreneurial organisation (Van Aardt, 2008: 14).

The relationship between entrepreneurial orientation and performance has been proven in research (Sharma & Dave, 2011: 50). An entrepreneurial orientation refers to the processes, practices and decision-making activities that lead to new entry. New entry can be accomplished by entering new or established markets with new or existing goods or services (Lumpkin & Dess, 1996: 136). Huang, Wang, Chen and Yien (2011: 3051) concur with this view and added that organisations with high levels of entrepreneurial orientation tend to scan and monitor their operating environment constantly to find new opportunities and to increase competitive advantage. Research has shown a positive linkage of entrepreneurial orientation and performance for established organisations (Su, Xie & Li, 2011: 573). Furthermore, research performed by Zhao, Li, Lee and Chen (2011: 310) found that entrepreneurial orientation was positively related to experimental learning within organisations. Experimental Learning is associated with learning to transform, extend, and exploit the organisation's existing internal knowledge.

Covin and Lumpkin (2011: 857) further advised that it is an organisation's actions that make it entrepreneurial and that behaviour may be seen as the central and essential element in the entrepreneurial process. Elements referring to an organisation's character may be associated with entrepreneurial orientation, but it does not define it. Furthermore it must also be noted that the most commonly employed entrepreneurial orientation measure, what has become known as the Miller/Covin and Slevin scale, incorporates both constructs of behaviours and character (Covin & Lumpkin, 2011: 858).

In South Africa, large organisations contribute approximately two-thirds of the gross national product and many of the top listed organisations have the necessary competitive advantage to compete internationally (Van Aardt, 2008: 12). In doing so, they earn valuable income for the country. Furthermore, entrepreneurial organisations practice entrepreneurial skills and approaches within the company in order to ensure continuous organisational innovation. Therefore, intrapreneurship or corporate entrepreneurship is seen as a critical requirement for organisations to keep its competitive advantage and ultimately survive in the rapidly changing corporate environment.

The purpose of this study is therefore; to investigate the influence of an entrepreneurial orientation in selected training divisions of South African banks on the perceived success of these divisions, as measured by the perceived implementation of return on investment measures within these divisions. The validity and reliability of the measuring scale will be investigated by means of an exploratory factor analysis and by calculating Cronbach alpha coefficients. Thereafter, the relationship between entrepreneurial orientation and the perceived implementation of return on investment measures of the selected corporate training divisions in the banking industry will be investigated by means of multiple regression analyses.

Subsequently, the problem statement, the operationalisation of variables, the research methodology, results and the discussion thereof are presented in the sections to follow. Thereafter the conclusions and recommendations, the limitations of this study, and guidelines for further research are given.

## **PROBLEM STATEMENT AND OBJECTIVES**

The South African banking industry's growth projections are slow but stable. Although there are reasons to be optimistic over a multi-year time horizon, the domestic macroeconomic environment is not particularly encouraging at present (Anon., 2012a: 1). Therefore, competition in the banking industry is heightened, coupled with a requirement to be more innovative and entrepreneurial. Competition on market share within the banking industry is rife, especially among the four leading banks: Absa bank; Standard bank; Nedbank and First National bank (FNB) (Kamhunga, 2011: 14). The banking industry is placed under further pressure following the downgrade of the senior debt and deposit ratings of five SA banks (namely the Standard bank group; Absa bank; FirstRand; Nedbank and Investec) by credit ratings agency, Moody's Investors Service (Anon, 2012b).

Innovation is seen as a primary weapon in banks' arsenal to increase and retain market share. "Innovation will separate the winners from the losers" ABSA deputy CEO Louis von Zeunder says of banks' attempts to be first to market with a selection of innovative products (Kamhunga, 2011: 14). Michael Jordaan, FNB CEO says that technology is changing the way the world operates, and banks have to adapt. "The role of innovation for us as a bank is that we need to adapt to the constant changes in our environment to remain relevant in the game of technology, which has changed the way the world operates and how people respond to things" he says (Kamhunga, 2011: 14). Therefore, the need for innovation and entrepreneurship within the banking industry has reached heightened proportions.

Innovation is seen as a key requirement for banks. Trade finance innovation has been seen as essential for the competitiveness of commercial banks (Yuan, Tan & Li, 2008: 40). However, this also brings about risks from three aspects, namely market innovation, institutional innovation and portfolio innovation that needs to be managed effectively. According to Young (2012: 1), banks play an important part in the world economy, which became clear during the recent global financial crisis where a number of banks were liquidated. Such losses could occur again if banks cease to perform their central role in the economy, and it is therefore imperative that banks maintain their future growth but at the same time ensure a sound risk management approach (Young, 2012: 1).

Furthermore, innovation is also a key requirement within corporate training divisions. To an unprecedented degree, this is the era of educational entrepreneurship (Hess, 2007: 21). Human resource development departments, including the training divisions, need to take heed thereof (Sussman & Kuzmits, 1986: 42) and the fact that the need for human resource departments to operate entrepreneurially is increasing. Educational entrepreneurship is defined as a process of purposeful innovation aimed at improving productivity or quality within education (Hess, 2007: 21).

A study performed by Morris and Jones (1993: 890) provided evidence that the overall orientation of human resources management policies, which includes training, has an impact on the level of entrepreneurship demonstrated within an organisation. The construct training, it appears, should include some group characteristics and should not only focus on the individual level to positively impact the level of entrepreneurship. Research performed by Wolff and Pett (2007: 6) provide evidence to support the argument that entrepreneurial orientation serves to amplify or focus the effects of learning and knowledge accumulation, which in turn yields higher levels of business growth.

Research has proven that when training covers a large proportion of the workforce, it also appears to have beneficial effects on the financial performance of the organisation as well as productivity (Jones, Jones, Latreille & Sloane, 2008: 26). Pineda (2010: 673) highlighted the fact that training is also seen as a key strategy for human resources development in supporting organisations to achieve their business objectives.

Therefore, the importance of entrepreneurship within training divisions is clear, providing positive impact on business performance and experiential learning. However, not enough research has been performed on assessing the entrepreneurial orientation within corporate training divisions and in particular in the banking industry. This study aims to add to the body of knowledge in this regard. The primary objective of this study was, therefore, to investigate the impact of entrepreneurial orientation on the perceived implementation of Return on Investment measures as a success measure of corporate training divisions within selected South African banks.

## **OPERATIONALISATION OF VARIABLES**

The dimensions measuring entrepreneurial orientation used in this study concur with those found in the literature (Covin & Lumpkin, 2011: 857; Antoncic & Hisrich, 2001: 495; Zahra, Jennings & Kuratko, 1999: 51; Lumpkin & Dess, 1996: 139-140; Covin & Slevin, 1989: 76), and include the constructs innovativeness, proactiveness, risk-taking, autonomy and competitive aggressiveness. The initial constructs as identified by Covin and Slevin (1989: 77) namely innovativeness, risk-taking and proactiveness are used as well as the additional two as identified by Lumpkin and Dess (1996: 139-140) namely autonomy and competitive aggressiveness. For the purpose of this study, these five dimensions will be considered as independent variables influencing the dependant variable, the perceived implementation of Return on Investment measures, within corporate training divisions.

Research revealed a number of success factors of training programs which have been extrapolated into the success of corporate training divisions. Kirkpatrick (1979: 89) postulated that reaction of participants to the learning, measuring knowledge and skills acquired, and application in the workplace is the starting point for measuring the impact of learning programs. Furthermore, the objectives of most training programs may be stated in terms of business results desired (Kirkpatrick, 1979: 89). Business results may include reduction of costs, reduction of staff turnover and absenteeism, reduction of grievances or an increase in quality and quantity of production. Phillips (1996: 20) expanded on the four levels above, by converting the results of training to a monetary value and comparing this to the cost of the learning programme. Phillips therefore advocated the calculation of the return on investment of learning programs. Furthermore, Garvin, Edmondson and Gino (2008: 109) have specified three building blocks for a learning organisation, namely a supportive learning environment, concrete learning processes and leadership that reinforces learning. For the purpose of this paper, the perceived application of the Return on Investment (ROI) construct developed by Phillips (1996: 20) will be used as the dependent variable measuring the perceived success of the division.

## Dependent variable: Perceived application of Return on Investment

In a recent study done in India (Srimannarayana, 2011: 125) on the measures to be used to evaluate training and development, it was found that although learning professionals are aware of the value of measuring return on investment, they are not being used to evaluate training programs. Performance improvements made after training is considered as the most valuable measure for training, but feedback from learners (learner reaction) are measured routinely (Srimannarayana, 2011: 121-122).

Phillips (1996: 20) advocates that evaluation on the effectiveness of training is not complete until the return on investment calculation has been done and the training results have been converted to a monetary value and compared to the cost of the training program. Phillips provided a basic formula for the calculation of return on investment of training programs (Phillips, 1996: 20). First, level 4 evaluation data needs to be collected as postulated by Kirkpatrick (1979: 78), which covers the business impact of the training. The question needs to be asked whether on-the-job application produced measurable results. Then the effects of training need to be isolated from other factors that may have contributed to the results. The results need to be converted to monetary benefits. The total cost of training needs to be determined and the monetary benefits needs to be compared with the cost of the training program. However, non-monetary benefits are also included as additional evidence of the training program's success. Although return on investment was not assessed directly in corporate training divisions, the basic formula of Phillips was used as constructs to assess the perception of training employees whether their divisions are implementing these measures within their training divisions.

## Independent variables

### Innovativeness

Innovativeness has been regarded as an essential part of entrepreneurship since 1942 when Schumpeter argued that the competitive entry of innovative new combinations of products and services into a marketplace advanced society by disrupting the existing market (cited by Lumpkin & Dess, 1996: 142). Researchers have distinguished between two main categories of innovation, namely product and process innovation (Rametsteiner & Weiss, 2004: 4; Edquist, 2001: 7).

Lumpkin and Dess (1996: 142) defined innovativeness as it pertains to entrepreneurial orientation as an organisation's propensity to engage in and support new ideas, novelty, experimentation and creative processes that may result in new products, services or processes. Short, Payne, Brigham, Lumpkin and Broberg (2009: 13) concur with this definition. Scheepers, Hough and Bloom (2007: 241) further stated that innovativeness pertains to the creation of new products, services and technologies. Nybakk and Hansen (2008: 474) as well as Wiklund and Shepherd (2005: 75) concur with this view, and added that these organisations departed from the established practices and technologies. Bhardwaj, Agrawal and Momaya (2007: 49); Antoncic and Hisrich (2001: 498) and Covin and Slevin (1991:10); also agree with this definition and added that the innovativeness dimension of entrepreneurial orientation refers to product and service innovation with emphasis on the development and innovation in technology. Innovativeness and certain willingness to change are central aspects in examining entrepreneurial orientation (Weismeyer-Sammer, 2011: 131). Innovativeness focuses on the search for creative and meaningful solutions to individual and operational problems (Darling, Gabriellson & Seristö, 2007: 5).



Goosen, de Coning and Smit (2002: 22) state that innovative organisations develop strong, positive market reputations. These organisations adapt to market changes and exploit markets or opportunity gaps. Sustained innovation further distances entrepreneurial organisations from their industry rivals and thus increases financial returns. Entrepreneurial organisations are by definition also more proactive than traditional organisations and their quick market response provides added competitive advantage (Goosen et al., 2002: 22).

Research postulates that emerging market organisations rely more on sustainable product innovativeness, innovative management systems, and international expansion as ways to enhance their strategic competitiveness (Yiu & Lau, 2008: 50). Innovativeness can be a source of competitive advantage for an organisation (Goosen et al., 2002: 22). Therefore, innovativeness has been an essential part of entrepreneurship for many years, and it has been proven that financial returns and strategic competitiveness is enhanced by innovativeness. The relationship between innovativeness and organisational performance presents the greatest degree of consensus (Casillas & Moreno, 2010: 269). For instance Rauch, Wiklund, Lumpkin and Frese (2009: 782); Avlonitis and Salavou (2007: 573) as well as Wiklund and Shepherd (2005: 85) all found a positive relationship between innovativeness and business performance.

**There seems to be sufficient anecdotal evidence to formulate the following hypothesis:**

**H<sup>1</sup>:** There is a significant relationship between Innovativeness and the perceived application of Return on Investment (ROI) measures within corporate training divisions.

### **Risk-taking**

Risk-taking is associated with the risk-return trade-off that is common in financial analysis (Short et al., 2009: 14). Generally risk-taking refers to bold actions taken in the face of uncertainty. Risk-taking is reflected by the willingness of owners or managers to commit a large percentage of an organisation's resources to new projects and to incur heavy debt in the pursuit of opportunity (Lumpkin & Dess, 1996: 144; Miller, 1983: 780). Baker and Sinkula (2009: 447) concur with this view. Risk-taking according to Covin and Slevin (1991: 10) is defined as venturing into unknown territory or circumstances without knowing what the results will be.

Covin and Slevin (1991: 10) further advocate that risk-taking refers to investment decisions and strategic actions in the face of uncertainty. Lumpkin and Dess (1996: 144) defined risk-taking as a sense of uncertainty and the probability of loss or negative outcomes coupled with a high leverage from borrowing and heavy commitment of resources. Scheepers et al. (2007: 241) define risk-taking as the willingness to commit significant resources to opportunities with a reasonable chance of costly failure. These risks are typically calculated and manageable.

According to Scheepers, Hough and Bloom (2008: 58), three items assess the relative risk-taking propensity of an organisation: the degree of risk (low versus high) of projects; the strategic posture (wait-and-see or bold and aggressive) of the organisation and the type of behaviour to achieve goals (cautious versus bold). Mullins and Forlani (2005: 47) demonstrated that risk-taking is situation specific with respect to the magnitude of loss or gain and the likelihood of loss or gain.

Regarding risk-taking within organisations, Mayer, Davis and Schoorman (1995: 721) are of the opinion that employees should be allowed and encouraged to take risks, and this requires more than the delegation of autonomy. Mutual trust and commitment depend heavily on the emotional attachment of the intrapreneur to their organisation which is in addition to their ability and integrity.

Bulut and Alpan (2006: 66) postulate that management needs to create a strong entrepreneurial climate in the organisation – one that has management support, participation in strategic plans, autonomy, resource allocation and a tolerance for risk-taking. Research has shown that moderate risk-taking is considered best for the maximum outcome of corporate entrepreneurship efforts (Bhardwaj et al., 2007: 56).

Mullins and Forlani (2005: 47) when comparing their findings with previous research found that it is unlikely that corporate managers would ever be pioneering risk-takers, even though they are not risking their own money. Corbett and Hmieleski (2007: 111-112) agree with this view. It was speculated that the difference in decision-making is likely to be related to the differing motives between independent entrepreneurs and corporate managers.

Research found that calculated risks that were planned and moderated had positive outcomes in terms of the organisation's performance whereas risk-taking that involved bold acts were considered by respondents to have negative effects on the organisation's performance in three of the four industries surveyed (Coulthard, 2007: 9). The assumption is that an entrepreneur takes calculated economic risk, but also maximises profit by bearing in mind the state of uncertainty caused by the possibility of failure (Vesala, Peura & McElwee, 2007: 52).

**Hence, the following hypothesis is formulated:**

**H<sup>2</sup>:** There is a significant relationship between Risk-taking and the perceived application of Return on Investment (ROI) measures within corporate training divisions.

### **Proactiveness**

Proactiveness refers to acting in anticipation of marketplace changes or future needs and problems (Short et al., 2009: 14). Van Geenhuizen, Middel and Lassen (2008) agree and are of the view that corporate entrepreneurs take initiative and act on possible future problems, needs or changes. Lumpkin and Dess (1996: 146) further defined proactiveness as taking initiative by anticipating and pursuing new opportunities and by participating in emerging markets. Sharma and Dave (2011: 46) concur and add that taking initiative and participating in emerging markets have become associated with entrepreneurship.

Sharma and Dave (2011: 47) further postulate that proactive organisations are leaders rather than followers; as such an organisation has the will and foresight to seize new opportunities, even if the organisation is not always first to market. Proactiveness has to do with how an organisation relates to market opportunities in the process of new entry (Sharma & Dave, 2011: 47). This may be accomplished by seizing initiative and acting opportunistically in order to shape its environment through influencing trends and even to create demand.

Venkatraman (1989: 949) defined proactiveness as seeking new opportunities which may or may not be related to the present line of operations; the introduction of new products and brands ahead of the competition and to strategically eliminate operations which are in the mature or declining stages of its life cycle. Knight (1997: 214) added that proactiveness is the opposite of re-activeness and is associated with aggressive posturing relative to competitors. The concept further refers to the extent to which organisations attempt to lead rather than follow competitors in critical business areas such as the introduction of new products or services, operating technologies as well as administrative techniques (Antoncic & Hisrich, 2001: 499).

Covin and Slevin (1991: 7) further felt that proactiveness was reflected in the organisation's inclination to aggressively and proactively compete with industry rivals. Antoncic and Hisrich (2001: 499) agreed with this statement and added that proactiveness further includes initiative, risk-taking and boldness that are reflected in orientations and activities of top management. The proactiveness dimension reflects top management orientation in pursuing enhanced competitiveness. Antoncic and Hisrich (2001: 499) included competitive aggressiveness and boldness as components of proactiveness.

Proactiveness is included as a construct of entrepreneurial orientation since entrepreneurs will, rather than letting opportunities lay idle, rather aim at exploiting business opportunities (Kollmann, Christofor & Kuckertz, 2007: 331). Rauch et al. (2009: 778) found that proactiveness, together with innovativeness and risk-taking are of equal importance in explaining business performance. Furthermore, Casillas and Moreno (2010: 270) found that proactive businesses revealed superior performance.

**Sufficient research evidence therefore exists to formulate the following hypothesis:**

**H<sup>3</sup>:** There is a significant relationship between Proactiveness and the perceived application of Return on Investment (ROI) measures within corporate training divisions.

### **Autonomy**

Autonomy is traditionally seen through the formation of new and independent ventures (Lassen, Gertsen & Riis, 2006: 361). However, the construct was developed predominantly as a characteristic of the individual as opposed to the organisation (Antoncic & Hisrich, 2003: 18). On an individual level, autonomy refers to employees' direction and the extent to which they are empowered to make decisions on the performance of their own work, in the way it is believed to be most effective (Scheepers et al., 2007: 242). This freedom helps employees to function autonomously and solve work-related problems in unconventional ways (Scheepers et al., 2008: 68).

Autonomy may also be viewed as an internal condition that influences the organisational climate (Scheepers et al., 2007: 241). The development of autonomy allows intrapreneurs who are intent on innovation to pursue risky but innovative projects and with the aid of organisational resources (specifically time allocated for these types of projects) to increase an entrepreneurial climate within the organisation (Hornsby, Kuratko & Zahra, 2002: 266; Souder, 1981: 19).

Therefore, autonomy is also considered to be an essential part of entrepreneurial acts, and refers to carrying the entrepreneurial vision through to completion (Lumpkin & Dess, 1996: 140). Autonomy is defined by Lumpkin and Dess (1996: 140) as both a willingness and an ability to work independently when acting on an opportunity or implementing an entrepreneurial vision. Van Geenhuizen et al. (2008) concur with this viewpoint.

Autonomy is therefore regarded as an important factor if an organisation wishes to develop entrepreneurially (Scheepers et al., 2007: 252) and facilitates corporate entrepreneurial activities (Hough & Scheepers, 2008: 19). As long as aspiring intrapreneurs experiences opportunities of self-determination and has freedom and autonomy to make decisions and take actions to exercise influence in their role, satisfaction can be experienced through self-imposed projects (Menzel, Aaltio & Ulijn, 2007: 737).

Autonomy should be varied according to the type of entrepreneurship sought by the organisation. Incremental innovation can occur in more restrained environments while discontinuous innovation requires considerable autonomy (Morris, Van Vuuren, Cornwall & Scheepers, 2009: 435).

Lumpkin and Dess (1996: 140) postulated the inclusion of autonomy as a dimension of entrepreneurial orientation, however not many studies have assessed autonomy as a construct of entrepreneurial orientation (Lumpkin, Cogliser & Schneider, 2009: 48). Therefore the relationship between autonomy and business success has not been deliberated. Autonomy is however considered to be an essential part of an entrepreneurial orientation (Short et al., 2009: 12) and research has proven a strong relationship between entrepreneurial orientation and the performance of the organisation (Sharma & Dave, 2011: 50).

**Therefore in view of the aforementioned arguments, the following hypothesis is formulated:**

**H<sup>4</sup>:** There is a significant relationship between Autonomy and the perceived application of Return on Investment (ROI) measures within corporate training divisions.

### **Competitive aggressiveness**

Competitive aggressiveness has been defined by Lumpkin and Dess (1996: 140) as the propensity to directly and intensely challenge its competitors to achieve entry or an improved position. This definition is supported by Wang (2008: 637); Lassen et al. (2006: 362) as well as Antoncic and Hisrich (2003: 15) who further purported that the reason for competitive aggressiveness is to outperform its rivals in the marketplace. There is therefore a strong focus on outperforming competitors. Competitive aggressiveness has been interpreted by some scholars as competitive preparedness (Van Geenhuizen et al., 2008).

In contrast to other researchers, such as Covin and Slevin (1991: 25), it was Lumpkin and Dess's (1996: 137) contention that an organisation's competitiveness represented the level of intensity of the organisation's efforts to compete while proactiveness represented an organisation's forward-looking, leadership view of the marketplace and future demands. Slotwinski (2010: 36) concurs with this view.

Research performed by Lumpkin and Dess (2001: 446) revealed that in more mature industries, where few opportunities remain and rivalry has become very fierce, competitive aggressiveness may enhance an organisation's efforts to maintain a strong position relative to its competitors. In contrast thereto, with organisations in early industry stages, aggressive behaviours such as seeking market share position at the expense of cash flow and profitability are not likely to be associated with high performance (Venkatraman, 1989: 948).

Research findings of Knight (1997: 218) found empirically that competitive aggressiveness and risk-taking should be included in the same dimension with proactiveness when assessing entrepreneurial orientation. Antoncic and Hisrich (2001: 499) concur with this view. Competitive aggressiveness has generally not been investigated as a dimension of entrepreneurial orientation, mainly due to the fact that, similar to autonomy, this dimension was added on later by Lumpkin and Dess (1996: 140) and due to the fact that most researchers who follow the entrepreneurial orientation approach (Knight, 1997; Miller & Friesen, 1982) have not distinguished between competitive aggressiveness and proactiveness, whereas scholars that follow the corporate entrepreneurship approach (Zahra, 1993) usually ignore these two intrapreneurship dimensions.

Lumpkin and Dess (1996: 139) noted that proactiveness and competitive aggressiveness can be considered as two distinct dimensions of organisational level entrepreneurship. Such delineation is due to the fact that proactiveness relates to pioneering in seizing market opportunities whereas competitive aggressiveness is associated with an aggressive organisational relationship to its competitors. Proactiveness is thus a response to opportunities where competitive aggressiveness is a response to threats (Lumpkin & Dess, 1996: 139). Antoncic and Hisrich (2003: 18) concur with this view.

**Therefore the following hypothesis will be tested further:**

**H<sup>5</sup>:** There is a significant relationship between Competitive aggressiveness and the perceived application of Return on Investment (ROI) measures within corporate training divisions.

## RESEARCH METHODOLOGY

### Measuring instrument used

The empirical study was done by using and adapting a questionnaire developed by Lotz and Van der Merwe (2013: 187) to measure the independent variables measuring entrepreneurial orientation within the corporate training divisions of selected South African banks. Lotz and Van der Merwe (2013: 187) designed a questionnaire founded on the entrepreneurial orientation items as identified by Lumpkin and Dess (2001: 442). The questionnaire measures five constructs of entrepreneurial orientation. This includes: autonomy; innovation; risk-taking; proactiveness and competitive aggressiveness. With regards to the dependent variable in this study measuring the perceived application of Return on Investment (ROI) measures within corporate training divisions, the basic formula developed by Phillips (1996: 20) was used.

A five-point Likert scale was used, with responses ranging from 1 = totally disagree to 5 = totally agree indicating the respondents' opinion about a specific question or statement. Rensis Likert invented the Likert scale in 1931, and the Likert scale is used to assess respondent attitudes (Carrasco, Leiva, Fernández & Cabanillas, 2012: 11536).

### Study population

The study population consists of a total of 1075 employees working in the corporate training divisions within Absa bank; First National bank; Nedbank; Standard bank; African bank; BankservAfrica; Bidvest; Capitec; Development bank of South Africa; Investec; Land bank; Mercantile; Sasfin and the South African Reserve bank. Employee levels within the organisation range from general staff, junior management, middle management and senior management to executives.

### Gathering of data

The research department of the Bankseta provided the names and e-mail addresses of the skills development facilitators within the banks. The skills development facilitators were all e-mailed and the intended research set out. Confidentiality of respondents was assured. It was also mentioned that the banks would not be compared to one another in the research conducted. The fact that the Bankseta supported the research was also mentioned in the e-mail, and the fact that research findings would be shared with the Bankseta and the Learning and Development Community of Practice, South Africa was specified. The skills development facilitators were asked to obtain

agreement from their heads of learning that the research may be conducted. The questionnaire was included in the e-mail in word format. No objections to the research were received from any of the skills development facilitators. The skills development facilitators distributed the e-mail to the employees within the training divisions of the banks. The survey was also placed on LinkedIn as well as on the Learning and Development Community of Practice, South Africa website for completion by any employees within corporate training divisions within the banks under review as part of the survey. The electronic medium that was used for the gathering of the data was Questionmark™ Perception™. The use of the electronic medium was to assist with the ease of distribution and collection of the data. From the target population of 1 075 a total of 291 questionnaires were completed, which provides a response rate of 27.07%.

### Statistical analysis

The frequency with regards to the biographical information of respondents (age group classification; gender; race group; grading within the organisation and highest academic qualification) were assessed. Factor analysis was used to determine the validity of the measuring instrument. This was followed by measuring the reliability of the data by determining the Cronbach alpha coefficients. Multiple regression analysis was used to determine the relationship between the independent and dependant variables. The analysis was performed by using Statistica (Statsoft, 2011) and SPSS (SPSS, 2011).

## RESULTS AND DISCUSSION

### Demographic information of respondents

Demographical information was collected from respondents regarding their age group; gender; race; grading within the organisation and highest academic qualification. From the results of the questionnaire, the following deductions could be made regarding the demographic information of respondents:

- The majority of the respondents (46%) fall between the ages of 30 and 39 years. About an equal percentage of respondents fall between 40 and 49 years of age (22.7%) and younger than 29 years of age (19.6%). It would appear that the corporate training industry attracts young individuals, with 65.6% younger than 40 years. Only 11% of the respondents were between 50 and 59 years of age, with only 0.7% being 60 years or older and is probably close to retirement.
- Most of the respondents were female (70.4%), which is consistent with research proving that women are dominant in the educational services industry (Dehne, 2009).
- The majority of the respondents in the selected corporate training divisions are white (45%), 24.4% are black and 18.6% are coloured with only 12% being Indian.
- Most of the employees are general staff (43%) and the minority executives (1%). This is consistent with the general pyramid-shaped structure of most corporate organisations, with the majority of employees on the lower levels and fewer employees higher up in the organisational structure.
- The results showed a good spread of highest qualifications by the respondents. The majority of respondents have a diploma (25.1%) and 21.6% have any certificate. Of the respondents 23% have a post-graduate degree and 16.2% an undergraduate degree. In total, 85.9% of the respondents have a post-matric qualification, with 39.2% with a degree or higher qualification. Only 0.3% of the respondents have qualifications lower than a matric, which is consistent with the notion that most banks only employ staff with at least a matric qualification.



## Construct validity and reliability of the measuring instruments

To assess the discriminant validity of the 27 items measuring the entrepreneurial orientation of employees within corporate training divisions of selected South African banks, an exploratory factor analysis was conducted. Two tests, namely Bartlett's test of sphericity and the Kaiser-Meyer-Olkin measure of sampling adequacy were considered important in determining the appropriateness of the data for factor analysis (Gürbüz & Aykol, 2009: 327). The data measuring the entrepreneurial orientation yielded a sampling adequacy of 0.943 and the Bartlett's test of sphericity yielded a p-value of smaller than 0.001, indicating that patterns of correlations are compact and that factor analysis should yield reliable factors (Field, 2009: 647).

An Oblimin oblique rotation was performed on the principal components of the exploratory factor analysis. To determine the number of factors to be extracted, Kaiser's criterion was used, namely to retain factors with eigen-values greater than one (Field, 2009: 647). A total of 26 items demonstrated sufficient discriminant validity by loading to a sufficient extent. The loading of one item, namely Proactiveness1 was not significant (below the value of 0.35) and was therefore excluded (Hair, Anderson, Tatham & Black, 1998). The factor matrix of the remaining 26 items is provided in table 1.

Applying the factor extraction criterion that the eigen-values must be greater than one (Davis, 2005: 446), four factors were extracted in the exploratory factor analysis explaining 48.53% of the variance before rotation. After rotation, these factors could be identified as the theoretical dimensions of Innovativeness, Competitive aggressiveness, Autonomy and Risk-taking. Proactiveness as a factor on its own was therefore excluded.

**Table 1:** OBLIMIN ROTATED FACTOR MATRIX: ENTREPRENEURIAL ORIENTATION <sup>(1)</sup>

Item <sup>(2)</sup>	Factor 1: Innovativeness	Factor 2: Competitive Aggressiveness	Factor 3: Autonomy	Factor 4: Risk-taking
Innovativeness7	0.794	-0.011	-0.008	0.015
Innovativeness2	0.767	-0.069	0.090	0.132
Innovativeness4	0.737	-0.059	-0.048	-0.068
Innovativeness8	0.577	-0.028	0.156	-0.069
Innovativeness3	0.569	0.006	0.006	-0.049
Innovativeness1	0.559	-0.062	0.021	0.016
Innovativeness5	0.521	0.074	-0.098	-0.180
Proactiveness3	0.490	-0.327	0.077	0.008
Innovativeness6	0.393	-0.137	0.176	-0.133
Innovativeness9	0.369	-0.057	0.126	-0.193
Comp. Aggressive3	-0.097	-0.818	-0.049	-0.108
Comp. Aggressive2	0.035	-0.789	-0.058	-0.037
Comp. Aggressive1	0.028	-0.740	-0.023	-0.012
Proactiveness2	0.128	-0.526	0.138	-0.007
Proactiveness4	0.264	-0.437	0.106	0.048
Comp. Aggressive4	0.009	-0.416	0.231	-0.079
Autonomy1	-0.102	-0.009	0.649	-0.047
Autonomy4	0.204	-0.088	0.590	0.131
Autonomy3	0.046	-0.115	0.518	-0.104
Autonomy2	0.364	0.034	0.502	-0.062
Autonomy5	0.003	0.048	0.447	-0.180
Risk-taking5	0.076	-0.043	0.155	-0.586
Risk-taking4	0.088	0.042	0.216	-0.551
Risk-taking3	0.130	-0.160	-0.011	-0.530
Risk-taking2	0.038	-0.220	0.015	-0.520
Risk-taking1	0.148	-0.232	0.037	-0.430
<b>Cronbach alpha coefficient</b>	<b>0.890</b>	<b>0.890</b>	<b>0.890</b>	<b>0.890</b>

<sup>(1)</sup> Loadings greater than 0.35 were considered significant

<sup>(2)</sup> The items included in the factor analysis are provided in Appendix 1



Factor one, labelled *Innovativeness*, comprised of ten items. Nine items (Innovativeness7; Innovativeness2; Innovativeness4; Innovativeness8; Innovativeness3; Innovativeness1; Innovativeness5; Innovativeness6; Innovativeness9) that were used to measure the latent variable Innovativeness loaded onto factor one. One item (Proactiveness3) relating to the latent variable Proactiveness, were also included in factor one. This item was regarded by the respondents as being related to the factor Innovativeness. For the purposes of this study, Innovativeness refers to the regular introduction of new products/services/processes, the increase in the number of product/service offerings during the past two years as well as the extent to which these new products/services/processes have been transformational.

Factor two, labelled *Competitive aggressiveness*, comprised six items. Four of the six items that were originally intended to measure Competitive aggressiveness (Competitive Aggressiveness3; Competitive Aggressiveness2; Competitive Aggressiveness1; Competitive Aggressiveness4) loaded onto the factor Competitive aggressiveness as expected. Two of the six items that were originally intended to measure the latent variable Proactiveness (Proactiveness2 and Proactiveness4) also loaded onto factor 2. Research shows that Antoncic and Hisrich (2001: 499) viewed competitive aggressiveness and boldness as components of proactiveness. These two items (Proactiveness2 and Proactiveness4) were however regarded by the respondents as being related to the factor Competitive aggressiveness, and it was therefore combined together with the factor Competitive aggressiveness. This factor was labelled Competitive Aggressiveness. In this regard, Competitive aggressiveness refers to when an aggressive posture is assumed not only against competitors, but also any industry or market trends that may compromise survival or competitive position.

The third factor, which comprised of five items, was labelled *Autonomy*. All five factors that were originally intended to measure the latent variable Autonomy (Autonomy1; Autonomy4; Autonomy3; Autonomy2; Autonomy5) loaded onto the factor Autonomy. For the purposes of this study, Autonomy refers to employees being encouraged to manage their own work, without continual supervision and being allowed flexibility to be creative and try different methods of doing their job.

The forth factor, *Risk-taking* comprised of all five items that were originally intended to measure the latent variable Risk-taking (Risk-taking5; Risk-taking4; Risk-taking3; Risk-taking2; Risk-taking1). Risk-taking refers to the inclination of the organisation towards high risk projects and when the organisation is confronted with uncertainty a bold posture is normally adopted to maximise the probability of exploiting opportunities. Calculated risk-taking is encouraged in these organisations.

The foregoing exploratory factor analysis together with the interpretability of the factors provides some evidence of construct validity. Cronbach alpha coefficients were calculated (Bryman & Bell, 2007: 164) to assess the internal consistency of the items measuring the various factors under investigation. Coefficient alpha measures internal consistency by computing the average of all split-half reliabilities for a multiple-item scale (Zikmund & Babin, 2007: 322). The Cronbach alpha coefficient varies between 0 to indicate no reliability, and 1 for maximum reliability (Kent, 2007: 142) and values of below 0.7 can realistically be expected with psychological constructs (Field, 2009: 668). In view of the fact that this study is an exploratory assessment of employees' perceptions within corporate training divisions in South Africa, a value of 0.6 would be acceptable, although 0.7 is preferred to indicate a higher level of reliability (Bagozzi, 1994: 18). The results in table 1 suggest that the proposed instrument is reliable with no factors below the Cronbach alpha value of 0.7.

For the model assessing the dependant variable measuring the perceived success of the corporate training divisions (perceived application of Return on Investment measures as described by Phillips), an exploratory factor analysis was performed on the six items measuring the steps in the formula to determine return on investment as per Phillips (1996: 20). The results of the exploratory factor analysis with principle axis factoring extraction investigating the dependant variable Return on Investment is presented in table 2.

**TABLE 2: FACTOR MATRIX: RETURN ON INVESTMENT <sup>(1)</sup>**

Items <sup>(2)</sup>	Factor: ROI of training
ROI1	0.818
ROI4	0.806
ROI2	0.795
ROI5	0.787
ROI3	0.689
ROI6	0.675
<b>Cronbach alpha</b>	<b>0.892</b>

<sup>(1)</sup> Loadings greater than 0.35 were considered significant

<sup>(2)</sup> The items included in the factor analysis are provided in Appendix 1

The factor analysis on Return on Investment on training yielded the following results: Variance explained: 58.32%; Kaiser-Meyer-Olkin value: 0.857; Bartlett's test of sphericity < 0.001. All six of the items originally intended to measure the latent variable, Return on Investment loaded onto the factor as expected. For the purposes of this study, Return on Investment refers to the difference of the benefits of a training program and the costs associated to that training program, expressed as a percentage.

A Cronbach alpha coefficient of greater than 0.7 was returned for the construct Return on Investment, namely 0.892. The Cronbach alpha coefficient suggests that a reliable measuring scale was used to measure the construct under investigation.

### Relationship between the dependant and the independent variables

Multiple linear regression analysis is used to identify relationships between several independent variables and a dependent variable (Wilson, 2010: 248; Rubin, 2009: 231), and can be used to predict a dependent variable based on several independent or explanatory variables (Cooper & Schindler, 2007; Hair, Anderson, Tatham & Black, 1998). Factor scores for each respondent were computed as the average of all items contributing to the relevant factor. In this study multiple linear regression analysis was performed to assess whether the independent variables, as identified, exert a significant influence on the dependent variables.

Therefore it was analysed whether Entrepreneurial Orientation and specifically Innovativeness, Competitive Aggressiveness, Autonomy and Risk-Taking within corporate training divisions exert a significant influence on the Return on Investment measuring scale developed by Phillips.

The relationship between the dependant variable return on investment in training, as perceived success factor of corporate training organisations and the independent variables measuring entrepreneurial orientation, namely innovativeness, competitive aggressiveness, autonomy and risk-taking will be highlighted further. The results thereof are discussed in the paragraphs below.

**TABLE 3: MULTIPLE REGRESSION RESULTS: IMPACT OF ENTREPRENEURIAL ORIENTATION ON THE DEPENDANT VARIABLE RETURN ON INVESTMENT**

Model	Non-standardised Coefficients		Standardised Coefficients	t-value	p-level
	B	Std. Error	Beta		
Constant	1.546	0.230		6.715	0.000
Innovativeness	0.053	0.087	0.049	0.604	0.547
Competitive aggressiveness	0.289	0.074	0.288	3.910	0.000**
Autonomy	-0.050	0.067	-0.052	-0.741	0.460
Risk-Taking	0.185	0.076	0.189	2.448	0.015**

R<sup>2</sup>=0.191 (\*\*p<0.05)

Table 3 indicates that, a significant percentage (19.1%) of the variation in Return on Investment being measured as part of the success factors within corporate training divisions is explained by the different components measuring entrepreneurial orientation, namely Innovativeness, Competitive aggressiveness, Autonomy and Risk-taking.

The multiple regression analysis indicates a significant positive relationship between the independent variables Competitive Aggressiveness ( $p < 0.001$ ) and Risk-Taking ( $p < 0.05$ ) of corporate training divisions and the dependant variable Return on Investment being measured as part of the success factors of corporate training divisions. The hypotheses that there is a significant relationship between Risk-taking ( $H^2$ ) and Competitive Aggressiveness ( $H^6$ ) of corporate training divisions and Return on Investment were therefore accepted. The hypotheses that there is a significant relationship between Innovativeness ( $H^1$ ) and Autonomy ( $H^4$ ) and Return on Investment within corporate training divisions were therefore not accepted.

Thus, the results of the multiple regression analyses signify that respondents within the selected banks perceive that the organisation-based factors: Competitive aggressiveness and Risk-taking have a positive influence on the perceived implementation of Return on Investment.

## CONCLUSIONS AND RECOMMENDATIONS

It was maintained by Antoncic and Hisrich (2003:15) that businesses display competitive aggressiveness in order to outperform its rivals in the marketplace. The challenges emerging for banks include intensified competitive pressures faced not only from other banks but also from the non-traditional competitors (Mahmood & Wahid, 2012: 583). With competition in the banking industry on the rise, the positive relationship between competitive aggressiveness and the perceived implementation of return on investment is thus expected.

Research further found that calculated risks that were planned and moderated had positive outcomes in terms of the organisation's performance (Coulthard, 2007: 9). This is congruent with the positive relationship found between risk-taking and return on investment, although risk taking in the banking industry is minimised.

The global recession is far from over. The banking industry in South Africa operates at the heart of the economy and as such pressures are mounting to compete for market share and growth and in essence drive an entrepreneurial orientation. Corporate training divisions functioning within the banking sector are equally required to operate entrepreneurially to support banking employees to fulfil their roles. This study proved that a positive correlation exists between two dimensions of entrepreneurial orientation, namely competitive aggressiveness and risk taking and the perceived implementation of return on investment of corporate training divisions.

An entrepreneurial orientation may be cultivated within corporate training divisions within the banking industry by building entrepreneurial competencies into development plans of employees; by rewarding entrepreneurial behaviour and by giving employees the exposure to imminent industry and market trends. Best practices should be shared among colleagues within a Community of Practice without the risk of damaging competitive advantage. Technological advancements should be used within training divisions to increase speed-to-market of new training products and services. Furthermore, employees should be given the autonomy and allowed the flexibility to try new creative ideas.

An entrepreneurial orientation within organisations is seen as a competitive advantage, and corporate training organisations within the banking industry should build processes and procedures to nurture these competencies within the organisation.

Bearing in mind that the corporate training divisions within the banking industry operate within highly governed environments, and under the vision, mission and values of their constituent corporate organisations, the following recommendations are made to possibly increase entrepreneurial orientation within corporate training divisions of the banking industry. These recommendations are made based on the results from the literature and empirical studies:

- **Growing entrepreneurial leaders.** The ancient Greeks are said to have coined the phrase: “A fish rots from the head down” (Carroll, 2011: 12). This means that when an organisation fails, it is the leadership that is to blame. Conversely entrepreneurial leaders may also spawn entrepreneurial orientation within divisions. Development plans for employees within corporate training divisions may be adapted to include entrepreneurial competencies. A focus on the dimensions of competitive aggressiveness, innovativeness, autonomy and risk-taking should be prevalent, which according to the empirical study had a positive relationship to the implementation of return on investment in corporate training divisions. The education and training development sector may also consider including entrepreneurial competencies into the qualification for education and training development practitioners that is currently under review, to in such a way increase entrepreneurial orientation within the broader education and training development community.
- **Reward.** The link between measurement and reward within corporate training divisions should be such that entrepreneurial behaviour should be rewarded. People will, when judged on the basis of metrics, become that which is measured (Ariely, 2010). If entrepreneurial orientation is measured and rewarded, the chances are that the general entrepreneurial orientation within the division will amplify.
- **Innovativeness.** An important competence to nurture and grow within corporate training divisions, specifically within the banking industry is creativity. The training division should explore ways in which new products and services can be introduced within a shorter time-to-market period. Technological advancements within the banking industry should be matched with equally creative and technological savvy training products, such as using mobile technology to aid in the learning process (Piers, 2011).
- **Increase competitive aggressiveness.** To increase the competitive aggressiveness within corporate training divisions within the banking industry, the division should be able to aggressively respond to industry or market trends. Divisions could join a Learning and Development Community of Practice to give employees the exposure to imminent industry and market trends. Employees will have the opportunity to share best practices with other practitioners within the banking and other industries without compromising on competitive advantages.
- **Autonomy.** Employees within corporate training divisions within the banking industry should be encouraged to manage their own work processes. A milieu should be developed within the workplace where employees are allowed the flexibility to be creative and try different methods to do their work, without compromising on the banks' policies or project deadlines. Quality and creative forums can be set up where once a month best practices may be shared among all training division employees.
- **Risk-taking.** Caution should be exercised within corporate training divisions specifically within the banking industry when it comes to risk-taking. The banking industry is by nature more risk-averse, due to the strictly governed nature of the sector. However, within the confinements of the banking rules and regulations, corporate training divisions should focus on exploiting viable opportunities as they arise.

## LIMITATIONS OF THE STUDY AND SUGGESTIONS FOR FURTHER RESEARCH

It must be mentioned that Phillips (1996: 24) cautions against using human resources employee's estimates which may bias the results. In his opinion the human resources department will determine the basis for its claim for improvements due to training. In this paper, the dependent variable was unpacked questioning whether the training divisions do indeed implement the steps in Phillips' formula to return on investment, as a possible perceived indicator of success.

As an indicator of success of corporate training divisions, the implementation of return on investment within training divisions were measured as the perceptions of employees within these divisions. Furthermore the actual entrepreneurial orientations were not observed within the training divisions, but the employee perceptions were measured, and these perceptions were inferred to the training divisions. These may be observed as limitations to the study.

The corporate training divisions selected for this research study include the major role-players within the South African banking industry, however care should be exercised in the interpretation of the results, and the findings should not be generalised to all corporate training divisions worldwide. Furthermore, the study was limited to individuals willing to complete the survey. Due to work and time pressures respondents were generally reluctant to participate in the survey and had to be prompted through their skills development facilitators to consider taking part in the survey. Additionally, the survey was also placed on LinkedIn and the Learning and Development Community of Practice, South Africa website for completion by only the proposed target audience; however there were no direct control that only the intended participants completed the survey. The same applies to the electronic internet access to the survey that could be completed by anyone that had access to the link.

From the study it is evident that the corporate training divisions of the selected South African banks in this research are displaying an entrepreneurial orientation and that there is a positive relationship between competitive aggressiveness and risk-taking and the perceived implementation of return on investment measures of corporate training divisions. Corporate training divisions within the banking industry operate within a highly governed environment that may stifle entrepreneurial constructs such as risk-taking and innovativeness. A suggestion for further research is to determine whether corporate training divisions within other industries display a different level of entrepreneurship than those within the banking sector.



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## APPENDIX A

### ITEMS MEASURING THE DEPENDENT VARIABLES, RETURN ON INVESTMENT

Item	Statement
	<b>Return on investment</b>
ROI1	Our division determines the Return on Investment on selected training programs.
ROI4	The results of training programs are converted to a monetary benefit as part of our division's Return on Investment assessment.
ROI2	As part of our division's Return on Investment assessment of training programs, level 4 evaluation data is also collected (business impact of training).
ROI5	The total costs of the training program are deducted from the monetary benefits obtained through the training program as part of our division's Return on Investment assessment.
ROI3	The effects of training are isolated from other factors that may have contributed to the results, as part of our division's Return on Investment assessment.
ROI6	Our division also includes non-monetary benefits as additional evidence of the training program's success.

## APPENDIX A

### ITEMS MEASURING THE INDEPENDENT VARIABLES, ENTREPRENEURIAL ORIENTATION

Item	Statement
	<b>Factor 1: Innovativeness</b>
Innovativeness7	Our training division places a strong emphasis on continuous improvement in products/ service delivery/processes.
Innovativeness2	Our training division places a strong emphasis on new and innovative products/ services/processes.
Innovativeness4	Our training division is continually pursuing new opportunities.
Innovativeness8	We have a widely held belief that innovation is an absolute necessity for the training division's future.
Innovativeness3	Our training division has increased the number of services/products offered during the past two years.
Innovativeness1	Our training division regularly introduces new services/products/processes.
Innovativeness5	Over the past few years, changes in our processes, services and product lines have been quite dramatic.
Innovativeness3	Our training division continuously seeks out new products/processes/services.
Innovativeness6	In our training division there is a strong relationship between the number of new ideas generated and the number of new ideas successfully implemented.
Innovativeness9	Our leaders seek to maximise value from opportunities without constraint to existing models, structures or resources.



<b>Factor 2: Competitive Aggressiveness</b>	
Comp. Aggressive3	Our training division effectively assumes an aggressive posture to combat industry trends that may threaten our survival or competitive position.
Comp. Aggressive2	Our training division is very aggressive and intensely competitive.
Comp. Aggressive1	In dealing with competitors our training division typically adopts a very competitive "undo-the-competitor" posture.
Proactiveness2	Our training division typically initiates actions which competitors respond to.
Proactiveness4	Our training division continuously monitors market trends and identifies future needs of customers.
Comp. Aggressive4	Our training division knows when it is in danger of acting overly aggressively (this could lead to erosion of our division's reputation or to retaliation by competitors).

<b>Factor 3: Autonomy</b>	
Autonomy1	I have enough autonomy in my job without continual supervision to do my work.
Autonomy4	Employees in our training division are encouraged to manage their own work and have flexibility to resolve problems.
Autonomy3	Employees in our training division are allowed to make decisions without going through elaborate justification and approval procedures.
Autonomy2	Our training division allows me to be creative and try different methods to do my job.
Autonomy5	I seldom have to follow the same work methods or steps while performing my major tasks from day to day.

<b>Factor 4: Risk-Taking</b>	
Risk-taking5	The term "risk-taker" is considered a positive attribute for employees in our training division.
Risk-taking4	Employees are often encouraged to take calculated risks concerning new ideas.
Risk-taking3	Owing to the environment, our training division believes that bold, wide-ranging acts are necessary to achieve objectives.
Risk-taking2	In general, our training division has a strong inclination towards high-risk projects.
Risk-taking1	When confronted with uncertain decisions, our training division typically adopts a bold posture in order to maximise the probability of exploiting opportunities.

## THE MARKETING TASKS OF SMALL BUSINESS OWNERS IN NELSON MANDELA BAY

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### ABSTRACT

Despite the well-known importance of small businesses to the South African economy, they are faced with many challenges that contribute to their high failure rate. A lack in marketing skills to carry out the marketing tasks associated with the marketing function is just one of the many challenges identified amongst small business owners in South Africa. The primary objective of this study was to identify the marketing tasks performed by small business owners. In addition, how these marketing tasks are adapted to suit the unique needs of the small business was also investigated. The results of this study revealed that small business success and business growth can be achieved through the provision of need-satisfying, up-to-date products or services, and the implementation of an effective marketing communication message.

### KEYWORDS

Small business enterprise, Marketing tasks, Business success, Business growth, Needs satisfying product, Marketing communication

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## INTRODUCTION

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Small businesses play a critical role in the South African economy (Venter, 2009: 4). During the first decade of the new millennium, small businesses in South Africa remained relatively steady in number at approximately two million, thus constituting almost 98% of all businesses in the economy (Adcorp Employment Index, 2012: 2; Venter, 2009: 4). Currently however, small businesses have suffered a marked decline in number following closures over the past five years of 440 000 small businesses, due partly to the economic downturn in 2009 (Adcorp Employment Index, 2012: 2). The small business sector in South Africa is nevertheless the most important creator of jobs with approximately 68% of the working population employed in businesses with less than 50 people, and is a major contributor to GDP, currently estimated to be 40% (Bhaktawar, 2011/2012:133; Adcorp Employment Index, 2012: 2). They are internationally recognised as a major driving force of economic growth and business survival in a country via job creation, competitiveness, technological lead, formation of innovative businesses and new industries (Cronin-Gilmore, 2012: 96; Gilmore, 2011: 137; Nieman and Nieuwenhuizen, 2009: 3; Venter, 2009: 4; Walsh and Lupinski, 2009: 570; Kuratko and Hodgetts, 2007: 5).

To assist small businesses enter the economy, grow, create more employment and thrive, the government has promised to develop a more enabling environment as part of its economic prosperity initiatives for South Africa (National Development Plan 2030, 2013: 139, 142). These initiatives include government support to fast track economic growth and employment to triple the size of the economy and hence it has set the objective of creating 11 million new jobs by 2030 to help achieve this growth (National Development Plan 2030, 2013: 117, 124). Small businesses will play an increasingly bigger role in this employment creation, as they are likely to generate the majority of these new jobs (National Development Plan 2030, 2013: 39, 115, 140; Department of Trade and Industry, 2008:29).

Despite the importance of small businesses to the growth of the South African economy, they are plagued by several challenges which ultimately contribute to their high failure. According to Olawale and Garwe (2010: 730), the failure rate of SMEs in South Africa is around 75%, which is one of the highest in the world. At least 40 % of small businesses fail within their first year of operation and 90% within the first 10 years (Van Scheers, 2011: 5048; Olawale and Garwe, 2010: 730).

According to Van Scheers (2011: 5049), a major contributing factor to the failure of small businesses is that little marketing is undertaken by them and due to the initial costs involved in setting up a small business, marketing costs are often considered less important. However, marketing plays a crucial role in any business – it is the business function most closely linked to the customer, who is at the heart of the business (Kotler & Armstrong, 2010: 62). Businesses which place marketing at the forefront of their operations are more likely to survive, win market share and earn profits than fail (Kotler, 2013; Bressler, 2012: 2; Stokes & Wilson, 2012: 366).

Cant (2012: 1107, 1113) argues that the high failure rate of small businesses can be prevented and business success improved if owners acquired marketing skills to enable them to perform the marketing tasks. Business success is usually measured in terms of financial performance, i.e., profitability and growth, turnover, return on investment and an increase in the number of employees (Walker and Brown, 2004: 577, 578). In addition, several studies have reported positive relationships with customer satisfaction and customer loyalty as predictors of repeat purchases and long term profitability (Boshoff & Gray, 2004: 28).



Despite the abundance of information on SMEs and reasons for their failure, little is however known about the importance of the marketing function in small businesses, particularly in South Africa, and the effects marketing has on the success of a small business (Oyedijo, Idris & Aliu, 2012: 132; Van Scheers, 2011: 5049; Dragnić, 2009: 39; Walsh & Lupinski, 2009: 570). In order to alleviate small business failure, gaining new insight into how small business owners perform the marketing function and related marketing tasks, as well as the marketing challenges they frequently face, cannot be underestimated.

## **PROBLEM STATEMENT AND OBJECTIVES**

As mentioned above, the marketing function is widely considered to play a critical role in the success of any firm (Tait and Mazibuko, 2011: 382; Kotler & Armstrong, 2010: 18). This is particularly true for small businesses. Cant (2012: 1115) emphasises that the success of small businesses is dependent on their ability to attract and retain satisfied customers over the long term. Yet, despite acknowledgement of the importance of marketing, small business owners often fail to implement the basic marketing activities to perform the marketing tasks and lack marketing skills, which ultimately contributes to the failure of the business (Cant, 2012: 1107, Cronin-Gilmore, 2012: 96; Van Scheers, 2011: 5048).

Small business owners do not always understand how to apply marketing principles and the marketing activities which most strongly contribute to business performance have yet to be identified for small and medium-sized businesses (Walsh & Lipinski, 2009: 570). Small business owners are generally not specialists in marketing (Cronin-Gilmore, 2012: 97) and yet are expected to be innovative in their approach to marketing their product or service offering (Gilmore, 2011: 143). The marketing tasks typically associated with the marketing function are well known in larger businesses (Tait & Mazibuko, 2011; Kotler & Armstrong, 2010), however the availability of research on the marketing tasks small business owners perform, is limited. In addition, how these tasks are adapted to suit the unique needs of small businesses, is also not well known, as mainstream research has primarily focused on larger businesses in the past (Gilmore, 2011: 137; Jones & Rowley, 2011: 26).

Against this background, the problem statement of this study therefore is a lack of empirical research which exists on the marketing tasks performed by small business owners in general, and in Nelson Mandela Bay in particular, plus little insight as to how small business owners adapt these tasks according to their specific needs.

The primary objective of this study is to identify the marketing tasks performed by small business owners, specifically in Nelson Mandela Bay. In addition, this study will attempt to establish how small business owners adapt their marketing tasks for business success and to suit their unique needs and limited resources.

## **LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT**

### **The nature and importance of small businesses in South Africa**

Small businesses play a significant role in the South African economy through the creation of job opportunities thereby enabling them to facilitate in the alleviation of the nation's crippling poverty (Education and Training Unit, [s.a.]; Nieman & Nieuwenhuizen, 2009: 29). Their importance is further emphasised by the support provided by the South African government through initiatives and programmes which are aimed at stimulating and encouraging small business growth (Education and Training Unit, [s.a.]; Bhaktawar, 2011/2012: 128).

Scholarly opinion has hitherto not been reached on an internationally accepted definition of a small business (Cant, 2012: 1107), although Draganić (2009: 40) offers three economic criteria for consideration as universal to small businesses – independent ownership and management, under the personal management of the owner or co-owners, and holding a small market share. In South African legislation, the National Small Business Amendment Act, (No. 29 of 2004) defines a small business as a separate and distinct business entity, managed by one owner or more in any sector of the economy, which can be classified as micro-, very small, small or medium-sized, according to specific criteria (Department of Trade and Industry, 2013). For the purpose of this study, a small business refers to an entity which is independently owned and managed, has been in operation for at least one year and does not employ more than 50 full-time employees.

Despite the vital role that small businesses play in the growth and development of the South African economy, they continue to be plagued by numerous challenges that contribute to their failure. The biggest challenges facing small businesses in South Africa in general, are a lack of financial skills, limited access to funding, managerial incompetence, lack of mentorship, a lack of entrepreneurial education and a lack of marketing (Cant, 2012: 1115; Van Scheers, 2011: 5049; Herrington, Kew & Kew, 2010: 28; Olawale & Garwe, 2010: 731; Pitman, 2010: 84; Roberts, 2010; Nieman & Nieuwenhuizen, 2009: 35). Pitman (2010: 84) further identifies problems experienced a complicated regulatory environment and restrictive labour practices as factors that hamper opportunities for small business growth in South Africa.

### **Marketing by small businesses**

Marketing in small business enterprises differs from that of their larger counterparts, mainly because small business owners adapt their marketing to suit their distinctive characteristics and limitations, thus resulting in a unique marketing style (Stokes & Wilson, 2006: 359). In addition, the hands-on involvement of the owner in the business, also distinguishes them from larger businesses (Walsh & Lipinski, 2009: 569). Implementation of marketing activities to perform the relevant marketing tasks is related to the owner's attitude to, experience of, and expertise in marketing (McCartan-Quinn & Carson, 2003: 206).

Marketing in small businesses today is characterised by a number of challenges and inherent characteristics that impact on the manner in which the business is managed (McCartan-Quinn & Carson, 2003: 203). Characteristics of small businesses include a marketing approach that is informal, unstructured, intuitive and owner-influenced (Stokes & Wilson, 2010: 367; Walsh & Lipinski, 2009: 571). Although it has not been easy to establish exactly how small businesses execute a marketing strategy (Cronin-Gilmore, 2012: 97; Oyedijo, Idris & Aliu, 2012: 132; Walsh & Lipinski, 2009: 571), it has been found that they adapt traditional marketing structures to suit the specific needs of their business (Gilmore, 2011: 139). Small businesses are adept at initiating new ideas and innovation, and are typically located in close proximity to their markets, which allows greater flexibility to respond to changing customer needs (Cronin-Gilmore, 2012: 96; McCartan-Quinn & Carson, 2003: 204). Networking, especially with personal contacts, is becoming an accepted tool for small business owners to build relationships and access information (Walsh & Lipinski, 2009: 572).

The most prevalent marketing challenges that small businesses face include limited capital and other resources resulting in budgetary constraints, especially for marketing purposes, limited customer base and market power, a personalised management style that influences their marketing, insufficient marketing activity, the owner's lack of marketing know-how (skills and/or knowledge) and understanding to perform the essential marketing tasks, and a selling focused,

rather than a marketing focused approach (Kotler, 2013; Cronin-Gilmore, 2012: 97; Van Scheers, 2011: 5048; Olawale & Garwe, 2010: 731; Stokes & Wilson, 2010: 366; Walsh & Lipinski, 2009: 571; McCartan-Quinn & Carson, 2003: 204,205).

### The marketing tasks and their adaptation by small businesses

A key function in any business, marketing requires an ongoing ability to provide consumers with need-satisfying products and services if success and long-term survival is to be achieved (Kotler, 2013; Tait & Mazibuko, 2011: 382; Walsh & Lipinski, 2009: 569). In managing the marketing function, decisions made on the market to be served and the implementation of appropriate marketing mix strategies to attract the intended market will need to be considered by the small business owner (Tait & Mazibuko, 2011: 382).

Expanding this view, Tait and Mazibuko (2011: 385) propose that businesses are required to perform the following marketing tasks essential to the marketing function:

- Segmentation and target marketing strategies
- Manage the marketing mix elements, namely
  - Product strategies
  - Pricing strategies
  - Place (or distribution) strategies
  - Promotion strategies

Kotler and Armstrong (2010: 688) refer to the marketing tasks as the marketing mix, namely a set of controllable, tactical marketing tools that the business combines to produce the response it wants in the target market. Walsh and Lipinski (2009: 578) found that in smaller businesses the marketing function played a lesser role in comparison with larger firms. It was also found that the sales function exerted a greater influence over marketing suggesting that marketing in small businesses has yet to become a priority (Walsh and Lipinski, 2009: 578).

Small business owners are generally expected to be actively involved in the daily managing of their business, if not, they would threaten the survival of the business. The importance of marketing for any business, but in particular for the small business, cannot be underestimated. Although small business owners are not usually marketing experts, they nevertheless require some understanding and a basic level of marketing skills, in order to carry out the marketing tasks associated with the market function.

The task of market segmentation involves the process of dividing a market into meaningful groups known as segments (Kotler & Armstrong, 2010: 63). Stokes and Wilson (2006: 362) emphasise that because small businesses define their niche target markets more precisely than larger businesses, they are able to have closer relationships with their customers. Through the use of market segmentation and target marketing strategies, small business owners can enjoy high customer loyalty and satisfaction (Hingston, 2001: 11). This process is usually followed by the next task, that is, to manage the marketing mix elements.

As a rule, developing and managing a product strategy is the first task of the marketing mix (Tait & Mazibuko, 2011: 389). Small businesses are often established because the owners have a product and/or service they wish to offer to a niche market, thus an appropriate product strategy must be set before any of the other marketing mix elements (Gilmore, 2011: 139). A product can be a tangible good and/or service, and is a result of a business's efforts to satisfy its customers' needs (Lamb et al., 2008: 206). Small businesses can achieve a competitive advantage over larger businesses in that their size allows them to be flexible in terms of their product or service offering, as they are

better able to adapt to customers' ever-changing needs (Smit, 2004: 39). Small businesses can take the lead in new product innovation, technological advancement and specialisation in niche markets to add further dynamism to the marketplace (Cronin-Gilmore, 2012: 96; Gilmore, 2011: 140; Stokes & Wilson, 2010: 112).

Performing the marketing mix task of setting pricing strategies is more complicated for small business owners, for the reason that they produce smaller volumes and are therefore less able to compete on price (Gilmore, 2011: 140). Price strategies relevant to the product or service are crucial to revenues and profits (Lamb et al., 2008: 357). Small business owners can also make use of non-price competition, such as offering customers value for money, better quality products and exceptional customer service (Gilmore, 2011: 140; Smit, 2004: 111).

It is essential to ensure that the business's distribution (place) strategy gets products to within reach of consumers, as even though a business may have a really good product offering, if consumers cannot reach the products, they cannot buy them (Kotler & Armstrong, 2010: 358). In particular, as with any business, small businesses need to keep delivery promises, as failure to do so could damage profitable and long-term relationships with customers (Gilmore, 2011: 140). Finding alternative distribution means is an option that small businesses could explore, for example, using e-commerce and Internet selling (Bressler, 2012: 4).

Promotion strategy is the final task of the marketing mix elements that needs to be managed. Promotion refers to marketing communication aimed at educating and making the customers aware of the firm's products and/or services and can include advertising, sales promotion, personal selling and business communication (or public relations) and publicity (Tait & Mazibuko, 2011: 402; Lamb et al., 2008: 295). Small businesses have an advantage when it comes to keeping in contact with customers because of their ability to communicate with and respond rapidly to individual customers (Stokes & Wilson, 2010: 375). However, according to Gilmore (2011: 140), small businesses have limited funding to spend on promotion and therefore need to rely on other methods, such as building relationships between employees and customers. Small business owners are more likely to rely on personal contact to create awareness and encourage sales through personal selling, word-of-mouth recommendations, telecommunications, networking and the Internet (Bressler, 2012: 4; Gilmore: 2011: 141; Stokes & Wilson, 2010: 375; Walsh & Lipinski, 2009: 572).

For the purpose of this study, the focus will be on the marketing tasks discussed above, which serve as the five independent variables, namely *Segmentation and target marketing strategies, Product strategies, Pricing strategies, Place strategies and Promotion strategies and Business success, the dependent variable.*

## Hypotheses

Based on the problem statement and primary objective identified in this study, and literature review above, the following hypotheses were formulated:

**H<sup>1</sup>**: There is a positive relationship between Segmentation and target marketing and the success of small businesses.

**H<sup>2</sup>**: There is a positive relationship between Product strategies and the success of small businesses.

**H<sup>3</sup>**: There is a positive relationship between Pricing strategies and the success of small businesses.

**H<sup>4</sup>**: There is a positive relationship between Place strategies and the success of small businesses.

**H<sup>5</sup>**: There is a positive relationship between Promotion strategies (marketing communication) and the success of small businesses.

## RESEARCH METHODOLOGY

### Sample and sampling method

Given the primary objective of this study, to identify the marketing tasks performed by small businesses owners, quantitative research was deemed to be the most appropriate approach as a large sample can be surveyed using a questionnaire as the measuring instrument.

Due to the lack of a sampling frame of the whole population, namely the lack of an accessible list or current database of small businesses in South Africa, including Nelson Mandela Bay, convenience and judgemental (purposive) sampling were deemed the most appropriate non-probability sampling methods to use in this study. The small businesses were conveniently selected from the Nelson Mandela Bay area and specific criteria were used to determine the owner's eligibility for participation in the study. For these purposes, the criteria for the owner respondents to participate in the study were that the small business employs not more than 50 full-time employees, the business had been in operation for more than a year, and the owner respondent is actively involved in the business.

A total of 430 questionnaires were distributed to small business owners of which 306 were returned and 294 could be statistically analysed, yielding a response rate of 68.37%.

#### Data collection and statistical analyses

The measuring instrument which was used to collect and analyse the data was a structured, self-administered questionnaire. A covering letter explained the purpose of the research to small business owner respondents and invited them to participate in the study. An agreement of respondent confidentiality was also included in the covering letter. The design of the questionnaire included three main sections, namely:

- **Section A:** Demographic information;
- **Section B:** The elements of business success;
- **Section C:** Fundamental marketing tasks necessary in a business.

Demographic information requested in Section A of the questionnaire contained statements pertaining to the small business owner respondent and the business, and included items such as gender, ownership (owner, manager or both), whether the respondent had a management qualification, the number of years the business had been in existence, number of years the respondent had owned the business, form of enterprise, nature of industry in which the business operates, number of full-time workers employed and annual turnover (optional).

Section B of the questionnaire contained eight items to measure the small business owner's perceptions of the business's success. For the purpose of this study, business success refers to whether the business had experienced growth in profits and employees over the previous two years, whether it could be regarded as successful and financially secure and whether it has loyal customers who make regular purchases and recommendations to others. Respondents were asked to indicate the extent of their agreement or disagreement with each item on a five-point Likert-type scale (where 1 = strongly disagree and 5 = strongly agree). Section C consisted of 35 self-generated statements to measure the frequency which small business owners personally performed the five marketing tasks that were identified in the literature. A five-point Likert-type scale (where 1 = never and 5 = always) was used for this purpose.

The data from the 294 questionnaires that qualified to be statistically analysed, were subjected to validity and reliability assessments as well as descriptive and inferential statistical analysis. Descriptive statistics consisting of the mean, standard deviation and frequency distributions for



business success and the marketing tasks were calculated to summarise the sample data. The inferential statistical techniques employed to make conclusions about the study's sample data were Pearson's product moment correlation coefficient to determine the strength of the correlation between the variables and a multiple regression analysis to test the hypotheses to determine if any relationships existed between the marketing tasks (independent variables and business success (dependent variable).

### The realised sample

From Section A of the questionnaire, the demographic characteristics of the small business owners who participated in this study indicated that the majority of the respondents were male (66.33%). Most of the respondents reported that they were both owner and manager of their small business (69.73%). Just over half of the respondents (54.42%) indicated they did not have a management qualification (i.e. a degree, diploma or certificate). The forms of business enterprise most frequently reported were Close Corporation (46.60%) and Sole Proprietorship (29.59%), with the majority of the respondents operating in the service and retail industries (62.58%). Nearly two thirds of the respondents (63.40%) reported an annual turnover of less than R500 000, while just over half of the small businesses (55.44%) employed between zero and five employees. Just less than half the small businesses (45.24%) had been in existence for five years or less, while a little over half the owner respondents (56.12%) reported owning their business for five years or less. It should be noted that with regard to these two responses (i.e., existence and ownership), the possibility exists that some owner respondents would have taken over ownership of their business from someone else.

## EMPIRICAL RESULTS

### Validity and reliability

To the data were subjected to an assessment of validity and reliability. The validity of the measuring instrument was assessed by conducting an exploratory factor analysis to identify the unique factors present in the data, using the software programme, Statistica Version 10. Principal component analysis with a varimax rotation was specified as the extraction and rotation method for these analyses. The percentage of variance explained and the individual factor loadings were considered in determining the factors to extract. Items that loaded onto one factor only and reported factor loadings of greater than 0.60 were considered significant (Hair, Black, Babin, Anderson & Tatham, 2006).

The exploratory factor analysis was conducted separately on the five independent variables of Segmentation and target marketing strategies, Product strategies, Pricing strategies, Place strategies and Promotion strategies. The results of the factor structure revealed that a total of nine factors were extracted, requiring some factors to be renamed as shown in Table 1. The nine marketing tasks cumulatively explain 47.86% of the variance in the data.

An exploratory factor analysis was conducted on the dependent variable, Business success, which split into two factors and named Business success and Business growth, as shown in Table 1. The two factors, Business success and Business growth cumulatively explain 5.99% of the variance in the data. Factor loadings of greater than 0.60 emerged for all nine factors as well as Business success and Business growth (Hair, et al., 2006). The exploratory factor analysis thus offered sufficient evidence to confirm the validity of the measuring instrument.

To confirm the reliability of the measuring instrument, Cronbach-alpha coefficients were calculated for each factor identified by the exploratory factor analysis. Both the dependent variables, i.e., Business success and Business growth and six of the nine factors that emerged from the exploratory factor analysis returned Cronbach-alpha coefficients of greater than the 0.70 threshold recommended by Nunnally (1978: 245-246) and Peterson (1994: 381). The variable Place strategies had the highest Cronbach-alpha coefficient of 0.890. Despite the low Cronbach-alpha coefficient of 0.578 for the independent variable Varying product levels, which suggests evidence of poor reliability, it was nonetheless decided to retain this factor for further analysis. This decision was based on Hair et al's., (2006) suggestion that the lower limit may be reduced to 0.60 in certain cases, and hence Varying product levels was retained because of its Cronbach-alpha coefficient's proximity to 0.60. The results should, however, be interpreted with caution. Reliability of the measuring instrument for these factors was thus confirmed. The remaining variables, namely Price high strategies and Price low strategies reported Cronbach-alpha coefficients of less than 0.60, namely 0.543 and 0.464 respectively, implying evidence of poor reliability and so both factors were discarded from further analysis.

The reformulated operational definitions, minimum and maximum factor loadings, Cronbach-alpha coefficients greater than 0.70 and the retained Cronbach-alpha coefficient of 0.578, are summarised in Table 1.

**Table 1: MEASURING INSTRUMENT ANALYSIS**

Factor	Operationalisation of factors	Items	Factor loadings	Cronbach-alpha values
Business success	Business success refers to the perception of how well the business is doing in terms of whether they have loyal customers who recommend their business and make repeat purchases, as well as if the business is regarded as successful and financially secure.	5	Max: 0.893 Min: 0.630	0.884
Business growth	Business growth is defined as the perception that a business has experienced growth in terms of both employees and profits in the last year.	3	Max: 0.750 Min: 0.730	0.744
Segmentation & target marketing strategies	Segmentation and target marketing strategies refers to identifying customers and groups that products and services can be sold to, who have a distinct set of needs and provide an opportunity for the business.	3	Max: 0.760 Min: 0.651	0.752
Varying product levels	Varying product levels is the process of providing customers with the minimum basics expected of a product, as well as adding relevant features and extra value to the service or product offering.	3	Max: 0.720 Min: 0.612	0.578
Needs satisfying product	Needs satisfying product refers to a business providing a product/service that is up-to-date and that satisfies the needs of their target market.	2	Max: 0.664 Min: 0.602	0.700
Price high strategies	Price high strategies is the pricing process of setting prices higher than the value that customers expect to receive as well as higher than competitors.	2	Max: -0.746 Min: -0.728	0.543
Price low strategies	Price low strategies is the pricing process of setting prices lower than competitors to maximise sales volumes of the offering as well as lower for customers.	2	Max: -0.744 Min: -0.599	0.464



Price cost strategies	Price cost strategies refers to setting prices that cover the business's costs based on estimated demand that will maximise current profits.	2	Max: 0.829 Min: 0.640	0.777
Place strategies	Place strategies refer to distribution methods employed by small business owners such as setting timing objectives, and selecting, evaluating and replacing appropriate distribution channels.	6	Max: 0.873 Min: 0.670	0.890
Marketing process	Marketing process is defined as the process of identifying a target audience, developing objectives to reach customers, attracting attention through various communication forms, designing an effective message to be communicated and then evaluating the message.	5	Max: 0.806 Min: 0.703	0.870
Communication strategies	Communication strategies refers to the marketing process of informing present and potential customers about the business's products.	2	Max: 0.751 Min: 0.730	0.840

## Descriptive statistics

Descriptive statistics were calculated to provide a summary of the sample data. Summated scores (mean and standard deviation) pertaining to business success and the various marketing tasks are presented in Table 2. It can be seen from Table 2 that the highest mean score of 4.49 was obtained by the independent variable Needs satisfying product. Thus, the small business owner respondents indicated that they often provide needs satisfying products to their target markets to further enhance business success and business growth.

The lowest mean score was 3.55 for the independent variable Price cost strategies. It can thus be concluded that respondents seldom set prices that cover business costs based on estimated demand in order to maximise current profits. An analysis of the standard deviation for each factor revealed that the independent variable Needs satisfying product had the lowest standard deviation of 0.62 while the independent variable, Price cost strategies had the highest at 1.09.

**Table 2: DESCRIPTIVE STATISTICS OF THE MARKETING TASKS**

Factor	n	Mean	Std. Dev	Seldom %	Often %	Always %
Business Success	294	4.071	0.753	25.51	65.65	8.84
Place strategies	294	3.868	0.966	45.24	40.13	14.63
Marketing process	294	3.706	0.941	53.06	38.44	8.50
Communication strategies	294	4.286	0.854	29.93	44.90	25.17
Needs satisfying product	294	4.485	0.616	8.84	45.92	45.24
Price cost strategies	294	3.554	1.092	51.02	31.29	17.69
Segmentation and target marketing strategies	294	3.841	0.882	44.56	42.88	12.56

## Revised theoretical framework and hypotheses

Based on the exploratory factor analysis, new factors emerged, thus the operationalisation of the constructs, hypotheses and theoretical framework, as previously referred to in the validity and reliability section, were reformulated (refer to Table 1 and Figure 1 respectively). The number of items, minimum and maximum factor loadings and Cronbach-alpha coefficients are summarised in Table 1.

The dependent variable, Business success, included in the hypothesised model, split into two factors and was renamed Business success and Business growth in the revised theoretical framework. The independent variables were expanded to include new factors and renamed in some cases. The revised dependent and independent variables are summarised in Table 1. The reformulated hypotheses follow below and the reformulated theoretical framework is presented in Figure 1.

The reformulated hypotheses are as follows:

**H<sup>1a</sup>**: There is a positive relationship between Segmentation and target marketing strategies and the success of a small business.

**H<sup>1b</sup>**: There is a positive relationship between Segmentation and target marketing strategies and the growth of a small business.

**H<sup>2a</sup>**: There is a positive relationship between Varying product levels and the success of a small business.

**H<sup>2b</sup>**: There is a positive relationship between Varying product levels and the growth of a small business.

**H<sup>3a</sup>**: There is a positive relationship between supplying a Needs satisfying product and the success of a small business.

**H<sup>3b</sup>**: There is a positive relationship between supplying a Needs satisfying product and the growth of a small business.

**H<sup>4a</sup>**: There is a positive relationship between Price cost strategies and the success of a small business.

**H<sup>4b</sup>**: There is a positive relationship between Price cost strategies and the growth of a small business.

**H<sup>5a</sup>**: There is a positive relationship between Place strategies and the success of a small business.

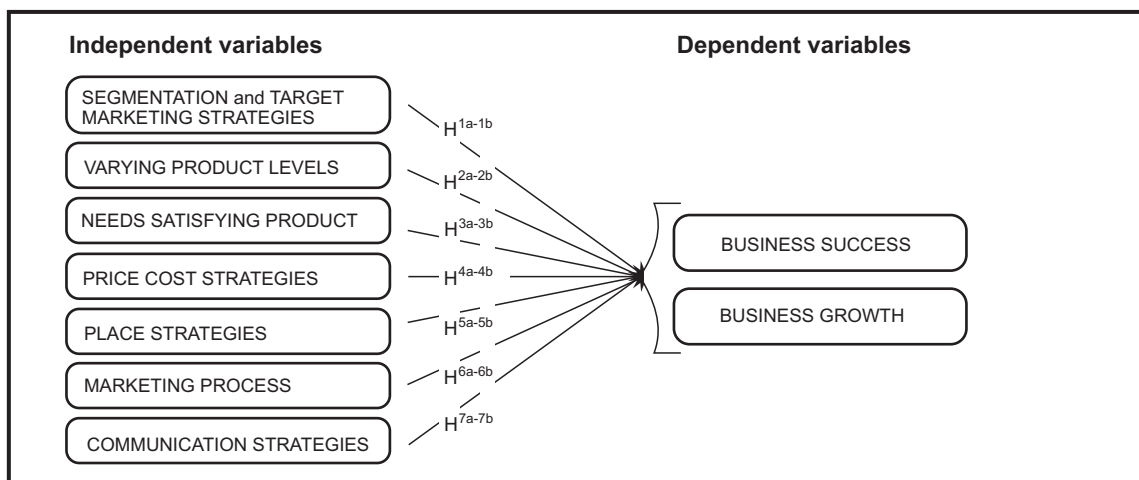
**H<sup>5b</sup>**: There is a positive relationship between Place strategies and the growth of a small business.

**H<sup>6a</sup>**: There is a positive relationship between the Marketing process and the success of a small business.

**H<sup>6b</sup>**: There is a positive relationship between the Marketing process and the growth of a small business.

**H<sup>7a</sup>**: There is a positive relationship between Communication strategies and the success of a small business.

**H<sup>7b</sup>**: There is a positive relationship between Communication strategies and the growth of a small business.



**FIGURE 1: REVISED HYPOTHESISED MODEL:THE RELATIONSHIP BETWEEN THE MARKETING TASKS PERFORMED BY SMALL BUSINESS OWNERS, BUSINESS SUCCESS AND BUSINESS GROWTH**  
(Source: Researchers' own construction)

## Inferential statistics

Pearson's product-moment correlations were calculated to assess the strength of the relationships between the nine variables. A significant positive ( $p < 0.05$ ) correlation was found between Business success and the factors, Business growth ( $r = 0.478$ ), Marketing process ( $r = 0.227$ ), Needs satisfying product ( $r = 0.350$ ) and Segmentation and target marketing strategies ( $r = 0.233$ ). Business growth shows the strongest relationship with Business success compared to the other factors with a correlation close to 0.60. In addition, a significant positive ( $p < 0.05$ ) correlation was found between Marketing process and Need satisfying product ( $r = 0.342$ ), and Marketing process and Segmentation and target marketing strategies ( $r = 0.479$ ). Marketing process shows the strongest relationship with Segmentation and target marketing strategies compared to Needs satisfying product.

## Multiple regression analysis

In order to test the reformulated hypotheses, a multiple regression analysis was performed to determine the influence of the independent variables, Segmentation and target marketing strategies, Varying product levels, Needs satisfying product, Price cost strategies, Place strategies, Marketing process and Communication strategies, on the dependent variables, Business growth and Business success. According to the results of the multiple regression analysis, the independent variables explained 14.72% of the variance in the dependent variable Business success. Similarly, the variance explained by the independent variables in the dependent variable of Business growth is 14.27%. The results of the regression analysis are reported in Tables 3 and 4.

A positive linear relationship ( $t = 4.599$ ;  $p < 0.001$ ) was found between a Needs satisfying product and Business success, which implies that if small businesses provide a product that satisfies their customers' needs, the more likely it is that the business will be successful. This finding corroborates with Lamb et al., (2008: 206), who emphasise that a product is a result of the firm's efforts to satisfy its customers' needs and is also the starting point for establishing a business and developing an appropriate marketing mix. Without a product and/or service to sell, a firm cannot determine price, coordinate distribution or implement a promotion strategy.

In addition, the results showed that the independent variables Marketing process ( $t = 3.060$ ,  $p < 0.05$ ) and Needs satisfying product ( $t = 2.396$ ,  $p < 0.05$ ) have a positive linear relationship with Business growth. This positive relationship suggests that if small business owners engage in the marketing process and provide a needs satisfying product, they are more likely to experience growth in their businesses. In other words, the more that small business owners carry out marketing process activities such as the determining, designing, implementing and measuring marketing of communication messages, the more likely it is that the business will experience growth. Similarly, if small business owners provide customers with a product that satisfies their needs and wants, the more likely it is that the business will experience growth.

These findings are supported by the literature review, as according to Lamb et al., (2008:294), regardless of how great a product is, if the market is not made aware of the product, no one will buy it, which could lead to the failure of the business. This is where effective marketing communication plays a critical role in communicating a unique benefit positioning through messages to the selected target market, which is especially true for small businesses (Van Scheers, 2011: 5049).

It was identified that support is thus found for the positive hypothesised relationship between Needs satisfying product (H3a) and Business success. The hypothesised positive relationship between

Marketing process (H6b) and Business growth is also supported, as is the positive relationship between Needs satisfying product (H3b) and Business growth.

The following relationships between Business success that were hypothesised in this study are not supported, namely Place strategies (H5a), Marketing process (H6a), Communication strategies (H7a) Segmentation and target marketing strategies (H1a), Varying product levels (H2a) and Price cost strategies (H4a).

This study also concludes that no support was found for the following hypotheses, namely Place strategies (H5b), Communication strategies (H7b), Segmentation and target marketing strategies (H1b), Varying product levels (H2b), Price cost strategies (H4b) and the dependent variable of Business growth.

**Table 3: DESCRIPTIVE STATISTICS OF THE MARKETING TASKS**

<b>Dependent variable: Business success</b>	<b>R-Square = 0.147</b>		
<b>Independent variables</b>	<b>Beta</b>	<b>t-value</b>	<b>Sig. (p)</b>
Place strategies	0.010	0.204	0.839
Marketing process	0.084	1.477	0.141
Varying product levels	-0.002	-0.031	0.975
Price cost strategies	-0.018	-0.450	0.653
Segmentation and target marketing strategies	0.089	1.591	0.113
Communication strategies	-0.035	-0.587	0.558
Needs satisfying product	0.348	4.599	0.000*

(\*p<0.001)

**Table 4: MARKETING TASKS AND BUSINESS GROWTH**

<b>Dependent variable: Business growth</b>	<b>R-Square = 0.143</b>		
<b>Independent variables</b>	<b>Beta</b>	<b>t-value</b>	<b>Sig. (p)</b>
Place strategies	-0.051	-0.902	0.368
Marketing process	0.202	3.060	0.002**
Varying product levels	0.009	0.131	0.896
Price cost strategies	-0.005	-0.117	0.907
Segmentation and target marketing strategies	0.111	1.730	0.085
Communication strategies	0.036	0.529	0.597
Needs satisfying product	0.209	2.396	0.017**

(\*\*p<0.05)

## CONCLUSIONS

The primary objective of this study was to identify the marketing tasks performed by small business owners. This study focused on how small business owners adapt the basic marketing tasks associated with the marketing function, namely Segmentation and target marketing strategies, and the management of the marketing mix, i.e., Product strategies, Pricing strategies, Place strategies and Promotion strategies to suit their unique needs and limited resources and whether a relationship exists between these tasks and Business success.

It is clear from the literature that South Africa's small business sector is key to the country's economic growth and prosperity for a number of reasons, however most importantly through its contribution to GDP, large scale job creation and innovation. Small businesses are already role players in the country's development, but now more than ever, efforts must be intensified to enable them to thrive. It is well known that smaller businesses face enormous challenges that lead to their high failure rate within the first decade of operation. These challenges have been identified as primarily due to financial constraints, a lack of managerial know-how (including financial and marketing), and a restrictive regulatory environment.

Considering the major role marketing plays in any business, previous studies have shown that small businesses do not give this function the priority it deserves. A lack in marketing skills necessary to carry out the marketing tasks is strongly related to business failure, hence those marketing tasks essential to small business success need to be more clearly identified, in order to better assist and equip their owners with relevant marketing skills to enable their businesses to survive and prosper. Customer relationships are built on the extent to which the marketing tasks are performed in a business over time.

The owner controlled business has its own unique characteristics and challenges with regard to marketing. Small business owners are likely to have an informal and intuitive approach to marketing and do take advantage of networking, however, they are also constrained by a lack of marketing know-how and limited marketing budgets. Small business owners are likely to adapt standard theoretical marketing frameworks through adaptation and innovation to fit their flexible approach to the marketing tasks.

Creating and providing a product that satisfies the needs of the target market was proven to have a significant positive effect on the growth and success of a small business. Owners must ensure that their product and/or service offering is something their customers actually need or want on a recurring basis. Over time, products must be updated and new products offered. Keeping the offering current will require a process of generating ideas for new products, thus it is imperative for small business owners to ensure that new and viable product ideas can be commercialised and will be sustainable in terms of the needs that it satisfies if the business is to achieve success and growth.

Similarly, it was found that when small business owners follow a marketing process in their communication strategies to the target market, they will reap the benefits of business growth. The implication of this finding is that small business growth can be achieved by identifying a target audience, developing objectives and an effective communication message to reach them, and evaluating the message for effectiveness. Current and potential customers must be made aware of what the offering is and how to find it, which must be communicated via the message.

A combination of limited resources and available funding, lack of knowledge and competence and an informal manner in executing appropriate marketing tasks, play a role in the success or failure of small businesses. Despite these difficulties, it was nevertheless found that positive relationships exist between certain marketing tasks and Business success or Business growth. Small business owners who place marketing at the forefront of their operations stand a greater chance of survival in the long term.

## **RECOMMENDATIONS**

South Africa's comprehensive National Development Plan 2030 (2013) proposes a number of objectives to support and improve the country's small businesses to ensure their sustainability and growth. While a discussion of the NDP falls outside the scope of this study, it is worth noting that the

plan puts a greater emphasis than before on skills training and development for small business owners, as well as other groups. The involvement of any role players, current and future, in the NDP's skills development programmes for small business owners, whether emerging, new or existing, must ensure the marketing function for small businesses is placed high on the agenda of these objectives. The fundamental marketing tasks and how to perform them should be a core component of these initiatives, as should a greater variety and increased accessibility to relevant, practical, short courses aimed at improving small business owners' survival rate.

This study found that the Marketing process has a direct, positive relationship with the growth of a small business. Therefore, it is crucial for owners who wish to grow their businesses to ensure that they implement this process well. Even though many task groups and forums are available to small business owners who seek assistance in marketing, and the other business functions, in reality, they actually require even more substantial assistance in how to improve business success and growth. Small business owners who lack or have little access to support or training, which will assist them in running their businesses, could aggravate the high failure rate of these firms.

Of existing options currently available, it is strongly recommended that structures such as the local business chamber and policymakers of government initiatives such as SEDA, review the marketing function of their small business development programmes. For example, several of the country's business chambers offer mentorship programmes to assist local small business owners. These programmes could be expanded if more mentors with a marketing background are encouraged to come forward and offer specific guidance on the marketing tasks as part of the mentoring process to improve the small business's success rate. Local structures could also embark on regular campaigns to encourage a greater number of small business owners to sign up for their mentoring programmes and workshops, and visit their helpdesks. While it is prudent for any business owner to ensure they are adequately equipped with the right business skills to carry out the numerous tasks to operate their business, many of the initiatives offered by local organisations strive to encourage small business owners to make use of their services and the much needed assistance they provide.

The findings of this research found support for the positive relationships between a Needs satisfying product and Business growth, as well as Business success. Small business owners need to constantly innovate and generate new ideas for product development or else they risk stagnation and loss of market share to competitors. It is evident that crucial to the survival of the small business, is the ability to create a product that satisfies its customers' needs.

For example, small businesses can incorporate new product development ideas in an informal survey or questionnaire which can be administered to current and potential customers, or even friends and family. They should be encouraged to conduct market research to obtain feedback from customers and gain a better understanding of their needs. The results of the survey can be used in the marketing process for improving business success.

Furthermore, small business owners must not underestimate the value of business networking, mentoring and coaching for improving their skills to more effectively perform the marketing tasks and enhance business success. It is recommended that small business owners participate in information sharing and networking events offered by their local business chambers, other organisations and professional associations. They can also keep abreast of current marketing thinking and practices by using different online and traditional sources of information.

Despite recognising that a lack in marketing skills necessary to perform the marketing tasks is a major constraint for South Africa's small businesses, the marketing function represents only one facet of a business. It is becoming increasingly urgent to find a solution to ensure a more sustainable, viable and successful small business sector in the country.





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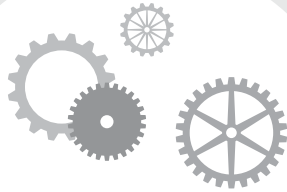




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## IMPROVING THE TRADING ENVIRONMENT OF THE SOUTH AFRICAN HAWKERS INDUSTRY

3



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### ABSTRACT

Hawkers contribute to the economic development of a country but do not receive much support from government to improve their trading conditions. The purpose of this paper is to explore how the trading environment of hawkers can be improved. A quantitative study was conducted, by interviewing 100 hawkers in Tzaneen. The empirical results identified how trading conditions of the hawker industry can be improved. Almost half of the hawkers are not aware that they need a hawkers permit issued by the local municipality giving them permission to trade. Guidelines on how the local municipality can assist in improving their trading conditions in term of infrastructure such as water, sanitation and a shelter and security issues are provided. This paper indicates that hawkers can assist in economic growth and relieve unemployment in the country.

### KEYWORDS

Hawker, informal traders, Micro businesses, Trading environment

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## INTRODUCTION

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Municipalities in South Africa have an obligation to enforce street trading by-laws (Moloto, 2007: 2). The reason for the street trading by-laws is not at all from a punitive law enforcement point of view, but towards creating a more sustainable and supportive environment. According to the street by-laws street trading, are restricted to certain areas and traders are prevented from obstructing traffic or pedestrians movement, prevent unsafe stacking of goods, limit the attachment of equipment to buildings, obscuring the visibility of road signs and ensure that traders keep their sites clean (Skinner, 2008: 236). The content of the by-laws content differ from municipality to municipality based on particular circumstances and stakeholders' expectations (Van der Heijden, 2012: iii). In South Africa, there is a general lack of information about municipal regulations and their enforcements among small survival businesses (Pahwa, Bester, Nieuwenhuizen, Dawood, Pieterse, Kane, Schlemmer, Bot, Hamilton, Madel, & Van Eeden, 2006: 1). In terms of the new Licensing of Businesses Bill 2013, the owner of a business who cannot produce a license will be fined and/or imprisoned for up to 10 years; this includes hawkers (Holmes, 2013: 1).

Many hawkers in South Africa have a business out of necessity or desperation, as the little money made from it, provides food for the family (Moloto, 2007: 2). Fuller (2003: 297) emphasises that “to develop the South African economy, things need to be done at the smallest scale in every township”. As Brown, Lyons and Dunkoco (2010: 666) so rightly said, informal commerce has grown to become the lifeblood of African cities with street trade among the largest sub-groups in the informal economy, but it has not been accompanied by a corresponding improvement in their status as citizens. Policy makers in South Africa claim that they continue trying to identify and support those productive, and innovative small businesses that will generate employment and promote economic growth within the country (Dobbs & Hamilton, 2007: 296). This study therefore explores how the hawkers industry in South Africa can be improved.

In this paper, an overview of the hawkers industry will be given, followed by the methodology. The results of the biographical profile of the hawkers and their businesses, operational issues, problems experienced, reasons for the problems, opportunities to improve hawkers trading conditions are summarised, followed by the conclusions and recommendations.

### PROBLEM INVESTIGATED

South Africa is one of the most sophisticated and promising emerging markets in the world, offering a unique combination of highly developed first world economic infrastructure with a vibrant emerging market economy (The Department of Trade and Industry, 2010: 4). Job creation in the formal sector frequently takes place at a far lower rate than growth in the labour force (Ligthelm & Van Wyk, 2004: 1). The importance of the informal sector in developing countries was confirmed in a study done by Tripple (2005: 6112) on home-based businesses in the informal sector. The shortage of employment opportunities compels people to fend for themselves and start businesses. It is estimated that there are approximately 2.21 million informal businesses in South Africa in 2011 (excluding the agricultural sector), compared to 9.2 million in the non-agricultural formal sector as indicated in the quarterly labour force survey (Van der Heijden, 2012: 6). This figure has been contested by Nevin (2004: 41) which argues that for years researchers have tried to put a figure to the money generated from the “other” economy, but the numbers are hopelessly disparate, but estimates the South African informal sector turnover to be about R32 billion each year. By province, Limpopo has the largest relative informal sector; about 35% of total economic activity. (Van der Heijden, 2012: 7).

Ligthelm (2004: 1) confirms that manufacturers and wholesalers are increasingly acknowledging the informal retail sector in South Africa as an important delivery channel of goods to consumers. A large percentage of informal businesses were established in a non-lucrative business environment and are therefore operating at a bare survival level. At the African Co-operative for Hawkers and Informal traders 21st Annual Conference in Polokwane, it was indicated that informal traders and hawkers are found almost everywhere in our country, in taxi ranks, railway stations, shopping malls and in busy intersections (Moloto, 2007: 1). Ligthelm (2004: 4) shows in his study that the survival rate of hawkers or street vendors, are the lowest, at only 19%, compared to other informal businesses. This clearly shows that hawkers experience trading environmental problems.

This has led to the research question investigated:

**How can the hawkers' trading environment be improved in South Africa?**

From this research question the following research objectives were identified.

## **RESEARCH OBJECTIVES**

The main objective of the study was to investigate the trading environment of the hawker industry in South Africa, and how it can be improved. The secondary objectives of the study were to:

- To provide a theoretical overview of the hawker industry;
- To empirically investigate the needs and challenges of the hawker industry; and
- To provide guidelines on how the hawkers' trading environment industry in South Africa can be improved.

Some key concepts used in this article will next be clarified.

## **CLARIFICATION OF CONCEPTS**

### **Informal traders**

The informal sector is described as businesses operating on a small scale with a low level of organisation, low and uncertain wages and no social welfare and security (Role of informal sector 2002: 76). Ligthelm and Van Wyk (2004: 7) describe informal traders as retailers that are not registered for Value Added Tax e.g. spazas, tuck shops, hawkers, shebeens, kiosks and take-aways.

### **A hawker shop**

Bromley (2000: 1) regards the location of trade as streets and other public places such as alleyways, avenues and boulevards, whereas Mitullah (2004: 5) also include bus stops and other public places.

If looking at the definition of a hawkers shop it shows that it can be linked to the definition of a micro business.

### **A micro business**

In South Africa a micro business can be described as informal, have less than five employees, and very little assets (Small Business Amended Act, 2003: 6).

In the next section a brief overview of the global hawker industry will be highlighted.

## BRIEF OVERVIEW OF THE GLOBAL HAWKER INDUSTRY

Nevin (2004: 41) contends that the South African government wants to use the hawker sector to grow the economy and create jobs. The hawker industry is a vital, bustling, non-stop hive of activity worth billions. Hawking is an escape from a life of crime and from making a living are some of the reasons why people get involved in informal trading (Moloto, 2007: 1).

Bhowmik (2005a: 25) states that many street vendors in seven cities in India, are having low skills and have migrated from rural areas or small towns in search of employment. Although their income is low, the investment to start trading is also low and the hawkers do not require special skills or training. In Hong Kong, hawker centers were built more than 20 years ago as open-air complexes comprising of many food stalls offering affordable local food (Hawker Centre 2013: 1). Hawkings are popular in Hong Kong due to the high unemployment rate and the need to cater for the many ethnic groups' food tastes.

The survivalist market is a highly competitive market as it has low entry barriers, uses unskilled labour and has limited capital requirements (Kekana, 2009: 373). In Sri Lanka, hawkers' customers are the lower and middle income groups who get their daily necessities at cheap prices (Bhowmik, 2005b: 2258) and at convenient locations (Bhowmik, 2005a: 25). Informal businesses in South Africa rely on taxis or hired vehicles for transport or use trolleys to push their goods to their trading place (Willemse, 2011: 13). Informal shop owners used their own transport, if having a vehicle to transport stock to their shops, but do not use it to deliver to customers (Kekana, 2009: 377).

Bhowmik (2005a: 2) reminds us that most of the goods sold by hawkers are manufactured in businesses that employ a large number of workers. These large businesses cannot market their products on their own and in this way the hawkers are providing a valuable service. Bhowmik (2005a: 28) encourages the recognition of hawking as a profession and said it would benefit municipalities.

### Problems created by traders

Bhowmik (2005a: 26) indicates that street vendors in the seven cities investigated in India, contribute to refuse on pavements, while the street vendors put the blame on their customers. They generate litter and discard waste without caring for their surroundings, exacerbated by lack of facilities such as toilets, electricity and water. Hawker Centre (2013: 1) cited social problems in Singapore that arose from street hawkers as:

- poor hygiene due to a shortage of water and proper storage of equipment, inappropriate disposal of refuse which leads to an increase of flies threatening public health;
- unsightly conditions obstructing traffic and impeding pedestrian flow ultimately leading to tension between the law enforcer and the hawker.

Hawkers must realise they have the responsibility and challenge to keep the environment clean (Moloto, 2007: 2). Bhowmik (2005a: 1) described problems relating to the hawker industry in India as due to: municipal and police laws impose restrictions on trade and regard hawking as an illegal activity and that all urban plans allot space for public use such as parks and gardens, etc. without any allocated to street vending. Hawkings in South Africa are regarded as dangerous, resulting in traffic congestion and dirtying streets (International Labour Organisation, 2003: 7).

## Challenges facing the hawker industry

According to Petros (2009: 1), challenges facing the hawker industry in South Africa include: no social security protection, having to pay bribes to not be arrested if without a permit, goods being confiscated, and paying exorbitant rates for funding. Hawkers in South Africa indicated prime business constraints as lacking shelter, wastage, having a volatile demand and Metro police raids (Madevu, Louw & Kirsten, 2007: 16). Moloto (2007: 2) indicates that the hawker sector faces the following challenges:

- access to financial services and credit facilities;
- access to training and business skills;
- access to business infrastructure like shelter and storage;
- access to basic services like water and electricity; and
- regulations within the industry.

As informal retailers are cash and carry businesses, they become targets of theft (Rogerson, 2005: 54). Consequently, this leads to informal entrepreneurs purchasing in small quantities stock. Mittulah (2004: 10) outlined several problems affecting street hawkers in South Africa amongst others, lack of infrastructure and services such as shelter, roads, toilets, water and sewerage, and garbage collection.

Bhowmik (2005b: 2260) mentioned that in Sri Lanka street vendors have no demarcated areas to operate which lead to problems in terms of no access to water and garbage disposal. Bhowmik (2005a: 3) confirms that in many parts of India, hawkers need a license and are also victimized by the police and local government authorities if not able to show their license (Bhowmik, 2005b: 2258).

## Hawker support

In South Africa, many small and micro business owners are not aware of support initiatives offered by the Small Enterprises Development Agency (SEDA) and Khula (Kekana, 2009: 378). In Kuala Lumpur, licensed street vendors have access to institutional credit, training programmes on health and hygiene, business skills and bookkeeping (Bhowmik, 2005b: 2259). In Singapore, hawkers are provided with electricity, water, garbage collection and disposal in the food centers (Bhowmik, 2005b: 2259). Countries such as Australia, has Informal Trade Laws, stating that hawkers must have a license, which is not transferable and that must be displayed (Hawkers Act, 2003: 1). A list of all Australian licensed hawkers is available from municipalities. Australian hawkers have a restriction on hawking near commercial premises. They may not obstruct or endanger the public. Unlicensed hawkers are limited to 30 minutes trading.

The Wellington City Council in New Zealand, issue licenses to hawkers but have requirements to be met such as health and safety issues, pedestrian access, the effect on other businesses, restricting the type of commercial goods sold, limit the times of operation, issues licenses for a certain time period, requires a neat stall appearance and do not allow hawkers to store stock overnight at the site (Trading in public places policy, nd: 1).

Strategies to deal with problems hawkers experience in South Africa include (Local Economic Development Network of Africa, 2010: 1):



- incorporate informal sector in urban planning;
- build larger pavements;
- provide electricity and water for food vendors; and
- legalising the hawkers trade.

The Singaporean government licenses all hawkers and tender out hawker stalls. This practice is criticised as some hawkers sublet their stalls for a higher price (Lijie, 2012: 1).

In the next section the methodology of this article will be described.

## METHODOLOGY

The quantitative research approach using a survey was chosen for the study. The study was explorative and descriptive in nature. The trading conditions of hawkers were explored and described as well as how it can be improved.

### Sample

A convenience sample of 100 hawkers in Tzaneen, in the Limpopo province in South Africa, was obtained. Several areas were identified through observations and information received from field workers residing in the areas. Respondents were chosen in at the Pick n Pay taxi and bus rank at the Tzaneen Mall, the Boxer bridge and Tzaneen crossing taxi rank, Tarentall crossing, Nkowankowa and Lydenburg road and even some at the industrial area in Tzaneen.

### Data collection

The measuring instrument used in this survey was a semi-structured questionnaire consisting of two sections. Section one consists of the biographical information regarding the respondents and their businesses. The second section contains questions on awareness of the informal Trade Act, operational issues, problems experienced or caused by trading and how the municipality can assist them and improve their trading environment.

Mostly multiple choices questions were asked as the literacy rate of the hawkers were questionable prior to the interviews. In spite of this obstacle, some open-ended questions were included in the questionnaire. Use was made of field workers that could speak the respective languages of the respondents, as English was mostly the second language of the respondents. The ten field workers were chosen to interview the hawkers based on their residential area so to make it more convenient, to have more control in obtaining feedback and less costly to administer the questionnaire. Self-administer questionnaires would not have provided the required results as the literacy level of the hawkers were not known prior to the interview and could thus impact the reliability of the results.

### Data analysis

Once the questionnaires were completed and returned, it was checked for completion. Of the 120 questionnaires completed, only 100 were deemed complete and reliable (83%). The questionnaires were numbered and the data sheets designed. As respondents gave different responses in the open-ended questions, new categories had to be added to the data sheets as data capturing took place. The results of the questionnaires were captured in an EXCEL spreadsheet. For the purpose of this study, descriptive statistics in terms of percentages are presented in tables.

## Reliability and validity

Face validity was ensured as suggested by Mora (2011: 1) both in terms of sample choice (the correct respondents were interviewed), and to obtain the information needed for the study (suitable questions were asked). Content validity was ensured as the questions reflect the research question and the content of the literature study was used to design a structured questionnaire containing questions on the various issues pertaining to the hawkers industry (Mora, 2011: 1). Reliability is concerned with the consistency of the measurement, referring to the degree to which the questions in the survey elicit the same type of information each time they are used under the same conditions (Mora 2011: 1). The ten field workers were briefed prior to the interviews on how to conduct the interview and the intention of the questions. The field workers could thus explain the questions to respondents in their own language and therefore increase the reliability of the results. A pilot study of ten hawkers was conducted to determine if the respondents understand the questions and respond to it in the same way. The results of the pilot study indicated that the questionnaire can be regarded as reliable. As the literacy levels of the hawkers are not high, no rating questions could be asked. This limited how reliability could be ensured as no Cronbach alpha values could be calculated. To ensure reliability in the data analysis phase, the open-ended questions were coded using two raters (one of the fieldworkers and the researcher). Hruschka (2004: 307) points out that inter-coder reliability assess the degree to which the coding of text by multiple coders is similar. If coders agree on the coding of a text, the questionnaire can be considered as a reliable instrument.

## Limitations

As it was a convenience sample, it could have been more representative if hawkers in other provinces were included in the study, but this was impossible due to time constraints and the high costs involved. As mentioned in the literature review, the Limpopo province has the most hawkers in the country. It would have been interesting to compare the different trading conditions of hawkers in the different provinces. The researcher had to rely on the integrity of the fieldworkers in completing the questionnaires.

## RESULTS

The biographical profile of the hawkers, their awareness of the informal Trade Act, operational issues, problems experienced or caused by trading and expectations from the municipality in terms of improving their trading environment, is next presented. The total sample is 100 unless otherwise indicated.

## Results of the biographical profile of owner and business

Table 1 shows the biographical profile of the owners and businesses.

**Table 1: BIOGRAPHICAL PROFILE OF OWNER AND BUSINESS**

Biographical data		%
<b>Business type</b>	Motor vehicle	6.2
	Food	46
	Clothes	8.7
	Healing	0.9
	Electrical goods	16.8
	Hairdressing	7.2
	Other	14.2
<b>Period in business</b>	< 1 year	15
	1 - 2 years	24
	3 - 5 years	23
	> 5 years	38
<b>Number of employees</b>	None	38
	1	37
	2	15
	3	4
	4	5
	5	1
<b>Monthly income</b>	100-499	18
	500 - 749	12
	750 - 999	6
	1000 - 1249	5
	1250 -1499	5
	1500 -1999	5
	2000 - 2499	5
	2500 - 2999	0
	3000 - 3499	3
	3500 - 3999	6
	4000 - 4499	6
	4500 - 4999	1
	Above 5000	2
	No indication	26
<b>Gender</b>	Male	58
	Female	42
<b>Age group</b>	15 – 19	1
	20 – 24	8
	25 – 29	15
	30 – 34	12
	35 – 39	21
	40 – 44	16
	45 – 49	13
	50 – 54	6
	55 – 59	3
	60 – 64	5

<b>Home language</b>	Tsonga	40
	Sotho	59
	Not indicated	1
<b>Education level</b>	Primary	20
	Grade 8-9	21
	Grade 10 -11	29
	Grade 12	21
	Teaching diploma	1
	ABET	1
	No education	6
	Not indicated	1

It must be noted, some owners had more than two businesses (sample size 113 versus 100 interviewed). The majority of respondents were in the food and beverage sector (46%), selling fruit and vegetables, followed by selling electrical goods (16.8%) such as accessories and airtime. They combine fruit and vegetable selling with giving haircuts or repairing shoes or selling cell phones, and airtime with hairdressing. Other businesses (14.2%) included selling plastic containers, plants, sweets, snacks and cigarettes, tyres, fitting car exhausts and car wash, shoes, bags or handbags, public phone, jewellery, taking photos, doing welding or repairing shoes.

More than one third of the businesses have been in operation for more than five years. Only 15% has been in operation for less than one year, with 61% in operation for more than two years. This means they are well-established businesses and had the opportunity to have a big enough market to be self-sufficient. Few respondents employ staff; most hawkers had one or no employees. The more labour-intensive businesses such as hairdressing, motor vehicle repairs or car washes are the types of businesses that had more than one employee. All car wash businesses had more than three employees.

The type of business dictates the income generated. Motor vehicle repairs were in the top category (above R50000). Cell phones, accessories and airtime were the second most lucrative type of business. Fruit and vegetables and cooking generated little income, mostly below R749 a month. Hairdressing generated R750 to R1999 depending on the number of employees in the business. Twenty-six respondents did not have an idea what their monthly income was, indicating they live from the hand into the mouth. Their low income could be due to their lack of ability to price their goods or services or lack of funding to buy more stock or not being able to transport a lot of stock. Their customer base could also be limited and therefore impact their earning ability. None of businesses could indicate their profit mark-up.

More than half of the respondents were males. Females were the most active in the hairdressing, fruit and vegetables and groceries selling, cooking, selling (both second hand and new) clothing with selling, repairs or electrical good, car wash and repairs, traditional medicine and consulting more dominated by males. Both males and females did alterations to clothing and hairdressing.

The highest concentration is found in the 35 to 39 age group, with half of the respondents in the 35 to 49 age group. Few small business owners were younger than 25 (9%), with only one respondent in the 15 to 19 years category. This indicates that respondents are either still at school or are still trying to find employment. By 25 years of age respondents either realised that they are not going to find employment or life demands have prompted them to generate an income as their families depend on them. Only a few respondents are older than 60 years of age (5%). They either are considering retirement, or are retired and do not have dependent children residing with them.

Respondents either were Tsonga or Sotho speaking. The respondents do not speak English at all when doing business. Only 22% of respondents had matriculated. Nearly one quarter of the respondents had primary education or no education at all. Only one respondent had a post matric qualification being a teaching diploma. One respondent completed ABET classes but did not indicate the level of this training.

### Results of the awareness of the informal trade act

Only 24 respondents indicate they are aware of the Informal Trade Act, although no indication was given that they know what it entails. To probe further respondents were asked if they know the difference between a formal and informal business. Although 21 respondents indicate they know the difference between a formal and an informal business, only nine respondents could give a clear distinction. Six of these respondents indicate a formal business is a registered business, while an informal business is not registered. Three of the respondents describe a formal business as when permission was obtained from the municipality.

### Results of the operational issues

#### Permission to trade

Table 2 shows where respondents obtain permission from to trade.

Table 2: PERMISSION TO TRADE

Permission were obtained from	%
Municipality	24
Hawkers association	29
Friend/family	13
Myself	26
Someone hire/organize it for me	6
Developer	1
Civic association	1

Fifty-three respondents got a permit either from the municipality or the hawkers association. This indicates they are aware that they should get permission and know where to go to obtain permission. They also rely on friends or other people to assist them in getting permission to trade. Just over one quarter of the respondents was adamant they do not need permission from anybody as they saw this job opportunity, with three being honest that they trade without a permit. A developer gave a hawker permission to set up a cooking stall at the building site to provide meals to his workers. Ten respondents granted themselves permission to trade. Eighty four percent of the respondents indicated that they run their own businesses, while 16% employ people to run the business for them.

## Trading site

Table 3 shows where respondents' conduct their trading.

Table 3: TRADING SITE

Trading place	%
Taxi rank	25
Bus rank	9
Town entrances	0
Mall entrances	7
Alongside road	46
Outside schools	2
Outside shop	6
Inside complex	1
From home	4

As can be seen in Table 3 nearly half of the businesses are situated alongside a road. One quarter is trading at a taxi rank, with a few at a bus rank or outside schools. Only one business was inside a complex and four businesses operate from home. The reasons supplied why they trade at their trading sites vary from no other site available (1%); being familiar with the spot and feel comfortable to trade there (9%), more foot or car traffic (62%); high visibility (10%); no competition (2%); close to home (1%); targeted a specific market (3%); want to attract people (5%) to cannot think of any reason (7%).

## Suppliers of stock

The respondents buy stock from Tzaneen retailers (67%), wholesalers (1%) or shops in the townships (5%), or farms (7%), or co-op (1%) or in towns such as: Pretoria (1%); Dendron (1%); Johannesburg (9%); Hoedspruit (1%); Pretoria (1%) or Polokwane (4%). Some respondents acquire stock far away from Tzaneen such as Johannesburg or Pretoria. This will impact their profit margin. According to two respondents, ABSA Bank supply them with public phones. It could not be established how this system work, but it is surmised that they receive a loan from the bank for the phones.

## Transport from suppliers to trading site

Forty percent of the hawkers use a bus to get to their trading site. If they trade close to their homes and it is possible to carry their stock, they go by foot (29%). They also go by foot if they do not have much equipment to carry together with their stock. Twenty six percent of the hawkers use a taxi to get their stock to their trading place as they cannot carry their stock and/or equipment. Five percent of the hawkers have a car which they use to get their stock to their trading site.

## Results of the problems facing hawkers

The respondents indicated many problems (169 responses for 100 hawkers). As the problems varied considerably low scores were obtained. Table 4 shows the various problems experiencing while trading. Five percent of the respondents did not experience any problems.



**Table 4: PROBLEMS EXPERIENCED**

<b>Problem</b>	<b>%</b>
Crime	21
Access to funding	19
Large number of hawkers	15
Business skills	14
Site availability	9
Permits	7
Corruption	4
Law enforcement	4
Stock availability	2

Table 4 shows that the biggest problem is crime. This was also indicated as other problems (see below) in terms of customers stealing (25%), or customers not paying (6%). Lack of access to funding was rated the second biggest problem. Some respondents did not indicate the problems in the structured question section but indicated it in the open-ended question section. These problems are:

- customers not paying (6%);
- lack of funding to improve/expand business (20%);
- lots of competition (17%);
- drunken customers (3%);
- stealing customers (25%);
- no shelter (25%);
- lack of access to water (3%);
- other hawkers disrupt trading (3%).

As can be seen lack of funding to improve/expand business was indicated by 20% of the respondents. The large number of hawkers also posed problems as it intensified competition as can be seen by seventeen percent of the respondents indicating severe competition as a problem. Three percent of the hawkers also indicate that other hawkers are disrupting their trading. Lack of business skills was also indicated in Table 4 as a problem. Site availability or lack of a shelter was also indicated as a problem, especially when raining. Few respondents had no problems (5%).

Table 5 shows the reasons why respondents experience problems. Only 85 responses were indicated.

**Table 5: REASONS FOR PROBLEMS EXPERIENCED**

<b>Reasons for problems</b>	<b>%</b>
More competition	16
Lack of funds for expansion	14
No weather protection	14
Limited business knowledge	13
Lack of security	12
Some hawkers do not have a permit	7
Police harassment and corruption	7
Lack of trading space	6
No financial government support	6
Have been forced to relocate	1
Proliferation of profit	1
Too many public phones	1
Lack of water to cleaning tools	1

A large number of hawkers lead to more competition. Respondents condemned those trading without permit. As there are many hawkers, there is a lack of trading space. Weather conditions are also problematic, as there is no protection from the hot sun or rain. Not having a shelter requires taking equipment and stock home every day and prevent them from keeping too much stock as it has to be transported daily. Respondents lack funds for expansion and regard their limited business knowledge as problematic. Security is also problematic, especially police harassing them by demanding money or threatening them with removal. It seems that there is corruption in the police force in Tzaneen.

### **Results of how to improve the trading environment of hawkers**

The respondents had several suggestions on how to improve their trading environment as shown in Table 6.

**Table 6: IMPROVEMENTS OPPORTUNITIES**

<b>Opportunities</b>	<b>%</b>
Business skills training	22
Infrastructure shelters	21
Finance	18
Infrastructure water	14
Rubbish removal	12
Infrastructure toilets	7
Infrastructure equipment	5
None	1

Respondents are keen to receive business skills training and to have some shelter from weather conditions. They also regard access to finance as high on their priority list. Access to water and rubbish removal was mentioned by some of the respondents as an opportunity to improve their trading environment. They vary considerably in their responses on what they regard can improve

their trading environments. The reasons why respondents want their trading environment improved are as follows: shortage of water (17%); hope to grow my business (14%); have no training opportunities (14%); no protection if raining (11%); lack of access to finance (9%); no storage for stock, lack of sanitation and rubbish interfere with trading (5% each); could acquire more equipment if having a lock-up facility (4%); hygiene will increase (3%); need a rubbish bin for customers (2%); to limit competition; if having a lock-up facility it will eliminate shortage of stock due to public transport reliance, could attract more donations from people, no electricity to make food and need dust protection for medicine (1% each). Six percent could not provide a specific reason why their trading environment should be improved.

## CONCLUSIONS

Hawkers target a specific target market with a specific purchasing power, lifestyle and living conditions. It is confirmed in the results that there is enough consumer spending to support the hawkers, as most hawkers operate their businesses for more than two years. They would not continue to trade if it did not provide them with an income. Literature also confirmed that the hawker industry numbers have increased which points to fulfilling the needs of consumers. Although the earnings levels of hawkers are relatively low, they can at least support themselves to buy necessities. This is preferred above being unemployed without an income. They are situated in areas that is easily accessible for their target market, in other words where there is lots of traffic, either foot or car traffic, where they are visible or close to their target market which was confirmed by literature and empirical findings. Their convenient location increases their opportunities for sales.

Although they have lots of competition, as there are a large number of hawkers, they all seem to attract enough customers to make a living as most have the desire to expand or improve their businesses. As municipalities regulate the hawker industry by issuing permits or licenses, the study has shown that many of the hawkers have obtained permission from the municipality to trade, or have what they call a permit, which was obtained from the hawkers association. Some hawkers actually welcome this move, as they stated that they do not want other hawkers to be trading without a permit. Insisting on issuing a permit to hawkers will ensure more control and prevent the market from becoming saturated. Many other countries such as New Zealand, Singapore, Malaysia and Australia regulate the hawker industry by issuing trading licenses with strict trading conditions.

The hawkers' age profiles are relatively young and indicate that they probably attract customers of a similar age than themselves, so they know the needs of their target market. As they focus on being conveniently close to their customers, they have an advantage above other shops offering the same products that is a distance away, in that their customers do not have to carry their purchases over long distances. They also save time for their customers as they can buy their products on the way home, or while waiting for a taxi as these businesses are situated alongside the roads or at taxi ranks. The hawkers also have a wide variety of offerings from fruit and vegetables to car washes and selling cell phones and accessories. This makes it a one-stop shopping area for their target market without the expense of traveling unnecessarily.

Economically there are also benefits as these hawkers actually provide employment possibilities. Some of the owners are employed in the mainstream and then employ staff to run their business. Other businesses such as the car wash businesses actually employ up to four staff. This shows that they contribute towards relieving unemployment.

The hawkers experience many problems such as crime, availability of sites to trade, lack of funding to buy stock and stock availability. This is further complicated as they rely on public transport to get to their trading place. Corruption in the issuing of trading permits is also problematic and police are

demanding bribes to allow them to trade. These bribes are either monetary or in terms of stock. They also lack business skills. Hawkers regard shortage of water as troublesome. They want some funding to improve their businesses and skills training as they lack business knowledge as took place in Kuala Lumpur where hawkers have access to credit, booking and skills training. They also want a shelter to be protected if it is raining. Other suggestions were to have electricity, refuse bins as it impact their hygienic trading conditions, funding to buy more stock and some storage facilities for their stock and equipment. Most of these problems have been confirmed in literature on hawkers in either South Africa or other countries.

## RECOMMENDATIONS

Municipalities can assist hawkers through changing their trading environment. There should be a universal street trading by-law with the same trading conditions in all the cities in South Africa. Table 7 provides some guidelines for municipalities on how to improve hawkers' trading environment.

**Table 7: GUIDELINES ON HOW TO IMPROVE HAWKERS TRADING ENVIRONMENT**

No.	Guidelines to improve hawkers' trading environment
1	Demarcate certain areas for hawkers
2	Limit the same type of businesses in an area
3	Supply access to water and sanitation at demarcated areas
4	Provide opportunities to use prepaid electricity boxes
5	Supply a shelter structure at these demarcated areas
6	Give only permit holders access to the shelter structure
7	Charge hawkers using the shelter a small monthly fee
8	Provide a lock-up facility at the shelter for stock and equipment
9	Ensure that rubbish bins are placed near trading areas and cleared on a regular basis
10	Supply a limited amount of credit at a reasonable interest rate
11	Supply basic business training to hawkers at a subsidised fee
12	Offer business training on how to draw up a budget, pricing and how to manage finances instead of just assisting with funding
13	Training offerings should be practical in nature and pitched according to their literacy levels
14	Include the hawker sector in urban planning
15	Allocate a dedicated municipal officer to police demarcated areas to prevent police corruption or harassing of hawkers and provide some basic security

This study clearly shows the need for these types of businesses as the communities and locals support them. It provides income for the hawkers' households, job opportunities, prevent unemployment and provide employment to a limited extent. With the necessary support they will be able to operate more efficiently and possibly grow their businesses to some extent. Growth will be influence to a large extent by having lock-up facilities for stock and equipment, as they mostly rely on public transport. This means that they cannot have much stock and much equipment to display stock. Municipalities should regulate the hawker industry according to the new act and provide them with a more favourable trading environment.



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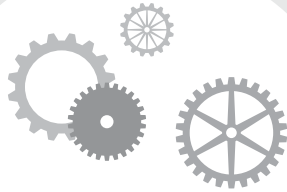


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## THE ROLE OF CULTURE AND GENERATION IN NETWORKING: UNCOVERING DIFFERENCES AT A GAUTENG MINE

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### ABSTRACT

To ensure effective teamwork and a stable working environment networking needs to be enhanced and supported. Culture and generation play an increasingly important role in networking. This paper investigates the networking practices at a Gauteng mine by making use of probability, systematic proportionate stratified sampling to collect data. Kusasalethu mine employees were used as respondents. A total of 289 questionnaires were completed. Although similarities exist, for example, all respondents agreed that informal work environments are conducive to more effective networking practices; the findings indicated that there are indeed a number of salient differences between Black Generation X'ers, Black Baby Boomers, Caucasian Generation X'ers and Caucasian Baby Boomers. In view of the results it is recommended that managers of such diverse workforces become more aware of these underlying differences as such awareness may lead to more effective networking within businesses and a more stable and cohesive working environment.

### KEYWORDS

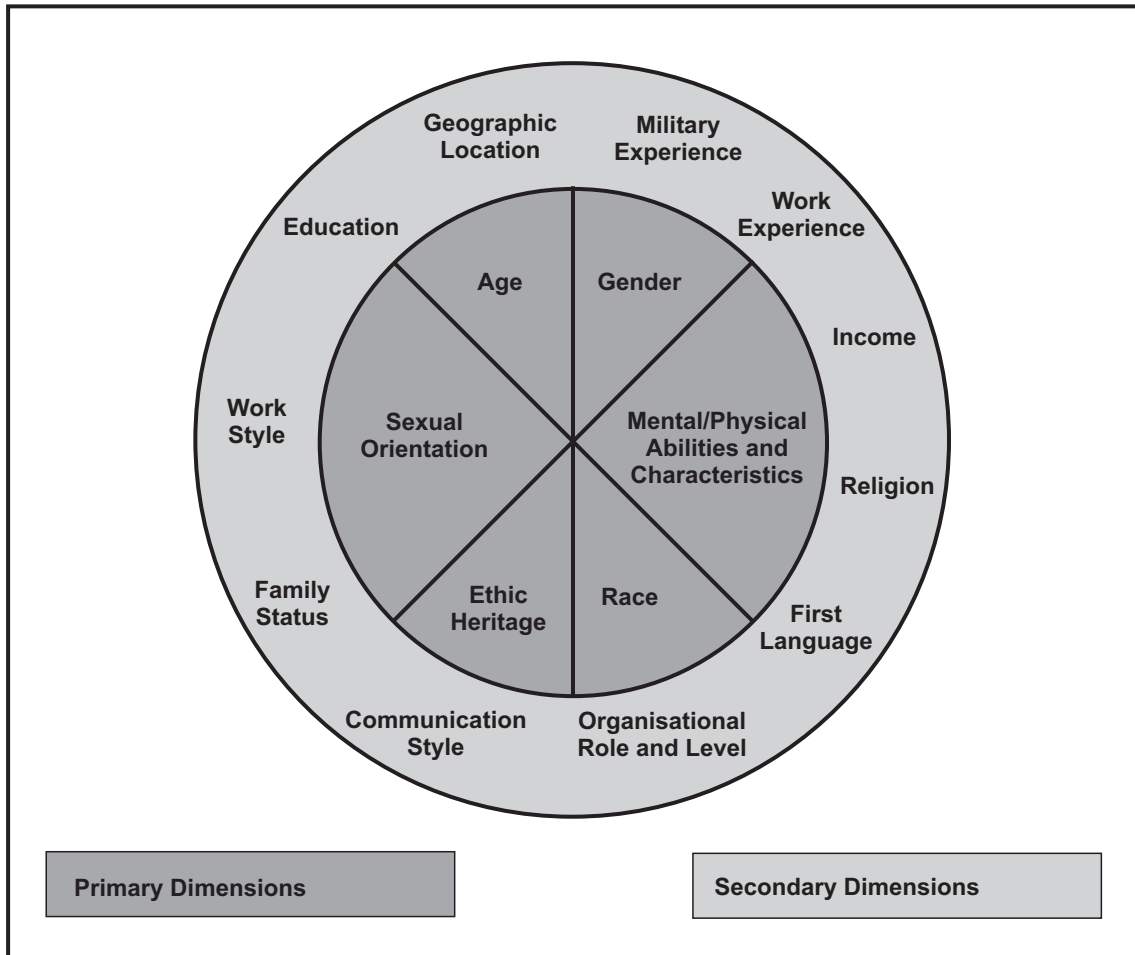
Culture; Diversity; Generation; Networking

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## INTRODUCTION

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Studies (Kluckhohn & Strodtbeck, 1961; Mannheim, 1970; House & Javidan, 2004; Codrington, 2008; Moulton, 2009) have been conducted on the subjects of culture and generation, but little attention has been paid to culture and generation as a combination of diversity characteristics. To understand the broadness of diversity more fully, one needs to ascertain what diversity is and why it is important. Therefore, diversity refers to any aspect relevant to an individual that creates or reinforces a perception that the person is different from another individual (De Janasz, Dowd, & Schneider, 2012: 105-106). The dimensions of diversity are illustrated in figure 1.



**FIGURE 1** PRIMARY AND SECONDARY DIMENSIONS OF DIVERSITY

(Source: Loden (1995: 21))

The borders of the current study includes only South Africa, as Moulton (2009: 35) acknowledges that South Africa provides numerous opportunities for cross-cultural research within the confines of a single national boundary. Although this is true, it is important to realise that all countries consist of multicultural societies today. Encounters with differences are, indeed, an increasingly common aspect of everyday life in contemporary cities (Collins, 2009: 216). In the United States of America, for example, many offices are filled with African, Latin, Asian, Caucasian and many more diverse workers (Flores, 2003: 96-98). Australian authors (Wise & Velayutham, 2009: 10) have spent vast amounts of time studying the diverse cultures with which they share neighbourhoods, offices and

socialising spots. In London (Watson, 2009: 125), in particular, markets have changed dramatically in terms of the ethnic composition of both traders and shoppers as global processes have given rise to large numbers of migrants living in inner-city areas; in many of these markets today diversity can give the illusion of shopping at a market in India, Pakistan, Africa or Asia - not in London or Los Angeles. Many more such examples exist and South Africa is no exception.

Therefore, the modern manager must question old assumptions about how diverse people work together. Together, cultures and generations are groups of people with similarities. Communication is a basic necessity in such groups and of importance is that the way in which people communicate in these groups is not accidental (Wheelan, 1994: 27-29). Networking practices, as part of this larger system of communication, need to be studied in order to gain insights about the different ways in which diverse cultures and generations in South Africa can be managed. A better understanding of how people interact and relate to one another based on their age and cultural background are becoming increasingly important.

## **PROBLEM INVESTIGATED**

Diversity impacts on all actions – from everyday conduct to business strategies and management. In the increasingly globalised world of today, it is important to understand salient differences among cultures and to also gain insight into how these differences can potentially affect communication between members of diverse cultures (De Janasz et al., 2012: 112). South Africa is a culturally complex country that presents challenging opportunities for cross-cultural research within the confines of a single national boundary (Moulton, 2009: 35). In particular, the colonial history of South Africa resulted in the bringing together of many cultures; this can be seen as the beginning of South Africa's cultural diversity. The term “rainbow nation”, as used by former president Nelson Mandela, describes South African society as a mixture of cultures (Schultz, 2003: 133). It follows that South Africa has a peculiar mix of cultures that, in turn, requires research strategies peculiar to this country's business environment.

The South African mining industry is a good example of a diverse working environment. Therefore, a Gauteng mine was selected for the study. According to Moulton (2009: 6), too much reliance has been placed on American-made management theories for countries which are very different from the United States. In South Africa mining is reported to have created more than one million jobs indirectly or directly and is therefore one of the most important sources of much needed job creation, foreign investment and international trade (Kearney, 2012). The violent and constant strikes that had shaken the South African mining industry in recent times highlights the importance of learning how to communicate effectively in such diverse environments.

## **RESEARCH OBJECTIVES AND HYPOTHESES**

The goal of this research was to investigate the networking practices of the diverse cultural and generational groups represented at a Gauteng mine.

The objectives formulated for this paper are to define the diverse cultural groups present at a Gauteng mine, describe the generational groups that are present at a Gauteng mine, define diverse groups in terms of cultural and generational differences, identify the differences in networking practices among the diverse groups at a Gauteng mine and suggest recommendations about managing diversity at South African mines.

## Hypotheses

An hypothesis is an assumption or guess that a researcher makes about some characteristic of the population being investigated (McDaniel and Gates, 2005:455). The abbreviation  $Np$  refers to *Networking practices*. The following hypotheses were formulated for the study:

$$1. \quad H_0: \mu_{Np: \text{Black Generation X'ers}} = \mu_{Np: \text{Black Baby Boomers}} = \mu_{Np: \text{Caucasian Generation X'ers}} = \mu_{Np: \text{Caucasian Baby Boomers}}$$

$H_a$ : There is somewhere a difference between Black Generation X'ers, Black Baby Boomers, Caucasian Generation X'ers and Caucasian Baby Boomers **with regard to networking practices.**

$$2. \quad H_0: \mu_{Np: \text{Black Generation X'ers}} = \mu_{Np: \text{Black Baby Boomers}}$$

$$H_a: \mu_{Np: \text{Black Generation X'ers}} \neq \mu_{Np: \text{Black Baby Boomers}}$$

$$3. \quad H_0: \mu_{Np: \text{Caucasian Generation X'ers}} = \mu_{Np: \text{Caucasian Baby Boomers}}$$

$$H_a: \mu_{Np: \text{Caucasian Generation X'ers}} \neq \mu_{Np: \text{Caucasian Baby Boomers}}$$

$$4. \quad H_0: \mu_{Np: \text{Black Generation X'ers}} = \mu_{Np: \text{Caucasian Generation X'ers}}$$

$$H_a: \mu_{Np: \text{Black Generation X'ers}} \neq \mu_{Np: \text{Caucasian Generation X'ers}}$$

## LITERATURE REVIEW

During the late 1980's, Gardner (1987) asked, in his book *excellence*, whether it is possible to be equal and excellent at the same time. As the 1990's emerged Kessler (1990) gave insights on managing diversity in equal opportunity workplaces. In 1991, Fernandez (1991) wrote a book on managing a diverse workforce to gain a competitive edge. Taylor and Blake (1991) wrote an article about business trends of globalisation and increasing ethnic gender diversity that turned manager's attention to the management of cultural differences. Roosevelt (1992) also wrote a book about the impact of differences among individuals.

Cultural diversity within businesses was written about by Cox (1994) and Chemers (1995). During times when diversity initiatives were faltering, Loden (1995) wrote about strategies and tactics used by businesses committed to implement diversity. The topic of communication in a diverse workplace was written about by Kuga (1996). Fine (1996) wrote an article about the challenges

posed by the increasing cultural diversity of the United States workforce, followed by Brown (1997) writing a book on the conflicts that arise out of diversity. Robinson and Dechant (1997) wrote an article explaining that although businesses acknowledge diversity, they do not see it as a top priority and Wilson (1997) made the business case for equity in his book diversity at work.

Hucheson and Kruzan (1998) wrote about analysing business culture for managing diversity, while Carr-Ruffino (1999) wrote the success strategies for diversity. Roosevelt (1999), in his book building a house for diversity, offered new strategies for today's workforce. While Tran and Skitmore (2002:36) wrote an article about the common effects of national and international culture on the efficacy of project communication, Zemke, Raines and Filipczack (2002) wrote about the clash of the different generations in the workplace.

The knowledge gained on the topics shows an understanding of the research area, it indicates that a critical review of other work in the field was made, and that an awareness of the relationship between the current research and the rest of the field exists (Potter, 2006: 157).

## **Diversity**

Some people think of diversity in terms of a single dimension (De Janasz et al., 2012: 105). This is one of the main stumbling blocks on the way to effective diversity management (Özbilgin & Tatli, 2008: 27). Diversity covers much more than a single dimension, for example race, as can be denoted from figure 1. Diversity within a business means having a range of differences among the people in the business; such differences might relate to aspects such as gender, ethnic origin and disability (Daniels & Macdonald, 2005: 1; Bedwell, Wildman, Diazgranados, Salazar, Kramer & Salas, 2012: 145). Two terms that can be highlighted from the dimensions of diversity are culture and generation.

## **Culture**

Unlike scientific knowledge, the wisdom of culture is subjective; its most profound insights are relative, not universal laws (Kuper, 1999: 6). Culture entails a system in which individuals share meanings and common ways of viewing events and objects. In businesses it also refers to the shared beliefs and values among employees that are created and communicated by the managers and leaders of the business (Schreuder & Coetzee, 2006: 348). Network analysis has had a combative and problematic relationship to culture (Vaisey & Lizatdo, 2010: 1596).

Cultural diversity reflects a country's long history of receiving immigrants from all over the world (Macionis, 2007: 60). South Africa has a rich history of people in interaction, followed by the age of colonialism (Van Aswegen, 1982: 392). Understanding how culture affects lives will assist one to develop a sociological imagination, which is the ability to see the relationships between individual experiences and the larger society (Kendall, 2008: 74). South Africans will always have to interact, communicate and build relationships with people whose backgrounds and cultural orientations differ from their own. Each culture has acceptable social conventions and norms that affect the communication process (De Janasz et al., 2012: 112). In South Africa, four broad cultural groups can be identified, namely Black, Caucasian, Coloured and Indian groups. Using existing theories of cultural differences and network analysis will yield insights to the social interactions among these cultural groups.

Several theoretical models exist for studying cultural differences. The most frequently cited models include the Kluckhohn-Strodtbeck (1961) framework, the Hofstede (1983) framework, the Trompenaars (1994) framework and the GLOBE study (House, Hanges, Ruiz-Quintanilla, Dorfman, Javidan, Dickson & Gupta, 1999). Without disregarding the value of international research in business behaviour, there is a need to develop a leadership perspective that will reflect South Africa's uniqueness (Werner, 2003: 196). There is a need to better understand how the values and beliefs of Africans can be incorporated into Western-based management practices (Sartorius, Merino & Carmichael, 2011: 1965).

## Generation

In recent years, there has been a belief that important inter-generational differences exist among workers and that these differences provide challenges to effectively managing a workforce (Benson & Brown, 2011: 1843). Nearly everyone has an attitude, values and expectations that are based on what "life was like" when they grew up. These shared experiences and times have bounded people into cohorts generally known as generations (Codrington & Grant-Marshall, 2004: 3).

Historically, philosophers who have attempted to describe generational theory include Comte, Littré, Stuart Mill, Romelin, Lorenz, Dilthey and Durkheim (Codrington, 2008: 4). The anthropologist Mead (1934: 3), referenced generational theory, particularly showing examples in her contentious study of the Polynesian cultures. The first serious modern scholar to investigate the phenomenon of generational values development, and attempt to explain this phenomenon was Mannheim (1970: 378). Mannheim explained that a generation is a social position that has the potential to affect an individual's consciousness in much the same way as social class or culture.

Generational theory is sometimes considered as controversial; however, there are plenty of hard evidence and ongoing research to show that a generational approach to understanding society and groups is scientifically acceptable and well-grounded in sound social science (Codrington, 2008: 3). Studying generations will provide a much-needed perspective on pressing problems because such a study will assist towards explaining the underlying problematic of intergenerational relations (Jansen, 1975: x). Having a workforce comprised of different generations can clearly lead to misunderstandings and conflict. The living generations in the South African workplace at the moment, with the years within which these generations were born in South Africa, are (Codrington & Grant-Marshall, 2004: 19):

- The Silent generation born 1930-1949; approximately 64-83 years old.
- The Baby Boomer generation born 1950-1969; approximately 44-63 years old.
- The Generation X born 1970-1989; approximately 24-43 years old.
- The Generation Y born 1990-2005; approximately 8-23 years old.

One more generation can be distinguished, called Generation Net; those belonging to this generation were born from the year 2006 onwards (Gatherer & Craig, 2010: 89). Similar to culture, generations differ from country to country. Generational theory does not claim to be able to explain the individual actions of persons, nor to be able to predict an individual's behaviour, but combined with personality profiles as well as an understanding of gender, culture, religion and race it can be a very helpful additional "layer" of analysis of people's behaviour drivers (Codrington, 2008: 15).



The volume of social network research in management has increased radically in recent years (Borgatti and Foster, 2003:991). Some authors such as Johanson and Mattsson (1988), Powell (1991), Håkansson and Johanson (1993), Lazerson (1993), Krackhardt and Hanson (1993), Sorenson (1996), Skyrme (1999), Friedman (2000) and Barabási (2002) share their research interest by indicating the importance of network building in today's knowledge economy. Other recent business research on traditional social psychological topics includes work on conflict (Nelson, 1989; Labianca, Brass & Gray, 1998; Joshi, Labianca & Caligiuri, 2002), social referent choices (Shah, 1998), leadership (Pastor, Meindl & Mayo, 2002) and ethical behaviour (Brass, Butterfield & Skaggs, 1998; Nielsen, 2003).

Culture and communication are inseparable because culture dictates who talks to whom, about what and how; therefore, culture can be seen as the foundation of communication (Staeheli, 2003: 168). As networks are based on people's backgrounds (Torelli & Shavitt, 2010), the necessity of understanding the link between networking and diversity is mounting. Networking entails the establishment of effective relationships from inside and outside the business; it entails people talking to one another, sharing ideas, information and resources (Baker, 2000: 13). Networks are indispensable to managerial success in today's complex work environments, and the best managers devote much time and effort to network development (Schermerhorn, 2004: 13).

Through the combination of culture and generation, as a combination diversity characteristic, the umbrella of diversity is more fully represented. The differences in networking practices between cultures, compared to other cultures, and similarly generations compared to other generations, will not provide such an in-depth view of the true nature of differences present as a result of diversity. On the contrary, by comparing the culture and generation of one group to the culture and generation of another group more prominent differences regarding networking practices will be visible.

## RESEARCH METHODOLOGY

### Method

Descriptive research was conducted, because the objectives identified for the study relate to the purpose of descriptive research (Churchill & Iacobucci, 2002: 107). Primary data was collected for a specific purpose. Quantitative research by means of self-completion questionnaires was used.

### Sampling procedure

Probability, systematic proportionate stratified sampling was chosen for the study to draw conclusions about the population's characteristics. Information about the characteristics of the population was available, therefore systematic and stratified sampling methods were possible.

### Sample size

The population of the study included the workers from the Gauteng mine that was chosen. Kusasaletu mine has a total of 4987 employees. For the study the foreign workers were excluded, leaving a total of 3634 South African employees. Indian / Asian employees are not represented in the population and the coloured employees are too few to be representative. The total of employees was decreased on the basis of level of education, age / generation; underground employees were excluded. The oldest and youngest generations, silent generation and Generation Y, are not sufficiently represented within the population. After eliminating all others, the remaining number of employees left was 1046. The total of 1046 comprised of 805 black employees and 241 Caucasian employees from the Baby Boomer generation and Generation X, as illustrated in table 1.

**Table 1: SAMPLING FRAME WORK**

	<b>Baby Boomers</b>	<b>Generation X</b>	<b>Total</b>
<b>Black</b>	237	568	805
<b>Caucasian</b>	165	76	241
			<b>1046</b>

To calculate the sample size where a proportion needs to be estimated,  $n$  will be the wanted sample size to calculate the population percentage ( $\pi$ ) within  $d\%$  with a probability of 0.95. If  $\pi$  cannot be calculated beforehand then a safe sample size to take is calculated by using equation 1 (Barnett, 1974:35). In equation 1,  $n$  is the sample size,  $N$  is the population and  $d$  is the percentage within which probability is estimated. To calculate  $n$ ,  $N = 1046$ ,  $d = 5$  and  $d^2 = 25$ .

**EQUATION 1: SAMPLE SIZE**

$$n \geq \frac{N}{1 + \frac{Nd^2}{10000}}$$

Therefore  $n$  is allowed to be equal to or larger than 289. It was decided to make use of a sampling size of 289. A list was compiled and a random starting point was chosen. Every  $k$ th element was selected until the desired total of 289 participants is drawn from the list compiled from the sampling frame. As systematic sampling involves selecting every  $k$ th element  $k$  was calculated as 0.3. Therefore, every 3rd element was chosen until the desired sample size of 289 is drawn. A self-completion questionnaire was compiled and used.

**Precision testing**

Construct validity was used to test personality characteristics (for instance preference of communication method) (Anastasi & Urbina, 1997: 113). In order to determine construct validity, confirmatory factor analyses were conducted. Kaiser's measure of sample adequacy (MSA) was used to determine whether a factor analysis was appropriate. Cronbach alpha coefficients could not be calculated. Constructs consisting out of more than one item, construct validity was determined while single items' content validity was used to ensure validity. Content validity was determined through expert judgement of knowledgeable study leaders and supervisors, literature research and grounding. The data was collected during August 2011. The researcher personally delivered and collected the 289 questionnaires. The respondents were located and informed by means of e-mail of their selection to participate in the study. Follow-up of incomplete questionnaires comprised of leaving the questionnaire on-site with the relevant respondent for collection within 15 minutes' time. The data collection took a total of four days to complete.

**Scale and measuring instrument**

The measuring instrument that was used consisted of a self-completion questionnaire with three sections. The first section consisted of demographic questions to compile a profile of the respondents in terms of gender, age, ethnicity, home language and level of education. The second section consisted of questions on the respondents' networking behaviour. Previous research by Kluckhohn and Strodtbeck (1961), Mannheim (1970), Borgatti (1997), Misner and Morgan (2000), Borgatti and Foster (2003), House and Javidan (2004), Codrington (2008), Özbilgin and Tattl

(2008), De Janasz et al. (2012), and Kilduff and Krackhardt (2009) were consulted. Question 2.1 to 2.8 consisted of questions relating to their networking behaviour, such as how much they value networking; who they include and what mediums they use to network. The third section consisted of questions (question 3.1 to 3.6) on actual social interaction and personal perceptions on intercultural networking, such as the frequency of networking and reasons to engage with others from different cultural backgrounds.

## Measures and Covariates

The statistical analysis was conducted by using the software program Statistical Analysis System (SAS) and included the following Descriptive statistics calculations: Cronbach alpha reliability coefficients, frequency distributions, central tendency and variability. Inferential statistics were used to make generalisations about the population. Cohen's d-value was used in order to determine the practical significance. Analysis of variance (ANOVA) was used to determine whether a statistically significant difference exists between the four independent groups studied (Zikmund & Babin, 2010: 573). The one-way ANOVA, done with SAS, was used. A p-value is the exact probability of obtaining a computed test statistic that is due to chance. It is stated that the smaller the p-value, the smaller the probability that the observed result occurred by chance (McDaniel & Gates, 2005: 487). The study used a 0.05 level of significance and therefore  $p \leq 0.05$  is regarded as statistically significant. Statistical significance does not necessarily imply that the result is important in practice (Ellis & Steyn, 2003: 51). Practical significance was determined by Cohen's effect size or d-value (Steyn, 1999: 3). Cohen's d-value was used throughout the study to interpret results. A large effect size ( $d \geq 0.8$ ) indicates a finding that is of practical significance, a medium effect size ( $d = 0.5$ ) indicates a finding that could be substantial and a small effect size ( $d = 0.2$ ) indicates that there is no difference and therefore the answers are the same (Cohen, 1988, p. 223).

## RESULTS

The results were analysed on the basis of four independent groups because the differences in terms of networking practices between these groups were studied. Table 2 illustrates the four groups with their respective culture and generation. The main findings include:

**Table 2:** FOUR INDEPENDENT GROUPS

Culture	Generation	Group	Total n=289
Black	Generation X	1: Black Gen X'ers	161
Black	Baby Boomer	2: Black BB	78
Caucasian	Generation X	3: Cauc Gen X'ers	26
Caucasian	Baby Boomer	4: Cauc BB	24

**Main finding 1:** The respondents of the study sample tended to frequently include colleagues in their networks while they tend to rarely include cultural groups in their networks (mean of 3.04).

**Main finding 2:** Caucasian Baby Boomers inclined to use the medium of SMS rarely when networking (mean of 2.84).

**Main finding 3:** Black Generation X'ers tended to rarely use e-mail as a medium when networking (mean of 2.41).

**Main finding 4:** The respondents of the study sample inclined to frequently network on a one-on-one face-to-face manner (mean of 3.10).

- Main finding 5:** The respondents of the study sample tended to frequently network on a group face-to-face manner (mean of 2.79).
- Main finding 6:** The respondents of the study sample incline to use the cell phone (mean of 3.48) and one-on-one face-to-face (mean of 3.10) behaviour most frequently as mediums when networking.
- Main finding 7:** The respondents of the study sample tended to rarely network during work time (mean of 2.31).
- Main finding 8:** The respondents of the study sample inclined to more frequently network during spare time (mean of 2.95).
- Main finding 9:** The respondents of the study sample tended to rate sharing experiences and exchanging work ideas as very important aims for networking (mean of 3.16).
- Main finding 10:** The respondents of the study sample were inclined to find conceptual relationship attributes to be important in a relationship (mean of 3.28).
- Main finding 11:** The respondents of the study sample tended to find people relationship attributes to be important in a relationship (mean of 3.17).
- Main finding 12:** Black Generation X'ers differ statistically significantly with a medium effect size from Caucasian Baby Boomers on the use of the telephone as medium when networking (p-value of 0.04 and d-value of 0.54).
- Main finding 13:** Black Generation X'ers differ statistically significantly with a medium effect size from Black Baby Boomers in terms of using e-mail as medium when networking (p-value of 0.01 and d-value of 0.60).
- Main finding 14:** Black Generation X'ers differ statistically significantly with a medium effect size from Caucasian Baby Boomers in terms of networking on a one-on-one face-to-face manner (p-value of 0.05 and d-value of 0.57).
- Main finding 15:** Caucasian Generation X'ers differ statistically significantly with a medium effect size from Caucasian Baby Boomers in terms of networking on a one-on-one face-to-face manner (p-value of 0.05 and d-value of 0.57).

## Discussion of results

The abbreviation  $Np$  refers to *Networking practices*. The results relate to the hypotheses as follow:

$$1. H_0: \mu_{Np: \text{Black Generation X'ers}} = \mu_{Np: \text{Black Baby Boomers}} = \mu_{Np: \text{Caucasian Generation X'ers}} =$$

$$\mu_{Np: \text{Caucasian Baby Boomers}}$$

$H_a$ : There is somewhere a difference between Black Generation X'ers, Black Baby Boomers, Caucasian Generation X'ers and Caucasian Baby Boomers **with regard to networking practices**.

As a result of main finding 2 (Caucasian Baby Boomers were inclined to rarely use the medium of SMS when networking), the first null-hypothesis is rejected and the alternative hypothesis accepted. Therefore, there is somewhere a difference between Black Generation X'ers, Black Baby Boomers, Caucasian Generation X'ers and Caucasian Baby Boomers with regard to networking practices.

$$2. \quad H_0: \mu_{Np: \text{Black Generation X'ers}} = \mu_{Np: \text{Black Baby Boomers}}$$

$$H_a: \mu_{Np: \text{Black Generation X'ers}} \neq \mu_{Np: \text{Black Baby Boomers}}$$

As a result of main finding 13 (Black Generation X'ers differ statistically significantly with a medium effect size from Black Baby Boomers on the use of e-mail as medium when networking) the second null-hypothesis is rejected and the alternative hypothesis is consequently accepted.

$$3. \quad H_0: \mu_{Np: \text{Caucasian Generation X'ers}} = \mu_{Np: \text{Caucasian Baby Boomers}}$$

$$H_a: \mu_{Np: \text{Caucasian Generation X'ers}} \neq \mu_{Np: \text{Caucasian Baby Boomers}}$$

As a result of main finding 15 (Caucasian Generation X'ers differ statistically significantly with a medium effect size from Caucasian Baby Boomers when networking on a one-on-one face-to-face manner) the third null-hypothesis is rejected and the alternative hypothesis is accepted.

$$4. \quad H_0: \mu_{Np: \text{Black Generation X'ers}} = \mu_{Np: \text{Caucasian Generation X'ers}}$$

$$H_a: \mu_{Np: \text{Black Generation X'ers}} \neq \mu_{Np: \text{Caucasian Generation X'ers}}$$

As a result of main finding 12 (Black Generation X'ers differ statistically significantly with a medium effect size from Caucasian Baby Boomers on the use of the telephone as medium when networking) and main finding 14 (Black Generation X'ers differ statistically significantly with a medium effect size from Caucasian Baby Boomers when networking on a one-on-one face-to-face manner), the fourth null-hypothesis is rejected and the alternative hypothesis is accepted.

## CONCLUSIONS

The first hypothesis was formulated to prove that differences indeed exist among diverse cultural and generational groups. Through the rejection of the first null-hypothesis,

$$\mu_{Np: \text{Black Generation X'ers}} = \mu_{Np: \text{Black Baby Boomers}} = \mu_{Np: \text{Caucasian Generation X'ers}} = \mu_{Np: \text{Caucasian Baby Boomers}}$$

it was proved that differences does exist among diverse cultures and generations, concerning their networking practices. The remaining hypotheses were formulated to identify the specific differences that exist between the four independent groups.

Caucasian Baby Boomers were inclined to rarely use SMS as medium when networking compared to other groups (Main finding 2). Considering that Baby Boomers were born between the years 1950 and 1969 in South Africa according to Codrington and Grant-Marshall (2004: 19), it is not strange that SMS as network medium may still feel less appropriate to this group. Similar to this finding, Hamaker (2009: 9) explains that only 20% of Baby Boomers regularly use text messages. As a result of main finding 2 (Caucasian Baby Boomers were inclined to use the medium of SMS rarely when networking), the first null-hypothesis is rejected and the alternative hypothesis is accepted. Therefore, there is somewhere a difference between Black Generation X'ers, Black Baby Boomers, Caucasian Generation X'ers and Caucasian Baby Boomers with regards to networking practices.

Black Generation X'ers differ statistically significantly with a medium effect size from Caucasian Baby Boomers regarding the use of the telephone as medium when networking (Main finding 12). Black Baby Boomers make use of telephones when networking more often than Black Generation X'ers do. This finding concurs with the statement by Macionis (2007: 175) that networks are based on people's backgrounds, hobbies, views and personal interests. Codrington and Grant-Marshall (2004: 3) explain that shared experiences and times have bounded people to cohorts whom have similar attitudes, values and expectations. As a result of main finding 12 (Black Generation X'ers differ statistically significantly with a medium effect size from Caucasian Baby Boomers regarding using the telephone as medium when networking) and main finding 14 (Black Generation X'ers differ statistically significantly with a medium effect size from Caucasian Baby Boomers with regards to networking in a one-on-one face-to-face manner), the fourth null-hypothesis is rejected and the alternative hypothesis is accepted. Therefore, there is a difference between Black Generation X'ers and Caucasian Baby Boomers with regards to networking practices.

Black Generation X'ers differ statistically significantly with a medium effect size from Black Baby Boomers regarding the use of e-mail as medium when networking (Main finding 13). Black Generation X'ers were inclined to use e-mail rarely as a medium when networking. A statistically significant difference was obtained between Black Generation X'ers and Black Baby Boomers, indicating that Black Baby Boomers use e-mails when networking more frequently as compared to Generation X'ers who indicated that they use e-mail rarely as network medium. As a result of main finding 13 (Black Generation X'ers differ statistically significantly with a medium effect size from Black Baby Boomers regarding using e-mail as medium when networking) the second null-hypothesis is rejected and the alternative hypothesis is accepted. **Therefore, there is a difference between Black Generation X'ers and Black Baby Boomers with regards to networking practices.**

Black Generation X'ers and Caucasian Generation X'ers differ statistically significantly with a medium effect size from Caucasian Baby Boomers when networking in a one-on-one face-to-face, referring to a one-on-one meeting, manner (Main finding 15). Kovaleski (2008: 27) explains that younger generations do not enjoy having meetings in the same manner than older generations and that the way in which meetings are held needs to be reconsidered. A 25 year longitudinal study conducted in South Africa (Codrington, 2008: 12) also found that age / generation is a much more powerful predictor of attitude and values than race / culture was. The finding is also similar to that of Kluckhohn and Strodtbeck (1961) as adapted by Robbins, Odendaal and Roodt (2007: 34) that Black South Africans view the group as more important than the individual. As a result of main finding 15 (Caucasian Generation X'ers differ statistically significantly with a medium effect size from Caucasian Baby Boomers when networking on a one-on-one face-to-face manner), the third null-hypothesis is rejected and the alternative hypothesis is accepted. **Therefore, there is a difference between Caucasian Generation X'ers and Caucasian Baby Boomers with regards to networking practices.**



No specific differences could be detected with regards to **people relationship attributes**, but there was an indication that statistically significant differences do indeed exist. Therefore, a difference between the four groups exists regarding people relationship attributes but no specific differences could be detected. The most salient differences were found to be between **Black Generation X'ers** and **Caucasian Baby Boomers** (Main findings 12, 13 and 14).

## MANAGERIAL IMPLICATIONS AND RECOMMENDATIONS

The following recommendations regarding networking practices among diverse cultural and generational groups can be made:

- Globalisation has created unique challenges for businesses as a result of cultural diversity (Moulton, 2009: 21). Culture is essential for communication with other individuals (Kendall, 2008: 74). The social field of diversity management is affected by the dynamics of the business environment (Özbilgin & Tatli, 2008: 403). The respondents of the study sample indicated that they tended to agree that informal work environments are more conducive to effective networking practices and that they value good relationships at work highly. Managers should ensure that work environments are created that are conducive to good relationship building and informality to facilitate effective networking.
- Economic integration and societal globalisation are diversifying the world's workforce; this realisation stresses the need for management practices to adapt (Mor-Barak, 2005: 73). As society has become more diverse and communication among members of international cultures more frequent, the need to appreciate diversity and to understand how people in other cultures view the world has also increased (Kendall, 2008: 74). It is important to understand the differences among cultures and how these differences can potentially affect communication between members of diverse cultures (De Janasz et al., 2012: 112). In this regard, it is recommended that managers of diverse workforces identify the different generations and cultures as a way to manage these people more effectively.
- Generation theory explains that the era in which a person was born, affects the development of their worldview and value systems (Codrington, 2008: 2). It was found in the current study that the most significant differences exist between Black Generation X'ers and Caucasian Baby Boomers. Therefore, conflict between these two groups of employees needs to be handled cautiously to ensure that effective solutions to potential problems are found. Conflict, in this context, may refer to differences in organising meetings or preferences towards communicating.
- Networking is such an integral part of everyday life that many individuals do not realise that they are networking (Misner & Don Morgan, 2000: 25). Networks are based on people's backgrounds, hobbies, views and personal interests (Macionis, 2007: 175). In this study, a number of differences concerning mediums used when networking were found, which in turn may influence the ways in which communication takes place. Generation X'ers prefer informal meetings with a broad idea of what to expect, while Baby Boomers prefer traditional boardroom meetings as these were conducted in the past. Preferences with regard to network mediums should be noted, as this awareness may lead to more effective networking / communication within businesses. Also, the approach to meetings should be reviewed for each group because this study found differences existed in terms of preferences concerning Generation X'ers and Baby Boomers.
- Networks exist in order to foster a sense of self-help, to exchange information and to share resources (Misner & Don Morgan, 2000: 14). The respondents of the study sample tended to rate sharing experiences and exchanging work ideas as very important aims for networking.



A working environment conducive to exchanging ideas and experiences should therefore be created.

- Ignoring cultural and generational differences may lead to conflict and friction between diverse groups, while respecting and fostering these differences can prove to be a productive and creative advantage for businesses in the future (Callahan, 2010). No specific differences could be detected with regard to people relationship attributes, but there was an indication that statistically significant differences indeed exist. As all groups value good relationships at work, a climate that encourages openness and conflict resolution should therefore also be created.

## LIMITATIONS

The limitations to the current study are: that the current study included two cultural groups, namely Black and Caucasian South Africans and that future research should include more cultures. Secondly, the study only included two generational groups, namely Generation X'ers and Baby Boomers, as the other generational groups were also underrepresented in this mine. Thirdly, the study did not take gender differences into account; also, the majority of respondents (79.44%) included in the study was male.



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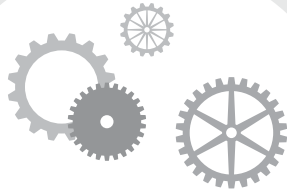
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# THE INFLUENCE OF SELECTED DEMOGRAPHIC VARIABLES ON ENTREPRENEURIAL ORIENTATION

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## ABSTRACT

The purpose of this study was to investigate the influence of selected demographic variables on the entrepreneurial orientation of small businesses in the Eastern Cape. The demographic variables considered were gender, age and race of the respondents, as well as data relating to the Enterprise size, the Enterprise tenure and the nature of the industry in which the small businesses operate. Entrepreneurial orientation was assessed in terms Innovativeness, Proactiveness, Competitive aggressiveness, Risk-taking and Autonomy. Convenience sampling was adopted and 317 usable questionnaires were returned. An exploratory factor analysis and Cronbach's alpha coefficients were calculated to assess the validity and reliability of the measuring instrument. An analysis of variance was done to assess the influence of the selected demographic variables on the entrepreneurial orientation of the small businesses. The results of this study showed that Proactive innovativeness was higher in larger-sized small businesses, Autonomy was reported to be higher in small businesses where the owner was in possession of a tertiary qualification, and Risk-taking was found to be higher in small businesses owned by people of colour than in businesses owned by White respondents.

## KEYWORDS

Small business, Entrepreneurship, Entrepreneurial orientation (EO).



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## INTRODUCTION AND OBJECTIVE

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Entrepreneurial orientation has become an important and extensively researched topic in the field of entrepreneurship (Casillas, Monero & Barbero, 2010; Melia, Boulard & Peinado, 2007: 67). 'Entrepreneurial orientation' (EO) refers to a business that is geared towards innovation in the product-market field by carrying out risky initiatives, and which is the first to develop innovations in a proactive way in an attempt to defeat its competitors (Miller, 1983). Similarly, Lumpkin and Dess (1996) describe 'entrepreneurial orientation' as the processes, practices and decision-making styles of firms that act entrepreneurially. More specifically, an entrepreneurial firm is defined as one that exhibits five entrepreneurial behaviours, namely autonomy, competitive aggressiveness, innovativeness, pro-activeness and risk-taking (Short, Payne, Brigham, Lumpkin & Broberg, 2009; Lumpkin & Dess, 1996; Miller 1983). It is well supported in the literature that EO is positively related to business performance (Chye, 2012; Lotz & Van der Merwe, 2010; Junehed & Davidsson, 1998; Brown, 1996) and businesses that undertake entrepreneurially orientated activities are not only incubators for technological innovation, but also provide employment opportunities and increase competitiveness (Turker & Selcuk, 2009).

In recent times there has been a growing interest in the EO of small businesses, particularly in developing countries (Chye, 2012: 8; Melia et al., 2007: 67). However, according to Fairoz, Hiobumi and Tanaka (2010: 134-140), very few small businesses undertake entrepreneurially orientated activities (Fairoz et al., 2010: 134-140). Oswald (2008) contends that there is little understanding of why entrepreneurial activities vary from business to business. Furthermore, Casillas et al. (2010) assert that the EO literature needs to produce more knowledge of the conditions under which EO occurs.

According to Kristiansen and Indarti (2004), several studies support the argument that demographic variables such as age, gender and individual background (education and employment experience) influence a person's entrepreneurial behaviour. Similarly, Kiggundu (2002) maintains that various demographic variables appear to distinguish between successful and less successful entrepreneurs. This suggests that the EO shown may differ between individuals depending on their demographic profile. According to Lim (2009: 3923), most small businesses are owned and operated by single individuals, and one can assume that the EO of the business is actually the EO of the owner. Several studies (Krauss, Frese, Friedrich & Unger, 2005) also show that the personal characteristics of the owner or manager have an influence on the EO of the business.

Making use of demographic variables is common when researching the entrepreneurial behaviour of individuals. This approach attempts to use demographic information to develop a basic entrepreneurial profile, so that an assessment can be made regarding an individual's personal characteristics such as birth, role models, age, education level, family background and work habits (Gaddam, 2008: 39). According to Ramana, Raman and Aryasri (2009: 112), investigating differences in the demographic variables of entrepreneurs and non-entrepreneurs is a growing area of interest in the field of entrepreneurship. In addition, Ramana et al. (2009: 113) contend that little research focus exists on the influence of demographic factors on entrepreneurial success.

In light of the above discussion, the purpose of this study is to investigate whether selected demographic variables relating to both the small business owner and the small business itself are related to the level of EO displayed by their small business. More specifically, the primary objective of this study is to investigate the influence of selected demographic variables on the five dimensions of EO, namely innovativeness, proactiveness, competitive aggressiveness, risk-taking and autonomy.

To follow in this report, firstly, the theoretical framework that forms the basis on which the hypotheses are developed will be presented. Thereafter, the research methodology will be described and the empirical results discussed. The results will be discussed and the implications highlighted. Lastly, the limitation of the study will be identified and avenues for future research proposed.

## THEORETICAL FRAMEWORK AND HYPOTHESIS DEVELOPMENT

In order to achieve the objective of this study the influence of the following demographic variables on the various dimensions of EO is investigated, namely:

- **Enterprise tenure** of the small business (the length of time for which the business has been operating);
- **Enterprise size** (as measured by number of employees);
- **Gender** of the small business owner;
- **Tertiary qualification** (possession of a tertiary qualification);
- **Age** of the small business owner; and
- **Ethnicity** of the small business owner.

In the paragraphs below, theoretical support is provided for the relationships between each of the above demographic variables and EO. Against the background of this support, the following hypotheses are proposed for empirical testing:

**H<sub>0a-0e</sub>**: No relationships exist between selected the demographic variables (Enterprise tenure, Enterprise size, Gender, Tertiary qualification, Age, Ethnicity) investigated in this study and entrepreneurial orientation, as measured by Innovativeness (H<sub>0a</sub>), Proactiveness (H<sub>0b</sub>), Risk-taking (H<sub>0c</sub>), Competitive aggressiveness (H<sub>0d</sub>) and Autonomy (H<sub>0e</sub>).

**H<sub>1a-1e</sub>**: Relationships exist between selected the demographic variables (Enterprise tenure, Enterprise size, Gender, Tertiary qualification, Age, Ethnicity) investigated in this study and entrepreneurial orientation, as measured by Innovativeness (H<sub>1a</sub>), Proactiveness (H<sub>1b</sub>), Risk-taking (H<sub>1c</sub>), Competitive aggressiveness (H<sub>1d</sub>) and Autonomy (H<sub>1e</sub>).

### Dimensions of EO

The five dimensions of EO investigated in this study which serve as the dependent variables, include Innovativeness, Proactiveness, Competitive aggressiveness, Risk-taking and Autonomy. Each of the aforementioned are briefly described below.

**Innovativeness** can be described as a business's tendency to engage in and support new idea generation, novelty, experimentation and research, as well as developmental activities (Lumpkin & Dess 1996: 42; Covin & Slevin 1989). Innovativeness is also defined as “the ability of an organisation to adopt experimental ideas and creative processes that may result in the creation of new products, services or technological processes” (Gómez-Haro, Aragón-Correa & Córdón-Pozo 2011: 1677-1693).

**Proactiveness** can be seen as the business's actions in anticipation of marketplace changes and needs which are brought about by the effective crafting of strategic vision or initiatives to pursue opportunities and growth (Short et al. 2009: 14). Thus, pro-activeness requires a desire and a willingness to think and initiate actions to answer future situations and threats. Proactiveness is critical to entrepreneurial success because it suggests a forward-looking perspective that is accompanied by innovative activity.

**Competitive aggressiveness** refers to a business's tendency to “directly and intensely challenge its competitors to achieve entry or improve position to outperform industry rivals in the market place” (Lumpkin & Dess 1996: 138). Ogunsiji and Kayode (2010: 195) define competitive aggressiveness as a firm's capacity to be ahead of rivals at grasping every opportunity. Competitive aggressiveness reflects the intensity of a firm's efforts to outperform industry rivals, as seen by a combative posture and a forceful response to competitors' actions.

In an entrepreneurial context, **risk-taking** is defined as the “degree to which entrepreneurs are willing to make large and risky resource commitments which could have a reasonable chance of costly failure” (Hyunjoong 2012: 252). Fairouz et al. (2010: 36) describe risk-taking as the willingness of a business to participate in projects that are regarded as being risky.

**Autonomy** refers to “the independent action of an individual or a team in bringing forth an idea or a vision and carrying it through to completion” (Lumpkin & Dess, 1996: 136). In another words, it is a freedom to articulate and work on one's own initiative or convictions (Ogunsiji & Kayode, 2010). This dimension of entrepreneurial orientation is key to allowing the other four dimensions to have an impact on the success of the business; however, it is often very difficult to measure (Gurbuz & Aykol, 2009).

#### Enterprise tenure

The relationship between the age of a business and its level of EO still remains vague. According to Quinn and Cameron (1983), the criteria and methods needed for increased business performance change as a business gets older. This implies that the strategies needed to ensure that a business is successful are different at different stages of the business's lifespan. Research generally indicates that an enterprise's ability to be innovative tends to decrease as the business grows older (Lumpkin, Wales & Ensley, 2006: 1; Raunch, Wiklund, Lumpkin & Frese, 2009; Thornhill & Amit, 2003). However, Sorensen and Stuart (2000) state that as businesses age, they tend to develop innovative strategies which build upon or exploit their existing competencies, rather than exploring new opportunities. Businesses tend to repeat past strategies which have proved successful (Miller, 1989) and rely heavily upon their past competitive strengths. Therefore it can be said that as businesses age, they are not necessarily being more innovative in terms of coming up with new methods, products or processes. Instead, they are perfecting existing ideas and strategies, using their particular competencies and experience.

The level of intensity with which an enterprise confronts its market rivals may depend upon its age. Several reasons are given for this. Firstly, competitively aggressive actions tend to require resources (Lumpkin & Dess, 1996). The ability of a new business to sustain an aggressive posture relative to market competitors may be difficult owing to a lack of resource reserves. Secondly, firms tend to engage in competitively aggressive behaviour as a means to defend their already accumulated resource bases (Lumpkin & Dess, 1996). Therefore, businesses in the start-up phase may initially be forced to craft their limited resources into competitive capabilities before they are able to compete aggressively (Simmons, 2010).

With regard to risk-taking, Lumpkin et al. (2006: 2) suggest that businesses in their early formative years are forced to rely on taking more calculated risks than firms who are more established. The authors add that it is likely that a business will benefit more from risk-taking in its early days than

when it becomes more established. Lumpkin et al. (2006: 2) are also of the opinion that the age of a business has a significant impact on whether the benefits of being proactive can be experienced or not. New businesses are not normally in a position to influence trends in their environment. Lumpkin and Dess (1996) also stress that very young firms may exhibit dependency on innovativeness and risk-taking, whereas older and larger firms may require greater autonomy to achieve improved performance. While it is hypothesised that EO generally has a positive influence on business performance, it is still not clear whether this relationship is influenced by the age of the business.

### **Enterprise size**

Enterprise size is an indicator of 'tangible resources' and can be represented in several ways, either by the number of employees or by the accounting value of the assets of the business (Audia & Greve, 2006). The number of employees is used in several studies as an indicator of firm size (Casillas et al., 2010; Lim 2009; Wiklund & Shepherd, 2003: 82). There is reason to believe that the relationship between EO and business performance may be particularly strong among businesses with fewer employees. According to Simmons (2010: 37-38), larger firms tend to face more internal constraints and red tape than smaller businesses, which can lead one to conclude that smaller firms are likely to implement change more quickly than their larger rivals. Since proactive behaviour requires that firms make quick changes, it would seem that smaller firms are able to initiate actions more quickly and be more proactive, whereas larger firms are not (Simmons, 2010: 38).

It is suggested by Stam and Elfering (2008) that smallness fosters flexibility and innovation, though it limits competitiveness in other strategic dimensions. These limits occur because small businesses are usually more affected by resource constraints, which in turn prevent them from pursuing cost leadership or differentiation strategies (Porter, 1999). Simmons (2010: 48) suggests that the resource constraints facing smaller businesses lead to their having the intention to be innovative without the means to follow through, while larger firms are the ones with more resources to bring their intentions to a tangible result.

According to Zahra and Covin (1995), one of the ways competitively aggressive firms enhance their position is by entering markets with drastically lower prices. Smaller firms often fear the entry of resource-enriched large firms into their marketplace as these larger firms usually have deep pockets, which give them the opportunity to cut prices without being seriously damaged by an extended period of narrow margins.

Runyan, Huddleston and Swinney (2006: 471) find that the size of a firm also affects the risk-taking ability of the firm, because the larger the firm, the more resources it has at its disposal to undertake 'high risk, high return' projects. Simmons (2010: 51) observes in his study that as the number of employees of a firm increase past 267, the business will take relatively less risk. Simmons suggests that the reason for this observation is that once a firm reaches a predetermined aspiration point, it will be less likely to take risks to continue past that point. If it is assumed that firms aspire to grow, then firms will take risks that can result in growth until they are content with the size of the firm. At that point, the firm will be less likely to take risks, because the aspiration of firm growth has been achieved (Runyan et al., 2006: 471-472).

### **Gender of the small business owner**

There is a great deal of debate as to whether the gender of a business owner affects their EO. Past literature (Sexton & Bowman-Upton, 1990; Buttner & Rosen, 1988) has focused on explaining gender differences in entrepreneurship and EO, but has never come to one coherent conclusion. Various researchers (Kroeck et al., 2010; Sexton & Bowman-Upton, 1990) have found that men are perceived to be more entrepreneurially orientated than women, and that this difference in EO has led to businesses run by men being perceived as more successful than those run by women.

Strohmeyer and Tonoyan (2005: 259-273) conducted research into 3 000 female- and male-owned businesses in Germany, and observed that the female-owned businesses performed less well in terms of employment growth and firm innovativeness when compared to those owned by men. The authors believed that the lower employment growth in female-owned businesses was mainly due to women's lower commitment to 'product and process innovations'. They referred to this observation as the 'female-male innovation gap'.

According to Tegels (2011: 15), tolerance of ambiguity, self-esteem and self-efficacy have an influence on risk-taking. Women tend to be more tolerant of ambiguity, which means that female business owners perceive less risk, and dare to make decisions. On the other hand, male business owners tend to have a higher self-esteem, which results in male entrepreneurs taking more risks because they believe in their abilities. Men also have higher self-efficacy than women, therefore male business owners tend to take greater risks in order to reach their goals. This makes it more likely for men to have a higher tendency towards risk-taking (Powell & Ansic, 1996).

Contrary to the general belief that males are more entrepreneurially orientated than females, research conducted by Runyan et al. (2006: 455-477) among 467 small business owners, revealed significant differences between males and females in their reported levels of EO. In particular, risk-taking and innovativeness were different between the genders. The researchers observed that the female business owners in their study tended to be more innovative and open to risk-taking than their male counterparts. Thus they concluded that female business owners were more entrepreneurially orientated than male business owners. A study conducted by Simmons (2010: 41) also found that gender was a statistically significant factor influencing proactiveness. Simmons concluded that if the business owner was a woman, the business would be more proactive.

Ljunggren and Kolvereid (1996) conducted studies on men and women in terms of their willingness to allow autonomy. In these studies, women scored significantly higher than men for autonomy. The researchers concluded that women were more willing than men to allow self-reliance and independence. With these conflicting views as to the significance and influence of gender on EO, there is a clear need for further investigation.

#### **Tertiary education level of the small business owner**

'Tertiary education' refers to the non-compulsory education provided by a specialist institution such as a college, polytechnic, technikon, or university (Campbell & Rozsnyai, 2002). According to Charney, Libecup and Center (2000: 5), people in possession of a tertiary qualification should be better equipped to act entrepreneurially than those who do not have such a qualification. The authors suggest that there is evidence that education contributes to innovativeness and risk-taking as well as the formation of new ventures, stating that on average, graduates are three times more likely than non-graduates to start new business ventures, create new products, and seek out risky projects that could possibly give a high return.

Charney et al. (2000: 7) contend that education promotes the transfer of technology from the university. They suggest that graduates are more likely to be innovative in businesses and adopt the use of modern technology, because they are seemingly more knowledgeable on technological advancements than people without a tertiary qualification.

#### **Age of the small business owner**

According to Rogoff, Lee and Suh, (2008: 20-21), the age of a small business owner can affect their openness towards acting entrepreneurially. Several researchers (Rogoff et al., 2008; Lumpkin et al., 2006; O'Shea, Allen, Chevalier & Roche, 2005) have discovered that as business owners age, their willingness to adopt risk-taking projects diminishes significantly. A possible reason cited for this



observation is that as owners become more experienced, they become more cautious as a result of previous experiences. This leads one to conclude that the older business owners become, the more risk-averse they are, and the less likely they are to act entrepreneurially in terms of risk-taking.

Simmons (2010: 41) reports a significantly negative relationship between the age of business owners and their level of innovativeness. The author concludes that as the age of the business owner increases, innovativeness will decrease.

## RESEARCH METHODOLOGY

### Development of the measuring instrument

A measuring instrument was developed to collect the raw data necessary for this study. The independent and dependent variables investigated were operationalised using reliable and valid items sourced from previous empirical studies (Lotz & Van der Merwe, 2010; Stam & Elfring, 2008; Baker & Sinkula, 2004; Quince & Whitaker, 2003; Lumpkin & Dess, 1996).

Where necessary, the items were rephrased to make them more suitable for the present study. The measuring instrument consisted of two sections. Sections A contained questions aimed at obtaining demographic information about the respondents, such as age, gender, number of years of employment and education level, as well as information about the small business being studied. Section B contained 26 randomly sequenced statements assessing the five dimensions of EO. Using a five-point Likert-type scale, ranging from Strongly disagree (1) to Strongly agree (5), respondents were requested to indicate the extent of their agreement with each statement.

### Sampling and data collection

The population for this study consisted of owners of small businesses in the Eastern Cape. To date, no national database or list of small businesses in South Africa or the Eastern Cape has been compiled. As a result, a convenience sampling technique was employed. Questionnaires were distributed by field workers and collected upon completion. Each questionnaire was accompanied by a covering letter, and respondents were guaranteed that their response would be treated with confidentiality. The survey yielded 317 usable questionnaires.

### Statistical analyses

The data collected from the 317 usable questionnaires were subjected to various statistical analyses using Statistica (Statsoft, 2008). An exploratory factor analysis was undertaken, and Cronbach's alpha coefficients were calculated to assess the discriminant validity and reliability of the measuring instrument respectively. The influence of selected demographic variables on the EO of these small businesses was investigated. Demographics relating to the business owner as well as the business itself were considered and analysed. In order to test this influence, an Analysis of Variance (ANOVA) was undertaken. An ANOVA is a statistical method for making comparisons between two or more means, so as to determine whether significant relationships exist between the variables (Thomas, Nelson and Silverman, 2010: 168). This was done by analysing the ANOVA output to observe whether statistically significant differences between the group means existed.

### Sample description

The majority of the respondents who participated in the study were male (76.97%), while 23.03% were female. Most respondents were aged between 40 and 49 years (36.28%), followed by respondents between the ages of 50 and 59 (25.24%) and between the ages of 30 and 39 (24.59%). The majority of respondents were White (58.36%) or Black (24.29%). Most of the respondents (66.25%) indicated that they were in possession of a post-matric qualification.

The respondents' small businesses operated predominantly in the service (45.74%) and wholesale/retail (22.71%) industries. Most respondents indicated employing between five and ten (37.85%) or, between one and four (25.55%) employees in their businesses. The majority indicated that their business had been running for ten years or less (60.57%).

### Discriminant validity and reliability results

In order to determine the construct validity of the measuring instrument used in this study, an exploratory factor analysis (EFA) was conducted. In identifying the factors to extract for the model, the percentage of variance explained and the individual factor loadings were considered.

Four factors were extracted, explaining 40.28% of the variance in the data. Items with factor loadings of  $\geq 0.5$  (Hair, Black, Babin, Anderson & Tatham, 2006) and only those loading onto a single factor were considered significant and thus considered for further statistical analysis. The factors extracted could be identified as the theoretical dimensions of Proactive innovativeness, Autonomy, Risk-taking and Competitive aggressiveness. The relevant factor loadings and variance explained for each factor extracted are reported in Table 1.

According to the literature (Lumpkin & Dess, 1996; Covin & Slevin, 1989; Miller, 1983: 771) Innovativeness and Proactiveness are considered two separate dimensions of EO. These constructs were measured using eight and six items respectively. However, the results of the EFA revealed that several of the items originally intended to measure these two construct loaded together onto one factor. The factor was named Proactive innovativeness. Five of the six items measuring Proactiveness and four of the eight items measuring Innovativeness loaded onto Proactive innovativeness. Other studies (Piirola, 2012: 91-92) have also reported that items measuring these two different constructs have loaded together.

Eight of the nine items intended to measure Autonomy loaded together as expected as did six of the seven items intended to measure Competitive aggressiveness. The item RISK3 also loaded onto this construct. Of the seven items originally intended to measure Risk-taking, three items loaded together as expected.

For the purpose of this study, Cronbach's alpha coefficients of 0.7 (Lehman, 2005: 145; Nunnally & Bernstein, 1994) indicate a scale as being reliable. Table 2 summarises the operational definitions of the factors as well as details concerning the validity and reliability of the measuring instrument. From Table 2 it can be seen that the scales measuring Proactive innovativeness, Autonomy, Competitive aggressiveness and Risk-taking showed evidence of acceptable validity and reliability.

**Table 1: OPERATIONAL DEFINITIONS AND VALIDITY AND RELIABILITY OF RESULTS**

Operationalisation of factors	Items	Factor loadings	CA
<i>Proactive innovativeness</i> refers to the business emphasising innovation and continuous improvement; regularly searching for, making changes to and introducing new processes, products and services; encouraging creativity and experimentation; and continuously searching for and pursuing new opportunities.	9	Max: 0.736 Min: 0.565	.887
<i>Risk-taking</i> refers to the business having a preference for and a willingness to commit to high-risk, high-return projects, and encouraging risk-taking when it comes to new ideas.	3	Max: 0.775 Min: 0.555	.754
<i>Competitive aggressiveness</i> refers to the business being aggressive and intensely competitive; being offensive in overcoming threats posed by competitors and initiating actions to which competitors respond; striving for first-mover advantage and being bold when faced with potential opportunities.	6	Max: 0.676 Min: 0.549	.826
<i>Autonomy</i> refers to the business allowing employees to work independently and without continual supervision; to make decisions; and to be flexible and creative in finding solutions.	8	Max: 0.764 Min: 0.549	.829



As a result of the exploratory factor analysis the hypotheses were reformulated, namely:

**H0a-0d:** No relationships exist between the demographic variables (Enterprise tenure, Enterprise size, Gender, Tertiary qualification, Age, Ethnicity) investigated in this study and EO, as measured by Proactive innovativeness (H0a), Risk-taking (H0b), Competitive aggressiveness (H0c) and Autonomy (H0d).

**H1a-1d:** Relationships exist between the demographic variables (Enterprise tenure, Enterprise size, Gender, Tertiary qualification, Age, Ethnicity) investigated in this study and EO, as measured by Proactive innovativeness (H1a), Risk-taking (H1b), Competitive aggressiveness (H1c) and Autonomy (H1d).

### Analysis of variance (ANOVA)

Table 2 portrays the results of the ANOVA between the demographic variables, Enterprise tenure, Enterprise size, Gender of the small business owner, Tertiary qualification, Age and Ethnicity of the small business owner, and the Proactive innovativeness of the small business. The results of the ANOVA show that the demographic variables Enterprise tenure, Gender, Tertiary qualification, Age and Ethnicity do not exert a significant influence on the Proactive innovativeness of the small business. However, a significant relationship did emerge between the demographic variable Enterprise size and Proactive innovativeness ( $p < 0.05$ ). The mean score reported for the dimension Proactive innovativeness was higher in small businesses which had more than 40 employees ( $x = 4.217$ ), than in small businesses where fewer than 10 people were employed ( $x = 4.061$ ). This finding corresponds with Stam and Elfering (2008) who suggest that smallness limits proactiveness and competitive aggressiveness.

**Table 2:** INFLUENCE OF DEMOGRAPHIC VARIABLES ON PROACTIVE INNOVATIVENESS

<b>Dependent variable: Proactive innovativeness</b>		
<b>Independent variables:</b>	<b>F-value</b>	<b>Sig. (p)</b>
Enterprise tenure	0.826	0.3641
Enterprise size	4.857	<b>0.0283</b>
Gender of the small business owner	0.910	0.3407
Tertiary qualification	1.865	0.1731
Age of the small business owner	2.505	0.0834
Ethnicity of the small business owner	0.970	0.3254

(Bold =  $p < 0.05$ )

Table 3 portrays the results of the ANOVA between the demographic variables and the Autonomy of the small business. The demographic variables Enterprise tenure, Enterprise size, Gender, Age and Ethnicity did not exert a significant influence on the Autonomy of the small business. However, a significant relationship did emerge between the demographic variables Tertiary qualification and Autonomy ( $p < 0.05$ ). The mean score for the dimension Autonomy is significantly higher in small businesses where the owner is in possession of a tertiary qualification ( $x = 3.781$ ), than in small businesses where the owner is not ( $x = 3.590$ ). In other words, the owner of a small business who has

a tertiary education qualification is more likely to allow Autonomy within his/her business than an owner who does not possess a tertiary qualification. This finding concurs with Lumpkin and Dess (1996), who state that the higher the education level of the small business owners, the more likely they are to encourage autonomy within their small business.

**Table 3: INFLUENCE OF DEMOGRAPHIC VARIABLES ONAUTONOMY**

<b>Dependent variable: Autonomy</b>		
<b>Independent variables:</b>	<b>F-value</b>	<b>Sig. (p)</b>
Enterprise tenure	1.219	0.2705
Enterprise size	0.500	0.4800
Gender of the small business owner	0.225	0.6359
Tertiary qualification	4.108	<b>0.0436</b>
Age of the small business owner	0.565	0.5687
Ethnicity of the small business owner	1.739	0.1883

(Bold =  $p < 0.05$ )

From Table 4 it can be seen that the demographic variables Enterprise tenure, Enterprise size, Gender, Age and Tertiary qualification did not exert a significant influence on the Risk-taking of the small business. However, a significant relationship did emerge between the demographic variable Ethnicity and Risk-taking ( $p < 0.001$ ). The mean scores reported for Risk-taking were higher in small businesses owned by people of colour ( $x = 3.306$ ) than businesses owned by White respondents ( $= 2.590$ ). In other words, small business owners of colour are more likely to allow Risk-taking activities within their business than White small business owners would allow.

**Table 4: INFLUENCE OF DEMOGRAPHIC VARIABLES ON RISK-TAKING**

<b>Dependent variable: Risk-taking</b>		
<b>Independent variables:</b>	<b>F-value</b>	<b>Sig. (p)</b>
Enterprise tenure	0.1154	0.7343
Enterprise size	0.0766	0.7821
Gender of the small business owner	0.8871	0.3470
Tertiary qualification	0.0000	1.0000
Age of the small business owner	2.0943	0.1249
Ethnicity of the small business owner	8.2483	<b>0.0043</b>

(Bold =  $p < 0.05$ )

The results of the ANOVA (see Table 5) show that none of the demographic variables investigated in this study exerted a significant influence on the Competitive aggressiveness of the small business. This finding somewhat contradicts that of several authors (Bhardwaj, Agrawal & Momaya, 2007: 131; Lumpkin & Dess, 1996) who suggest that the higher the Enterprise size and the longer the tenure of the business, the more likely the business is to be competitively aggressive.

**Table5: INFLUENCE OF DEMOGRAPHIC VARIABLES ON COMPETITIVE AGGRESSIVENESS**

<b>Dependent variable: Competitive aggressiveness</b>		
<b>Independent variables:</b>	<b>F-value</b>	<b>Sig. (p)</b>
Enterprise tenure	2.253	0.1344
Enterprise size	3.262	0.0718
Gender of the small business owner	0.034	0.8533
Tertiary qualification	2.306	0.1299
Age of the small business owner	1.098	0.3348
Ethnicity of the small business owner	0.131	0.7173

Against this background, support is found for the relationships between Enterprise size and Proactive innovativeness (H1a), Ethnicity of the small business owner and Risk taking (H1b) and between Tertiary qualification and Autonomy (H1d). For the remaining demographic variables, the null-hypothesis stating that there is no relationship between demographic variables and EO, as measured by Proactive innovativeness, Autonomy, Risk-taking, and Competitive aggressiveness, is accepted.

## **DISCUSSION OF SIGNIFICANT FINDINGS**

The primary objective of this study was to investigate the influence of selected demographic variables on the EO of small businesses, with the aim of establishing whether small businesses and small business owners with certain demographic characteristics display more or less EO in terms of the dimensions investigated. The Enterprise tenure and the Enterprise size, as well as the Gender, Tertiary qualification, Age and Ethnicity of the small business owner were considered.

The results of this study show that small business owners with a tertiary qualification are more likely to allow Autonomy within their businesses than owners who do not possess such a qualification. This finding supports the contention of Charney et al. (2000: 5) that individuals in possession of a tertiary qualification should be better equipped to act entrepreneurially than individuals who do not have such a qualification. As a result of their learnt insights, small business owners with a qualification are also more likely to understand the value and benefit of allowing employees to work independently and without continual supervision, to make decisions, and to be flexible and creative in finding solutions, and thus more likely to adopt these strategies.

The results also show that the small business owners of colour are more likely to undertake Risk-taking activities than White small business owners. This finding supports the findings of Fairlie and Robb (2008) who found White small business owners to be more risk-averse than non-white business owners. A possible reason given for this observation was cultural differences, where White respondents were considered to be more conservative and cautious than non-white respondents (Fairlie & Robb, 2008: 12).

The findings of the present study show that Gender and Age have no influence on the EO dimensions investigated. This finding contradicts the findings of several authors (Rogoff et al., 2008; Lumpkin et al., 2006; O'Shea et al., 2005), all of whom found that as business owners age, their willingness to adopt risk-taking projects and to act innovatively diminished significantly. The findings also contradict Runyan et al., (2006: 455-477), who observed significant differences between males and females in their reported levels of EO. In particular, they observed that the female business owners in their study tended to be more innovative and open to risk-taking than their male counterparts. A possible reason for the findings of the current study could be the demographic profile of the respondents, with the majority (76%) being males.

Given these findings, it is suggested that small businesses, regardless of the demographic characteristics, should try to ensure that they allocate sufficient resources to allow proactive innovative strategies to be implemented in their business. Small business owners should also be encouraged to pursue their education at a tertiary level, as this will increase their knowledge levels and make them more able to implement entrepreneurial strategies in their businesses. In particular, it will enable them to better facilitate and possibly be more open to Autonomy in their businesses.

## **IMPLICATIONS OF SIGNIFICANT FINDINGS**

This study has implications for both researchers and small business owners. In this study, the items used to measure variables Proactiveness and Innovativeness were perceived by respondents as measuring the same thing. As such, these dimensions of EO could not be subjected to further testing separately, and a new variable (Proactive innovativeness) was formulated. This could imply that small businesses are unable to differentiate between being innovative and being proactive, and consider the separate constructs to mean the same thing. This finding contributes to the debate on whether Proactiveness and Innovativeness are in essence separate constructs or not. The challenge for researchers is to establish whether Innovativeness and Proactiveness are distinguishable constructs, and if so, to develop valid and reliable scales that measure these constructs.

This study has investigated the influence of selected demographic variables on the various dimensions of EO. As far as can be established, only a few studies (Chye, 2012; Simmons, 2010) have made reference to the influence of business owners' characteristics on the dimensions of EO, but none have empirically tested this influence, which was done in this study.

## **LIMITATIONS AND FUTURE RESEARCH**

There were several limitations to this study. Firstly, individual responses were based on perceptions and on one-time self-report measures. Common method bias can potentially occur under these circumstances. However, the use of self-reporting does not necessarily lead to the problem of common method bias, and in many cases the bias may be so small that it does not jeopardise the validity of the results (Meade, Watson & Kroustalis, 2007). The authors, however, acknowledge that common method bias could have influenced the results of this study.

Secondly, the use of convenience sampling introduced a source of potential bias into the study. The findings can thus not be generalised to the entire small business population. Furthermore, this study is limited to small businesses in the Eastern Cape, and generalising the results to all South African small businesses may not be appropriate. Future studies should attempt to identify a database from which probability samples can be drawn, and include small businesses throughout South Africa.

The demographic profile of the respondents was also a factor to consider in this study. The majority of the respondents were from a single ethnic group, and thus not representative of all ethnic groups in the country. Future studies investigating the influence of EO should attempt to obtain a more balanced representation of the different ethnic groups. Possibly a comparison could be done to observe the differences in the levels of EO among small business owners from different ethnic groups.

Despite several limitations, this study has provided insights into the EO of small businesses in the Eastern Cape and the influence of selected demographic variables. This study adds to the body of entrepreneurship knowledge and specifically to that relating to EO.



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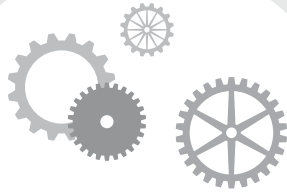


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## CORPORATE ENTREPRENEURSHIP IN THE PUBLIC SECTOR

6



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### ABSTRACT

Competitive pressures, rising public demands and tight labour markets call for the need for new approaches of delivering better quality public services, attracting and retaining entrepreneurially oriented employees. The increasing demands to find more cost-effective ways of serving the public, challenges all public sector employees to be entrepreneurial and innovative in delivering public services. Corporate entrepreneurship is the only solution that could assist public sector organisations to shift from being bureaucratic to being innovative and entrepreneurial. The purpose of this study is to assess the extent to which corporate entrepreneurship is promoted and encouraged within the South African public sector. The Corporate Entrepreneurship Assessment Instrument (CEAI) was used to assess the extent to which corporate entrepreneurship is promoted and encouraged in the public sector organisations. The assessment of corporate entrepreneurship has shown that there is still a huge responsibility of creating a climate conducive for corporate entrepreneurship in the public sector.

### KEYWORDS

Corporate entrepreneurship; Innovation; Public sector

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## INTRODUCTION

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The competitive pressure on organisations to become “lean and agile” has resulted in many organisations using corporate entrepreneurship as a tool to gain competitive advantage (Thornberry, 2003: 330). According to Hancer, Ozturk and Ayyildiz (2009: 523) corporate entrepreneurship is a crucial aspect of organisational, economic development as well as wealth. Hancer et al. (2009: 524) mention that “effective corporate entrepreneurship facilitates organisations' efforts to exploit current competitive advantages and to move towards future opportunities and competencies”.

Morris, Kurakto and Covin (2008: iii) indicate that as the rules of competition keep changing, organisations realise the importance of sustainable competitive advantage and that the only way to achieve that is through corporate entrepreneurship. According to Hancer et al. (2009: 523) implementation of corporate entrepreneurship is important not only for large businesses, but also for small and medium sized businesses and for non- profit and government organisations. Mack, Green and Vedlitz (2008: 233) indicate that the concept of public entrepreneurship is seen as the way of introducing innovation to public bureaucracies so as to enhance the operations of the government and non-profit organisations. Morris et al. (2008: 116) state that government departments must become more entrepreneurial because of the need for improved service delivery, facilitation of increased citizen education and involvement, as well as attempts made to apply resources in new ways as to enhance the efficiency and effectiveness of public sector institutions. Furthermore, Morris et al. (2008: 116) argue that public sector organisations are seen to be joining hands with private partners to reduce public sectors' involvement in service provision by effectively outsourcing certain responsibilities to the private sector so as to leverage the public sectors' resources and to create value for citizens. As public sector organisations are also facing greater environmental instability and community demands, public sector organisations are perhaps in greater need for corporate renewal than their private sector counterparts (Morris, 2007: 1366).

Roberts (1992: 55) states that due to the scope and complexity of issues and problems facing public sector organisations; there is a need for public entrepreneurs to mould creative, flexible organisations to respond to the quickly changing world.

In this paper the problem under investigation will first be discussed, followed by the research objectives and hypotheses. Fourthly a literature review will be given on the major aspects related to this study. Next the research methodology will be discussed, followed by the results, conclusion and recommendations. Lastly the limitations of the study will be highlighted as well as suggestions for future research.

### PROBLEM INVESTIGATED

Morris (2007: 1365) believes that the relevance of corporate entrepreneurship to the public sector is questioned as it is an emerging area of entrepreneurship. Morris (2007: 1365) further mentions that competitive pressures, rising public demands and tight labour markets call for the need for new approaches of delivering better quality public services, and attracting and retaining entrepreneurially minded employees. Morris (2007: 1366) supports the view that “valuable lessons can be learned from corporate entrepreneurship in assisting public sector organisations to be more responsive and to foster higher motivation and entrepreneurial behaviours amongst its employees”. Financial policies such as salary grids and other rewards not often recognise innovation, leaving little in the way of personal incentives for public sectors employees (Holbrook, 2010: 161).

Wirick (2009: 1) states that increasing demands on the public sector and government at all levels to find more cost-effective ways of serving the public, challenge public sector employees to be innovative and to do even more in the coming years. According to Wirick (2009: 1) public sector entrepreneurship is often unrealised due to barriers and cultures rooted in the public sector.

Kearney, Hisrich and Roche (2009: 31) point out that innovation; risk-taking and pro-activeness are key dimensions determining entrepreneurial organisations. The environment facing public sector managers is more complex, dynamic and threatening than before, and the public sector finds it difficult to respond to those changing circumstances due to limited resources, management philosophies and structures characterising public organisations. According to Kearney et al. (2009: 36) public sector organisations are operating in formalised organisational structures that are characterised by rigid policies and inflexibility which inhibit their capacity to foster corporate entrepreneurship. Kearney et al. (2009: 36) also mention that high levels of rigidity and red tape in the public sector are in conflict with the development of the entrepreneurial culture in the public sector.

Zampetakis and Moustakis (2010: 872) state that research on the public sector entrepreneurship is limited. Reported studies are also limited to few countries and consequently the field lacks sufficient results, which would allow global generalisation and formation of universally accepted best practices. South Africa is no different - research on public sector entrepreneurship is very limited.

The Department of Public Service and Administration (DPSA, 2009: 7) state that South Africa needs an innovative public sector to sustain the transformation agenda and redress the past imbalances in terms of provision of public services and economic development. DPSA (2009: 7) is of the opinion that these calls for models of service delivery to be amended and changed to deliver better services that meet the needs of citizens.

The problem investigated in this study is to assess the extent to which corporate entrepreneurship is promoted and encouraged within the South Africa public sector.

## RESEARCH OBJECTIVES

### Primary objective

The primary objective of this research is to assess the extent to which corporate entrepreneurship is promoted and encouraged within the South African public sector.

### Secondary objectives

In order to achieve the primary objective of the study, secondary objectives need to be formulated. The secondary objectives are as follows:

- defining corporate entrepreneurship and innovation in the public sector;
- determining the element of a public sector corporate entrepreneurship model;
  - identifying the internal factors critical for promoting corporate entrepreneurship in an organisation;
- identifying the barrier to public sector entrepreneurship; and
- identifying how to overcome the barriers to public sector entrepreneurship.

## HYPOTHESIS

The following null hypotheses (H<sub>0</sub>) were formulated for this study:

- H<sub>01</sub>:** There is no management support for corporate entrepreneurship within the South African public sector.
- H<sub>02</sub>:** Work discretion is not used to promote corporate entrepreneurship within the South African public sector.
- H<sub>03</sub>:** Rewards/reinforcements are not appropriately used to promote corporate entrepreneurship within the South African public sector.
- H<sub>04</sub>:** Time is not being made available for corporate entrepreneurial activities within the South African public sector.
- H<sub>05</sub>:** Organisational boundaries within the South African public sector impede on corporate entrepreneurship.
- H<sub>06</sub>:** There is no statistical difference between the different categories of managers in the South African public sector and the antecedents of corporate entrepreneurship (management support, work discretion, rewards/reinforcements, time and organisational boundaries).

## LITERATURE REVIEW

The literature review will firstly address public sector corporate entrepreneurship and innovation. Secondly an interactive mode for corporate entrepreneurship will be discussed. Next the internal factors critical for promoting corporate entrepreneurship in an organisation, will be discussed, followed by the barriers to public sector entrepreneurship and lastly measures to overcome these barriers will be addressed.

### Corporate entrepreneurship and innovation in the public sector

There are many definitions of public sector corporate entrepreneurship as various authors define public sector corporate entrepreneurship differently. For the purpose of this study, public sector corporate entrepreneurship will be referred to as defined by Kearney et al. (2008: 296) “entrepreneurship within an existing public sector organisation which results in innovative activities such as the development of new and existing services, technology, administrative techniques and new improved strategies”.

As much as various authors such as Luke, Verreynne and Kearins (2010: 139); Kearney et al. (2008: 296); Zampetakis and Moustakis (2007:415) and Roberts (1992: 57), define public sector entrepreneurship differently, there are also various definitions for public sector innovation. Kearney et al. (2008: 299) define public sector innovation as a “political process that propels organisations to launch a significant new project that alters rules, roles, procedures and structures that are related to the communication and exchange of information within the organisation, and between the organisation and its surrounding environment. DPSA (2009: 11) refers to public sector innovation as the “development and implementation of new processes, methodologies, models, products, services and methods which enhance service delivery”.

Traditionally, the role of government was seen as one focusing on policy and administration, that is enactment of legislation and regulations; ensuring that rules are adhered to in order to provide a framework for a stable society (Luke et al., 2010: 139). According to Luke et al. (2010: 139) establishing a climate conducive to innovation and corporate entrepreneurship was viewed to be more appropriate and applicable to the private sector organisations.

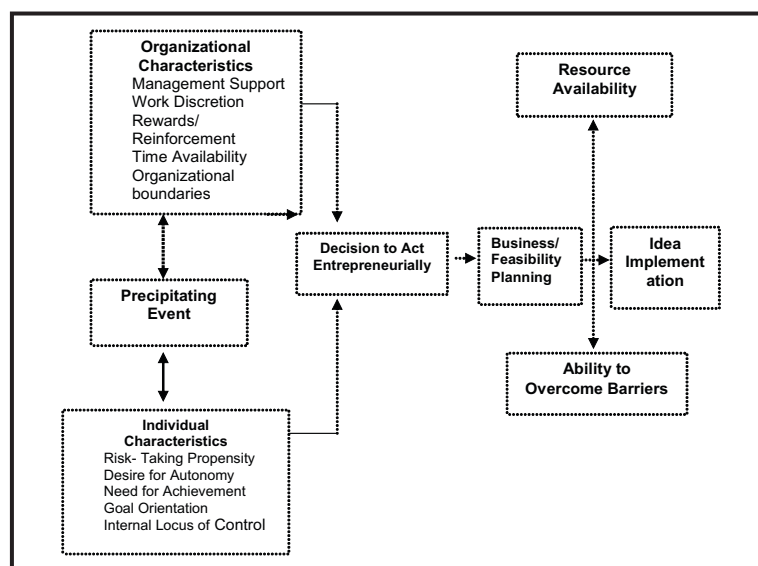
MacFadzean, O'Loughlin and Shaw (2005: 350-351) mention that there is indeed a growing need for corporate entrepreneurship and innovation within organisations of all sizes including government and non-governmental organisations, as entrepreneurship is the major catalyst for innovation. Corporate entrepreneurship within the public sector is seen as an on going innovation to achieve increased efficiency and effectiveness, to adjust strategic direction of public sector organisations as well as to adjust government policies (Luke et al., 2010: 140).

Mack et al. (2008: 233) mention that innovation is advocated as a means for public bureaucracies, government and non-government organisations to transform themselves into flexible, more responsive units that perform organisational duties more efficiently and serve taxpayers more effectively. According to Mack et al. (2008: 233) public sector entrepreneurship is seen as an appropriate way of improving the operation of government. According to Kearney (2008: 296) for innovation to be possible within the public sector, entrepreneurship should exist.

### An interactive model of corporate entrepreneurship

The decision to act entrepreneurially is a culmination of interaction of three factors: organisational characteristics, individual characteristics and precipitating events (Hornsby, Naffziger, Kurakto & Montagno, 1993: 31). The interaction of these three factors is illustrated in an interactive model of corporate entrepreneurship as proposed by Kurakto and Hodgetts (2001: 73) as well as Hornsby et al. (1993: 31) in Figure 1.

Organisational characteristics include: management support, work discretion, rewards/reinforcement, time availability and organisational boundaries. Individual characteristics include: risk-taking propensity, desire for autonomy, and the need for achievement, goal orientation and internal locus of control. Various researchers identified the following factors critical to the internal environment of an organisation for pursuing entrepreneurial activity in an organisation namely: Management support, autonomy/ work discretion, rewards/reinforcements, time availability and organisational boundaries (Hancer et al., 2009; Ireland, Hough & Bloom, 2009; Kurakto, 2009; Whipple, & Peterson, 2009; Kearney et al., 2008; Scheepers, Hough & Bloom, 2008; Chen, Zhu & Anquan., 2005; Kurakto & Hodgetts, 2004; Viswanathan & Gowri, 2004; Morris & Kurakto, 2002; Hornsby, Naffziger, Kurakto & Montagno, 1993). These factors are referred to as organisational support elements or antecedents of corporate entrepreneurship and are believed to positively influence organisation entrepreneurial activities and behaviour.



**FIGURE 1** AN INTERACTIVE MODEL OF CORPORATE ENTREPRENEURSHIP

(Source: Kurakto and Hodgetts (2001: 73); Hornsby et al. (1993: 31))

According to Kurakto and Hodgetts (2001: 73) the decision to act entrepreneurially occurs as a result of an interaction among organisational characteristics, individual characteristics and some kind of precipitating event. Hornsby et al. (1993: 29) postulate that precipitating event provides the impetus to behave entrepreneurially when other conditions are uncondusive to such behaviour. Hornsby et al. (1993: 32) indicate that examples of precipitating events may include: development of new procedures or technologies, change in the management of an organisation, a merger or acquisition, competitors' move to increase market share and economic changes. After the entrepreneur has made the decision to act entrepreneurially a business plan needs to be developed. After the entrepreneur has conducted a feasibility analysis, acquired the resources necessary for the new venture and overcome existing barriers, the entrepreneur will be able to implement the idea (Hornsby et al., 1993: 32). For purposes of this study in-depth attention will only be given to the internal organisational factors critical for promoting corporate entrepreneurship in an organisation.

### **Management support**

Management support refers to the willingness of top level managers to facilitate and promote entrepreneurial behaviour (Morris et al., 2008: 330). Kurakto (2009: 68) mentions that such behaviour which reflects management support includes support of employees' ideas, recognition of those employees who bring ideas forward, support for small experimental projects and provision of resources required to take entrepreneurial actions. Whipple and Peterson (2009: 14) support Kurakto (2009: 68) by stating that management support may take many forms, including providing necessary resources or expertise and institutionalising the entrepreneurial activity within the organisation's system and processes. According to Whipple and Peterson (2009: 14) it is important for top level managers to also give inputs, get involved and encourage employees to take entrepreneurial actions. Besides encouragement, managers must be in a position to assist employees in dealing with stigma associated with failure, as it discourages employees from trying something new (Whipple & Peterson, 2009: 14). Failure should be seen as an integral part of innovation and corporate entrepreneurship.

Morris (2007: 1368), Morris et al. (2008: 330) and Scheepers et al. (2008: 55) mention that managers should encourage rational risk-taking, provides open communication and constructive feedback, recognise creative work, and provide resources as well as participative and collaborative management. According to Scheepers et al. (2008: 55) these kinds of support from managers encourage employees to solve problems in an innovative way, seek opportunities in a pro-active manner and embark on moderately risky projects.

### **Autonomy / work discretion**

According to Morris et al. (2008: 330) work discretion involves top level managers' commitments to tolerate failure, provide decision-making latitude and delegate authority and responsibility to managers. Organisations should allow employees to make decisions about the employees' work process and should avoid criticising them for failure (Kurakto, 2009: 68; Ireland et al., 2009: 31; Scheepers et al., 2008: 55; Viswanathan & Gowri, 2004: 28). According to Ireland et al. (2009: 31) tolerance of failure would result in innovation, pro-active behaviour and risk-taking amongst employees. Kurakto (2009: 68) and Scheepers et al. (2008: 55) state that employees have discretion if they are able to make decisions about their job performance in the way they believe is effective. According to Viswanathan and Gowri (2004: 28) entrepreneurs do not have to get permission for every move, "freedom and independence is crucial." Chen et al. (2005: 531) added that entrepreneurs need creative and independent thinking to come up with new ideas and undertake risk.



## Rewards/ Reinforcements

Morris et al. (2008: 330) refer to rewards/ reinforcement as the developing and using of systems that reinforce entrepreneurial behaviour, highlighting important achievements and encouraging pursuit of challenging work. Rewards/reinforcements motivates employees to engage in innovative, pro-active and risk-taking behaviour (Hancer et al., 2009: 527; Kurakto, 2009: 68; Scheepers et al., 2008: 55). According to Hancer et al. (2009: 527) the use of appropriate rewards can enhance managers' willingness to assume the risks associated with entrepreneurial activity. If good performance is not recognised and rewarded there is no incentive for employees to take risks (Kearney et al., 2008: 303). Scheepers et al. (2008: 55) mention that effective reward systems that drive entrepreneurial activity should be in line with set goals, provide performance based incentive and timeous feedback. According to Viswanathan and Gowri (2004: 31) not only are financial rewards crucial for corporate entrepreneurship, but non-financial, emotional rewards are also important, for example recognition through an organisations award ceremonies or in-house publications.

## Time availability

Time availability refers to the evaluation of workloads to ensure that individual and groups have ample time needed to pursue innovations (Hancer et al., 2009: 527; Morris et al., 2008: 331; Robert, Michael & Dean, 2005: 48). Scheepers et al. (2008: 56) and Kurakto (2009: 68) postulate that for new and innovative ideas to thrive, employees should have time to incubate their ideas. Organisations must therefore be reasonable in assigning workload to their employees, avoid putting time constraints on aspects of employees' job and allow employees to work with others to solve long term problems (Kurakto, 2009: 68; Scheepers et al., 2008: 56). Scheepers et al. (2008: 56) mention that in entrepreneurial work environments, employees are allowed to conduct creative entrepreneurial experiments in a limited portion of their work time.

## Organisational boundaries

Organisational boundaries refer to precise explanations of outcomes expected from organisational work and development of mechanisms for evaluating, selecting and using innovation (Morris et al., 2008: 331). Kurakto (2009: 68) believes that organisations should avoid having standard operating procedures, should reduce their dependence on narrow job descriptions and inflexible performance standards. Kearney et al. (2008: 299) is of the opinion that organisations should have loose intra-organisational boundaries.

According to Storey (2004: 204) corporate entrepreneurial activities are promoted by increased flexibility in organisations' policies and procedures. Kearney et al. (2009: 37) support Storey (2004: 204) by indicating that if organisational policies and procedures are complex and impose unrealistic timetables and unrealistic performance benchmarks, it will discourage corporate entrepreneurial spirit within the organisation. According to Storey (2004: 201) flexible policies are considered to be those policies which reduce bureaucracy and induce less reliance on rules and procedures. Morris et al. (2008: 231) mention that the best option in promoting innovation and corporate entrepreneurship is a boundary-less organisation, which refers to elimination of barriers that slow things down and create resistance to change.

According to Kurakto and Hodgetts (2001: 73) these organisational support elements are important for organisations to act entrepreneurially. Kurakto and Hodgetts (2001: 73) believe that the decision to act entrepreneurially takes place as a result of the interaction among the organisational support elements (organisational characteristics) and two other factors; individual characteristics and precipitating event.

## Barriers to public sector entrepreneurship

Entrepreneurship involves the pursuit of opportunity regardless of resources currently controlled, but public sector officials are restricted by regulatory stature to use only resources allocated to them (Morris et al., 2008: 117-118). Morris et al. (2008: 126), Morris and Kurakto, (2002: 320) and Kearney et al. (2008: 300-301) came up with the following barriers which are believed to be hindering public sector entrepreneurship: Policies /procedures/red tape – public sector organisations have high levels of rigidity, greater inflexibility, as well as red tape that are in conflict with the development of corporate entrepreneurship; Limited size rewards – the level of organisational commitments is low in the public sector due to inflexibility of personnel procedures and the weak link between performance and rewards; Limited managerial autonomy - public sector managers have less autonomy than their private sector counterparts; Interference from media and politicians - media and opposition parties' interests in exposing public sector failures is one of the barriers in public sector entrepreneurship; Pressure to emphasise equity over efficiency - equity is the objective of government programmes; Ambiguity of goals – enabling legislation for programmes to be administered is often vague and has conflicting objectives because of the necessity to achieve consensus; Lack of competition- public sector organisations are viewed as monopolies with no competitive pressure to innovate; Short - term orientation – public sector organisations operate with 1- 2 year budget cycles that compress the need to justify the level of resources received and amplify the need to expand those resources; Reward system that penalises failure – public sector organisations face risk/reward trade-offs that strongly favour avoiding mistakes; High public visibility – public sector organisations are subject to public scrutiny and major decisions have to be made with transparency, and those decisions must involve; and Difficulty in defining customers- public sector organisations have difficulty in defining who their customers are as there are a number of different public groups being served by a given department or unit.

## Overcoming barriers to public sector entrepreneurship

In order for public sector organisations to be entrepreneurial and innovative, public sector organisations should consider breaking the protocols, challenging rules and regulations, as well as breaking the normality and coming up with what is not obvious (DPSA, 2009: 11). Kearney et al. (2008: 301) state that there is a need to change the culture of public service officials so that public service officials can be seen to be innovative in dealing with service delivery challenges and not to be viewed as “mundane and unimaginative”.

Kearney et al. (2008: 301) identified three main approaches to overcoming barriers to corporate entrepreneurship in the public sector namely: Persuasion - persuasion involves highlighting the benefits of innovation, establishing demonstration projects and social marketing; Accommodation – it involves consulting with affected parties, co-opting affected parties by engaging them in the governance of innovation, training those whose work would be affected, compensating losers, and ensuring that the programmes are culturally and linguistically sensitive; and others - other approaches in overcoming public sector entrepreneurship barriers include finding additional resources, resolving logistical problems, preserving and exerting continuous effort, gaining political support and building alliances. Furthermore, public sector organisations are required to have a clear vision and focus on important aspects of innovation, changing legislation and regulations as well as providing recognition for programme participants.

## RESEARCH METHODOLOGY

The research methodology section will address the research design, population and sampling, data collection and data analysis.

## Research design

The study is exploratory and quantitative in nature. The time dimension of this study is cross-sectional as it is carried out once and represents a snapshot of one point in time (Cooper & Schindler, 1998: 132).

## Population and sampling

The target population for this study included all five hundred and fifty one (551) managers of a public sector National Head office in South Africa, situated in Tshwane. More details on the specific public sector organisation can't be made available because of its confidentiality agreement. All managers were included, irrespective of their age, gender as well as managerial level. Morris et al. (2008: 302) indicate that managers at all levels play critical roles in the success of corporate entrepreneurship regardless of the form of the entrepreneurial initiative. Convenience sampling was used as one of the researchers had direct access to the public sector department where the study was conducted. 306 of the 551 questionnaires were returned. The sampling response rate was 55%.

## Data collection

For the purpose of this study the Corporate Entrepreneurship Assessment Instrument (CEAI) which was developed by Kurakto et al. in 1990 was used to obtain the data. This CEAI uses a five - point Likert scale which consists of forty eight (48) questions and covers the following constructs: management support for corporate entrepreneurship consisting of 19 questions, work discretion, which consists of 10 questions, rewards/reinforcement, which consists of 6 questions, time availability which consists of 6 questions and lastly, organisational boundaries which consists of 7 questions.

## Data Analysis

The collected data was analysed by means of the SPSS, statistical package. For the purpose of this study the Cronbach Alpha test, t-test and ANOVA were conducted. The Corporate Entrepreneurship Assessment Instrument (CEAI) has been used in various studies and it has been found to be valid and reliable (Kurakto, Montagano & Hornsby, 1990: 54-55). Various South African studies such as Kamffer, 2004; Bauwmeester, 2005; Chaka, 2006; Gantsho, 2006; Kriel, 2010; as well as Groenewald, 2010 also used the instrument and proved its validity. Table 1 illustrates the accuracy of the measuring tool as expressed by means of its Cronbach Alpha values.

Table 1: CRONBACHALPHA VALUES OF THE CEAI FACTORS

Factors	Description	Items in Construct	Cronbach Alpha values
1	Management support	19	0,941%
2	Work discretion	10	0,884%
3	Rewards/reinforcements	6	0,742%
4	Time availability	6	0,376%
5	Organisational boundaries	7	0,746%

As can be seen from Table 1 the internal consistency of all the factors except time availability was higher than 0.7. Cooper and Schindler (2008:237) indicate that a Cronbach Alpha of 0.7 is acceptable for internal reliability. If the value is lower than 0.5 the internal reliability is questionable and if the value is 0.8 or more the internal consistency is sound. As the internal consistency on time availability (0.376%) was below the acceptable value, this factor was analysed, using the individual questions, throughout the analysis process.

## RESULTS/FINDINGS

### Descriptive statistics

The biographical profile of the respondents includes their gender, age, ethnicity and current managerial rank in the public sector.

59% (183) of the respondents were male and 41% (123) female. 42% (130) of the respondents were 40 years and younger and 58% (176) was older than 40 years of age. In terms of the ethnic grouping, the following can be reported: Blacks 65% (199); Coloureds 11% (33); Indian 2% (7); and Whites 22% (67).

The current ranks of the managers that participated in the study are illustrated in table 2.

**Table 2:** CURRENT RANK OF MANAGERS IN THE PUBLIC SECTOR

Rank of respondent	Salary level	Frequency	Percentage
Senior Officer	8	85	27.8
Assistant Director	9 – 10	125	40.8
Deputy Director	11 – 12	57	18.6
Director, Deputy Commissioners and Chief Deputy Commissioners	13 - 15	39	12.8
<b>Total</b>		<b>306</b>	<b>100%</b>

Originally the nine salary level categories was listed separately, but was then regrouped into four groups to make the data easier to analyse.

Senior officers (level 08) who represent first-level managers in the public sector, comprised 27.8% of the respondents, Assistant Directors (level 09 and 10) comprised 40.8% of respondents, Deputy Directors (11 and 12), who represent middle managers comprised of 18% of the respondents and top level executives: Directors, Deputy Directors and Chief Deputy Commissioners comprised of 12.8% of the respondents. According to the statistics provided above, middle-level managers commanded the highest percentage that is 40.8% of the respondents.

According to Hancer et al. (2009: 527) middle managers play a critical role as intermediaries in corporate entrepreneurship and hold the central position which allows them to influence and shape the entrepreneurial actions in the organisation. Only 12.8% of top level executives (senior managers) participated in the study which might be due to huge responsibilities for the day-to-day running of the organisation. According to Morris et al. (2008: 303) entrepreneurial messages should flow from the top and as such top level executives must be the “purveyors of entrepreneurial vision”.

The majority of the respondents were middle managers older than 40 years. 59% of the respondents were male and 41% were females.

## Inferential statistics

The t-test was conducted to assess the respondent's perception of the antecedents of corporate entrepreneurship as well as the significant differences in scores of all the respondents in terms of gender and average age on the antecedents of corporate entrepreneurship. Table 3 gives an overview of the t-test results for both male and female respondents, as well as, their mean scores in terms of the antecedents of corporate entrepreneurship (the construct time availability was analysed individually because of poor internal consistency).

**Table 3: T-TEST FOR GENDER VERSUS FACTORS FOR CORPORATE ENTREPRENEURSHIP**

Factors	N	Mean	Std. Deviation	t	df	Sig.(2-tailed)
<b>Management support:</b>						
Male	183	2.24	.720	1.2300	304	0.220
Female	123	2.14	.652			
<b>Work discretion:</b>						
Male	183	2.51	.782	2.293	304	0.023
Female	123	2.31	.691			
<b>Rewards/reinforcement:</b>						
Male	182	3.18	.748	1.357	303	0.176
Female	123	3.07	.643			
<b>Workload:</b>						
Male	183	3.55	.987	-2.077	304	0.039
Female	123	3.77	.895			
<b>Plenty time:</b>						
Male	183	2.26	.965	-0.269	304	0.0788
Female	123	2.29	.973			
<b>Right amount of time &amp; workload:</b>						
Male	183	2.57	1.112	-1.998	304	0.047
Female	122	2.83	1.111			
<b>Job structure:</b>						
Male	183	3.23	1.080	-0.946	302	0.345
Female	121	3.35	1.030			
<b>Time constraint:</b>						
Male	183	3.45	1.072	-1.330	304	0.185
Female	12	3.61	.997			
<b>Long - term problem solving:</b>						
Male	183	2.64	1.069	-0.239	304	0.811
Female	123	2.67	1.083			
<b>Organisational boundaries:</b>						
Male	183	3.82	.648	-0.484	304	0.629
Female	123	3.86	.568			

The t-test revealed that there is a significant statistical difference on work discretion, workload and right amount of time and workload as their p-value is less than 0.05 ( $p < 0.05$ ).

Table 3 shows that the p-significant values for management support, rewards/reinforcement, organisational boundaries and the four constructs under time availability namely: plenty time, job structure, time constraints and long-term problem solving are above 0.05,  $p > 0.05$ . This is an indication that there is no significant statistical difference between the different genders' perceptions of these factors. The t-test on gender revealed that both male and female managers perceive management support in the same way.

**Table 4:** T-TEST FOR AGE VERSUS THE ANTECEDENTS OF CORPORATE ENTREPRENEURSHIP

Factors	N	Mean	Std. Deviation	T	Df	Sig.(2-tailed)
<b>Management support:</b>						
40 years & younger	128	2.18	.753	-0.406	301	0.685
Older than 40 years	175	2.21	.652			
<b>Work discretion:</b>						
40 years & younger	128	2.34	.717	-2.134	301	0.034
Older than 40 years	175	2.52	.763			
<b>Rewards/reinforcement:</b>						
40 years & younger	127	3.18	.696	0.843	300	0.400
Older than 40 years	175	3.11	.722			
<b>Workload:</b>						
40 years & younger	128	3.65	.884	0.229	301	0.819
Older than 40 years	175	3.62	1.015			
<b>Plenty time:</b>						
40 years & younger	128	2.43	.978	2.355	301	0.019
Older than 40 years	175	2.17	.954			
<b>Right amount of time &amp; workload:</b>						
40 years & younger	127	2.78	1.061	1.333	300	0.184
Older than 40 years	175	2.61	1.159			
<b>Job structure:</b>						
40 years & younger	126	3.25	1.001	-0.319	299	0.750
Older than 40 years	175	3.29	1.108			
<b>Time constraints:</b>						
40 years & younger	128	3.41	1.083	-1.327	301	0.186
Older than 40 years	175	3.58	1.019			
<b>Long - term problem solving:</b>						
40 years & younger	128	2.72	1.034	0.766	301	0.444
Older than 40 years	175	2.62	1.107			
<b>Organisational boundaries:</b>						
40 years & younger	128	4.01	.541	4.301	301	0.001
Older than 40 years	175	3.71	.643			

The t-test revealed the statistical significant difference on the following factors: work discretion, plenty time and an organisational boundary as their p-values is less than 0.05 ( $p < 0.05$ ). Table 4 revealed that the p-values management support, rewards/reinforcement, work load, right amount of time and workload, job structure, time constraints and long-term problem solving are above 0.05



( $p > 0.05$ ). This is an indication that statistically there is no significant difference between the respondents 40 years and younger and those older than 40 years' perception towards the above research variables. The next section will interpret the results of the t-test on all the factors based on gender and age of the respondents.

#### **Summary of t-tests versus management support**

The results of the t-test on gender and age revealed that both males and female managers irrespective of their age, perceive management support in the public sector department in the same way. All the managers disagree with the fact that there is management support in the public sector department. The mean scores for both males and females as well as for respondents 40 years and younger and those older than 40 years range from 2.14 to 2.21, which is an indication that the respondents are more on the disagreeing side irrespective of their age and gender. According to the interpretation rule of the t-test if the p-value is  $p > 0.05$  the null hypotheses should be accepted. The literature review addressed the importance of management support for corporate entrepreneurship. According to Morris et al. (2008: 330) management support refers to the willingness of top level managers to facilitate and promote entrepreneurial behaviour. Chen et al. (2005: 530) mentioned that the cultivation of corporate entrepreneurship is impossible unless it is supported by top management. It is important for top level managers to give inputs, get involved and encourage employees to take entrepreneurial actions. Although corporate entrepreneurship is the responsibility of all managers and employees of the organisation, it should flow from the top and as such top level executives must be the "purveyors of entrepreneurial vision" (Morris et al., 2008: 303). There is a need for management support for corporate entrepreneurship in the public sector department, and employees would not be able to promote corporate entrepreneurship until the importance of corporate entrepreneurship is acknowledged and supported by managers in the public sector department, especially top level executives (Directors, Deputy Commissioners, Chief Deputy Commissioners and the Commissioners). In terms of the stated hypotheses it can be concluded that: Ho1 is accepted: There is no management support for corporate entrepreneurship within the South African public sector.

#### **Summary of t-tests versus work discretion**

Table 3 and 4 revealed that the p-value for both males and females and for respondents 40 years and younger, as well as for those respondents older than 40 years is less than 0.05 ( $p < 0.05$ ). This is an indication that statistically there is a significant difference between both males and females respondents, as well as between respondents 40 years and younger and those older than 40 years. The mean scores for male respondents and those respondents older than 40 years lean towards not sure (2.51 and 2.52). The mean scores for females and respondents 40 years and younger are more disagreeing to the fact that work discretion is not used to promote corporate entrepreneurship in the public sector department. The respondents feel that work discretion is used to promote corporate entrepreneurship in their organisation. Work discretion involves top level managers' commitment to tolerate failure, provide decision making latitude and delegating authority and responsibility to managers (Morris et al., 2008: 330). The fact that managers in the public sector department feels that they are able to make decisions about their job performance in the way they believe is effective would assist in promoting corporate entrepreneurship in the public sector department. Kurakto (2009: 68) and Scheepers et al. (2008: 55) state that employees have discretion if they are able to make decisions about their job performance in the way they believe is effective. Viswanathan and Gowri (2004: 28) mentioned that "freedom and independence is crucial"

hence, entrepreneurs do not have to get permission for every move. According to the results of the t-test it is evident that work discretion is used to promote corporate entrepreneurship within the South African public sector. In terms of the stated hypotheses it can be concluded that: Ho2 is rejected: Work discretion is not used to promote corporate entrepreneurship within the South African public sector.

#### **Summary of t-tests versus rewards/reinforcement**

Table 3 and 4 revealed that the p-values for both males and females and for respondents 40 years and younger, as well as for those respondents older than 40 years are above 0.05 ( $p < 0.05$ ). This is an indication that statistically there is no significant difference between both male and female respondents, as well as between respondents 40 years and younger and those older than 40 years. The respondents share the same sentiments irrespective of their age and gender. The respondents' mean score ranges from 3.07 to 3.18. Rewards/reinforcements refer to the development and the use of the systems that reinforce entrepreneurial behaviour, highlighting important achievements and encouraging pursuit of challenging work (Morris et al., 2008: 330). Hancer et al. (2009: 527) and Kearney et al. (2008: 55) mention that if good performance is not recognised and rewarded managers will be reluctant to take risks associated with entrepreneurial activity. Public sector organisations financial policies seldom recognise innovation, leaving little in the way of personal incentives for public sector employees (Holbrook, 2010: 161). Fostering corporate entrepreneurship requires organisations to come up with competitive incentives that will assist in retaining entrepreneurial employees (Morris et al., 2008: 172; Storey, 2004: 209). It is evident that rewards/ reinforcement are not appropriately used to promote corporate entrepreneurship in the South African public sector. In terms of the stated hypotheses it can be concluded that: Ho3 is accepted: Rewards/reinforcements are not appropriately used to promote corporate entrepreneurship within the South African public sector.

#### **Summary of t – tests versus time availability**

Constructs on time availability were analysed individually due to its poor internal consistency. Table 3 revealed that the following factors, plenty time, job structure, time constraints and long-term problem solving have a p-value above 0.05 ( $p > 0.05$ ). This is an indication that there is no statistical difference between both male and female respondents. There was a statistical significant difference on the two factors namely, workload and the right amount of time and workload. Female respondents disagree more than male respondents with the fact that they have the right amount of time and workload to get everything done with a mean score of 2.83 for females and 2.57 for males.

Table 3 revealed that the following factors, workload, right amount of time and workload, job structure, time constraints as well as long-term problem solving have p-values above 0.05 ( $p > 0.05$ ). This is an indication that there is no statistical difference between the respondents 40 years and younger and those older than 40 years. From the above given statistics it can be concluded that the average p-value on both gender and age is above 0.05 ( $p > 0.05$ ). The interpretation rule of the t-test suggests that in the case where the p-value is above 0.05 ( $p > 0.05$ ) the null hypothesis should not be rejected, it should be accepted. In terms of the stated hypotheses it can be concluded that: Ho4 is accepted: Time is not being made available for corporate entrepreneurial activities within the South African public sector.

In the literature review the importance of time availability was emphasised. Time availability refers to the evaluation of workloads to ensure that individuals and groups have ample time needed to pursue innovations (Hancer et al., 2009: 527; Morris et al., 2008: 331; Robert et al., 2005: 48). New

ideas thrive if employees have time to incubate their ideas (Kurakto, 2009:68; Scheepers et al., 2008: 56). The Public Sector should therefore be reasonable in assigning workload to its employees, avoid putting time constraints on every aspect of employees' jobs and allow employees to work with their co-workers to solve long - term problem. According to Scheepers et al. (2008: 56) employees should be allowed to conduct creative entrepreneurial experiments in a limited portion of their work time.

### **Summary of t-tests versus organisational boundaries**

Table 3 revealed that the p-value on organisational boundaries is above 0.05 ( $p > 0.05$ ). This is an indication that there is no statistical significant difference between male and female respondents on this factor. Their mean scores ranges from 3.82 to 3.86 for both males and females respectively, leaning towards agreeing to the fact that organisational boundaries within the public sector impede on corporate entrepreneurship. Table 4 revealed statistical a significant difference between respondents 40 years and younger and those older than 40 years as their p-value is less than 0.05 ( $p < 0.05$ ). Respondents 40 years and younger agree more than those older than 40 years that organisational boundaries within the public sector indeed impede on corporate entrepreneurship. The mean scores of those 40 years and younger is 4.01, and 3.71 for those respondents older than 40 years.

From the above-given statistics it can be concluded that the average p-value on both gender and age is above 0.05 ( $p > 0.05$ ). The interpretation rule of the t-test suggest that in cases where the p-value is above 0.05 ( $p > 0.05$ ), the null hypothesis should not be rejected. In terms of the stated hypotheses it can be concluded that:  $H_0$  is accepted: Organisational boundaries within the South African public sector impede on corporate entrepreneurship.

The fact that organisational boundaries in the public sector impede on corporate entrepreneurial activities may be due to the fact that public sector organisations are operating in formalised structures that are characterised by rigid policies and inflexibility which inhibit the employees' capacity to foster corporate entrepreneurship (Kearney et al., 2009: 36). It can be concluded that high levels of rigidity and red tape in the public sector are in conflict with the development of the entrepreneurial culture in the public sector as Kearney et al. (2009: 36) alluded. Wirick (2009: 1) mentions that, although there is increasing pressure on public sector and government at all levels to be more innovative and find more cost effective ways of serving the public, the challenge is that barriers and cultures rooted in the public sector make it impossible for public sector entrepreneurship to be realised.

### **One Way Analysis of Variance (ANOVA)**

ANOVA was conducted to compare the variability in scores amongst the different managerial categories with the variability within each of the categories. Multiple comparisons will be provided where there is significant statistical difference amongst different categories to indicate exactly where the differences occur. The mean scores for all categories of managers will also be provided to determine the level of difference amongst the categories.

Table 5 indicates statistical significant differences on the following factors: management support, work discretion, plenty time, and right amount of time and workload. The factors all have a p-value of less than 0.05 ( $p < 0.05$ ). The p-values for management support, work discretion and right amount of time and workload were 0.005, and 0.034 for plenty time. The next section will provide Tables of

comparisons to indicate exactly where the differences amongst the different categories of managers occurred. Table 6 will provide multiple comparisons on management support, work discretion, plenty time and right amount of time and workload.

**Table 5: OVERALL ANOVA VS. CURRENT RANK (MANAGERIAL LEVEL)**

		Sum of Squares	df	F	Sig.
Management support	Between Groups	8.680	3	6.316	.000
	Within Groups	138.340	302		
	Total	147.020	305		
Work discretion	Between Groups	10.049	3	6.229	.000
	Within Groups	162.394	302		
	Total	172.443	305		
Rewards/reinforcement	Between Groups	2.847	3	1.908	.128
	Within Groups	149.688	301		
	Total	152.535	304		
Workload	Between Groups	4.843	3	1.780	.151
	Within Groups	273.892	302		
	Total	278.735	305		
Plenty time	Between Groups	8.053	3	2.928	.034
	Within Groups	276.888	302		
	Total	284.941	305		
Right amount of time & workload	Between Groups	32.950	3	9.548	.000
	Within Groups	346.263	301		
	Total	379.213	304		
Job structure	Between Groups	1.438	3	.424	.736
	Within Groups	339.351	300		
	Total	340.789	303		
Time constraints	Between Groups	3.365	3	1.029	.380
	Within Groups	329.082	302		
	Total	332.448	305		
Long - term problem solving	Between Groups	2.422	3	.699	.553
	Within Groups	348.549	302		
	Total	350.971	305		

**Table 6: MULTIPLE COMPARISONS: MANAGEMENT SUPPORT, WORK DISCRETION, PLENTY TIME AND RIGHT AMOUNT OF TIME AND WORKLOAD**

(I) rA4		Management support			Work discretion			Plenty time			Right amount of time and workload		
		Mean Diff (I-J)	Std. Error	(J) rA4	Mean Diff (I-J)	Std. Error	Sig.	Mean Diff (I-J)	Std. Error	Sig.	Mean Diff (I-J)	Std. Error	Sig.
Senior Officer	Assistant Director (9 & 10)	.185	.103	.364	.005	.143	1.000						
	Deputy Director (11 & 12)	.503 <sup>†</sup>	.107	.000	.137	.163	.954	.005	.143	1.000	.479	.154	.013
	Director, Deputy and Chief Deputy Commissioner (13, 14 & 15)	.175	.124	.645	.493*	.171	.029	.137	.163	.954	.949*	.145	.000
Assistant Director (09 & 10)	Senior Correctional Officer	-.185	.103	.364	-.005	.143	1.000	.493*	.171	.029	.200	.244	.957
	Deputy Director (11 & 12)	.319 <sup>†</sup>	.095	.006	.132	.146	.934	-.005	.143	1.000	-.479	.154	.013
	Director, Deputy and Chief Deputy Commissioner (13, 14 & 15)	-.010	.114	1.000	.488*	.155	.014	.132	.146	.934	.469*	.134	.003
Deputy Director (11 & 12)	Senior Correctional Officer	-.503 <sup>†</sup>	.107	.000	-.137	.163	.954	.488*	.155	.014	-.280	.238	.804
	Assistant Director 9 & 10)	-.319 <sup>†</sup>	.095	.006	-.132	.146	.934	-.137	.163	.954	-.949	.145	.000
	Director, Deputy and Chief Deputy Commissioner (13, 14 & 15)	-.328 <sup>†</sup>	.118	.041	-.174	.174	.231	-.132	.146	.934	-.469*	.134	.003
Director, Deputy- and Chief Deputy Commissioner (13, 14 & 15)	Senior Correctional Officer	-.175	.124	.645	-.493	.171	.029	.356	.174	.231	-.749*	.232	.013
	Assistant Director (9 & 10)	.010	.114	1.000	-.488*	.155	.014	-.493	.171	.029	-.200	.244	-.86
	Deputy Director (11 & 12)	.328 <sup>†</sup>	.118	.041	-.356	.174	.231	-.488*	.155	.014	.280	.238	-.37
								-.356	.174	.231	.749*	.232	.12

**Management support:** Table 6 revealed that 3 categories of managers were statistically different from one another. Assistant Directors (9 &10), Deputy Directors (11 & 12) as well as Directors, Deputy and Chief Deputy Commissioners (13, 14 & 15) were the 3 categories which were proved to be statistically different from one another in terms of their perception of management support towards corporate entrepreneurship. The different categories' mean scores will be provided in Table 7 to determine their level of differences.

**Work discretion:** Table 6 revealed that 2 categories of managers were statistically different from one another. Assistant Directors (9 &10), as well as Directors, Deputy and Chief Deputy Commissioners (13, 14 & 15) were the 2 categories which were proved to be statistically different from one another in terms of whether work discretion is used to promote corporate entrepreneurship. The different categories' mean scores will be provided later to determine their level of differences.

**Plenty time:** Table 6 revealed that Assistant Directors (9 &10), as well as Directors, Deputy and Chief Deputy Commissioners (13, 14 & 15) were statistically different from one another in terms of whether they always seem to have plenty of time to get everything done (time availability). Their different categories' mean scores will be provided later to determine their level of differences. Table 6 revealed that 3 categories of managers were statistically different from one another. Assistant Directors (9 &10), Deputy Directors (11 & 12), as well as Directors, Deputy and Chief Deputy Commissioners (13, 14 & 15) were the 3 categories which were proved to be statistically different from one another in terms of whether they have the right amount of time and workload to do everything well. The next section will provide the mean scores for all categories of managers to determine the level of difference amongst the categories.

Table 7 revealed that among Assistant Directors (11 & 12) together with Directors, Deputy and Chief Commissioners (13, 14 & 15) there is a small difference between the two groups although they both disagree to the fact that there is management support for corporate entrepreneurship. The Assistant Directors strongly disagree that there is indeed management support for corporate entrepreneurship. Their mean scores range between 1.88, 2.20 and 2.21. Both top - level executives and middle level managers feel that there is no management support for corporate entrepreneurship. According to Morris et al. (2008: 303) entrepreneurial messages should flow from the top - level executives of the department.

The ANOVA also revealed statistical differences between Deputy Directors and Directors, Deputy and Chief Deputy Commissioners with regard to work discretion. The top level executives disagree more than the Deputy Directors to the fact that work discretion is not used to promote corporate entrepreneurship. The top-level executives are of the opinion that they have sufficient autonomy on their job and they do not have to double- check all their decisions with someone else. Their mean scores range from 2.13 to 2.62, indicating that the actual difference in the mean scores is substantial.

Table 7 indicated that there was a statistical difference on time availability (plenty time) between Assistant Directors and top level executives, Directors, Deputy and Chief Deputy Commissioners. The actual difference in their mean scores is substantial as indicated by mean scores of 2.27 and 2.36. The top level executives and middle managers feel that time is not being made available for corporate entrepreneurship activities in the DCS.

**Table 7: MEAN SCORES ON ALL CURRENT LEVELS (ANOVA)**

		N	Mean	Std. Dev
Management support	Senior Officer	85	2.39	.743
	Assistant Director (9 & 10)	125	2.20	.711
	Deputy Director (11 & 12)	57	1.88	.537
	Director, Deputy and Chief Deputy Commissioner (13, 14 & 15)	39	2.21	.590
	Total	306	2.20	.694
Work discretion	Senior Officer	85	2.62	.736
	Assistant Director (9 & 10)	125	2.38	.737
	Deputy Director (11 & 12)	57	2.13	.661
	Director, Deputy and Chief Deputy Commissioner (13, 14 & 15)	39	2.62	.812
	Total	306	2.43	.752
Rewards/reinforcement	Senior Officer	85	3.26	.731
	Assistant Director (9 & 10)	125	3.12	.691
	Deputy Director (11 & 12)	56	2.98	.711
	Director, Deputy and Chief Deputy Commissioner (13, 14 & 15)	39	3.18	.685
	Total	305	3.14	.708



Workload	Senior Officer	85	3.44	.993
	Assistant Director (09 & 10)	125	3.70	.925
	Deputy Director (11 & 12)	57	3.74	.813
	Director, Deputy- and Chief Deputy Commissioner (13, 14 & 15)	39	3.72	1.123
	Total	306	3.64	.956
Plenty time	Senior Officer	85	2.36	1.045
	Assistant Director (9 & 10)	125	2.36	.971
	Deputy Director (11 & 12)	57	2.23	.887
	Director, Deputy and Chief Deputy Commissioner (13, 14 & 15)	39	1.87	.801
	Total	306	2.27	.967
Right amount of time and workload	Senior Officer	84	3.07	1.062
	Assistant Director (9 & 10)	125	2.59	1.137
	Deputy Director (11 & 12)	57	2.12	.657
	Director, Deputy and Chief Deputy Commissioner (13, 14 & 15)	39	2.87	1.341
	Total	305	2.67	1.117
Job structure	Senior Officer	85	3.38	1.000
	Assistant Director (09 & 10)	125	3.21	1.072
	Deputy Director (11 & 12)	57	3.28	1.031
	Director, Deputy and Chief Deputy Commissioner (13, 14 & 15)	37	3.27	1.217
	Total	304	3.28	1.061
Time constraints	Senior Officer	85	3.62	.988
	Assistant Director (9 & 10)	125	3.49	1.037
	Deputy Director (11 & 12)	57	3.33	1.075
	Director, Deputy and Chief Deputy Commissioner (13, 14 & 15)	39	3.62	1.138
	Total	306	3.51	1.044
Long - term problem solving	Senior Officer	85	2.72	1.053
	Assistant Director (9 & 10)	125	2.70	1.057
	Deputy Director (11 & 12)	57	2.47	.947
	Director, Deputy and Chief Deputy Commissioner (13, 14 & 15)	39	2.67	1.325
	Total	306	2.66	1.073
Organisational boundaries	Senior Officer	85	3.73	.633
	Assistant Director (9 & 10)	125	3.93	.581
	Deputy Director (11 & 12)	57	3.87	.722
	Director, Deputy and Chief Deputy Commissioner (13, 14 & 15)	39	3.75	.481
	Total	306	3.84	.616

The ANOVA further revealed the statistical difference between two categories of middle managers namely, Assistant Directors and Deputy Directors on time availability (right amount of time and workload). They feel that they have the right amount of time and workload to do everything well. The actual mean score is also substantial, 2.12 for Deputy Directors and 2.59 for Assistant Directors. In terms of the stated hypotheses it can be concluded that: Ho6 is rejected: There is no statistical difference between the different categories of managers in the South African public sector and the antecedents of corporate entrepreneurship (management support, work discretion reward/reinforcement, time and organisational boundaries).

## CONCLUSION

Public sector organisation typically have formalised hierarchies, established stakeholder groups with competing demand, deeply entrenched cultures, detailed rules and procedures to guide operations, a desire on the part of managers for power and security, and fairly rigid systems governing financial controls, cost allocations, budgeting, and employee rewards. The need for improved service delivery and new ways of using resources to enhance the efficiency and effectiveness in the public sector organisations requires government departments to be entrepreneurial. Corporate entrepreneurship is the only solution that could assist public sector organisations to shift from being bureaucratic to being innovative and entrepreneurial. The

increasing demands to find more cost-effective ways of serving the public, challenges all public sector employees to be entrepreneurial and innovative in delivering public services.

South Africa also needs an innovative public sector to sustain the transformation agenda and redress the past imbalances in terms of provision of public services and economic development. As indicated in this study this calls for models of service delivery to be emended and changed to deliver better services that meet the needs of citizens.

Various studies have identified five very important antecedents that stimulate a culture for corporate entrepreneurship activities (management support, autonomy/work discretion, reward/reinforcements, time availability and organisational boundaries).

The purpose of this study was to assess the extent to which corporate entrepreneurship is promoted and encouraged within the public sector organisations in South Africa. As a starting point one department in the public sectors' National Head Office were targeted where a self-administered questionnaire was completed by 306 public managers. The Corporate Entrepreneurship Assessment Instrument (CEAI) which was developed by Kuratko, Montagno and Hornsby in 1990 was used to assess the extent to which corporate entrepreneurship is promoted and encouraged in the public sector.

In terms of the five antecedents of corporate entrepreneurship the study revealed that only work discretion is used to promote corporate entrepreneurship in the public sector. Management support, rewards/reinforcement, rewards/reinforcement and organisational boundaries are not appropriately used to promote corporate entrepreneurship in the public sector.

The assessment of corporate entrepreneurship in the public sector revealed that there is still a huge responsibility on the public sector to create a climate conducive for corporate entrepreneurship.

## **RECOMMENDATIONS**

The following recommendations can be made to public sector organisations in South Africa:

- The value and benefits of public sector entrepreneurship to be highlighted and marketed to employees and managers.
- Offer training programmes with regard to public sector corporate entrepreneurship.
- Top level executives are to take the lead in creating the environment conducive to public sector entrepreneurship in their organisation.
- Top level executives are to be involved and should offer support to employees who want to try something new.
- Management needs to come up with competitive incentives which will encourage and promote corporate entrepreneurship in their organisation.
- Employees to be allowed to conduct creative entrepreneurial experiments in a limited portion of their work time.
- Management needs to come up with flexible policies which will reduce bureaucracy and place less reliance on rules and procedures.
- Management needs to set aside budget for corporate entrepreneurial activities in their organisation.

- Management to develop organisational structures that will enable the employees in the public sector to develop and exercise their entrepreneurial drive.
- Management to develop organisational strategies that supports corporate entrepreneurship as part of the corporate strategy.
- Management to make time available for corporate entrepreneurship activities within their organisation.
- Management to encourage entrepreneurial culture within the public sector organisations, a culture that encourages innovation and corporate entrepreneurship.
- Management to avoid harsh criticism and punishment if there is failure or mistakes.
- Public sector organisations to find more creative ways to introduce competition and the corresponding incentives for greater efficiency and greater responsiveness to public needs.
- Public sector organisations to involve South African citizens and communities in ownership and control of services so that people can feel that they also own public assets.
- Public sector organisations to search for non-tax revenues, develop creative user-free structures, rent out unused and underutilised resources, and generate revenues from public assets.
- Public sector organisations to focus on participatory management, flatten organisational structures, empower and reward champions and to have more broadly defined job autonomy (decentralisation).
- Public sector organisations to consider working with private sector and non-profit organisations to come up with solutions to social problems and to share resources.
- Public sector organisations to consider breaking protocols and amend service delivery models in order to deliver better quality services that will meet the needs of the public.
- Public sector organisations to make all public sector departments to be “boundary-less” organisations so as to eliminate barriers that slow things down and create resistance to change.

## **LIMITATIONS OF THE STUDY**

- The findings of this study may not be generalised to other regions or the total public sector in South Africa, as the study was conducted only at National Head Office of one of the South African public sector organisations, yet the findings can be used to address the issue of corporate entrepreneurship in the public sector. The fact that only 56% managers participated in the study is another reason why the findings may not be generalised to other regions.
- Data was only collected for a period of three weeks at the National Head Office. This made it impossible to distribute and collect the questionnaires to and from all the managers.
- There were difficulties with the measuring instrument (CEAI) as the construct on time availability was unable to be analysed on its own, hence the questions under that constructs were analysed individually. This manner of questioning might have negatively influenced the results of this study.

- The fact that limited empirical research has been conducted in the public sector is a limitation on its own as the researchers found it difficult to make comparative analyses of the research results.
- Due to the type of questions used (fixed alternative questions) there were response bias such as acquiescence and extremity bias whereby the respondents agreed with all the questions to indicate positive connotation to new ideas, and other respondents used extremes when answering questions.
- The fact that it was not possible to control extraneous factors in the environment such as noise also served as a limitation.

### **SUGGESTIONS FOR FUTURE RESEARCH**

The same study is to be conducted in various regions and departments of the public sector in South Africa. This will give a more representative picture of the state of corporate entrepreneurship in the public sector. The Corporate Entrepreneurial Assessment Instrument (CEAI) to be re tested to establish its internal consistency as the Cronbach value in this study with regard to the construct on time availability resulted in questionable internal consistency. There was difficulty with the measuring instrument (CEAI) and the construct on time availability was unable to be analysed on its own, hence the questions under that constructs were analysed individually.



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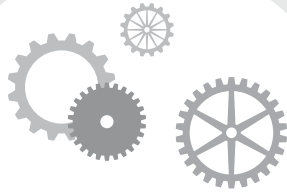


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# ASSESSING THE ENTREPRENEURIAL ATTRIBUTES OF UNDERGRADUATE BUSINESS STUDENTS AT THE NMMU

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## ABSTRACT

To improve and develop entrepreneurial activity in South Africa, it is vital that South Africans acquire certain attributes which are common among individuals who exhibit entrepreneurial behaviour. Through entrepreneurial education these attributes can be developed. However, it is important that educational institutions such as the Nelson Mandela Metropolitan University (NMMU) know which attributes should be developed in educating future entrepreneurs. The primary objective of this study was to assess the entrepreneurial attributes of undergraduate business students at NMMU. Convenience sampling was employed among undergraduate business students at NMMU, and 200 usable questionnaires were returned. The statistical techniques used to analyse the data included calculating descriptive statistics, t-tests and Cohen's d. The results of this study show that business students from NMMU reported the attributes Continuous learning, Communication ability, Knowledge seeking and Initiative and responsibility as being the least developed. Students possessing the attributes Continuous learning, Business knowledge, Initiative and responsibility and Knowledge seeking were more likely to show entrepreneurial intentions than students who did not possess these attributes.

## KEYWORDS

Entrepreneurship; entrepreneurial attitudes; business students

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## INTRODUCTION

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Scholars, educators and practitioners agree that entrepreneurial activity is fundamental to reducing unemployment, providing social stability, bringing about poverty alleviation and encouraging sustainable economic growth in South Africa (Nasurdin, Ahmad & Lin, 2009: 366; Ladzani & Van Vuuren, 2002: 151). Despite this important role, entrepreneurial activity in South Africa remains low (Simrie, Herrington, Kew & Turton, 2012: 14; Herrington, Kew & Kew, 2010: 59; Kelley, Bosma & Amoros, 2010: 19). According to Kelley et al. (2010: 19), only 16.7% of South Africans show an intention to start their own business.

Despite several studies attempting to explain the low levels of entrepreneurial activity in South Africa (Herrington et al., 2010: 59; Kelley et al., 2010: 25), understanding what drives entrepreneurship remains one of the most important questions being asked in management research (Drost, 2010: 28). 'Intentions models', as a means of explaining why some people embark on entrepreneurial activity and others do not, are increasingly being turned to by researchers (Ariff, Bidin, Sharif & Ahmad, 2010; Degeorge & Fayolle, 2008; Gird & Bagraim, 2008; Autio, Keeley, Klofsten, Parker & Hay, 2001; Ljunggren & Kolvereid, 1996; Krueger & Carsrud, 1993). In the entrepreneurship intentions literature, two models have received the most research attention (Haase & Lautenschläger, 2011: 2; Leffel & Darling, 2009; Kuehn, 2008: 88), namely Ajzen's (1991) Theory of Planned Behaviour and Shapero and Sokol's (1982) Entrepreneurial Events model. Both Ajzen's (1991: 87) Theory of Planned Behaviour and Shapero and Sokol's (1982: 72-90) Entrepreneurial Events model suggest that the intentions of an individual to embark on entrepreneurial activity would be stronger if he or she had the competencies to undertake such activities. Similarly, their perception of how easy it would be to undertake entrepreneurial activity would be enhanced if they felt that they had the necessary attributes and skills to undertake such an activity.

Numerous challenges are associated with becoming an entrepreneur, which include a lack of finance, crime, a lack of creativity, too great a risk in starting a business, psychological factors, unavailability of information, high taxes and inflation, lack of government support, and high administration costs (Fatoki, 2010: 92; Ngunjiri, 2010: 95-96; Dimovski, Znidarsic and Penger, 2006: 16). Specifically, a lack of competence and knowledge are often cited as reasons for the low level of entrepreneurial activity as well as entrepreneurial failure in South Africa (Ngunjiri, 2010: 95-96). The present study will focus on investigating whether having certain attributes (personality traits, characteristics and skills) influences an individual's entrepreneurial intentions.

Education plays an important role in raising the levels of interest in entrepreneurship among people, as well as their entrepreneurial attributes and entrepreneurial intentions (Wilson, Kickul & Marlino, 2007: 388). Through assessing the entrepreneurial attributes of NMMU business students, this study contributes to entrepreneurship education at NMMU. Educators of entrepreneurship are given insights into the levels of development of several entrepreneurial attributes among their students. These insights can be used to reassess the content of current entrepreneurship modules, so that future efforts are more aligned with students' needs and the demands of practice. In addition, recommendations are made on how to improve the levels of development of the attributes investigated in the study.

### PROBLEM STATEMENT

Entrepreneurial activity ranks low in South Africa when compared to other countries (Herrington et al., 2010: 59). A possible explanation for these low levels of entrepreneurial activity is that South

Africans do not possess the attributes that would give them the confidence to undertake entrepreneurial activity. Successful entrepreneurs are said to possess specific attributes (Van Eeden, Louw & Venter, 2005: 27). In light of the Theory of Planned Behaviour (Ajzen, 1991: 87) and Shapero and Sokol's (1982: 72-90) Entrepreneurial Events model, possessing these attributes gives an individual a perception of confidence in his or her ability to undertake entrepreneurial activity.

To improve and develop South Africa's entrepreneurial activity it is vital that the population acquires certain attributes which are common among individuals who exhibit entrepreneurial behaviour (Thomas & Mueller, 2001: 290; Krueger & Brazeal, 1994: 98). As the occurrence of entrepreneurial attributes increases in the population, so too will the probability of entrepreneurial behaviour and entrepreneurial activity (Mueller, 2004: 201). A possible first step in ensuring that a population possesses the necessary attributes is to assess the current levels of development of these entrepreneurial attributes among students of business. Underdeveloped attributes can then be identified, and steps undertaken to bring about improvements.

## RESEARCH OBJECTIVES

Against the background of the introduction and the problem statement above, the primary objective of the present study is to assess the entrepreneurial attributes of undergraduate business students at NMMU. In order to achieve the primary objective, the following secondary objectives have been formulated:

- To determine the level of development of entrepreneurial attributes among business students at NMMU; and
- To establish whether a relationship exists between possessing the entrepreneurial attributes under investigation and the entrepreneurial intentions of NMMU business students.

## THEORETICAL FRAMEWORK AND HYPOTHESIS DEVELOPMENT

### Entrepreneurial attributes

According to Allen (2011: 27), entrepreneurs represent a diverse group of people with different traits and behaviours. People who possess certain psychological traits or characteristics have a greater tendency to start their own business than those without those characteristics (Dehkordi, Sasani, Fathi & Khanmohammadi, 2012: 289; Timmons & Spinelli, 2009; Okhomina, 2009: 3). Entrepreneurs possess distinct qualities such as a need for achievement, risk-taking, internal locus of control, self-confidence, tolerance for ambiguity, innovativeness, need for affiliation, perseverance and persistence, motivation, decision-making, information-seeking, problem-solving, leadership, opportunity obsession, time-planning and maintaining good interpersonal skills that make them different from other people (Dehkordi et al., 2012: 289; Hisrich, Peters & Shephard, 2010: 6; Kumara & Sahasranam, 2009: 9; Timmons & Spinelli, 2009; Ndubisi, 2008: 109; Saayman, Douglas and De Klerk, 2008: 13; Dimovski et al., 2006: 23).

According to the trait approach as proposed by Gartner (1988: 47), an entrepreneur is defined by a set of personality traits or characteristics that set him or her apart from others. The trait approach assumes that an entrepreneur has a particular personality type, has a fixed state of existence, and belongs to a describable group. The trait approach therefore tries to highlight a set of characteristics describing an entrepreneur (Gartner, 1988: 48).

According to Krueger (2002: 154), the trait approach identifies the entrepreneur as the basic unit of analysis, and sees the entrepreneur's specific traits and characteristics as key to explaining why some people become entrepreneurs and others do not. In the trait approach the entrepreneur is assumed to have a particular personality type, and the focus of much entrepreneurship research has been dedicated to identifying a set of characteristics that describe the entrepreneur (Krueger, 2002: 154). Although 'attitude towards entrepreneurship' has emerged as the most important antecedent of entrepreneurial intentions, personality traits have been identified as having an indirect influence on a person's readiness to become self-employed (Lüthje & Franke, 2003)

According to Tajeddini and Mueller (2009), as well as Raab, Stedham and Neuner (2005: 75-78), possessing certain attributes increases the probability that one will engage in entrepreneurial activities. Although there are numerous attributes, traits, characteristics and skills reported in the literature as being associated with entrepreneurial personalities, the focus of the present study is specifically on the attributes investigated by Van Eeden et al. (2005:8) as well as Farrington, Venter, Neethling and Louw (2010), namely Planning and networking, Persuasion and networking, Communication ability, Commitment, Overcoming failure, Self-confidence and locus of control, Risk taking, Initiative and responsibility, High energy level, Tolerance for ambiguity and uncertainty, Creativity and flexibility, Knowledge-seeking, Continuous learning, Financial proficiency, Money sense and Business knowledge. That entrepreneurs possess these attributes is well supported in the literature (Allen, 2011: 35; Dana, 2011: 160; Scarborough, 2011; Barringer & Ireland, 2010; Nieman & Niewenhuizen, 2009; Scarborough, Zimmerer & Wilson, 2009; Bridge, O'Neill & Martin, 2009: 82; Timmons & Spinelli, 2009; Fayolle & Klandt, 2006: 43). For the purpose of this study, 'entrepreneurial attributes' refer to personality traits, characteristics and skills commonly associated with entrepreneurs, and the operational definitions for each of the attributes investigated in the study are tabled below.

**Table 1: ENTREPRENEURIALATTRIBUTES**

<b>ENTREPRENEURIAL ATTRIBUTE</b>	<b>DEFINITION</b>
<b>Planning and perseverance</b>	Having goals, plans and the determination to follow through.
<b>Persuasion and networking</b>	Having the ability to convince others and build relationships.
<b>Communication ability</b>	Having the ability to communicate ideas to others.
<b>Commitment</b>	Having the ability to meet commitments in a timely manner.
<b>Overcoming failure</b>	Having the ability to overcome failure and regard it as a learning experience.
<b>Self-confidence and locus of control</b>	Having belief in oneself and believing that personal actions determine success.
<b>Risk-taking ability</b>	Having a predisposition for taking moderate, calculated risks providing a reasonable chance for success.
<b>Initiative and responsibility</b>	The willingness to take the initiative and be responsible.
<b>High energy level</b>	Having the ability to work long hours and stay focused.
<b>Tolerance for ambiguity and uncertainty</b>	Having the ability to live with modest to high levels of uncertainty concerning job and career security, being able to perform different tasks simultaneously.
<b>Creativity and flexibility</b>	Being able to think originally and creatively while being flexible enough to handle changing or multiple circumstances.
<b>Knowledge-seeking</b>	Being willing to seek information, ideas, expertise and the assistance of others.
<b>Continuous learning</b>	The desire to expand personal knowledge and enhance level of expertise.
<b>Financial proficiency</b>	Having the ability to understand and/or interpret financial transactions and results.
<b>Money sense</b>	Recognising that money is an important factor, and having the ability to correctly use this resource.
<b>Business knowledge</b>	Having a basic understanding of business operations and terminology.

(Source: Farrington et al. 2010)

Many researchers and authors have been interested in identifying traits common to successful entrepreneurs (Kuratko, 2009: 10-11; Nagendra & Manjunath, 2009: 106). The trait approach had its roots in a study which suggested that successful entrepreneurs have similar characteristics, and if they were copied, they would increase opportunities for other aspiring entrepreneurs to be successful (Kuratko, 2009: 10-11). In recent years a considerable debate has taken place over entrepreneurial character as a predictor of entrepreneurial activity (Tajeddini & Mueller, 2009; Mueller, 2004; Bridge et al., 2009: 69). Kristiansen and Indarti (2004) explain that although an individual's attitude is likely to have a greater influence on entrepreneurial behaviour, personality traits do have an influence. Furthermore, Bhargava (2007: 27) reports that content studies of entrepreneurship, focusing on behaviour, have revealed a set of common identifiable characteristics.

Several authors (Mueller, 2004; Cromie, 2000) contend that entrepreneurial attributes are useful in explaining entrepreneurial behaviour. However, the trait (attribute) theory has been criticised because of its inability to distinguish between entrepreneurs and small business managers. Cromie (2000) asserts that personal attributes are important, but are not the only determinants of behaviour. Although the trait theory attempts to identify attributes/traits of successful entrepreneurs, several limitations of this theory have been brought forward (Nagendra & Manjunath, 2009: 107). These limitations include the abundance of personality traits of entrepreneurs that have been identified, certain traits not being identifiable in all successful entrepreneurs, the lack of a set of universal traits ensuring success in all situations, and difficulty in measuring the various traits (Nagendra & Manjunath, 2009: 108). Similarly, Ghuman & Aswathappa (2010: 387) add that the trait theory fails to clearly outline the specific traits that make a person an entrepreneur. According to Ghuman & Aswathappa (2010: 387), all entrepreneurs do not possess the identical entrepreneurial traits, and the trait approach fails to establish the relative importance of some traits over others. Trait theory is not clear on whether certain traits are a cause of entrepreneurial behaviour or an effect of it (Ghuman & Aswathappa, 2010: 387). Nor does it specify the level to which each trait needs to be developed for a person to be described as an entrepreneur (Ghuman & Aswathappa, 2010: 387). Because of these limitations, Gartner (1988) has questioned the trait approach and suggested the use of the behavioural approach instead.

Despite criticism of the trait (attribute) approach, trait theory still dominates explanations of why some individuals embark on entrepreneurial careers and others do not, and whether the strengths of an individual's characteristics can predict entrepreneurial behaviour (Tajeddini & Mueller, 2009). According to Mueller (2004), in recent times an interest in personal attributes and whether these attributes affect the intention to engage in entrepreneurial activity, has resurfaced.

According to Ajzen (1991: 87), an intention is assumed to capture the motivational factors that influence behaviour. A person's intentions will indicate his or her willingness to try, and how much effort they are prepared to exert, in order to perform certain behaviour (Ajzen, 1991: 87). For the purpose of the present study, 'entrepreneurial intention' is operationalised as the intention of students to start and manage their own business in the future. Drost (2010) and Kakkonen (2010) have adopted similar definitions in their studies.

Against this background the following hypotheses have been formulated to assess the relationship between NMMU undergraduate business students possessing the entrepreneurial attributes under investigation, and their entrepreneurial intentions:

**H<sup>1</sup>:** There is a positive relationship between possessing the attribute Planning and perseverance and Entrepreneurial intention.

- H<sup>2</sup>:** There is a positive relationship between possessing the attribute Persuasion and networking and Entrepreneurial intention.
- H<sup>3</sup>:** There is a positive relationship between possessing the attribute Communication ability and Entrepreneurial intention.
- H<sup>4</sup>:** There is a positive relationship between possessing the attribute Commitment and Entrepreneurial intention.
- H<sup>5</sup>:** There is a positive relationship between possessing the attribute Overcoming failure and Entrepreneurial intention.
- H<sup>6</sup>:** There is a positive relationship between possessing the attribute Self-confidence and locus of control and Entrepreneurial intention.
- H<sup>7</sup>:** There is a positive relationship between possessing the attribute Risk-taking and Entrepreneurial intention.
- H<sup>8</sup>:** There is a positive relationship between possessing the attribute Initiative and Responsibility and Entrepreneurial intention.
- H<sup>9</sup>:** There is a positive relationship between possessing the attribute High energy level and Entrepreneurial intention.
- H<sup>10</sup>:** There is a positive relationship between possessing the attribute Tolerance for ambiguity and uncertainty and Entrepreneurial intention.
- H<sup>11</sup>:** There is a positive relationship between possessing the attribute Creativity and flexibility and Entrepreneurial intention.
- H<sup>12</sup>:** There is a positive relationship between possessing the attribute Knowledge seeking and Entrepreneurial intention.
- H<sup>13</sup>:** There is a positive relationship between possessing the attribute Continuous learning and Entrepreneurial intention.
- H<sup>14</sup>:** There is a positive relationship between possessing the attribute Financial proficiency and Entrepreneurial intention.
- H<sup>15</sup>:** There is a positive relationship between possessing the attribute Money sense and Entrepreneurial intention.
- H<sup>16</sup>:** There is a positive relationship between possessing the attribute Business knowledge and Entrepreneurial intention.

## **RESEARCH METHODOLOGY**

### **Sample and sampling method**

In the present study the researcher made use of the email addresses of undergraduate students registered for business modules at NMMU. These addresses were obtained from the student records of the university. These student records formed the sampling frame for the study. All undergraduate students studying business modules at NMMU were given the opportunity to participate in the study on a voluntary basis. The sample obtained in this study can thus be



described as a convenience sample. For the purpose of this study, 'undergraduate' refers to a student in their first, second or third year level of study, while a 'business student' was one who was currently undertaking modules related to the following subjects: Business Management, Marketing, Marketing Communications, Purchasing and Logistics, Finance, Investments, General and Strategic Management, and Entrepreneurship.

### **Method of data collection**

The measuring instrument that was used for this study was adapted from an existing instrument used in previous studies (Van Eeden et al., 2005; Louw, Du Plessis, Bosch & Venter, 1997). The operational definitions of the original measuring instrument were, however, adapted by Farrington et al. (2010) and these adapted definitions are used in the present study. In order to gather data from the NMMU business students, an online questionnaire was used. Section A of the questionnaire contained 104 statements that would provide insights into the entrepreneurial attributes of the respondents. By making use of a 5-point Likert scale, respondents could indicate the extent to which they agreed or disagreed with each of the statements. Each statement was designed to assess the degree to which the respondent possessed a specific entrepreneurial attribute. Section B requested demographic information from the respondent. Demographic information included aspects such as the level at which the respondent was currently studying, as well as the name of the commerce/business module being studied. In addition, demographic information on their gender, age, population group and which of their parents/guardians were self-employed, was requested. The data collected from the 200 usable questionnaires was subjected to various statistical analyses.

### **Statistical analyses**

In order to assess the validity of scales measuring the various entrepreneurial attributes, a factor analysis of a confirmatory nature was adopted; this method was selected because an existing measuring instrument was used. With only one factor per scale, rotation was not applicable. It should be noted that the concept of discriminant validity was not applicable to this study, as the 16 attributes were not suggested as being mutually exclusive dimensions. In this study, Cronbach's alpha coefficients were calculated to evaluate the reliability of the measuring instrument. The main purpose of this study was to assess the entrepreneurial attributes of undergraduate business students. In order to undertake this assessment, several statistical technique analyses were undertaken. The software programme Statistica was used for this purpose. Analyses included calculating descriptive statistics as well as t-tests and Cohen's d.

## **EMPIRICAL RESULTS**

### **Demographic data of NMMU business students**

From Table 2 it can be seen that most (41%) respondents were in their first year of study, 37% were in their second and 22% in their third year. A similar number of males (48%) and females (52%) participated in the study. Most respondents (60%) were between the ages of 20 and 44, with 40% being between the ages of 17 and 19. The majority of respondents were African (67%), followed by White (22%) and other ethnic groups (11%).

**Table 2: DEMOGRAPHICS OF NMMU UNDERGRADUATE BUSINESS STUDENTS**

<b>Year of study</b>	<b>N=200</b>	<b>%</b>
1st year	82	41.0
2nd year	74	37.0
3rd year	44	22.0
<b>Gender</b>	<b>N=197</b>	<b>%</b>
Male	95	48.2
Female	102	51.8
<b>Age categories</b>	<b>N=196</b>	<b>%</b>
17-19 years	78	40.0
20-44 years	118	60.0
<b>Ethnicity</b>	<b>N=188</b>	<b>%</b>
White	41	21.8
African	126	67.0
Other	21	11.2

### Validity and reliability results

Each scale in the measuring instrument was subjected to an item analysis which consisted of two parts. Firstly, a factor analysis of a confirmatory nature was conducted on each scale to determine whether all the relevant items loaded onto the applicable scale. To avoid unnecessarily jeopardising content validity, the few items with loadings of less than 0.30 were retained for further analyses. Secondly, the internal consistency of the measuring scales was established by calculating Cronbach's alpha coefficients. This was done to determine whether the observed scale scores were reliable. The results of the factor analyses revealed that the majority of items loaded significantly onto the 16 entrepreneurial attribute categories as expected. Items displaying factor loading of greater than 0.30 (Hair, Black, Babin, Anderson & Tatham, 2006) were considered significant in this study. Apart from Risk-taking, Tolerance for ambiguity and uncertainty and Money sense, Cronbach's alpha coefficients of greater than .5 (Nunally, 1978) were returned for all factors. The aforementioned factors were eliminated from further statistical analysis. The validity and reliability results are summarised in Table 3.

**Table 3: DEMOGRAPHICS OF NMMU UNDERGRADUATE BUSINESS STUDENTS**

<b>Entrepreneurial attributes</b>	<b>Items</b>	<b>Range - Factor loadings</b>	<b>CA's</b>
Planning and perseverance	9	0.723 - 0.508	.80
Persuasion and networking	7	0.811 - 0.258	.56
Communication ability	9	0.721 - 0.353	.68
Commitment	3	0.871 - 0.580	.66
Overcoming failure	6	0.740 - 0.303	.59
Self-confidence and locus of control	6	0.716 - 0.294	.50
Risk-taking ability	5	0.790 - 0.227	.16
Initiative and responsibility	11	0.716 - 0.454	.82
High energy level	7	0.629 - 0.275	.57
Tolerance for ambiguity and uncertainty	4	0.805 - 0.262	.49

Creativity and flexibility	8	0.796 - 0.315	.74
Knowledge seeking	7	0.677 - 0.507	.74
Continuous learning	6	0.823 - 0.441	.81
Financial proficiency	4	0.814 - 0.504	.54
Money sense	5	0.773 - 0.204	.44
Business knowledge	6	0.727 - 0.565	.68

### Level of development of entrepreneurial attributes of NMMU business students

In order to report the level of development of the entrepreneurial attributes investigated in this study among business students at NMMU, descriptive statistics were calculated. A summary of these descriptive statistics is tabled below (Table 4). The respondents were required to evaluate themselves in terms of possessing the various entrepreneurial attributes investigated in the study. Their attribute ratings were categorised as Low (0.0-<2.6), Average (2.6-<3.4) and High scores (3.4-5.0). Attribute ratings that were in the Low category (options 1 and 2 on the 5-point Likert scale) were considered as underdeveloped, those that scored in the Average (Option 3 on the 5-point Likert scale) and High (option 4 and 5 on the 5-point Likert scale) category were considered as developed and well-developed, respectively.

From Table 4 it can be seen that business students from NMMU reported the attribute Commitment (D) as being most developed. A mean score of 4.17 was reported for Commitment, with the great majority (87.9%) agreeing that they possessed this attribute. High energy level (I) and Planning and perseverance (A) reported mean scores of 4.07 and 4.05 respectively. The majority of NMMU respondents also perceived High energy level (I) (92.5%) and Planning and perseverance (A) (88.4%) as well developed. Overcoming failure (E) was the fourth most developed attribute with a mean score of 3.97. The majority of respondents (88.9%) also regarded this attribute as being well developed.

NMMU business students regarded the attribute Continuous learning (M) as being the least developed attribute. A mean score of 3.45 was returned for this factor. For Continuous learning only 61.3% of respondents reported this attribute as being developed. Knowledge seeking (L) returned a mean score of 3.47 while Initiative and responsibility (H) returned a mean score of 3.57. For Knowledge seeking 61.8% of respondents reported this attribute as developed, while for Initiative and responsibility 62.3% of respondents indicated this attribute as developed. Communication ability (C) was the fourth least developed attribute among NMMU business students, returning a mean score of 3.60. Most (72.9%) respondents regarded this attribute as being developed. Taking cognisance of the mean scores reported for the various attributes in Table 4, it can be seen that on average NMMU business students considered all the attributes investigated in this study to be well developed. Mean scores of greater than 3.4 were reported for all attributes.

**Table 4:** DESCRIPTIVE RESULTS: NMMU BUSINESS STUDENTS

Attribute	Frequency Distribution				
	Mean	SD	Low	Average	High
D: Commitment	4.17	0.83	5.0%	7.0%	87.9%
I: High energy level	4.07	0.55	2.5%	5.0%	92.5%
A: Planning and perseverance	4.05	0.65	3.5%	8.0%	88.4%
E: Overcoming failure	3.97	0.61	2.5%	8.5%	88.9%

B: Persuasion and networking	3.96	0.55	2.0%	12.1%	85.9%
F: Self-confidence and locus of control	3.91	0.58	3.0%	8.5%	88.4%
P: Business knowledge	3.90	0.69	2.5%	14.6%	82.9%
K: Creativity and flexibility	3.89	0.62	2.5%	16.6%	80.9%
N: Financial proficiency	3.82	0.74	5.5%	19.6%	74.9%
C: Communication ability	3.60	0.57	6.0%	21.1%	72.9%
H: Initiative and responsibility	3.57	0.69	7.0%	30.7%	62.3%
L: Knowledge seeking	3.47	0.78	14.6%	23.6%	61.8%
M: Continuous learning	3.45	0.86	17.1%	21.6%	61.3%

### Relationships between possessing entrepreneurial attributes and entrepreneurial intentions

In order to establish whether a relationship exists between possessing the entrepreneurial attributes under investigation and the entrepreneurial intentions of NMMU business students, significant differences in the levels of development of each attribute between students with and those without entrepreneurial intentions were established by conducting t-tests. Cohen's d was calculated to establish the practical significance of these differences (Table 5). Students with entrepreneurial intentions were those who responded "Yes" to intending to start and manage their own businesses in the future, whereas those without entrepreneurial intentions responded "No".

For the levels of development of the attributes Persuasion and networking (B), Commitment (D) and Self-confidence and locus of control (F), no significant differences were reported between the mean scores of students with and without entrepreneurial intentions. Consequently, the hypotheses (H2, H4 and H6) stating that positive relationships exist between the aforementioned attributes and Entrepreneurial intention are rejected.

Significant differences ( $p < 0.01$ ) with small practical significance ( $0.20 < d < 0.50$ ) were reported for the entrepreneurial attributes Overcoming failure (E) (with entrepreneurial intentions  $x = 4.01$ ; without entrepreneurial intentions  $x = 3.83$ ; Cohen's  $d = 0.29$ ) and Financial proficiency (N) (with entrepreneurial intentions  $x = 3.87$ ; without entrepreneurial intentions  $x = 3.83$ ; Cohen's  $d = 0.38$ ). Differences of small practical significance in the level of development of these attributes were reported between students with entrepreneurial intentions and those without.

Significant differences ( $p < 0.001$ ) in the levels of development of several attributes were reported between students with and without entrepreneurial intentions. These differences were of moderate practical significance ( $0.50 < d < 0.80$ ). Students with entrepreneurial intentions reported higher mean scores for the attributes Continuous learning (M) (with entrepreneurial intentions  $x = 3.60$ ; without entrepreneurial intentions  $x = 3.00$ ; Cohen's  $d = 0.74$ ); Business knowledge (P) (with entrepreneurial intentions  $x = 4.02$ ; without entrepreneurial intentions  $x = 3.56$ ; Cohen's  $d = 0.68$ ); Initiative and responsibility (H) (with entrepreneurial intentions  $x = 3.67$ ; without entrepreneurial intentions  $x = 3.35$ ; Cohen's  $d = 0.63$ ); Communication ability (C) (with entrepreneurial intentions  $x = 3.69$ ; without entrepreneurial intentions  $x = 3.35$  Cohen's  $d = 0.60$ ); Planning and perseverance (A) (with entrepreneurial intentions  $x = 4.14$ ; without entrepreneurial intentions  $x = 3.78$  Cohen's  $d = 0.57$ ); Creativity and flexibility (K) (with entrepreneurial intentions  $x = 3.97$ ; without entrepreneurial intentions  $x = 3.63$ ; Cohen's  $d = 0.56$ ); and High energy level (I) (with entrepreneurial intentions  $x = 4.13$ ; without entrepreneurial intentions  $x = 3.86$ ; Cohen's  $d = 0.51$ ).

**Table 5: SIGNIFICANT DIFFERENCES BETWEEN NMMU BUSINESS STUDENTS WITH ENTREPRENEURIAL INTENTIONS AND THOSE WITHOUT**

Category	With intention (n = 144)			Without intention (n = 51)			Difference Yes - No			t-Test	Cohen's d	
	Rank	$\bar{x}$	SD	Rank	$\bar{x}$	SD	Rank	$\bar{x}$	Statistic	p-value		
L	14	3.66	0.68	15	2.91	0.78	1	0.75	10.38	.000	1.06	###
M	15	3.60	0.85	14	3.00	0.72	-1	0.61	7.23	.000	0.74	##
P	6	4.02	0.69	11	3.56	0.59	5	0.45	6.71	.000	0.68	##
H	13	3.67	0.67	13	3.25	0.67	0	0.42	6.22	.000	0.63	##
C	12	3.69	0.54	12	3.35	0.60	0	0.34	5.92	.000	0.60	##
A	2	4.14	0.63	8	3.78	0.65	6	0.36	5.56	.000	0.57	##
K	8	3.97	0.59	9	3.63	0.63	1	0.34	5.46	.000	0.56	##
I	3	4.13	0.53	4	3.86	0.57	1	0.28	4.98	.000	0.51	##
N	11	3.87	0.78	10	3.58	0.69	-1	0.29	3.71	.000	0.38	#
E	7	4.01	0.59	5	3.83	0.68	-2	0.18	2.86	.004	0.29	#
F	10	3.94	0.57	6	3.83	0.62	-4	0.11	1.90	.058	n.a.	
D	1	4.20	0.85	1	4.10	0.80	0	0.10	1.16	.245	n.a.	
B	9	3.97	0.54	3	3.93	0.58	-6	0.04	0.70	.482	n.a.	

Statistical significance: \*\* p < 0.01; \* p < .05; Practical significance: Large ### d > 0.80; moderate ## 0.50 < d < 0.80; Small # 0.20 < d < 0.50; Key: A=Planning and perseverance; B=Persuasion and networking; C=Communication ability; D=Commitment; E=Overcoming failure; F=Self-confidence and locus of control; H=Initiative and responsibility; I=High energy level; K=Creativity and flexibility; L=Knowledge seeking; M=Continuous learning; N=Financial proficiency; P=Business knowledge.

A significant difference (p<0.01), with large practical significance (d>0.80), was reported for the entrepreneurial attribute Knowledge seeking (L) (with entrepreneurial intentions  $\bar{x}$ = 3.66; without entrepreneurial intentions = 2.91; Cohen's d = 1.06).

For attributes Planning and perseverance, Communication ability, Overcoming failure, Initiative and responsibility, High energy level, Creativity and flexibility, Knowledge seeking, Continuous learning, Financial proficiency and Business knowledge, students with entrepreneurial intentions reported significantly higher mean scores than students without entrepreneurial intentions. This finding implies that students possessing these attributes are more likely to have entrepreneurial intentions than those who do not possess these attributes. Positive relationships between the aforementioned attributes and entrepreneurial intentions are thus supported. Against this background, sufficient evidence is found to support hypotheses H<sup>1</sup>, H<sup>3</sup>, H<sup>5</sup>, H<sup>8</sup>, H<sup>9</sup>, H<sup>11</sup>, H<sup>12</sup>, H<sup>13</sup>, H<sup>14</sup> and H<sup>16</sup>. Hypotheses H<sup>7</sup>, H<sup>10</sup> and H<sup>15</sup> were not subjected to empirical testing.

## CONCLUSIONS AND RECOMMENDATIONS

The primary objective of this study was to assess the entrepreneurial attributes of undergraduate business students at NMMU. This objective was achieved by determining the level of development of entrepreneurial attributes among the students, and establishing whether a relationship existed between possessing the entrepreneurial attributes under investigation and the entrepreneurial intentions of NMMU business students.

The results of this study show that business students from NMMU reported the attribute Commitment as being most developed. The great majority agreed that they possessed this attribute. The majority of NMMU business students also perceived High energy level (I), Planning and perseverance (A) and Overcoming failure (E) as being well developed. The participants

regarded the attribute Continuous learning (M) as being the least developed attribute. Lower mean scores were also reported for Communication ability (C), Knowledge-seeking (L) and Initiative and responsibility (H). According to Gerry, Marques and Nogueira (2008), students can become successful entrepreneurs if they are identified and cultivated during their university careers, specifically if underdeveloped attributes are cultivated. In general, the findings show that these students fared well in terms of their perceived level of development of their entrepreneurial attributes. Despite NMMU business students reporting all the attributes investigated in this study to be well developed, several recommendations are put forward to improve the levels of development of their four least developed attributes.

In this study, Communication ability (C) refers to having the ability to communicate ideas to others. The ability to communicate ideas to others involves not only being able to get the message across, but also to get the correct message across. To improve the communication ability of students, they should be given more opportunities to do oral presentations, have debates, and have discussions in the classroom setting. In addition, students should be encouraged to complete communication modules on a voluntary basis, or this could be made part of the curriculum. Students also need to be encouraged to take on part-time jobs so that they are able to interact with different people, which will give them the opportunity to improve their communication ability with a variety of different people. In addition to this, business organisations and the private sector also offer workshops to help students develop their interpersonal skills, and students should be encouraged to participate and attend the workshops.

Continuous learning (M) refers to the desire to expand personal knowledge and enhance one's level of expertise. To increase this desire, students should be given the opportunity to follow their given passion. Becoming involved with mentorship programmes during the summer or winter holidays could promote their technical knowledge of business ownership, and would allow them to gain vital expertise. Students should also be given the opportunity to expand their knowledge in all business-related areas, by lecturers organising tours to businesses, encouraging participation in business-related competitions, and setting research assignments on business-related matters. Krueger, Reilly and Carsrud (2000) suggest that training initiatives and programmes should be used to introduce a business simulation approach where the situation can be modified and controlled to challenge the student in the learning process.

Knowledge-seeking (L) refers to being willing to seek information, ideas, expertise and the assistance of others. Students should be given assignments which challenge their way of thinking, and require them to gather information, not only from prescribed books and journals, but also from experts in the field. Students should also be exposed to the problems that society faces, and be given a platform where they are able to put forward possible solutions to these problems. In so doing they will be required to seek knowledge and thus be given the opportunity to develop this attribute.

Initiative and responsibility (H) refer to an individual's willingness to take the initiative and be responsible. In order for students to improve this attribute, they need to be encouraged and given the opportunity to be leaders in group assignments. Students who are willing to assume leadership should be rewarded appropriately (possibly with additional marks). Students should also be encouraged to join societies or sports teams, where they can be given responsibility for both tasks and people. In this way their ability to deal with responsibility can be developed.

To develop their entrepreneurial attributes in general, students should be given the opportunity to work for local businesses during their holiday periods. Local businesses play an important part in this regard, and should be encouraged to come forward and make this opportunity available to students. Such work experiences will give them the opportunity to experience entrepreneurship and be exposed to entrepreneurial role models from whom they can learn and to whose achievements they can aspire. This experience and exposure will also provide the opportunity for



students to develop their own entrepreneurial attributes. Universities face a difficult task in developing business modules that will develop and cultivate students' entrepreneurial attributes and talents, and to encourage them to take the initiative. An environment in a university needs to be developed that promotes an entrepreneurial mindset. This can be done by making use of a variety of different teaching methods such as case studies, business simulation games, the preparing of business plans for people in the community, identifying business role models, and having group discussions. Using these methods students can learn by experience and observation, and gain valuable practical exposure.

The findings of this study show that for the attributes Planning and perseverance, Communication ability, Overcoming failure, Initiative and responsibility, High energy level, Creativity and flexibility, Knowledge seeking, Continuous learning, Financial proficiency and Business knowledge, students with entrepreneurial intentions had significantly higher mean scores than students without entrepreneurial intentions. This finding implies that students possessing these attributes are more likely to have entrepreneurial intentions than those who do not. If the number of future entrepreneurs in the country is to be increased, it is these attributes on which the educators of entrepreneurship should focus.

The entrepreneurial attributes Communications ability, Continuous learning, Knowledge-seeking and Initiative and responsibility have already been identified as the four least-developed attributes among NMMU business students, and several recommendations have already been put forward on how to improve these attributes among students. Given the influence that possessing these attributes has on the entrepreneurial intentions of students, the importance of developing the attributes cannot be overemphasised. Educators of future entrepreneurs should incorporate as many techniques as possible in their modules in an attempt to stimulate the development of these attributes.

Investigating students' entrepreneurial intentions is of growing importance in the field of entrepreneurship. Encouraging entrepreneurship among students has become a crucial topic among universities, governments and researchers (Venesaar, Kolbre & Piliste, 2006). The quality of entrepreneurship training in South Africa is inadequate, and has resulted in existing and graduate entrepreneurs having poor business and managerial skills (Herrington & Wood, 2007). Through entrepreneurial education, the necessary skills and confidence to undertake entrepreneurial activity can be developed (Fatoki, 2010: 92; Urban, Botha & Urban, 2010: 135). However, it is important that educational institutions such as NMMU know which skills and competencies (attributes) should be developed in educating future entrepreneurs (Venesaar et al., 2006). This study has provided insights into the levels of development of entrepreneurial attributes of students, as well as several suggestions on how to educate future entrepreneurs, not only at NMMU but also in South Africa and abroad.

## **LIMITATIONS AND RECOMMENDATIONS FOR FUTURE RESEARCH**

Despite the contributions of this study, several limitations have been identified, and should be explained in more detail. These limitations should be taken into account when interpreting the results of this study and when conducting future research. For the survey, only students from NMMU participated, and the sampling technique used was that of convenience sampling. Convenience sampling can be highly unrepresentative, and does not allow for the views of entire populations to be reported. The findings of the present study cannot be generalised to the whole South African student population. Future research should focus on increasing the number of universities involved in similar studies, and include students from all provinces in South Africa to make the sample more representative.

The measuring instrument adopted in this study was an already existing one with which to assess the entrepreneurial attributes under investigation. Although the measuring instrument has been proved valid and reliable in previous studies, the instrument itself has several shortcomings. Several authors (Scarborough, 2011: 22; Tajeddini & Mueller, 2009; Raab et al., 2005) have documented other entrepreneurial attributes that were not measured in this study, such as internal locus of control, need for achievement, problem-solving ability, emotional stability, team ability, innovativeness and the need for feedback. There is therefore a need for future research to add attributes not accounted for in the existing measuring instrument. These additions will allow for variety in measuring attributes, and also give greater accuracy in determining exactly which entrepreneurial attributes need development. Based on the validity and reliability tests undertaken, three attributes were eliminated from further statistical analysis, namely Risk-taking, Tolerance for ambiguity and uncertainty and Money sense. Future studies should attempt to improve the measuring instrument in terms of measuring these attributes.

In determining the level of development of entrepreneurial attributes in this study, it is important to realise that responses to the questions were based on the students' perceptions of themselves. It is therefore a limitation of this study that the measuring of the students' entrepreneurial attributes relied on a one-time individual self-report.

In this study the focus was placed on assessing the entrepreneurial attributes of current undergraduate business students at NMMU only. Whether the level of development of these attributes investigated was the result of the exposure to entrepreneurship studies or not, is unknown. In future studies, a comparison should be made between business and non-business students to identify whether the levels of development of the entrepreneurial attributes under investigation are associated with business module studies or not.



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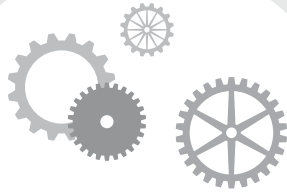
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# PERCEPTIONS REGARDING ETHICAL AND SOCIAL RESPONSIBILITY PRACTICES: AN SME PERSPECTIVE

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## ABSTRACT

The purpose of this paper is to investigate perceptions of SME's in Nelson Mandela Bay regarding ethical and social responsibility practices. To provide a theoretical framework for this research project, 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 150 SME's from the designated population. It appears that extensive research has been done regarding social responsibility and ethical practices in large firms, however little emphasis has been placed on the assessment of social responsibility and ethical practices in SMEs hence the need for this study. It is essential for SMEs to understand the importance of ethics and social responsibility in their daily activities as they often ignore the use of best business practices in creating value for stakeholders. Some general and practical guidelines are also provided for assisting SME's in implementing ethical and social responsibility practices.

## KEYWORDS

Ethics; Social responsibility; Perceptions; SMEs

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## INTRODUCTION

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“Research on ethics and social responsibility from a SME perspective is significantly different from the research based on large firm practices ... therefore affecting the content, nature and extent of their social responsibility activities ... clear direction for further research on social responsibility to provide SMEs with guidance and tools that enable them to implement and report their social responsibility policies, processes and performance ... keeping with the dominant policy discourse around CSR in which the SME perspective remains embedded.”

(Spence & Perrini, 2009: 20)

The purpose of this paper is to investigate the perceptions of small and medium-sized enterprises (SMEs) regarding ethical and social responsibility practices. In an era of rapid economic development there is growing interest in the economic value of SMEs. SMEs are regarded as the driving force of many economies in developing countries (Painter-Morland & Dobie, 2009: 7). The role of SMEs has grown extensively. They are said to be a major player in job creation. Despite their growing importance they are often overlooked when it comes to ethical and social responsibility issues. These two issues are often regarded as more pressing in large organisations as opposed to SMEs. As a result there is a clear need to conduct research on the ethical approaches adopted by SMEs as well as the manner in which they assume social responsibility. Literature regarding these aspects was only published since the 2000s (Aguilera, Rupp, Williams & Ganapathi, 2007; Brammer, Jackson & Matten, 2012: 4, Campbell, 2007; Matten & Moon, 2008). Moreover, most that is known on these topics is specific to large firms. It should be noted that in many respects SMEs differ from such large firms, thus what is known about ethics and social responsibility in large firms may not necessarily be generalised and applied to SMEs (Painter-Morland & Spence, 2009: 14).

Additionally, there is increasing concern amongst the public to be served by firms that are not merely concerned with profit-making but who are also driven by a mind-set of providing for the greater good of the community and being environmentally-friendly. Practicing these principles drives sustainability in a business (Kocmanova, Hrebicek & Docekalova, 2011: 546). It is therefore critical to equip SMEs with knowledge of the various conceptual tools they can use to deliver in terms of ethical conduct and social responsibility. There is thus a need for SMEs to implement ethical practices in their business activities. Employees may feel more attached and committed to an organisation if they perceive that the firm supports and encouraged ethical conduct and discourages unethical conduct (McCabe, Trevino & Butterfield, 1996: 452-453). The importance of ethics in the firm is that ethics can assist the firm in building a work ethos that will unify employees thereby boosting business performance and helping to overcome the discrepancy that individuals often experience between their individual values and the values pursued by a business (Rossouw, 1997: 1542). In an emerging and developing economy, the practices of social responsibility have contributed immensely to the well-being and the image of SMEs. Evidence suggests that consumers and other stakeholders prefer firms that embrace social responsibility (Smith, 1996: 11). Firms receive supports from stakeholders as a result of social responsibility which help firms to gain market share that leads to profitability.

This paper firstly presents the problem statement of the study as well as the primary and secondary objectives. A literature study regarding ethics and social responsibility follows. The research

methodology provides information regarding the research paradigm, research approach, population and the sampling method, data collection, questionnaire design and data analysis. The validity and reliability of the measuring instruments are also outlined. This is followed by the empirical results and main conclusions and recommendations provided by the study.

## **PROBLEM STATEMENT**

SMEs play an important role in the economy by eradicating unemployment and creating wealth. Naidoo, Perumal and Moodley (2009: 83) confirmed that it is universally accepted that an impeccably operating small business sector contributes to the economic and social growth of a country. Quinn (1997: 119) argues that there is a large difference in the number of studies regarding ethical and social responsibility issues between large and small firms. Morris, Schindehutte, Walton and Allen (2002: 331) observed that there has been concentrated research on social responsibility and ethical practices in large firms. Little emphasis has been placed on the assessment of social responsibility and ethical practices within smaller firms. 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. It is universally accepted that it is the responsibility of large firms to carry out and report on social responsibility and ethical practices. Zsolnai (2004: 57) proposes that it is also essential for SMEs to understand the importance of ethics and social responsibility in their daily activities. SMEs often ignore the use of best business practices in creating value for the stakeholders and wealth for the nation. The subject of social responsibility and ethical practices has received much attention in developed countries. Unfortunately this is not so in emerging and developing countries (Maloni & Brown, 2006: 35). The motivation underlying the hard work and the risk of SMEs to start up a business is seen by many as monetary gain only (Goffee & Scase, 1995: 6). The drive for this financial reward could push many SMEs to engage in unethical practices. Fraud, conflict of interests and unacceptable gifts and hospitality has become characteristics of the environment within which many SMEs operate (Painter-Morland & Spence, 2009: 3). Studies relating specifically to South Africa indicate that compared to other counterparts in developed countries, South Africa is perceived to attach less importance to business ethics and social responsibility issues. This has been linked to the idea that business and economic environmental forces within South Africa are still evolving (Singhapakdi, Karande, Rao & Vitell, 2001: 137).

Based on the above-mentioned reasoning, the guiding research question in this paper is: What are the perceptions regarding the social responsibility and ethical practices of SMEs in Nelson Mandela?

## **RESEARCH OBJECTIVES**

### **Primary Objective**

The primary objective of this study is to investigate the perceptions regarding the social responsibility and ethical practices of SMEs in Nelson Mandela Bay.

## Secondary Objectives

In order to accomplish the primary objective, the secondary objectives will focus on:

- Highlighting literature regarding ethics and social responsibility practices.
- Empirically assess the perceptions of SMEs regarding ethics and social responsibility.
- To provide general guidelines to SMEs regarding ethics and social responsibility practices.

## LITERATURE OVERVIEW OF ETHICS AND SOCIAL RESPONSIBILITY

Clarification of key concepts

### Ethics

This concept is referred to as the distinctions made between what is right and what is wrong behavior. It is based on set standards of conduct and moral judgments (Grobler, Warnich, Carrel, Elbert & Hatfield, 2006: 32). Koehler (2003: 99) also agrees that the concept of ethics makes reference to the traditions and customs that one learns from the present social setting while they go through life. This shapes their belief and behavior according to what they considered to be acceptable and what is not. Therefore, for this study ethics will make reference to the degree of correct and wrongful behaviors exhibited within SMEs.

### Social responsibility

Blowfield and Murray (2008: 13) describes social responsibility as the activities a firm engages in to promote economic development, work with employees and their families and improve the lives of the community in which it operates. Jenkins (2001: 4) further comments that social responsibility is a firm's commitment to operate in an ethical and honest manner towards its stakeholders. Social responsibility comprises of the positive contributions that firms aim to have on their local environment and on their social setting. To conduct this study, social responsibility will be viewed as activities undertaken by SMEs that are not guided towards profit-making but rather towards making positive contributions within their working environment, the community and the environment.

SMEs

Small and medium sized enterprises are defined based on the size of the firm relative to the number of workers employed. It should be noted that this varies from country to country. For the purpose of this study firms with 1 up to 50 employees will be classified as small enterprises. Medium size enterprises are categorised as having between 51 to 200 employees.

### Ethical practices in SMEs

Ethical responsibilities encompasses the full scope of norms, standards and expectations that reflect a belief in what employees, consumers, shareholders and the global community regard as fair, just, and consistent with the respect for and protection of stakeholders' moral rights (Carroll, 2004: 117). Business ethics also refers to a firm's attitude and conduct towards its employees, customers, community and stockholders and high standards demands that a firm treats each party with which it deals in a fair and honest manner (Besley & Brigham, 2009: 187). Business ethics deals with questions about whether specific business practices are acceptable (Ferrell, Fraedrich, & Ferrell, 2009: 5).

Ethical practices in South Africa have been questionable as a recent headline in a Cape Town, South Africa newspaper read "commercial crime soars as ethics falls" (Morris, Marks, Jeffrey &

Newman, 1996: 1119). According to Bisschoff and Fullerton (2011: 14), they affirmed that numerous reports about fraudulent and unethical behaviour on the part of businesses operating within South Africa have been appearing in news reports far too frequently. The South African business world is increasingly characterized by the absence of clear ethical norms and behaviour (Van Zyl & Lazenby, 2002: 15). Daft (2008: 159) proposes a variety of ethical practices to be instituted by firms, such as code of ethics, ethical leadership, ethics committee or office, ethics training and a whistle-blowing procedure. Due to the crimes perpetrated by firms it has resulted in the enactment of laws codes, principles and regulations to curb ethical crimes and encourage ethical practices in South Africa. The Ethics Institute of South Africa, South African NGO Coalition Codes of Ethics, King Report on corporate governance, Ethics Resource Centre, Institute of Directors Southern African (IoDSA), Association of Certified Fraud Examiners (South African Chapter), National Anti-corruption forum, all attempts to combat unethical practices perpetrated by firms in South Africa.

### **Social responsibility practices in SMEs**

Many previous studies have indicated that SMEs indulge in social responsibility activities in four key areas, namely environmental management, employees, community and the supply chain (Jenkins, 2001: 4). Raynard and Fortsater (2002: 10) explain that SME's are concerned with engaging in social responsibility activities that will reduce their environmental footprint and manage risks. This largely includes pollution reduction programmes. Worthington and Patton (2005: 203) also adds that environmental activities of SMEs include environmental audits and the development of internal environmental policies. Jenkins (2006: 248) points out that the environmental management activities of SME's include recycling and re-use schemes. In addition to this is the reduction of harmful chemicals and atmospheric emissions. More so they make it a point to invest in new technology that is more environmentally-friendly. Vives (2005: 8) reports that SMEs are becoming more active in increasing energy efficiency and treatment of waste. On a smaller scale they engage in water conservation, monitoring and taking advantage of by products.

Employee treatment is also an important area in which SMEs concentrate their efforts in being socially responsible. Jenkins (2001: 5) lists these practices as good work life balance and family-friendly employment alongside social events for staff members. Additionally, SMEs cater for training and development and mentoring programmes for their employees. They also go as far as employing older and disabled people. This argument is also supported by Mandl (2005: 8), stating that improving the working conditions of employees through fair working hours, proper ergonomics and safety precautions are seen as part of the social responsibility activities of SMEs. The presence of labour unions in South Africa strongly influences these SMEs to engage in social responsibility activities pertaining to employee rights (Dawkins & Ngunjiri, 2008: 300). Jenkins (2006: 248) also highlights that SMEs practice social responsibility with regards to supply chain activities. This is done through an open door policy for customers, suppliers and competitors, as well as measuring key performance indicators and providing feedback to staff, customers and suppliers. Additionally, they take part in industry best practice programmes. Koh, Demirbag, Bayraktar, Tatoglu and Zaim (2007: 112) further advocate that SMEs' social responsibility practices in terms of supply chain activities include maintaining excellent long-term relationships with customers and suppliers. They also include quality management as part of these practices (Koh et al., 2007: 109). Raynard and Forstater (2002: 38) share that SMEs have been very active in setting up codes of conduct pertaining to the environment and labour standards when it comes to supply chain activities.

Addressing community and society-related problems are another way by which SMEs practice social responsibility. Both Jenkins (2006: 248) and Raynard and Forstater (2002: 11) agree that SMEs achieve this by working with local schools on projects and making donations to charity or providing funding for other good causes. SMEs in South Africa contribute reasonably to welfare, educational and sport projects. Table 1 outlines four social perspective frames of SMEs.

**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))

### **Rationale for SME engagement in ethics and social responsibility**

Based on a study conducted amongst some SMEs, Jenkins (2001: 4) reports that these firms ascertain that they are practicing social responsibility and acting ethically, simply by providing support to the local economy and community in which they operate through profit-making. Many SMEs share that acting ethically and assuming social responsibility is not only an obligation but should be done out of choice. Implying that SMEs should be willing, not forced, to give back to the community and assist the less fortunate. Morsing (2006: 2) argues that engaging in social responsibility activities and being ethical is a norm to encourage action that is considered as right. Many SMEs believe that it is ethical and socially responsible to trade off a part of their earnings to improve conditions outside their work environment (Vives, 2005: 1).

Moreover, it is expressed by Raynard and Forstater (2002: 3) that SMEs believe that by engaging in social responsibility activities they will increase their chances for market success and enable them to save costs. Additionally, they are of the opinion that it will enhance their efficiency and creativeness as well as provide community development. It is stipulated by Vyakarnam, Bailey, Myers and Burnett (1997: 1625) that SMEs are guided to engage in social responsibility activities and conduct business in an ethical manner for it will improve their reputation. This in turn increases the confidence and loyalty of their workforce, customers and other stakeholders. SMEs often feel inclined to perform social responsibility activities as a result of environmental management pressures. They are of the opinion that they risk adverse publicity, legislation punishments and damage to their business image should they fail to uphold environmental protection and other social responsibility practices. Consequently this has the potential to reduce the firm's competitive capabilities (Nejati & Amran, 2009: 3). Ethics and CSR are currently regarded as important as there is a need for the transparency of information to allow organisations to be held accountable for actions taken (Ghillyer, 2010: 84). Ethical behaviour can provide organisations with a competitive advantage (Visser, Matten, Pohl & Tolhurst, 2007: 129). Those organisations embracing business ethics and social responsibility, can benefit from it in terms of customer loyalty (goodwill) which in turn lead to being more profitable and productive (Pitts, Kerr & Janda, 2009: 43).

Implementing CSR as part of the business strategy can bring significant benefits such as improving financial performance, reducing operating costs, enhancing brand image and reputation, increasing productivity, quality as well as sales and customer loyalty (Ende, 2004: 33). Furthermore, when organisations are acting ethical they can benefit in terms of: having a competitive advantage; attracting investors and consumers; attracting potential employees and retain and motivate employees and building a good reputation (Fischer & Lovell, 2003: 296). Business ethics also help organisations to improve their image towards society and contribute toward acquiring goodwill (Singh-Singuputa, 2005: 72). They also accomplish this by employing people from the local community (Jenkins, 2006: 248). This creates a great number of jobs which in



turn generates income for many households there by reducing poverty levels. It confirmed by Jeppesen (2005: 472) that local south African SMEs have indeed created more jobs. Motloug and Mears (2002: 538) comment that SMEs ability to create jobs can be regarded as a vehicle to reduce poverty level in the country. It thus appears that behaving ethically and acting in a social responsible manner could bring many benefits SMEs.

## RESEARCH DESIGN AND METHODOLOGY

### Research paradigm

A positivistic research methodology (quantitative research) will be adopted in this research project as the data 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 ethics and social responsibility.

### Population

The unit of analysis is owners, managers and employees of SME's. The population for this study has been identified as all SME's within Nelson Mandela Bay.

### Sampling

A non-probability convenient sample was used and 150 SMEs located within this region were targeted. 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 150 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 80%. Various measures were taken as to increase the response rate of this study (e.g. follow-up and reminding calls/visits; questionnaires printed in an attractive booklet format; properly worded covering letter).

### Questionnaire design

- A self-administered structured questionnaire was designed for this survey. The questionnaire consists of four sections:
- Section A assessed the general perceptions of respondents regarding ethics and social responsibility using a five-point Likert ordinal scale.
- Section B of the questionnaire investigated perceptions regarding ethical practices of SMEs using a five-point Likert ordinal scale.
- Section C investigated perceptions regarding social responsibility practices of SMEs, using an ordinal scale of measurement (five-point Likert scale).
- Section D of the questionnaire focused on biographical information of the respondents, using a nominal scale and included 11 categorical variables.

## 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. A few minor adjustments regarding the wording and sequence of statements were affected.

## Data analysis

Once the primary data has been collected, it was analysed using tables, graphs and statistical measurements. The questionnaires received were checked for any omissions, legibility and consistency and then the data was transferred to an Excel spreadsheet. Data was analysed by means of descriptive statistics, frequency distributions; Cronbach's alpha values, using the SPSS statistical computer programme.

## EMPIRICAL RESULTS

### Demographical profile of respondents

Table 2 provides a demographical profile of the respondents of this study. Eleven classification data variables were used in Section B of the questionnaire.

TABLE 2: DEMOGRAPHICAL PROFILE OF RESPONDENTS

Characteristic	Category	Amount	%
Gender	Male	64	53
	Female	56	47
Age	18-24	9	7
	25-34	33	28
	35-44	43	36
	45-54	26	22
	55-64	9	7
Ethnic classification	Black	37	31
	Coloured	28	23
	White	38	32
	Asian	17	14
Education	Grade 12 or equivalent	6	5
	Diploma/National Certificate	22	18
	Bachelor's degree	46	38
	Postgraduate degree/diploma	25	21
	Other	21	18
Position in business	Employee	35	29
	Manager	43	36
	Owner	42	35
Length of current employment	1-5 years	13	11
	6-10 years	63	52
	11-15 years	31	26
	16 years +	13	11
Number of years involved in ethical practices	Less than 1 year	33	28
	1-5 years	59	49
	More than 5 years	28	23

<b>Number of years involved in social responsibility practices</b>	Less than 1 year	47	39
	1-5 years	56	47
	More than 5 years	17	14
<b>Employment size</b>	Small	89	74
	Medium	31	26
<b>Industry type</b>	Manufacturing	6	5
	Retailing	49	41
	Wholesaling	15	13
	Financial, insurance and real estate	8	7
	Catering and accommodation	22	18
	Construction and engineering	3	2
	Transport/Travelling	2	2
	Communication	1	1
	Medical	3	2
	Leisure and entertainment	6	5
	Other	5	4
<b>Type of employment sector</b>	Private	111	93
	Public	9	7
<b>Form of ownership / business</b>	Sole proprietor	24	20
	Partnership	28	23
	Close corporation	6	5
	Private company	50	42
	Public company	9	8
	Other	3	2

Table 2 clearly shows that the majority of the respondents are males (53%) and the females were 47%. It also appears that the majority of the respondents (64%) are between the ages of 25 and 44. In terms of ethnic classification, 32% of the respondents are white, 31% are black and 23% coloured. It is clearly shown that 56% of the respondents have a diploma/national certificate or a bachelor's degree, whilst 21% have a postgraduate qualification. Thirty-six per cent of the respondents are managers and 35% are owners. It further appears that 78% of respondents are employed at their current SME for between six and 15 years whilst 11% were employed for five years or less at their current SME. Regarding years of involvement in ethical and social responsibility practices, 49% and 47% of SME's were involved for between one and five years, respectively. The majority of the respondents (74%) are employed in small enterprises and 26% are employed in medium-sized enterprises. It also appears that the majority of the respondents (54%) are employed in retailing and wholesaling and 18% in the catering and accommodation industry. An overwhelming majority of 93% of the respondents are employed in the private sector. In terms of form of ownership, 50% of the SMEs are private or public companies, 20% sole proprietors and 23% partnerships, respectively.

### Descriptive statistics

Table 3 indicates the descriptive statistics for Section B of the questionnaire (perceptions regarding sustainability of SME's).

**TABLE 3: DESCRIPTIVE STATISTICS: SECTION B**

Items/Variables	Factor	Mean	Standard Deviation	Skewness	Kurtosis
A1-A10	General perceptions regarding ethics and social responsibility	3.60	0.75	-0.79	0.46
A11-A20	Perceptions regarding ethical practices	4.50	0.88	-0.84	0.25
A21-A30	Perceptions regarding social responsibility practices	3.45	0.89	-0.08	-0.53

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 the general perceptions regarding ethics and social responsibility and ethical practices cluster around point four (agree) on the five-point Likert scale, whilst the mean score for perceptions regarding social responsibility practices 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. Skewness characterizes the degree of asymmetry of a distribution around its mean. The negative skewness values in Table 2 indicate a distribution with an asymmetric tail extending towards more negative values. Kurtosis characterises the relative peakedness or flatness of a distribution compared to the normal distribution. Positive kurtosis indicates a relatively peaked distribution. Negative kurtosis indicates a relatively flat distribution (Sall, Creighton & Lehman, 2007: 134). The kurtosis statistic of 0.25 and 0.46 would be an acceptable kurtosis value for a mesokurtic distribution because it is close to zero, whilst the negative value of 0.53 indicates the possibility of a platykurtic distribution.

### Frequency distribution results

Table 4 outlines the frequency distribution results of Section A of the questionnaire.

**TABLE 4: FREQUENCY DISTRIBUTION RESULTS OF SECTION A**

Items/Variables	Factor	% Agree	% Neutral	% Disagree
A1-A10	General perceptions regarding ethics and social responsibility	66	25	9
A11-A20	Perceptions regarding ethical practices	74	19	7
A21-A30	Perceptions regarding social responsibility practices	59	27	14

Table 3 analyses the frequency distribution results for the three factors used in Section A of the questionnaire. For analysis purposes, point four and five on the Likert scale have been combined into the agree score, three indicates neutral and point one and two have been combined into the disagree score. It is clearly shown that the respondents agree with all three factors and the statements thereof as applicable to their SME. The highest agree score (74%) was obtained for perceptions regarding ethical practices in SMEs. The highest disagree score (14%) was obtained for the factor regarding perceptions of social responsibility practices in SMEs.

## 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 A to confirm internal reliability (refer to Table 5).

**TABLE 5: CRONBACH'S ALPHA VALUES FOR SECTION A OF THE QUESTIONNAIRE**

Items/ Variable	Factor	Cronbach's alpha
A1-A10	General perceptions regarding ethics and social responsibility	0.89
A11-A20	Perceptions regarding ethical practices	0.89
A21-A30	Perceptions regarding social responsibility practices	0.93

Table 5 clearly shows that the Cronbach's alpha values for these three factors are internally reliable (all above 0.70).

## CONCLUSIONS AND RECOMMENDATIONS

There is increasing concern amongst the general public to be served by SMEs that are not merely concerned with profit-making but who are also driven by a mindset of providing for the greater good of the community and being environmentally-friendly. Practicing these principles is what drives sustainability in SMEs. It is therefore critical to equip SMEs with knowledge of the various conceptual tools they can use to deliver in terms of ethical conduct and social responsibility. The drive for innovativeness and the willingness to create value for financial gains has made many SMEs ignorant regarding the issues of social responsibility and ethical practices relating to their business activities.

Ethical standards should play a vital role in all SMEs. Ethics should embrace a range of norms, standards, or expectations of behaviour that reflect concerns of what consumers, employees, shareholders, the community, and other stakeholders regard as right, fair and just. The motivation underlying the hard work and risk of starting-up a SME is seen by many as monetary gain only and the drive for this financial reward could push many SMEs to engage in unethical practices. Fraud, conflicts of interest and unacceptable gifts and hospitality have become characteristics of the environment within which many SMEs operate.

### **SMEs should among other be concerned with engaging in the following ethical practices:**

- Have a written code of conduct for all employees and management
- Visible vision and values statement
- Instil an ethical culture among all employees
- Ethical leadership should set an example for employees at all levels

- Appoint an ethics committee or office
- Provide ethics training programmes for new and existing employees
- Whistle-blowing procedures to report misconduct
- Compliance to all legal and regulated requirements

Social responsibility was described as demonstrating the inclusion of social and environmental concerns in business operations and in interaction with stakeholders. In an emerging and developing economy, the practices of social responsibility could contribute to the well-being and the image of SMEs. SMEs should be among other be concerned with engaging in the following social responsibility activities:

- Reducing environmental footprint (e.g. pollution reduction programmes)
- Conducting environmental audits
- Development of internal environmental policies
- Recycling and re-use schemes
- Increasing energy efficiency and treatment of waste
- Fair employee treatment (e.g. good work-life balance and family-friendly employment, training and development and mentoring programmes)
- Employing older and disabled people
- Improving the working conditions of employees through fair working hours, proper ergonomics and safety precautions
- Supply chain activities (e.g. practicing quality management and setting up codes of conduct pertaining to the environment)
- Addressing community and society-related problems (e.g. working with local schools on projects and making donations to charity or providing funding for other good causes and employing people from the local community).

The general perceptions of SMEs regarding social responsibility and ethical practices were empirically tested to view how SMEs in Nelson Mandela Bay perceive social responsibility and ethics. The results showed that the majority of SMEs understood that ethics and social responsibility could be beneficial and conducting their business should be based on the expectations of stakeholders. Trust relationships could be built by being more open and transparent to shareholders and by supporting actions aimed at stopping corruption. Some of the respondents also believed that it is not necessary to be committed to triple bottom line reporting as well as conducting periodic audits of labour practices in order to access conformity with regulatory and other requirements. Majority of the respondents also affirmed that they regularly provide financial support to local communities and projects and they encourage their employees to participate in local community activities. Some respondents however were not interested in having a corporate social investment programme or taking actions to solve social problems.

Table 6 indicates some managerial implications regarding the implementation of ethical and social responsibility practices within SME's.



**TABLE 6: MANAGERIAL IMPLICATIONS FOR IMPLEMENTING ETHICAL AND SOCIAL RESPONSIBILITY PRACTICES WITHIN SMEs**

<b>General guidelines for implementing ethics and social responsibility in SMEs</b>	
	SMEs should:
1	Regard reducing their environmental footprint as a cost-saving activity.
2	Strongly support actions aimed at reducing corruption.
3	Collaborate with other firms to address issues raised with regards to responsible entrepreneurship.
4	Engage in building trust by being transparent and open to all stakeholders.
5	Be committed to triple bottom line reporting.
6	Have policies to ensure honesty and quality in all its contracts and dealings.
7	Put in place a process to ensure that adequate steps are taken against discrimination, both in the work place and at the time of recruitment.
8	Have a written code of conduct pertaining to ethics.
9	Quickly discipline unethical behaviour.
10	Be concerned with resolving complaints from customers, suppliers and its business partners.
11	Conduct regular audits of its social performance.
12	Encourage their employees to participate in local community activities.
13	Foster open dialogue with local communities on adverse, controversial or sensitive issues that involve the firm.
14	Voluntarily take action to solve social problems.
15	Have in place a social responsibility strategy that is proactive and surpass all lawful obligations.

## 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 Nelson Mandela Bay 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:**

“An integrated approach needed to help SMEs understand what CSR means for them and how to integrate it into core business practices ... needs to be interpreted more informally and introduced incrementally, in line with owner–manager and other stakeholder values ... develop tools specifically for SMEs, not simply adapt ideas designed for large companies for small companies ... consider diversity of SMEs when developing CSR policies and tools for them ... key to engaging SMEs in CSR is to educate them .... more research to be undertaken into proving the business case for CSR in SMEs ... knowledge on approaches taken to social and ethical responsibilities in SMEs still has many gaps ... need for sector, size and location specific research to reflect the diversity of SMEs.”

(Jenkins 2006:253)



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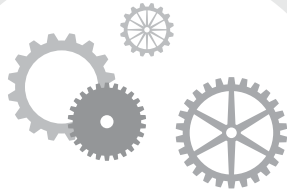
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# THE VALIDATION OF A SCALE TO MEASURE ENTREPRENEURIAL ORIENTATION AND PERCEIVED SUCCESS IN PUBLIC SECONDARY SCHOOLS

9



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## ABSTRACT

The purpose of this study was to investigate the influence of an entrepreneurial orientation in selected public secondary schools on the perceived success of these schools. The first stage of this study reported in this paper, however, has the purpose to validate a scale to measure the entrepreneurial orientation and success in South African public secondary schools. An entrepreneurial orientation was assessed by means of five constructs, i.e. Innovativeness, Autonomy, Risk-taking, Opportunity utilisation and Competitive aggressiveness. The Perceived success of the schools was measured by a 26-item scale and four factors were extracted, i.e. an Effective learning environment, Learner achievement, Strategic intent and Staff development. The respondents were identified by means of a convenience sampling technique, and the survey yielded 313 useable questionnaires from five high-performing public secondary schools. To assess the validity and reliability of the measuring instrument, the data collected were analysed by means of an exploratory factor analysis and Cronbach alpha coefficients were calculated. The findings of this study provide sufficient evidence of construct validity of both the instruments measuring an entrepreneurial orientation and the perceived success of public secondary schools, respectively.

## KEYWORDS

Secondary schools, Perceived school success, Entrepreneurial orientation

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## INTRODUCTION

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An independent investigation by the South African Social Investment Exchange (2011: 1) indicates that education in South Africa does not only compare with that of the poorest in the world, but also with that of the poorest in Africa. The poor performance of the South African education system takes place despite a richness of resources in Africa's most industrialised country. The under-performance of South African pupils is, therefore, a great source for concern and the reasons for this should therefore be investigated in order to perform the necessary interventions to prevent this situation from continuing. A further source of concern is that there is a large gap between a small minority of schools that still perform well and the overwhelming majority that is truly in trouble. The dark reality, according to Bloch (2009: 2), is that 60 to 80% of South African public schools can be considered dysfunctional.

The worth of any school system lies in its ability to consciously achieve the purpose for which it was established. Such an educational system is also expected to adequately serve its customers (students, parents, employers of labour and society). Teachers are the direct vehicles through which the educational objectives are transmitted to the students. The principals, on the other hand, are vested with the responsibility of managing both the teachers and students for the achievement of the educational objectives of the nation (Osim, Uchendu & Mbon, 2012: 661). To tackle the issue of poor quality in the South African school system, Osim et al. (2012: 661) stated that there are pertinent questions that should be raised, such as: How innovative are the school principals in carrying out their management tasks? How do they ensure that the teachers under their leadership initiate innovations in their teaching methods to enhance quality? To what extent does government allow principals and teachers to initiate innovations?

In 2012, the Department of Basic Education of South Africa launched the School Capacity and Innovation Programme (SCIP). The launch can be seen as the cornerstone for the development of South African education, as well as a model for other countries in the African continent. The programme is designed to improve primary grade reading outcomes through teacher effectiveness and the strengthening of classroom management in all South African schools (Department of Basic Education, 2012: 1). Several intervention programmes are initiated by the national and provincial education departments in order to improve performance, with no significant effect, especially seen in light of the controversy pertaining to matric results.

In the research of Dinham (2005: 345), three broad approaches were discerned in the actions of the principals of outstanding schools. Firstly, these principals use their powers and the rules and boundaries of the 'system' creatively. Secondly, they exhibit a bias towards experimentation and risk-taking. Thirdly, they exhibit strength, consistency, yet flexibility in decision-making and the application of policy and procedures. The outstanding schools' sites tend to have a strong executive structure with clear, well-understood responsibilities. Rather than being dictatorial or autocratic, principals were seen to use these structures and responsibilities responsibly and effectively. These leaders use the discretion available to them and push against administrative and systemic constraints when necessary. At times, they tend to be ahead of the system and profession and act as 'ground breakers'. These principals creatively use resources at their disposal to support innovative programmes.

The purpose of this study is, therefore, to investigate the influence of an entrepreneurial orientation in selected public secondary schools on the perceived success of these schools. The first stage of this study reported in this paper, however, has the purpose of validating a scale to measure the entrepreneurial orientation and success in South African public secondary schools. The validity and reliability of the measuring scale will be investigated by means of an exploratory factor analysis and



by calculating Cronbach alpha coefficients. Thereafter, will the relationship between an entrepreneurial orientation and the perceived success of the selected public secondary schools, be investigated in a second paper by means of linear multiple regression analyses.

Subsequently, the problem statement, the operationalisation of variables, the research methodology, results and discussion are presented. The paper is concluded with the conclusions, recommendations and guidelines for further research.

## **PROBLEM STATEMENT AND OBJECTIVES**

In South Africa today, almost everyone has an opinion about education and schooling. Some people think there have been vast improvements since 1994, while others believe that much of the system is worse than the Bantu education of Apartheid (Spaull, 2012: 1). According to the Organisation for Economic Co-operation and Development (OECD) (cited by SASIX, 2011), many local learners fare much worse in international tests as in other developing countries, including African countries. Globally, the education system of South Africa is rated lower as those of Botswana, Kenya, Mauritius, the Seychelles and Brazil. The levels of illiteracy in South Africa are high; an estimated 24% of persons above 15 years of age cannot read and the educators in the township schools are poorly educated themselves.

Does the education system then serve its purpose? South Africa's dangerous unemployment rate is substantially higher than previously thought, according to Census 2011. According to the Quarterly Labour Force Survey (Statssa, 2012), the official unemployment rate was 29.8%, which is nearly 6 percentage points higher than the 23.9% finding generated by the 2011 fourth quarter labour force survey.

Empirical studies, according to Madsen (2007: 188), support the statement that there is a positive correlation between entrepreneurial orientation and business performance, which, in practice, suggests businesses that adopt a greater entrepreneurial orientation, will also perform better. Within the South African context, limited research has been performed on this matter – especially within the education sector. The dysfunctionality of schools can, among others, be ascribed to school management teams that do not possess the dimensions of entrepreneurship, that are not able to facilitate the sustainable development of the institution and persons within the school.

It is against this background that a new type of leadership is required within schools – corporate entrepreneurial leadership or intrapreneurial leadership. In practice that means leadership with an innovative and revolutionary mentality – an entrepreneurial orientation. Performance over the long term is dependant on the school innovating and to adopt a leadership role in the teachers' community. According to Oosthuizen (2006: 1), organisations re-invent themselves and thereby get an advantage above competitors, and those organisations that are able to sustain a culture of innovation and change will continue to develop and grow.

The purpose of this paper is twofold. Firstly, to validate scales measuring the five dimensions of an entrepreneurial orientation, i.e. Innovativeness, Autonomy, Risk-taking, Pro-activeness and Competitive aggressiveness in public secondary schools, and secondly, to validate a scale measuring the Perceived success of these schools.

## LITERATURE REVIEW

### Success of schools

Dagget (2005: 1-5) clearly states that change in schools is urgently needed. The pressure for global competitiveness, the eradication of unschooled labour, advancement on technological level and the pressure for the retention of the middle class have resulted in the public, media and governments to press for higher standards for all learners. The question can, however, rightfully be asked: "What makes a school successful?" Edmonds (cited by Dagget, 2005: 1), in his work "Search for Effective Schools", identified five characteristics for successful schools, namely:

- Strong administrative leadership.
- Focus on basic skills.
- High expectations pertaining to learner performance.
- Regular monitoring of learners' performance.
- Safe and organised schools.

Scheerens and Bosker (1997: 99-138), in their research on the wide variety of school reform, identified the following eight essential characteristics of successful schools:

- Monitoring of learners' progress.
- Focus on achievement.
- Parent involvement.
- The creation of a safe and organised climate.
- Focused curriculum.
- Strong leadership.
- Cooperative working environment.
- Time on activity (the time that a learner is actively involved with a task).

Visher, Emanuel and Teitelbaum (1999) issued a report on behalf of the USA Department of Education wherein the results of 300 research studies were compared to be able to identify eight general characteristics of successful schools. These characteristics are:

- Commitment to high academic expectations.
- Small learning environments.
- Learning is structured around the learner.
- Professional development focuses on teaching.
- Connect extramural learning opportunities with classroom learning.
- Career and higher education counselling.

- Flexible and relevant segments of education.
- Access to what learners can do.
- Partnerships with higher education.
- Support cooperation between parents and the community.

Marzano (2003), in his work, identified five characteristics of highly successful schools:

- Guaranteed and feasible curriculum.
- Challenging goals and effective feedback.
- Parent- and community involvement.
- Safe and organised learning environment.
- Collegiality and professionalism.

Quick and Quick (cited by Dagget, 2005: 2) undertook a study and made an analysis of five models of achieving schools and could identify the following five main characteristics:

- A commitment to a strict and relevant curriculum.
- Implementation of a test programme to evaluate learners' conceptual knowledge and application of knowledge.
- A focused and sustainable staff development programme.
- A commitment to address learner behaviour.
- A willingness to incorporate organisational changes for the benefit of the learners.

Lezotte, Skaife and Holstead (cited by Dagget, 2005: 3) view the following characteristics as the most important:

- The creation of a school culture.
- The interaction between effective schools.
- School-based management.
- Data collection, breakdown and analysis.
- School improvement plans.
- Organisation of the schools for learners.
- The development of community support.
- Evaluation of learner progress.

For the purpose of this study, and based on the aforementioned literature review, the perceived success of public secondary schools will be measured by means of 26 items. The wording of the statements (items) originally measuring the perceived success of the schools is provided in Appendix 1.

## Entrepreneurial orientation

Entrepreneurial orientation has its roots in the strategy-making process literature and represents the policies and practices that provide the basis for entrepreneurial decisions and actions (Rauch, Wiklund, Lumpkin & Frese, 2009: 763). Based on Miller's (1983: 770) conceptualisation that an entrepreneurial business is one that engages in product market innovation, undertakes somewhat risky ventures and is first to come up with pro-active innovations, three dimensions of entrepreneurial orientation were identified, namely Innovativeness, Risk taking and Pro-activeness. Covin and Slevin (1989: 76) further refined Miller's definition by stating that the entrepreneurial orientation of a business is demonstrated by the extent to which the top managers are inclined to take business-related risks (risk-taking dimension), to favour change and innovation in order to obtain a competitive advantage for their business (innovative dimension), and to compete aggressively with other businesses (pro-active dimension). While a number of authors have adopted similar definitions, for example Zahra, Jennings and Kuratko (1999: 50), and Morris, Kuratko and Covin (2008: 54), many others have made subtle changes that altered the meaning of the construct (George & Marino, 2011: 992). For example, Dess and Lumpkin (2005: 147) define entrepreneurial orientation as the strategy-making practices that businesses use to identify and launch corporate ventures. This definition is clearly limited to decisions related to the launch of new ventures. Therefore, a business may have a high entrepreneurial orientation based on the Covin and Slevin (1989) definition, but not necessarily on the Dess and Lumpkin (2005) definition.

Furthermore, authors have defined the domain of entrepreneurial orientation as containing fewer or more dimensions (George & Marino, 2011: 992). Two other dimensions were added by Lumpkin and Dess (1996: 139-140), namely Competitive aggressiveness and Autonomy. These authors argue that entrepreneurial orientation includes a propensity to act autonomously and a tendency to be aggressive towards competitors. Wang (2008: 637), on the other hand, adopted four dimensions, namely pro-activeness, competitive aggressiveness, risk-taking and innovativeness.

Although the entrepreneurial orientation construct has been widely debated (Covin & Lumpkin, 2011: 855), there is unfortunately no consensus on matters such as an appropriate definition of the construct, its domain or its dimensionality (Covin & Lumpkin, 2011: 856; George & Marino, 2011: 992). For the purpose of this study, it is our belief that entrepreneurial orientation refers to a business' strategic orientation – one that captures the specific entrepreneurial aspects of decision-making styles, methods and practices. We further view the entrepreneurial orientation construct as consisting of five independent dimensions, namely innovativeness, autonomy, risk-taking, pro-activeness and competitive aggressiveness.

The five dimensions measuring an entrepreneurial orientation will be discussed in this section.

## Innovativeness

Innovativeness reflects a business' tendency to engage in and support new ideas, novelty, experimentation and creative processes that may result in new products, services or processes (McFadzean, O'Loughlin & Shaw, 2005: 353). Lassen, Gertsen and Riis (2006: 361) confirm this view and describe innovation as a business' propensity to become involved in the support of new ideas, renewal, experimentation and creative processes that may lead to new products, services or technological processes.

The importance of innovation to entrepreneurship was first emphasised by Lumpkin and Dess (1996: 141), who proposed that innovation is the single dimension that has to be employed by all entrepreneurial businesses. It can therefore be argued that, even in the presence of the other

dimensions, if innovation is not employed there is no business-level entrepreneurship (Gürbüz & Aykol, 2009: 323). Product/service innovation presents any change in the product or service range that a business takes to market, and has proved to be potentially significant sources of strategic advantage (Cooper, 1998: 499). Product/service innovation is the most clearly understood form of innovation and consists of disruptive (or radical) innovation and incremental innovation (Schilling, 2005: 38).

Innovation always entails an investment in the development of skills and knowledge, and usually also in physical sources and marketing. It ultimately leads to an improvement in the competitive advantage of the business. There is a growing acknowledgement that innovation is the only source of growth, competitive advantage and new wealth (Drejer, 2006: 143). According to Wiklund and Shepherd (2003: 1309), innovative business can perform exceptionally well and are described as the engines of economic growth.

Initiation of innovations is a very crucial aspect of principals' administrative behaviour. If education must move along with the trend of development recorded in recent times, then school principals have no option but to be innovative. According to Pejza (1985: 10), "A leader continuously scans the environments noticing where change is needed". In other words, leaders of change are pro-active in their efforts to change and improve their schools. It is believed that one of the strong factors responsible for the degenerating standard in education is the lack of initiation of innovation by secondary school principals.

## Autonomy

Autonomy is an essential part of entrepreneurship and is traditionally viewed as the formation of new and independent business (Lassen et al., 2006: 361). Within an organisational context, autonomy refers to the independent actions of an individual or team that brings forth an idea or a vision and carries it through to completion. The actions are free of any strict limitation and the individual or team can act independently and make key decisions.

To encourage autonomy, business uses both "top-down" and "bottom-up" approaches. The top-down approach includes aspects such as management support for programmes, giving incentives that foster a climate of entrepreneurship and welcoming autonomous decision-making (Dess & Lumpkin, 2005: 149). In this regard, Dess, Ireland, Zahra, Floyd, Janney & Lane (2003: 355) are of the opinion that such business design features may be as important to entrepreneurial success as the other dimensions of an entrepreneurial orientation. To encourage autonomy from the bottom up will require special incentives and structural arrangements designed to develop and build support for entrepreneurial initiatives (Lumpkin, Cogliser & Schneider, 2009: 49).

Autonomy constitutes one of the bases for innovative and entrepreneurial behaviour (Casillas & Morena, 2010: 270), and businesses that rely on an entrepreneurial orientation to create new value and growth must encourage entrepreneurial behaviour by allowing employees to act and think more independently (Gürbüz & Aykol, 2009: 324). Autonomy is therefore essential to the process of leveraging a business' existing strengths, identifying opportunities and encouraging the development of new ventures and/or improved business practices (Lassen et al., 2006: 361). Prior research (Rauch et al., 2009) also supports the view that autonomy encourages innovation, promotes the launching of new ventures and increases the competitiveness and effectiveness of businesses.

According to Schmerler (2002: 370), many educators and policy-makers have realised that to do their best work, schools need the luxury of freedom. Just as autonomous cultures in the business

world have improved employee morale, increased innovation, and encouraged a more nimble, customer-focused workforce, greater autonomy can free educators to try new approaches within instruction, staffing, and schedules so that they can respond quickly and more effectively to student needs. Experience with autonomous schools has shown that granting schools more flexibility can yield more innovation in school management, staffing, and instruction, bringing high-performance schools to communities that greatly need them.

## Risk-taking

The term risk is defined by Dewett (2004: 258) as the extent to which there is uncertainty about whether potentially significant and/or disappointing outcomes of a decision will be realised. In this regard, Mullins and Forlani (2005: 51) characterise risk as either the potential to act too quickly on an unsubstantiated opportunity (sinking the boat), or the potential to wait too long before acting (missing the boat).

Risk is inherent in the operations of any business and almost every decision taken by managers involves risk (Von Stamm, 2008: 387). Often, corporate entrepreneurial businesses that have an entrepreneurial orientation are typified by risk-taking behaviour, such as incurring heavy debt or making large resource commitments, in the interest of obtaining high returns by exploiting opportunities in the marketplace (Bhardwaj, Agrawal & Momyaya, 2007: 134). However, this risk does not refer to extreme or uncontrollable risk, but rather to moderate and calculated risk (Morris et al., 2008: 62). Corporate entrepreneurs are therefore not high risk-takers (Lambing & Kuehl, 2007: 19). Instead, they try to define the risk they have to take, minimise it as much as possible and manage it (Timmons & Spinelli, 2009: 52). These enterprises should rather be viewed as risk-aware and opportunity-focused businesses (McBeth & Rimac, 2004: 18).

Another aspect of risk-taking is the assumption, which is often made, that innovativeness and risk-taking are directly correlated; that is, doing more innovative things means taking higher risks. According to Morris et al. (2008: 62), this relationship is far more complex. Risk is also high when business ignores new product/service opportunities and engages in little or no innovation. In this regard, Burns (2008: 291) notes that while not innovating presents a minimal risk in the short term, it does create a high risk in the long term. In essence, businesses that do not innovate are faced with a higher risk of not perceiving market and technology shifts that are capitalised on by competitors. The opposite is also true. Businesses that attempt to come up with breakthrough innovations that create new markets and redefine industries also face high risk (Morris et al., 2008: 63).

To be successful in future, businesses will need to exploit an entrepreneurial orientation with the ability to rapidly sense, act and mobilise under highly risky conditions (McGrath & MacMillan, 2000: xiv), given factors such as globalisation, deregulation, technological and social change as well as information technology that are forcing businesses to cope with rapid and unexpected change, which has long been central to the theory of entrepreneurship (Shane, Locke & Collins, 2003: 264).

According to Mendez-Morse (1992: 11), school leaders encourage their staff to experiment with various instructional methods to meet the academic needs of the students. They guide and provoke the staff to explore options that more adequately address the needs of their students and provide the environment that makes risk-taking safer. They provide their staff with opportunities to consider and implement curriculum changes as well as encourage experimentation with different arrangements of organisational structures, such as schedules and class size. They encourage their staff to experiment with various instructional methods to meet the academic needs of the students.



## **Pro-activeness**

Pro-activeness refers to a posture of anticipating and acting on future wants and needs in the marketplace, thereby creating a first-mover advantage vis-à-vis competitors (Madsen, 2007: 187). First movers are, however, not always successful. The introduction of novel products or breakthrough technologies is not always accepted by the market. Therefore, careful analysis of the environment and extensive feasibility research are needed for a pro-active strategy to lead to a competitive advantage (Dess & Lumpkin, 2005: 151).

Lumpkin and Dess (1996: 146), however, argue that although the idea of acting in anticipation of future demand is an important component of entrepreneurship, the idea of being first to the market is somewhat narrowly construed. A business can be novel, forward thinking and fast without always being first. Subsequently, Lumpkin and Dess (1996: 146) suggest that Pro-activeness refers to processes aimed at anticipating and acting on future needs by seeking new opportunities that may or may not be related to the present line of operations and the introduction of new products and brands ahead of competition. Some of the activities that are therefore associated with pro-activeness include new opportunity identification and evaluation, identification and monitoring of market trends and new venture team formation (Kropp, Lindsay & Shoham, 2008: 104). A pro-active business is therefore a leader rather than a follower, since it has the will and the foresight to seize new opportunities, even if it is not always the first to do so (Gürbüz & Aykol, 2009: 323).

Effective leaders take the initiative, anticipate and recognise changes in their organisational environment, and begin to explore possible courses of action to respond to those changes. Pejza (1985: 10) stated that a “leader continuously scans the environment noticing where change is needed.” Leaders of educational change are pro-active in their efforts to change and improve their schools and districts. According to Mazarella and Grundy (1989: 23), they are “always testing the limits in an effort to change things that no one else believes can be changed.” They are pro-active because they challenge the status quo of their organisation to respond to changes that affect the organisation's business. Often, these pro-active school leaders are described as individuals who do not accept the rules, regulations, or traditions of their schools and authorities to limit their change efforts (Mazarella & Grundy, 1989; Pezja, 1985).

Leaders of change recognise shifts in the environment and guide their organisation to be responsive to those changes (Mendez-Morse, 1992: 10). Leaders of educational change recognise paradigm shifts in areas such as curriculum issues, student needs, and state level policies (Pejza, 1985). They also constantly scan their school or district community noticing where change is needed. They anticipate the changing needs of their students and take the initiative to identify the appropriate course of action.

Principals can, according to Panush and Kelley (1970: 92), dedicate themselves to being pro-active change agents who seek to examine critically the issues they face and, in the process, maintain a willingness to examine their own motives so that it is clear when their actions are the result of educational principles rather than prejudices gained from earlier experiences and training or personal idiosyncrasies.

## **Competitive aggressiveness**

Competitive aggressiveness, as a dimension of entrepreneurial orientation, refers to a business' propensity to directly and intensely challenge its competitors (Lumpkin & Dess, 1996: 148) in an attempt to improve its position in the market place (Chang, Lin, Chang & Chen, 2007: 1000). It is

important to note that within the context of entrepreneurial orientation, Competitive aggressiveness is a reaction to competitive trends and demands that already exist in the marketplace (Lumpkin & Dess, 2001: 434). It therefore translates to a response to threats from competitors.

Businesses that are competitively aggressive are characterised by responsiveness, which may take the form of head-to-head confrontation; for example, when a business enters a market that another competitor has identified (Lee & Sukoco, 2007: 550). Responsiveness may also take the form of a business being reactive; for example, when a business lowers prices in response to a competitive challenge. Furthermore, Competitive aggressiveness also reflects a willingness to be unconventional rather than relying on traditional methods of competing. This includes, among others, adopting unconventional tactics to challenge industry leaders, analysing, targeting a competitor's weakness, and focusing on high value-added products (Lumpkin & Dess, 2001: 434).

Although closely related, Lumpkin and Dess (1996: 147) feel that there is an important distinction between Competitive aggressiveness and Pro-activeness that needs to be clarified. Pro-activeness refers to how a business relates to market opportunities by seizing initiative and acting opportunistically in order to shape the environment; that is, to influence trends and perhaps even create demand. In contrast, Competitive aggressiveness refers to how businesses relate to competitors; that is, how businesses respond to trends and demand that already exist in the marketplace.

How best to go about increasing the quality of public schools is currently a controversial and highly debated issue in the United States (Burns, 2011: 4). Federal, state, and local school boards across the nation have been faced with declining schools; prompting voters to rally for change, often in the form of school choice. Similarly, the demand by parents for high quality schools has led education reformers to look for new ways to improve the primary and secondary public school system. Many researchers have argued that increased competition can improve the quality of schools. Proponents of school competition argue that increased choice for parents forces schools to work harder to be effective and, therefore, competitive in the education 'market'. When treated as a private market good, school competition might be an aspect in determining school performance (Burns, 2011: 4).

As one of the earliest proponents of school choice, Friedman (1955) argued that vouchers for primary and secondary education would widen the options to parents and provide positive outcomes for students. Friedman's paper opines that, "Government, preferably local governmental units, would give each child, through his parents, a specified sum to be used solely in paying for his general education; the parents would be free to spend this sum at a school of their own choice, provided it met certain minimum standards laid down by the appropriate governmental unit". Dee's (1998: 424) research concluded that competition, even from private schools, provides education benefits not only to those students who are able to choose their school; but the increase in competition also has positive effects on student outcomes at all competing schools.

Several researchers argue that the higher the level of competition among school districts, the more pressure there is for the individual districts to perform in order to maintain their student base. Chubb and Moe (1998: 1068) hypothesise that public schools struggle more than private schools because they have less autonomy and are a product of the democratic institution. Their work has helped develop a framework for school choice in public schools. Blair and Staley (1995: 195) examined evidence from Borland and Howsen (1992) that proposed that standardised test scores would be higher in areas with more competition among schools and districts. Blair and Staley (1995) found that metropolitan areas with less public school competition have lower school quality. They also found that competition from neighbouring schools has a positive effect on student performance.

## RESEARCH METHODOLOGY

### Measuring instrument

The five dimensions of entrepreneurial orientation investigated in this study, namely Innovativeness, Autonomy, Risk-taking, Pro-activeness and Competitive aggressiveness were identified in the literature (Morris et al., 2008: 54; Covin & Slevin, 1989: 76; Lumpkin & Dess, 1996: 139-140; Zahra et al., 1999: 50). The items measuring the dimensions were compiled based on a study conducted by Lotz (2010). Furthermore, based on the literature review on the success factors of school, the items measuring the Perceived success of secondary schools were identified (Dagget, 2005; Scheerens & Bosker, 1997; Visher et al., 1999; Marzano, 2003).

Respondents were requested to indicate their extent of agreement with each statement (items) posed by means of a five-point Likert scale (where 1 indicates they strongly disagree and 5 that they strongly agree with the statement).

### Study population and sample

The study population for this study consisted of teachers (job level one) and heads of departments (job level two) from five secondary schools in Pretoria, Gauteng. These schools were chosen based on the grade 12 results from 2010 where they were named the top five schools pertaining to achievements by the Gauteng Department of Education. The participating schools were Hoërskool Waterkloof, Hoërskool Menlopark, Hoërskool Garsfontein, Hoërskool Eldoraigne and Afrikaanse Hoër Meisieskool.

### Data gathering

The questionnaires were couriered to a designated person (in most instances the principal or deputy-principal) of a specific school, who acted as a contact person and also assisted with the distribution and subsequent collection of the questionnaires. Respondents were requested to anonymously and voluntarily complete the questionnaire and return the completed forms to the designated person. In total, 350 questionnaires were distributed from which 313 usable questionnaires were returned – representing a response rate of 89.43%.

### Statistical analysis

The data was firstly subjected to an exploratory factor analysis to assess the construct validity of the measuring instrument. This was followed by calculating the Cronbach alpha coefficients to assess the reliability of the measuring instrument. The above analyses were done making use of Statistica (Statsoft, 2010) and PASW Statistics (PASW, 2010).

## RESULTS AND DISCUSSION

### Demographic information

The largest percentage (54%) of the respondents falls in the 40 to 59 years old age group. The largest percentage, 75.4% of the respondents, is female and the overwhelming majority (98.7%) of the participants were Caucasian. A total of 53.1% of the respondents possess a B-degree plus a diploma/certificate or an honours degree and 6.7% of the respondents possess a master's degree. A total of 81.8% of the participating respondents were on job level one, which implies a regular teacher, while 15.7% of the respondents were heads of departments.

## Construct validity of the measuring instrument

Lotz and Van der Merwe (2013) highlighted the danger of using scales not validated for a specific country context. This was also highlighted in the international business literature (Antoncic & Hisrich, 2001; Knight, 1997: 215; Scheepers, Bloom & Hough, 2008: 2). Even though the domain of entrepreneurial orientation has received a substantial amount of theoretical and empirical attention (Rauch et al., 2009: 762), the vast majority of publications has been from American authors (Frank, Kessler & Fink, 2010: 175). It is, therefore, important to validate the scales used in this study within the South African context, and also within public secondary schools by means of an exploratory factor analysis.

In order to conduct the exploratory factor analysis, the data was divided into two models. The first model related to the perceived success of secondary schools, whereas the second model related to the constructs measuring an entrepreneurial orientation.

With regard to the first model concerning the perceived success of the schools, an Oblimin oblique rotation was performed on the principal components of the exploratory factor analysis, since there was theoretical justification to believe that the factors measuring perceived success would correlate with each other (Field, 2009: 643). Two tests, namely Bartlett's test of sphericity and the Kaiser-Meyer-Olkin measure of sampling adequacy were considered important in determining the appropriateness of the data for factor analysis (Gürbüz & Aykol, 2009: 327). The data measuring the perceived success yielded a sampling adequacy of 0.937, and the Bartlett's test of sphericity yielded a p-value of smaller than 0.001, indicating that patterns of correlations are compact and that factor analysis should yield reliable factors (Field, 2009: 647).

To determine the number of factors to be extracted, Kaiser's criterion was used, namely to retain factors with eigen-values greater than one (Field, 2009: 647). A total of 23 of the 26 items measuring the perceived success of secondary schools demonstrated sufficient discriminant validity by loading to a sufficient extent. Factor loadings greater than 0.35 were considered significant (Field, 2009: 637; Stevens, 1992: 382-384). The factor matrix of the 23 items is provided in Table 1.

Table 1 shows that the items expected to measure Perceived success split into four separate factors that were named an Effective learner environment, Learner achievement, Strategic intent and Staff development. One item loaded significantly (values greater than 0.35) onto two factors, namely Effective learner environment and Learner achievement. Rather than deleting the item, it was decided to classify it under the factor that has the highest loading, Learner achievement. The wording of the statements (items) used to measure the four removed variables is provided in Appendix A.

**TABLE 1: OBLIMIN ROTATED FACTOR MATRIX: PERCEIVED SUCCESS<sup>(1)</sup>**

Items	Factor 1: Effective learning environment	Factor 2: Learner achievement	Factor 3: Strategic intent	Factor 4: Staff development
Success24	<b>0.728</b>	-0.041	0.112	0.087
Success22	<b>0.727</b>	-0.084	0.225	-0.106
Success23	<b>0.705</b>	0.004	-0.006	0.151
Success18	<b>0.685</b>	0.124	0.162	-0.141
Success1	<b>0.594</b>	0.127	-0.161	0.238
Success15	<b>0.593</b>	-0.106	0.111	0.325

Success 2	<b>0.590</b>	0.154	-0.095	0.216
Success5	<b>0.507</b>	0.286	0.110	0.063
Success19	<b>0.460</b>	-0.070	0.212	0.314
Success6	-0.306	<b>0.850</b>	0.044	0.116
Success3	0.154	<b>0.813</b>	0.006	-0.069
Success9	0.322	<b>0.548</b>	0.270	-0.199
Success 4	<b>0.395</b>	<b>0.537</b>	-0.034	0.099
Success12	-0.104	0.012	<b>0.797</b>	0.099
Success 20	-0.056	0.008	<b>0.761</b>	0.056
Success13	0.265	0.179	<b>0.516</b>	-0.007
Success 26	0.362	0.017	<b>0.442</b>	0.058
Success14	0.263	0.183	<b>0.416</b>	0.225
Success7	0.254	0.078	<b>0.385</b>	0.023
Success25	-0.150	0.083	0.126	<b>0.821</b>
Success17	0.170	-0.043	0.198	<b>0.653</b>
Success21	0.308	-0.027	-0.096	<b>0.618</b>
Success11	0.192	0.096	0.216	<b>0.512</b>
<b>Cronbach Alpha</b>	<b>0.900</b>	<b>0.784</b>	<b>0.806</b>	<b>0.795</b>

<sup>(1)</sup>Loadings greater than 0,35 were considered significant

<sup>(2)</sup>The items included in the factor analysis are provided in Appendix 1

Factor 1, labelled Effective learning environment, comprised nine items. Nine of the 26 items intended to measure the original variable, Perceived success, loaded onto factor 1 (refer to Table 1). An Effective learning environment refers to an environment where the learning experience of learners can be maximised by the efficient and effective using of learning time, the focus on basic skills, mutual trust and respect, professionalism, safety and discipline.

The second factor, labelled Learner achievement, comprised four items (refer to Table 1). For the purpose of this study, Learner achievement means that the school focus on and value learner achievement, the school are committed to high academic expectations, and that learner achievement is continuously monitored.

With regard to the third factor, labelled Strategic intent, six of the 26 items that were used to measure the latent variable, Perceived success, loaded onto this factor. Strategic intent means that the school has a clear vision and mission, challenging goals are set, the school partnered with tertiary institutions, the infrastructure of the school supports learning and that technology is utilised to enable learning.

Four of the eight items used to measure the latent variable Perceived success, loaded onto factor 4. Factor 4 was labelled Staff development and means that teachers are continuously encouraged to improve their qualifications and that there is an active and open staff development programme.

The wording of the statements (items) originally measuring the five latent variables is provided in Appendix 1.

With regard to the second model, to assess the discriminant validity of the 27 items measuring the entrepreneurial orientation of the respondents at secondary public schools, an exploratory factor analysis was conducted. Two tests, namely Bartlett's test of sphericity and the Kaiser-Meyer-Olkin measure of sampling adequacy, were considered important in determining the appropriateness of the data for factor analysis (Gürbüz & Aykol, 2009: 327). The data measuring the entrepreneurial orientation yielded a sampling adequacy of 0.910 and the Bartlett's test of sphericity yielded a p-value of smaller than 0.001, indicating that patterns of correlations are compact and that factor analysis should yield reliable factors (Field, 2009: 647).

An Oblimin oblique rotation was performed on the principal components of the exploratory factor analysis. To determine the number of factors to be extracted, Kaiser's criterion was used, namely to retain factors with eigen-values greater than one (Field, 2009: 647). A total of 28 items demonstrated sufficient discriminant validity by loading to a sufficient extent. The factor matrix of the remaining 28 items is provided in Table 2.

Applying the factor extraction criterion that the eigen-values must be greater than one (Davis, 2005: 446), five factors were extracted in the exploratory factor analysis explaining 61.45% of the variance before rotation. After rotation, these factors could be identified as the theoretical dimensions of Innovativeness, Autonomy, Risk-taking, Opportunity utilisation and Competitive aggressiveness.

Factor 1, labelled Innovativeness, comprised ten items. Eight of the 12 items used to measure the latent variable Innovativeness (refer to Table 1: Inno3; Inno2; Inno4; Inno1; Inno7; Inno5, Inno8; Inno6) loaded significantly onto factor 1 as expected. Two items related to Pro-activeness were also included in factor 1, being regarded by respondents as being related to Innovativeness. For the purpose of this study, Innovativeness refers to the regular introduction of new products/services/processes, the increase in the number of service/product offerings during the past two years, and the extent to which these new products/services/processes have been dramatic within the past few years.

The second factor, labelled Autonomy, comprised six items. Five of the items used to measure the latent variable Autonomy (refer to Table 1: Auto3; Auto1; Auto4; Auto5; Auto2) loaded significantly onto factor 2. One item that was originally intended to load Innovativeness (Inno13) also loaded onto factor 2. Autonomy refers to employees being encouraged to manage their own work without continual supervision and being allowed flexibility to be creative and try different methods to do their jobs.

**TABLE 2: OBLIMIN ROTATED FACTOR MATRIX: ENTREPRENEURIAL ORIENTATION**

Items	Factor 1: Innovativeness	Factor 2: Autonomy	Factor 3: Risk- taking	Factor 4: Opportunity utilisation	Factor 5: Competitive aggressiveness
Inno3	<b>0.842</b>	0.037	-0.004	-0.031	-0.020
Inno2	<b>0.835</b>	-0.077	0.027	-0.030	-0.096
Inno4	<b>0.786</b>	-0.047	-0.038	0.077	0.142
Inno1	<b>0.732</b>	-0.100	0.002	0.159	0.095
Inno7	<b>0.676</b>	-0.123	0.021	-0.185	-0.132
Inno5	<b>0.607</b>	0.011	0.066	0.377	0.216
Inno8	<b>0.579</b>	-0.178	0.067	-0.194	-0.092
Inno6	<b>0.552</b>	-0.083	0.187	-0.173	-0.079



Pro-ac3	<b>0.511</b>	0.030	0.129	-0.275	0.165
Pro-ac1	<b>0.459</b>	0.134	0.219	-0.428	0.113
Auto3	0.046	<b>-0.767</b>	-0.021	0.108	0.092
Auto1	0.026	<b>-0.724</b>	-0.094	-0.148	-0.084
Auto4	0.118	<b>-0.673</b>	0.011	-0.113	-0.052
Auto5	-0.084	<b>-0.614</b>	0.248	0.203	0.143
Auto2	0.257	<b>-0.583</b>	0.005	-0.136	-0.080
Inno13	0.119	<b>-0.397</b>	0.280	-0.200	-0.124
Risk5	-0.069	-0.032	<b>0.892</b>	0.016	-0.032
Risk6	-0.068	0.023	<b>0.861</b>	-0.052	-0.034
Risk4	0.116	-0.081	<b>0.713</b>	0.038	0.085
Risk2	0.064	0.089	<b>0.673</b>	0.002	0.149
Inno12	0.230	-0.216	<b>0.432</b>	-0.151	-0.050
Risk1	0.097	0.024	0.176	<b>-0.718</b>	0.029
Kom4	-0.105	-0.304	-0.027	<b>-0.604</b>	0.220
Inno9	0.126	-0.249	0.162	<b>-0.566</b>	-0.102
Pro-ac2	0.402	0.155	0.143	<b>-0.459</b>	0.240
Com2	-0.015	0.002	0.076	0.024	<b>0.846</b>
Com3	0.068	-0.011	-0.110	-0.322	<b>0.722</b>
Com1	0.028	-0.035	0.166	0.089	<b>0.718</b>
<b>Cronbach Alpha</b>	<b>0.906</b>	<b>0.793</b>	<b>0.839</b>	<b>0.757</b>	<b>0.745</b>

(1) Loadings greater than 0.35 were considered significant

(2) The items included in the factor analysis are provided in Appendix 1

The third factor, which comprised five items, was labelled Risk-taking. Four items (Table 1: Risk5; Risk6; Risk4; Risk2) intended to measure the latent variable Risk-taking loaded onto the factor, as expected. One item (Inno12), used to originally measure the latent variable Innovativeness, also loaded onto the factor, Risk-taking. Risk-taking refers to the business having a strong inclination towards high-risk projects and when confronted with uncertainty, the business typically adopts a bold posture to maximise the probability of exploiting opportunities.

The fourth factor comprised only four items. One item each intended to measure Risk-taking (Risk1), Competitive aggressiveness (Com4), Innovativeness (Inno9) and Pro-activeness (Pro-ac2) respectively, loaded onto the combined factor. The new factor was labelled Opportunity utilisation. Opportunity utilisation, for the purpose of this study, refers to the opportunities in education that the school, and especially the management team, should pursue. Even in times of uncertainty and confusion, which is unique to the South African public education system, opportunities should be identified on which one can maximise.

The last factor, labelled Competitive aggressiveness, comprised three items. Three items intended to measure the latent variable Competitive aggressiveness (Kom2; Kom3; Kom1) loaded onto the factor as was expected. In this regard, Competitive aggressiveness refers to when an aggressive posture is assumed not only against competitors, but also any industry trends that may compromise survival or competitive position.

The wording of the statements (items) originally measuring the five latent variables is provided in Appendix 1. The exploratory factor analysis, together with the interpretability of the factors, provides some evidence of construct validity.

## **RELIABILITY OF MEASURING INSTRUMENT**

To assess the internal consistency of the items measuring the various factors under investigation, Cronbach alpha coefficients were calculated (Bryman & Bell, 2007: 164). Coefficient alpha measures internal consistency by computing the average of all split-half reliabilities for a multiple-item scale (Zikmund & Babin, 2007: 322). The coefficient varies between 0 for no reliability, and 1 for maximum reliability (Kent, 2007: 142). Nunnally and Bernstein (1994: 265) suggest that for acceptable reliability the Cronbach alpha coefficient should be greater than 0.7. The results in Table 1 and Table 2 suggest that the proposed instrument is reliable with no factors below the Cronbach alpha value of 0.7.

## **LIMITATIONS OF THE STUDY**

The study attempted to make a contribution with regard to the improvement of the success of schools by concentrating on the necessity and applicability of an entrepreneurial orientation in public secondary schools. The study was, however, limited to the possible entrepreneurial actions of the five top performing schools in Gauteng, all located in Pretoria.

The study is furthermore limited to the internal environment of the schools that did not account for external factors. Interpretation of the findings should therefore be handled with care, as they cannot be generalised.

The study considers entrepreneurial orientation as one of the many success factors of a school. Success factors that were not considered are, among others:

- Geographic location where school is located.
- The socio-economic status and level of education of the community wherein the school is situated.
- Available sources.
- Demographic composition of the school.

## **RECOMMENDATIONS FOR FUTURE RESEARCH**

In this study, the exploratory factor analyses of the measuring instruments for entrepreneurial orientation and the perceived success of schools provide some evidence of construct validity, but further research is needed before the instrument can be utilised to assess entrepreneurial orientation in schools and, furthermore, investigate the influence of an entrepreneurial orientation on the success of schools. It is recommended that more advanced statistical procedures for scale validation, such as structural equation modelling, should be utilised in further development of the instrument. Supplementary research on the use of this measuring instrument is also necessary to refine its norms.



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## APPENDIX A

### ITEMS MEASURING THE DEPENDENT VARIABLES

Item	Statement
<b>Factor 1: Effective learning environment</b>	
SUC24	There is a trusting relationship between parents, learners, teachers and the school management team.
SUC22	At our school, there is mutual respect between learners and staff.
SUC23	Teaching time is used effectively and efficiently.
SUC18	Learner behaviour is addressed.
SUC1	At our school there is a presence of very strong administrative leadership.
SUC15	There are definitive signs of collegiality and professionalism.
SUC2	There is a strong focus on basic skills of learners.
SUC5	The school is safe and organised.
SUC19	Here exists a willingness to establish organisational changes to the benefit of the learners.
<b>Factor 2: Learner achievement</b>	
SUC6	The focus at the school is achievement.
SUC3	High expectations are placed on learners pertaining to achievement.
SUC9	The school is committed to high academic expectations.
SUC4	The progress of learner achievement is continuously monitored.
<b>Factor 3: Strategic intent</b>	
SUC12	There are partnerships with tertiary institutes.
SUC20	Technology is applied optimally to the benefit of the learners.
SUC13	The infrastructure of the school supports learning and concomitant success.
SUC26	The school has a clear vision and mission.
SUC14	There are challenging goals and effective feedback.
SUC7	Parent involvement is maximum and the school supports collaboration with the community.
<b>Factor 4: Staff development</b>	
SUC25	Teachers are continuously encouraged to improve their qualifications.
SUC17	Here exists a focused and sustainable staff development programme.
SUC21	All of the staff were part of the school development plan.
SUC11	There is a clear connection between the curricular, co-curricular and extra-curricular contents.

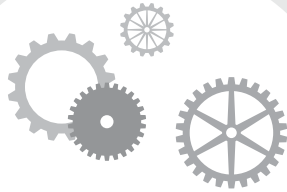
## APPENDIX B

### ITEMS MEASURING THE INDEPENDENT VARIABLES

Item	Statement
<b>Factor 1: Innovativeness</b>	
INNO3	Our school has over the past two years expanded the number of services/subjects/sport codes/processes.
INNO2	Our school places a great emphasis on new and innovative services/subjects/sport codes/processes.
INNO4	Our school continuously strives towards new opportunities.
INNO1	Our school regularly adds new services/subjects/sport codes/processes.
INNO7	At our school there is a strong emphasis on the sustained improvement of services/subjects/sport codes/processes.
INNO5	Over the past few years, the changes to the services/subjects/sport codes/processes were dramatic.
INNO8	At our school there is a great emphasis on innovation for the successful future existence and success of the institution.
INNO6	At our school there is a strong correlation between the number of new ideas that are generated and the number of ideas that are successfully implemented.
PROAK3	Our school is continually seeking new services/subjects/sport codes/processes.
PRO1	Our school is often first to establish new services/subjects/sport codes/processes.
<b>Factor 2: Autonomy</b>	
AUTO3	Educators at our school are allowed to make decisions without having to go through an elaborate justification- and approval process.
AUTO1	I have sufficient autonomy in my work without continuous supervision to do my work.
AUTO4	Educators at our school are encouraged to manage their own work and portfolio and there is flexibility when problems are solved.
AUTO5	I seldom need to follow the same work procedures or work methods during the execution of my most important tasks.
AUTO2	Our school allows me to be creative and offers me the opportunity to experiment with new methods in my work.
INNO13	The school's management are open to my ideas and suggestions.
<b>Factor 3: Risk-taking</b>	
RISK5	Projects with a calculated risk are highly valued, even if it does not work out as initially planned.
RISK6	The term 'risk-taker' is considered a positive attribute for employees at our school.
RISK4	Employees of the school are often encouraged to take calculated risks pertaining to new ideas.
RISK2	In general, our school has a strong inclination towards high-risk projects.
INNO12	The management of the school often question the status quo and inspire the staff to think and act in innovative ways.
<b>Factor 4: Opportunity utilisation</b>	
RISK1	During times when the school is confronted with uncertain decisions, we often have a very strong stance in order to maximise the possibility of opportunities within the uncertainty.
COM4	Our school knows when it becomes too dangerous to act overly aggressive.
INNO9	Our school leadership always tries to maximise the value of opportunities without placing a strain on

## FACTORS AFFECTING CAPITAL STRUCTURE DECISIONS: A SMALL BUSINESS PERSPECTIVE

10



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### ABSTRACT

This research paper investigates whether or not behavioural factors influence the capital structure decisions of small or owner-managed businesses in South Africa, specifically in the Grahamstown area. Previous research studies that have been conducted on capital structure decisions, in terms of behavioural factors, mainly focused on businesses that were large in terms of size and scale. It has therefore been found that there is not enough research exploring behavioural and non-behavioural factors influencing small business capital structure decisions. The research instrument used was a questionnaire consisting of both open-ended and close-ended questions. This study found that non-behavioural and behavioural factors play a role in shaping capital structure decisions of restaurant owners in Grahamstown; however no conclusions could be drawn about behavioural finance.

### KEYWORDS

Behavioral factors, Capital structure, Small businesses, Owner-managed businesses

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## INTRODUCTION

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The concept of behavioural finance did not exist as a field, until the 1990s where academic investigations shifted towards developing models of human psychology as it related to financial markets (Riccardi & Simon, 2000: 3). The advent of behavioural finance has led to a greater understanding of various factors that influence decision making, by both managers and investors. The study of behavioural finance has also been able to explain some of the reasons underpinning the deviations in financial market operations from standard theoretical frameworks. As traditional paradigms have used quantitative information to justify and explain these anomalies, behavioural finance examines factors influencing investors and managers' decision making process from a behavioural perspective (Riccardi & Simon, 2000: 3).

According to Riccardi and Simon (2000) behavioural finance attempts to explain the what, why, and how of finance and investing from a human perspective, as well as the psychological and sociological factors affecting the financial decision making processes of various financial market participants. The more recent development in the study has been Behavioural Corporate Finance (BCF), which investigates the psychological biases of managers and investors in terms of their influences on a company's corporate finance decisions (Fairchild, 2007).

One of the most important corporate finance decisions is the capital structure decision. Capital structure refers to the forms of financing used to fund the business operations. The decision of choosing the appropriate mix of financing the business can be affected by various factors. Virtually all capital structure research focuses on quantitative analyses explaining how capital structure is affected by financial factors. In addition, research on small business capital structures is not vast and there is very little of it examining behavioural corporate finance.

The high failure rate of small businesses also calls for an investigation into the financing decisions of the owners. Michaelas, Chittenden and Poutziouris (1998: 247), further emphasized the importance of investigating the factors influencing capital structure decisions in small firms by explaining that financial policy and capital structure of small businesses is a major area for concern and that most of the research (based on the reasons for their failure) has identified financial leverage as the main contributor. This was the motivation for the study because small businesses make a positive contribution to the economy of a country, for example, they provide employment opportunities.

This paper analyses the results from questionnaire responses provided by small business owners in the Grahamstown area. For the purposes of this research a small business can be described as a business that is privately owned, has less than 200 employees and is not part of a group that will influence the capital structure.

### PROBLEM INVESTIGATED

Research studies that have been found to influence capital structure decisions in terms of behavioural factors have been directed at businesses that are large in terms of size and scale. Therefore, there is not enough research exploring behavioural factors influencing small business capital structures-especially in South Africa. As mentioned previously, there is a need to examine small businesses in this regard as they play an important role in the economy.

One study that examined small business capital structure decision making in South Africa was conducted by Rungani (2009), however the study concentrated solely on the general financial factors that determined the capital structure of small-to-medium size enterprises. In contrast to the

study by Rungani (2009), this study aims to explore the effect of owner or manager preferences, perceptions, beliefs and attitudes on capital structure. These perceptions will influence what types of financing, such as bank loans and external equity such as shares, a small business uses. The preferences, perceptions, beliefs and attitudes tend to be behavioural in nature. This research was conducted with the view of extending understanding of capital structure policies applied by small business owners through exploring qualitative data which will give light as to whether behavioural factors play a role in capital structure decision making and to also shed light into financial factors that the business take into account in making these decisions.

## RESEARCH OBJECTIVES

The primary objective of this research paper was to investigate whether or not behavioural factors influence the capital structure decisions of small or owner-managed businesses in South Africa specifically in the Grahamstown area. This research was conducted with the view of gaining and adding more insight into the diverse financial, non-financial and behavioural factors impacting the capital structure of small businesses. The outcomes of the research could also serve as a tool for identifying the causes of small business failures. The research aimed to address the following research questions:

- What non-behavioural factors affect the decision making process with to regard capital structure?
- What behavioural factors portrayed by owners of small businesses influences the decision making with regards to the capital structure of the firm?
- What are the owners' perceptions in terms of risk and preference with regard to different sources of finance and how do these perceptions motivate the capital structure decision making?

## LITERATURE REVIEW

The following section discusses capital structure theories and behavioural finance as they relate to small businesses. This section also discusses the differences and similarities between previous studies conducted on capital structure and behavioural finance.

<b>Capital structure</b>	
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As previously mentioned, capital structure can be defined as a combination of the finance sources to be used in funding the operation of a business, essentially it is the ratio of debt financing relative to equity financing (Megginson, Smart & Graham, 2010: 413). It can consist of the long term debt, short term debt, common equity and preferred equity. According to Baker and Wurgler (2002: 41) a firm's capital structure is the cumulative result of a long series of incremental financing decisions, each driven by the need to fund some investment project, consummate a merger, refinance or some other objective. The decision as to which forms of financing to use is an important one in corporate finance as it can affect the value of a firm. However, the seminal authors of this topic, Modigliani and Miller (1958) argued that when certain assumptions hold the value of a firm is independent of the capital structure and this was termed the irrelevance theory. The assumptions were that of perfect market conditions:

- The market did not have information asymmetry;
- Investors faced the same borrowing rates as businesses; and

- Capital markets where perfect in that there were no taxes and transaction costs.

### **Modigliani and Miller's Proposition**

Modigliani and Miller (1958) introduced two propositions. The first proposition asserted that a firm's market value equals the value of its assets and is independent of the firm's capital structure. Therefore, in terms of this proposition the firm's value is equal to the present value of the cash value it generates irrespective of the chosen capital structure. The second proposition claimed that even though debt is less costly for firms to issue than equity, issuing debt causes the required return on the remaining equity to rise. The reason for this lies in the fact that as a firm issues more debt it creates a fixed obligation to make interest payment, therefore shareholders (as residual claimants of a firm's profits) will demand a high return on their investment to compensate for the risk related to being a leveraged firm. These propositions implied that a firm's value is solely based on its investment decisions. Swinnen, Voordeckers and Vandemaele (2003: 2) stated that the implication of the irrelevance theory was that there was no relationship between corporate financial decisions and investment decisions, therefore the logical conclusion would be to analyse them individually.

Since the introduction of these propositions there have been several theories that have tried to explain the financing behaviours of firms and what factors drive the capital structure decision. These theories will be discussed below.

### **Pecking Order Theory**

One of the studies conducted was that of Myers (1984), who proposed the pecking order theory with regard to choosing a firm's finance structure. In terms of this model, a firm sources finance by following a financial hierarchy, whereby internal funds are given first preference to external funds. If the firm requires external finance it will begin with safe debt, and then move on to risky debt, convertible securities, preferred stock, and finally issue ordinary shares as a last resort. Megginson et al. (2010: 454) noted that the model implies that businesses do not have a target capital structure and it also does not explain the reason why firms which own more physical assets use more leverage. According to Lemmon and Zender (2010: 1163) the pecking order theory reveals costs derived from asymmetric information between managers and the market as well as the assumption that the trade-off theory of cost and benefits of debt financing are of secondary importance in comparison to the cost of issuing equity in the presence of asymmetric information. Frank and Goyal (2002: 219) stated that the pecking order theory does not explain broad patterns of corporate finance and that the theory works best when applied to businesses that face adverse selection problems such as small high-growth firms as they have high information asymmetries. However, Frank and Goyal (2002: 219) further stated that these small high-growth firms do not reveal pecking order behaviour. On the contrary, most evidence has shown that the pecking order model is more relevant for small business capital structures and seems to be used dominantly in financing decisions. This will be seen in the section which discusses the findings of the various studies conducted on capital structure decisions on small firms.

### **Trade-off Theory**

Myers (1984: 4) stated that a firm's debt ratio is usually determined by balancing the cost of debt and the benefits of debt such as interest tax shields. According to this model a firm is supposed to



substitute debt for equity, or equity for debt until the value of a firm is maximized, thereby reaching the optimal capital structure. The assumption of the trade-off theory is that firms strive to obtain an optimal target capital structure. Rungani (2009: 54) stated that this makes it difficult to apply the theory on small firms because defining the optimal target capital structure of small businesses is complicated. The reason for this is that small business owners may have other objectives which can also not be accurately measured. Also, the advantages of debt (tax shield) could be difficult to measure due to the fact that in most cases the firm's income is taxed as the owner's personal income (Rungani, 2009: 54). Cotei, Farhat and Abugri (2011: 723) stated that the trade-off theory implies that in addition to the internal fund deficit or surplus, the proportion of debt financing may be affected by other factors such as deviations from the target leverage and non-debt tax shield sources. Therefore, this implies that the trade-off theory is not relevant to a certain extent insofar as the optimal structure cannot be defined for small firms.

### **Signalling Model**

As a result of asymmetric information between managers who are inside the firm and investors who are outsiders, Ross (1977) and other academic researchers introduced the signalling model. According to this model managers who have favourable inside information have an incentive to convey the information to outsiders in order to increase the firm's share price. According to Connelly, Certo, Ireland and Reutzel (2011: 42) certain types of information is classified and it is for this reason that information asymmetries arise between those who hold that information and those who could potentially make better decisions if they had access to it. Vander Wijst and Thurik (1993: 57-58) stated that managers possess more knowledge about a firm's prospects, however cannot be expected to be entirely forthright about these prospects because there substantial rewards for exaggerating the firm's positive attributes and ignoring the negative ones when determining the true qualities by outside parties is costly or impossible. Another reason is the protection of the firm from competition since full disclosure of a firm's protects might allow competitors to appropriate key features of the firm's projects. According to Barclay, Smith and Watts (1995) the model is statistically significant but economically unimportant because high quality firms are more leveraged than low quality firms, but the differences in leverage is not significant.

The different theories of capital structure decision making are complementary in that when one theory lacks in certain respects the other fills up the gaps. The model that is most relevant for small businesses is the pecking order theory; this is as a result of the fact that small businesses are typically privately held. The signalling theory is not significant in this context as the shares are not listed.

### **Small businesses**

Small businesses play an important role in driving economic growth and improving the employment conditions of a country. Olawale and Garwe (2010: 729) confirmed this by stating that governments throughout the world concentrate on the development of the Small and Medium Enterprise (SME) sector to encourage economic growth. In South Africa, 68% of all jobs are in the small business sector employing fewer than 50 people; and 43% of jobs are in small businesses employing fewer than five people (SA's small businesses under the hip, 2012). South Africa has a high unemployment rate with an estimate of 25.2% of the economically active population unemployed (Statistics South Africa Quarterly Labour Survey, 2012). Olawale and Garwe (2010: 729) advised that one of the best ways to address the problem of unemployment is to increase the employment creation potential of small businesses and to also promote their development.

Glen (2004) cited in Rungani (2009: 2) stated that the failure rate of SMEs in South Africa is very

high, with about ninety percent (90%) of SMEs failing within the first few years of operating. Olawale and Garwe (2010:730) expanded on this by stating that approximately seventy-five percent (75%) of new SME's in South Africa do not become established firms.

A firm becomes established when it has been in existence and conducting business for more than forty-two (42) months (Olawale & Garwe, 2010: 730). However, there has been a slight increase in the percentage of owner-managers of new firms- from an average of two percentage (2%) for the period 2002 to 2007 to an average of three percentage (3%) for the period 2008 to 2010, but it is clear that a low proportion of new firm activity is a persistent trend in South Africa (Herrington, Kew & Kew, 2010: 22). One of the reasons of their failure is due to the limitations they face when sourcing finance. They are constrained in the following ways:

- In the initial stages of the business there is no track record of the financial statement, therefore this hinders the owner's chances of securing bank loans;
- If the owner is able to secure a bank loan, he or she faces high interest rates than she or he would have under other circumstances because of the risk associated. These risks are as a result of uncertainties regarding the success of the new business;
- Personal resources of the business owner may be inadequate in providing collateral for raising finance; and
- Internal equity is also limited as the business may not have yet generated enough profits in its start-up phase.

Hamilton and Fox (1998: 240) stated that small businesses will never find all the financing they require from banks and institutions. As a result, these businesses rely heavily on short term debt because it is externally imposed as capital markets will not give them access to more appropriate forms of funding such as long-terms debt. According to Herrington et al. (2010) access to finance is a major problem for the South African entrepreneur. Fin Mark Trust (2006) finds that only two percent (2%) of new SMEs in South Africa are able to access bank loans.

### **Capital structure of small businesses**

A limited amount of research has focused on small, growing, entrepreneurial companies and the factors affecting the capital structure of these firms. It would be fair to say that theoretical and empirical capital structure research has ignored the small business sector. Some of the studies conducted on the factors influencing small business capital structures are discussed below.

Abor and Biekpe (2009) investigated the determinants of capital structure of SME's in Ghana. The study revealed that variables such as a firm's age, size, asset structure, profitability and growth affected the capital structure of Ghanaian SME's. The study also revealed that short-term debt constitutes a high proportion of total debt of Ghanaian SME's. This was explained by the fact that short-term debt attracts relatively low interest compared to long-term debt. Rungani (2009) also investigated the capital structure determinants of SME's in the Buffalo City Municipality in the Eastern Cape. The study revealed that the use of retained earnings, external equity and debt by SME's was negatively related with age, size and profitability. The study also uncovered that culture contributed to the capital structure decision. On the other hand, the study conducted by Abor and Biekpe (2007: 92-93) revealed that age was positively related to long-term debt while it was negatively related to short-term debt and size was also positively related to short-term debt.

Another study was conducted by Cole (2008). The study found that leverage was negatively related to firm size, age, profitability, liquidity and credit quality. On the other hand, there was a positive

relationship between firm tangibility and limited liability. Firm tangibility refers to the amount of tangible assets that a firm possesses -this is the ratio of physical assets to the total assets of the firm. Limited liability refers to the liability of a firm's owners for no more than the capital they have invested in the firm. An interesting finding had to do with the relation between firms and banks or other financial institutions. The study found that a firm's leverage is an increasing function of both the number of banks and the number of financial institutions with which the firm has business relationships. Another interesting finding was in relation to female business owners- they used less leverage than their male counterparts.

Degryse, de Goeij and Kappert (2010) conducted a study whose objective was to find out about the impact of industry and firm characteristics on the capital structure of Dutch small and medium enterprises. The results revealed that a firm's characteristics such as age and size had an impact on the finance structure of a firm. These results were in line with the pecking order theory predictions as small businesses used their profits to reduce their levels of debt since they preferred internal funds over external funds. Industry characteristics (such as competition) also had an effect on the capital structure decision and this was in line with the trade-off theory because industries exhibited different debt levels.

There has been several studies conducted on small business capital structures with each of the studies being applied to different regions or different sectors of a country's economy, the general trend in the findings of these studies was that size, age and profitability of the firm affected capital structure decisions. In terms of the capital structure theories, the pecking order model appeared dominant in terms of the manner in which the firms chose their finance sources for all the studies. Most of them did not consider the behavioural aspect that might influence these decisions.

A study conducted which briefly explored the topic of behavioural factors was that of Hamilton and Fox (1998). The objective of this research was to find out the financing preferences of small business owners in New Zealand. The research revealed that small business owners had a set of preferences over funding sources which were independent of age or size of the firm; and had little to do with the consequent financial structures of their balance sheets. Internal funding sources commencing with the cash savings of the founders and then extending to retained earnings were the most preferred since these hindered the independence of the owner the least. The main reason for preferring internal equity to external equity was the need for constant control or ownership of the business. This research was shifting to behavioural finance but it did not delve too deeply into the main psychological aspects regarding these finance preferences.

Similarly Zellweger, Frey and Halter (2009) found that family managers were more loss averse for the independence goal than for the return on investment goal. This means that a comparable loss in independence and return leads to differing changes in the value that the entrepreneur feels; the loss for independence is experienced more intensely than the loss in the return goal. In this study it was shown that family managers were willing to reject investments in profitable projects if it was going to affect their independence goal. The family managers also made decisions based on reference points- they were willing to incur investments with higher control risk (measured in terms of debt levels) if they could act starting from a safe starting position (one characterized by high equity levels). The concept of reference points can also be related to the behavioural finance heuristic of anchoring whereby people form an estimate by beginning with an initial number and adjusting it to reflect new information (Shefrin, 2007: 9). In terms of the family managers they were only willing to bear additional control risk when they could revert to a secure independent initial position. On the contrary, non-family managers displayed higher loss aversion for the return goal and made decisions independently of reference points. This can be explained by the agency relationship since managers have a duty to maximise shareholder value.

## Behavioural corporate finance

While conventional academic finance emphasize theories such as modern portfolio theory and the efficient market hypothesis, the emerging field of behavioural investigates the psychological and sociological issues that impact the decision-making process of individuals, groups and organisations (Riccardi & Simon, 2000: 1).

Many scholars and authors have given their own interpretation and definition of behavioural finance. According to Riccardi and Simon (2000: 1), behavioural finance attempts to explain and increase the understanding of the reasoning patterns of investors including the emotional processes involved and the degree to which they influence the decision making process. Essentially it attempts to explain the what, why, and how of finance and investing from a human perspective. Lastly, Riccardi and Simon (2000: 1) mentioned that behavioural finance studies the psychological and sociological factors that influence the financial decision making process of individuals, groups and entities. Shefrin (1999) cited in Riccardi and Simon (2000: 3) described behavioural finance as the interaction of psychology with the financial actions and performance of practitioners. Furthermore, Barber and Odean (1999: 41) stated that behavioural finance enriches economic understanding by incorporating these aspects of human nature into financial models.

Under traditional financial theory the decisions makers are rational. In contrast, human decisions are subject to several cognitive illusions. Lately, more attention has been paid to financing decisions made by firms' managers and entrepreneurs (Ackert & Deaves, 2010: 279). Fairchild (2005) stated that researchers in behavioural corporate finance are increasingly recognising that managers may not be fully rational, and that their financing and investment decisions may be affected by psychological biases. Psychological pitfalls may hamper managers/ business owners in applying finance techniques correctly (Shefrin, 2007: 2).

## Psychological Biases

Three psychological bias phenomena that Fairchild (2007: 4) identified will be discussed, starting with overconfidence then followed by excessive optimism and illusion of control which are commonly portrayed by managers/ business owners.

As human beings we tend to overestimate our own skills and predictions for success (Riccardi & Simon, 2000: 3). Shefrin (2007: 6) stated that overconfidence is when people make mistakes more frequently than they believe and view themselves as better than average. He also said that people are overconfident about their level of knowledge and think they know more than they actually know; their confidence does not necessarily mean that these people are ignorant or superior; it just means in their eyes they are smarter and better than is actually the case. There is evidence that managers/ owners of businesses are overconfident, one study found that managers tend to predict stronger performance for their businesses (Ackert & Deaves, 2010: 282). Barros and da Silveira (2007: 5) stated that people who are overconfident about their skills and the precision of their judgments minimize the risks inherent in the tasks they undertake and tend to show remarkably positive or negative performances. Those who succeed as employees inside firms or with their own businesses end up in high managerial positions.

The second phenomenon is excessive optimism. Shefrin (2007: 3) defined it as the overestimation of how people will frequently experience favourable outcomes and underestimate how frequently they will experience unfavourable outcomes. Barros and da Silveira (2007: 4) mentioned that some pioneering studies are attributed to Weinstein (1980 & 1982). Participants in Weinstein's

experiments consistently judged that their probability of going through positive experiences during life were above average, that is, were higher than the probability of success they associated with their peers.

A model formulated by Dirk Hackbarth shows that not only are owners/ managers of businesses excessively optimistic about their firms prospects but they are also overly sure about their views. This model suggested that managerial confidence is positively correlated with debt issuance because optimism about future cash flow leads to a belief that there will be little problem in covering interest payments (Ackert & Deaves, 2010: 288). Some people use the term overconfident to mean optimistic. Overconfidence and excessive optimism often go hand in hand, but are not the same. Managers/owners can be pessimistic yet overconfidently so. The point is that overconfident managers are overly convinced that their views are correct (Shefrin, 2007: 6). There are good reasons to believe that managers and businessmen are particularly susceptible to the biases of overconfidence and optimism. As individuals in general tend to overestimate their own abilities, they will tend to show higher overconfidence and optimism about uncertain results they think they can control Weinstein (1980) cited in Barros and da Silveira (2007: 7).

The third phenomenon is illusion of control, which is when people overestimate the extent to which they can control events. This is especially the case in small businesses as they are usually family owned. When a manager makes a decision, the outcome typically depends on a combination of luck and skill. In general managers have an exaggerated view of how much control they exert over outcomes. Psychological studies have found that an increase in perceived control leads to an increase in excessive optimism (Riccardi & Simon, 2000: 8).

Ackert and Deaves (2010: 288) mentioned that overconfidence among entrepreneurs, even if personally delirious, might be socially beneficial because entrepreneurial activity can provide valuable information to society. Both Fairchild (2005) and Hackbarth (2002) argue that overconfidence may have a positive, value adding effect (Fairchild, 2007: 5). Fairchild's study (2005) also debates that managerial overconfidence is not necessarily bad for shareholders. Although some would say that being overconfident is not an "effective behaviour" to have, the above mentioned studies are similar in that they agree overconfident managers could add value to their firms.

### **Agency problems, asymmetric information and moral hazard problems**

Studies by Fairchild (2005: 1) and (2007: 4) combine overconfidence with effects of agency problems, asymmetric information and moral hazard problems on the manager's choice of financing (debt or equity). These effects will be briefly discussed below.

Jensen and Meckling (1976) study concluded that agency costs arise as a result of the relationships between debt-holders and shareholders and those between shareholders and managers. The conflict between debt-holders and shareholders is due to moral hazard. These will not affect this research and is irrelevant as managers of small businesses are usually the owners therefore the shareholders too so agency conflict will not be present.

According to Abor and Biekpe (2009: 84), the notion of asymmetric information as explained by Myers (1984) and Myers and Majluf (1984) studies indicates a hierarchy of firms' preferences with respect to the financing of their investments. Because firms will tend to seek financing sources that are less subject to the costs of informational asymmetries, the pecking order theory explained above suggests that firms will initially rely on internally generated fund, for instance undistributed earnings, where there is no existence of information asymmetry, they will turn to debt if additional



funds are needed and finally they will issue equity to cover any remaining capital requirements. Selling new stock is the last option (Barros & da Silveira, 2007: 3).

In Fairchild's (2007) study, he looked at the work of Heaton (2002) who analysed the effect of overconfidence on financing decisions in the absence of asymmetric information or moral hazard problems. Since the manager/ owner of businesses are overconfident, it is believed the market undervalues equity (Fairchild, 2007: 7). This then results mispricing problems resulting in manager/ owner taking on debt that they shouldn't take. He also went on to compare it to studies by Hackbarth (2002), (2004) and Heaton (2002). Hackbarth (2002) models the effect of managerial overconfidence in a trade-off model of capitals structure. Firstly, he considered the case where the manager attempts to maximise the firm value, trading-off the tax shield benefit of debt and bankruptcy cost of debt. Secondly, he considered the case where an agency conflict exists between the manager and investors over the managerial diversion of discretionary resources. In both cases, Hackbarth finds a positive relationship between overconfidence and debt (Fairchild, 2007: 7).

Fairchild (2005) develops the work of Heaton (2002) and Hackbarth (2004) by presenting two models of managerial overconfidence and capital structure. The first model considers the combined effects of managerial overconfidence and asymmetric information where increase in overconfidence increases the incidence of debt issuance. The second model considers the combined effects of managerial overconfidence and moral hazard where the findings show an ambiguous relationship between managerial overconfidence and firm value. The manager uses debt as a commitment to high effort and hence high firm value (Fairchild, 2007: 7-8).

Fairchild (2005: 1) states that this leads to excessive use of debt and higher expected bankruptcy costs. In terms of capital structure, the theoretical and empirical evidence suggests that managerial overconfidence leads to higher debt levels but the relationship with the firm value is ambiguous since overconfidence results in higher managerial effort (Fairchild, 2007: 10). Shefrin (1999) also stated that overconfidence may induce a manager to adopt a heavy debt-laden capital structure (Fairchild, 2007: 10).

It seems as if for as long as the manager is overconfident, there will be an increase in debt in the capital structure regardless of whether agency costs, asymmetric information or moral hazard problems exist or not. The studies above only look at the debt part of the capital structure and lack information on other components. Only recently researchers are beginning to consider the effect of managerial overconfidence on capital structure decisions (Fairchild, 2007: 7). In spite of infinite list of managerial biases, much of existing research focuses on managerial overconfidence (Fairchild, 2007: 5). Research done thus far in managerial overconfidence regarding capital structure has provided mixed results (Fairchild, 2007: 5). This is an opportunity to further do research in this field therefore adding value with solid results of behavioural factors influencing capital structure decisions.

#### **Non behavioural factors used in previous studies**

As mentioned above studies by Michaelas et al. (1998), Rungani (2009), Abor and Biekpe (2009) are all similar in that they show that the firm's age, size, asset structure, profitability and growth are non-behavioural factors or rather determinants that influence capital structure decisions. In their study, Abor and Biekpe (2009: 85) explain the age of the firm as a standard measure of reputation in capital structure models. From the life cycle perspective, over time, the firm establishes itself as a continuing business and it therefore increases its capacity to take on more debt. Before granting a loan, banks tend to evaluate the creditworthiness of entrepreneurs as these are generally believed to pin high hopes on very risky projects promising high profitability rates.



In terms of size, larger firms tend to be more diversified and hence have lower variance of earnings, making them able to tolerate high debt ratios (Castanias, 1983; Tihnan & Wessels, 1988; and Wald, 1999). Smaller firms on the other hand may find it relatively more costly to resolve information asymmetries with lenders, thus, may present lower debt ratios (Castanias, (1983). Firms with more tangible assets exhibit greater liquidation value (Harris & Raviv, 1990; and Tihnan & Wessels, 1988). Such firms have higher financial leverage since they borrow at lower interest rates and their debt is secured with the assets (Bradley, Jarrel & Han, 1984). Informational asymmetry models also predict that managers prefer issuing less risky securities when seeking external financing. Hence, firms with relatively more tangible assets to be offered as collateral should be more levered (Barros & da Silveira, 2007: 7).

Profitability is assumed to have a positive relationship with debt. This is clearly explained by the pecking order theory where firms prefer internal sources of finance to external sources. Profitable firms which have access to retained profits can rely on it as opposed to depending on outside sources (debt) (Titman & Wessels, 1988; Barton, Ned & Sundaram, 1989). Barros and da Silveira (2007: 7) also mentioned the same concept, that more profitable firms have more internally generated resources to fund new investments. If managers follow a pecking order, they will be less likely to seek external financing. Therefore on average, these firms' leverage ratios will be lower. They also added that more profitable firms are less subject to bankruptcy risks, which would be why their expected bankruptcy costs are reduced and they can make more use of the tax shields provided by debt, thus choosing a position of greater leverage.

Growth is likely to place greater demand on internally generated funds and push the firm into borrowing (Hall, Hutchinson & Michaelas, 2004). In the case of small firms with more concentrated ownership, it is expected that high growth firms will require more external financing and therefore would display higher leverage (Heshmati, 2001).

In his study, Michaelas et al. (1998: 247) stated that recent research efforts have included the investigation of factors such as perceived business risk, institutional ownership, management risk perceptions and preferences. All of the issues have been found to play some role in the influencing decisions within the firm (Michaelas et al., 1998: 248). His findings in the study show that the decision to borrow money will be influenced by the owner/ managers perception and beliefs about external finance, as well as the knowledge about the available sources of finance Michaelas et al. (1998: 251). The results also indicate that the extent to which external finance will be required to set up a small firm will be dependent on the specific characteristics of the industry.

## RESEARCH METHODOLOGY

This section will provide a brief discussions of the research methodology and design strategy used in the study and will focus on the research instrument, research technique, primary and secondary data, the sample size and sampling technique, and the data analysis procedures.

### Research instrument

The research instrument used was a questionnaire. Questionnaires were chosen because they made data collection and analysis easier since all data was collected in a uniform way. The questionnaire consisted of open-ended, close-ended and Lickert scale questions. The research questionnaire consisted of newly formulated questions as well as those adapted from studies previously conducted (Michaelas et al., 1998; Benoit, Dubra & Moore, 2008; Rungani, 2009, and Wilmot, 2012). Part B was adapted from Benoit et al. (2008). Part B of the questionnaire consisted of section A and B where Section A asked ten (10) Intelligent Quotient (IQ) questions. Section B then asked the participants how they think they performed in section A. The aim of the questions in

section B was not to test their IQ, but to test how they thought they scored on the IQ test. This is how over confidence was measured. A copy of the questionnaire is contained in Appendix 1.

### **Research technique**

The research technique used to collect primary data was a self-administered questionnaire. The questionnaire respondents were then given a period of three days to complete the questionnaire. This technique reduced interview bias and was easy for data collection. The technique was also convenient for the questionnaire respondents due to the nature of their work, as they are business owners and are always busy. Therefore, the three day period gave the business owners enough time to complete the questionnaires.

### **Research design**

The type of data that this research required was qualitative data because this explored the effect of the owners' preferences, beliefs, perceptions and attitudes towards external finance on a business' capital structure. Qualitative data can be defined as data that is descriptive and subjective as it can be explained from the respondent's point of view (Collin & Hussey, 2003: 53). A phenomenological paradigm was adopted for this research as it is concerned with understanding human conduct from the respondent's frame of reference and it puts emphasis on the subjective aspects of human behaviour by focusing on the meaning, rather than the measurement, of social phenomena (Collin & Hussey, 2003: 53).

### **Sample description**

The type of small businesses or owner-managed businesses that this research focused on was restaurants in the Grahamstown area. According to the Oxford dictionary (2012), a restaurant can be defined as a place where people pay to sit and eat meals that are cooked and served on the premises. The reason Grahamstown was chosen as the focus area is that it has many restaurants and these kinds of businesses seem to be one of the major contributors to the economy of this town in terms of providing employment for the local community. Also, over the past years, there have been a number of restaurants that have come and gone in this area.

### **Sampling method**

The sampling method used was a common one called the quota sampling, sometimes considered a type of purposive sampling (Family Health International, 2005: 5). In quota sampling, the researchers decide while designing the study how many people with which characteristics to include as participants. Characteristics in this case were small businesses, non-franchise restaurants and based in Grahamstown. Then the researchers went into the community and found businesses that fit the above criteria, until the prescribed quotas were met.

## **LIMITATIONS**

The limitation in the chosen sample for this research is that generalising the findings of the research will be inappropriate as Grahamstown is a small town and only constitutes a small fraction of the whole of South Africa and a restaurant is only one kind of small business as there are various types of small businesses in South Africa.

One of the characteristics for the chosen sample was that the small business was a non-franchise. This was due to the idea that franchise businesses' capital structure could be as a result of the franchise agreement and the owner could perhaps have no decision making powers in terms of choosing their preferred capital structure. There were only seventeen restaurants in total found in

Grahamstown and of those, nine agreed to participate in this study. In most cases it was difficult to get in contact with the owners as they were away most of the time. Some reasons for declining were that the owners did not have time to participate in questionnaires (they were too busy even if they were given enough time); and some were unwilling to disclose any kind of information about their business.

In terms of completing the questionnaires, some of the open-ended questions were left blank. This limits our findings as it was not possible to analyse some of the perceptions they may have had in terms of debt and equity.

## RESULTS AND FINDINGS

The following section discusses the findings from the research questionnaires and the interpretations relating to behavioural finance and capital structure theories.

### FINDINGS

#### Current Capital Structure:

The table below provides a summary of the finance sources currently being used by the restaurant owners in Grahamstown.

CURRENT FINANCE	NUMBER OF RESPONDENTS
Personal Savings/Cash	8
Personal Dept	2
Company Dept	1

Two respondents stated that they used personal debt in conjunction with personal cash. One respondent stated that they used company debt with personal cash in equal proportions.

#### What factors did you take into account in deciding the funding of your business?

FACTORS CONSIDERED BEFORE MAKING CAPITAL STRUCTURE DECISIONS	NUMBER OF RESPONDENTS
Availability	4
Finance Costs	4
Firm Size	2
Other	0

#### How many people where involved in the decision making process?

NUMBER OF PEOPLE INVOLVED	NUMBER OF RESPONDENTS
1 person	2
2-4 people	5
More than 5 People	1

The people involved in the decision making process included the owners themselves, accountants, bankers, business partners and family members. All of the restaurant owners ranked having personal control of the business as being very important, this can be explained by the fact that most of them play both the role of owner and manager of their businesses.

### Owners and Shareholders:

The respondents were asked whether they had shareholders in their businesses. Six respondents stated that they had shareholders and the rest did not have any shareholders. The participants were also asked whether they distributed their business profits. The results are summarised in the table below. Out of the six respondents that had shareholders only two owners distributed their profits.

DISTRIBUTION OF PROFITS	NUMBER OF RESPONDENTS
Don't distribute profits	7
Distribute profits	2

One of the restaurant owners had the following to say about the percentage of profits distributed: "It varies depending on the amount of profits and the forecasted capital expenditure required." In making the decision to distribute profits one of the restaurant owners considered expansion of the business, while another took into account the amount of profits made, the forecasted capital expenditure required as well as the required working capital going forward.

### Goals and motivation for starting the business:

The respondents' goals for their businesses were varied, but the ones that were frequent included creating employment for others, making a profit, having cash reserves and a positive cash flow in the business and personal fulfilments. Most of the business owners were not too concerned with having community status and establishing a brand and creating franchisee opportunities for their businesses and only five out of the nine respondents also aspired to grow their restaurants.

The most common motivation for starting a business amongst the business owners was that they wanted to be self-employed due to the independence and satisfaction one derives from having their own establishment. Increasing financial wealth was the second most common encouragement for starting a business. It can therefore be said that the goals of business owners can also shape their capital structure decisions. For example, if a business owner's goal for the business is for personal fulfilment then perhaps the owner will be conservative in his or her financing strategy. On the contrary, if the owner wishes to grow the business, he may be willing to finance the expansion with debt or external equity.

**If you were to start a new business, would you consider issuing debt or equity to finance the business?**

DEBT	NUMBER OF RESPONDENTS
Yes	5
No	4

Some reasons given for choosing debt over equity were that although "it can be risky if a business does not perform or owners are not disciplined, it's a good option as you use the bank's money to finance the business. The business gets to pay off the loan, which does not affect your personal finances." Others stated that it is the only way to grow one's business and it is quite safe as it is a bank and they offer fair interest rates. It was also mentioned that a small manageable amount is good as it will also provide the owner with a credit record for future capital requirements as an entrepreneur. Another respondent went on to say that one should rather avoid debt unless you are forced to go into debt to finance a business. Those who said they would not issue debt to finance a new business stated that it should be avoided as far as possible.

EXTERNAL EQUITY	NUMBER OF RESPONDENTS
Yes	4
No	5

The reasons given for choosing external equity were that they would rather have a small business free of external equity than to be involved with other people. One mentioned that once you have invested in equity you have to ensure the business succeeds at all cost. The rest stated that they would issue equity to finance a new business reasons being although you lose the autonomy to manage the business your own way and always have to share the profits, it is cheaper financing as interest rates are lower.

Three participants said they would issue neither debt nor external equity to finance a new business. They believe that debt is a bad way to start a business unless one could be sure of success (much research is needed to establish if there will be good profitability), they know that it is risky from previous experience and that it can be a dangerous trap if you cannot keep up with the interest and capital repayments. They would rather retain control of their businesses.

In terms of external equity the participants think that one should be able to fund oneself without external help as it becomes risky and one doesn't want to lose more by borrowing or owing interest. According to the respondents equity from outsiders removes the independence of small business owners and is almost a requisite for larger business equities. They would rather keep the business within the family.

From the above comments it can be concluded that most business owners in Grahamstown, comparing debt and equity, would rather issue debt to finance a new business mainly because it is too risky to involve third parties. Issuing external equity is not so popular to the extent that given it was the only option used to finance businesses, one participant would rather remain with the current small business and not grow it in any manner.

Please rank each of the following sources of finance in terms of your perception of the risk in using them:

SOURCE OF FINANCE	NOT RISKY	NEUTRAL	TOO RISKY
Personal Savings	3	6	0
Family Financing	1	5	3
Trade Creditors	0	3	6
Bank Loans	2	5	2
External Equities	0	2	7
Finance Lease	1	3	4

The majority of the participants ranked using personal savings, family financing and bank loans as neutral. Neutral in this case meant that the participant did not have any opinion on whether the source of capital was risky or not too risky.

Please rank each of the following sources of finance in terms of your perception of the risk in using them:

SOURCE OF FINANCE	LESS PREFERRED	NEUTRAL	HIGHLY PREFERRED
Personal Savings	1	1	7
Family Financing	2	4	3
Trade Creditors	7	2	0
Bank Loans	2	4	3
External Equity	7	2	0
Finance Lease	3	2	2

Having indicated that six out of the nine participants regard trade creditors as the least preferred, this can be a clue to the fact they perceived it as being too risky. This is contradictory to the findings in Michaelas et al. (1998) where the study found that participants preferred trade credit to bank loans. This further proves that the participants shy away from using equity as a source of finance. Four out of the nine indicated that using bank loans was rather neutral. The reasons why they prefer the type of finance they indicated, is that it was the cheapest form of financing available and also easy to access.

### Non behavioural factors

The non-behavioural factors that were considered or looked at in this research were the availability of funding, the firm size and the finance cost. The two most popular factors selected by the participants were availability and the finance cost. In a question which asked why they prefer the



type of finance source they had chosen (should they start a new business), the majority indicated that it was the cheapest form of finance and that it was easy to access. From the above results it can be seen that availability, the finance cost and accessibility were non-behavioural factors that influenced capital structure decisions of the participants.

## **DISCUSSION**

From the above results it can be seen that the resulting capital structure of small firms is influenced by perceptions of debt and equity. However, owners' perceptions may not be the only factors influencing the sources of finances that small firms use, rather a number of external factors such as the availability of funds and accessibility. This was consistent with the results found in Michaelas et al. (1998). Also the past experience of debt and equity will affect the capital structure decision. Business owners who have had unfavourable experiences with regard to previous sources of finance chosen would rather forgo both growth opportunities than issue external finance. All of the business owners indicated that it was very important for them to have personal control of their businesses; this could further explain why external equity is the least preferred source of capital as they had the desire to retain control of their business. These results were consistent with the results from Zellweger, Frey and Halter (2009) who mentioned that participants were willing to reject investments in profitable projects if it was going to affect their independence goal. The findings provide support for the existence of the pecking order behaviour. It is evident that participants indicated personal savings as a source of capital for funding a business as the first choice followed by issuing of debt and then lastly equity which can be proved by the pecking order theory. This could further prove that small business owners want to maintain control of their businesses. Small business owners prefer to rely on personal savings and raise debt only when it is necessary. They rely on personal savings as it is difficult to raise external finance because their credit record is limited to their personal capacity (for example in sole proprietorships). These findings above are similar to the Hamilton and Fox (1998) study which found that small business owners preferred internal equity to external equity. He further mentioned that the main reason for preferring internal equity to external equity was the need for constant control or ownership of the business.

## **CONCLUSION**

The research has attempted to explore the effects of owner perceptions and preferences towards different types of financing thus examining behavioural factors that influence capital structure decisions. The study found that both non behavioural and behavioural factors play a role in shaping capital structure decisions of restaurant owners in Grahamstown. Most of the results found in this research are consistent with previous studies. However due to the limited small sample size, this study cannot be conclusive evidence of the factors influencing capital structure decision making by small business owners in Grahamstown. For further research it is recommended that there should be a more in depth research on the behavioural factors influencing capital structure decision making.



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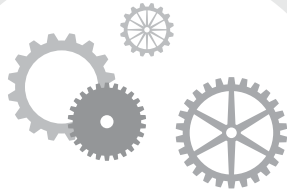
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# THE RELATIONSHIP BETWEEN BUSINESS START-UP FACTORS IN THE SOUTH AFRICAN SMALL ENTERPRISE SECTOR

11



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## ABSTRACT

Throughout the world new business start-ups are considered the driving force to economic development. Whether it is in an emerging market economy or an advanced economy, starting a business is fraught with challenges and obstacles. There are a number of entrepreneurial start-up factors, namely culture, self-efficacy, intention and orientation which affect a person's ability to start a business. These factors have different effects on an individual's ability to start a venture. It is important to know which factor has what effect so that it can be promoted in our endeavours to promote business start-ups or entrepreneurship. The aim of this study was to find out the relationship between the identified start-up factors since it is reported of the high failure rate of SMEs. A structured research instrument was used to collect data from a sample of 500 SMEs in the retail industry through an interviewer administered and self-administered survey. It was found that there is a significant positive correlation between the selected business start-up factors.

## KEYWORDS

Self-efficacy; Culture; Entrepreneurial intention; Entrepreneurial orientation; Business start-up.

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## INTRODUCTION

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Throughout the world, entrepreneurship is seen as the driving force in economic development. Whether it is in an emerging market economy or an advanced economy, starting a business is fraught with challenges and obstacles. In a country with a high total entrepreneurial activity (TEA) such as the USA, at least half the adult population is expected to be in self-employment at some stage of their life (Petty, Palich, Hoy & Longenecker, 2012: 3). There are relatively very few new enterprise formations in a country with a low TEA such as South Africa (GEM Report, 2011). The question for countries with low TEA levels has been and remains the same, “how can new business start-ups be enhanced”? The answer may lie in what this study will term start up factors. These are factors to do with the individual psychic, such as the culture that shapes him / her, self-efficacy, his / her orientation and intention to start a business venture. The study will investigate the relationship between these factors and how they influence the business operation.

A lot of attention has been devoted to the role of values in successful entrepreneurial endeavours. Morris, Seindehutte, Lesser (2002: 36) argued that values reflect the entrepreneur's conscious view of himself or herself. McClelland in (Urban, 2004: 5) discovered that self-belief one has directly shapes movement toward action. Other studies by Mitchell, Busenitz, Morsem, Seawright, Perdo and Kenzie (2002: 7) focused on entrepreneurial motives, values, beliefs and cognitions to examine relationship between national culture and entrepreneurial characteristics and traits. A better understanding of the motivations for business start-up can help policymakers to design policies that encourage and promote business creation.

<b>Research problem</b>	
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As the pace of change continues to accelerate globally, the success of community enterprises depends on the innovation of entrepreneurs. Yet the Global Entrepreneurship Monitor (GEM, 2011) reported South Africa as performing low (9.1%) in entrepreneurship, with total entrepreneurial activity (TEA) below the average of comparable economies around the world. This remains a concern and feeds the debate around the factors that impact on entrepreneurial performance.

South Africa's low ranking in global competitiveness is a source of national concern. This means that South Africa has the smallest proportion of entrepreneurs compared with other developing countries. It is believed that an increase in small business start-ups can help alleviate poverty and create employment opportunities in South Africa. We need to understand what motivates entrepreneurs to start a business. According to literature, factors that affect a person's decision to start a business include culture and self-efficacy. The study will further undertake to look at the entrepreneur's motivation to start a business and how this activity is affected by his or her culture, self-efficacy, intentions and entrepreneurial orientation. The study aims to find the relationship between different business start-up factors, namely, culture, self-efficacy, entrepreneurial orientation and intention to start a business. This will help our understanding of what motivates entrepreneurs to start and maintain businesses.

The study is structured in the following manner. Section 1 presents the introduction and research problem. Section 2 present the literature review which elaborates the constructs used in this study and the proposed hypotheses. Then, section 3 present the research methodology of the study. Section 4 presents the analysis and findings of the study, before concluding.



## LITERATURE REVIEW

The literature looks at enterprise formation by investigating the entrepreneurial intention, self-efficacy, culture and entrepreneurial orientation of entrepreneurs. The paper offers social psychological perspective on how to conceptualise and test the notion of entrepreneurial potential. The potential to enter into entrepreneurship will be understood from investigating these factors. These factors motivate one to either start or not start a business venture. Each of these factors will be discussed separately and a hypothesis drawn from the discussion. The discussion starts of by analysing the cultural influence in business start-up.

### Culture

Culture can be defined as the collective programming of the mind which distinguishes the members of one group or category of people from another group or category of people. What people see as the meaning of their lives and the kind of living they consider desirable or undesirable are matters of personal choice par excellence (Hofstede, 2001: 147). However, personal choice is affected by the cultural environment in which people are brought up. It is proposed in this study that the cultural backgrounds of entrepreneurs play a significant role in defining the motivation for entrepreneurship. It is the contention of the researcher that motivation for business formation is not universal and that differences in cultural frames of reference would account for differences in the motivation for business formation. According to Hofstede (2001: 147), culture is the interactive aggregate of common characteristics that influence a group's response to their environment. Culture determines the identity of a group in the same way personality determines the identity of an individual.

Culture in part determines whether one is oriented towards personal action or prefers to act in concert with others. Hofstede (2001: 169) argues that high individualism societies socially encourage individual initiative. High individualism is associated with the belief that everyone has a right to privacy and that one must form one's own opinion. In his well-known ideas, McClelland (1961) depicted the entrepreneur as someone with a personal high need for achievement and who preferred to take responsibility for decisions and set goals and accomplish them through effort. However, Sajjad, Shafi and Munir Dad (2012: 31) recommend that culture is the most effective constant for entrepreneurship and that good cultural values influence entrepreneurial intention. These researchers indicated that culture facilitated commencement of new businesses. National culture therefore has a moderating effect on entrepreneur intention. Furthermore, Steensma, Marino and Weaver (2000: 50) discovered that cultural differences impact the attitudes of entrepreneurs with regard to starting a business.

A person's culture shapes his or her personality. Within the culture it will be certain personality factors, such as self-efficacy, intention and orientation that will motivate one to either start or not start a business venture. McClelland (1961) found that the personality of entrepreneurs could be associated with achievement, preference for novel activity, responsibility for failure and success, and moderate risk-taking propensity, (entrepreneurial orientation attributes). Thomas and Muller (2000: 65) posit, in their review of culture and entrepreneurial potential, that one would expect some cultures to be more closely associated with certain entrepreneurial orientations than others. They found significant variation in entrepreneurial activity across cultures and note that cultural values influence entrepreneurial behaviour.

**Thus, the study hypothesises that:**

Alternative hypothesis: There is a significant positive linear relationship between culture and; 1, self-efficacy, H1a; 2, entrepreneurial intention H1b and 3, entrepreneurial orientation H1c. Null hypothesis: There is no linear relationship between culture and self-efficacy, entrepreneurial intention and entrepreneurial orientation. (H01a, H01b and H01c).

**Self-efficacy**

Self-efficacy is a self-regulatory motivational variable that is concerned with judgments of how well one can execute a course of action required to deal with a prospective situation (Bandura 1982: 122) and beliefs in one's capabilities to mobilise the motivation, cognitive resources and course of action needed to meet the given situational demands. It is best measured by asking people to rate their confidence in being able to attain various levels (Bandura, 2001: 24). Self-efficacy is an important motivational construct that influences individual choices, goals, emotional reactions, effort, coping and persistence. It also refers to an individual's convictions about his or her abilities (Bandura 2001: 26). Chen, Green and Crick (1998: 297) found that entrepreneurial self-efficacy constructs predict the likelihood of an individual being an entrepreneur (that is, entrepreneurial self-efficacy refers to the strength of a person's belief that he or she is capable of successfully performing the various roles and tasks of an entrepreneur). It is assumed that low job satisfaction can motivate most people to start a business and entrepreneurial intention can also be influenced by self-efficacy factors (Bandura, 1997: 336). Self-efficacy is a person's judgement of his or her ability to execute targeted behaviour (Ajzen, 1991: 26). Previous studies have identified self-efficacy as a key contributor to entrepreneurial intention, directly or indirectly through influencing perceived feasibility (Krueger, Reilly & Carsrud, 2005: 59).

Since entrepreneurs perceive themselves to be efficacious, they may be more willing to take on risky projects because they believe in their abilities. Entrepreneurs who have high sense of self-efficacy will be more likely to create a firm that has an entrepreneurial orientation than one who has low sense of self-efficacy. Thus the study hypothesises that; Alternative hypothesis: There is a significant positive linear relationship between self-efficacy and 1, entrepreneurial intention H2a and 2, entrepreneurial orientation H2b. Null hypothesis: There is no linear relationship between self-efficacy and entrepreneurial intention (H02a) and entrepreneurial orientation (H02b).

**Entrepreneurial intention**

Krueger (1993: 45) defines entrepreneurial intention as a commitment to starting a new business. People who become entrepreneurs have a particular set of motivational goals, such as achievement need, risk-taking, etc. (Bandura, 2001). Entrepreneurs stand out in terms of the issues they consider important and worth pursuing in life. Krueger (2001: 130) also argues that intentional behaviour helps to explain why many entrepreneurs decide to start a business long before they scan for opportunities. The term "entrepreneurial intention" relates to entrepreneurial awareness, entrepreneurial potential, entrepreneurial proclivity, entrepreneurial propensity and entrepreneurial orientation (Hisrich, Peters & Shepherd, 2010: 38). Bandura (2001: 67) states that intention (general) is a representation of a future course of action to be performed; it is not simply an expectation of a future course of action, but a proactive commitment to bringing it about. Intention is centred on plans of action. Both Bandura and Krueger call entrepreneurial intention the commitment one makes to start a business. Thus, this study hypothesises that: Null hypothesis: There is no relationship between entrepreneurial intentions and entrepreneurial orientation (H03a). Alternative hypothesis: There is a significant positive correlation between entrepreneurial intentions and entrepreneurial orientation H3a.

Entrepreneurial orientation refers to a firm's strategic orientation, acquiring specific entrepreneurial aspects of decision-making styles, practices and methods. Other studies have found that entrepreneurial orientation enables small firms or new ventures to perform better than their competitors and enhances firm performance (Wiklund & Shepherd, 2005: 90). Entrepreneurial orientation has become a central concept in the domain of entrepreneurship that has received a substantial amount of theoretical and empirical attention (Lumpkin & Dess, 2001: 439). This study adopted Lumpkin and Dess's (2001: 440) definition of entrepreneurial orientation as the strategy-making processes that provide organisations with a basis for entrepreneurial decisions and actions.

Entrepreneurial orientation is demonstrated by the extent in which top managers are inclined to take business-related risks to favour changes and innovation in order to obtain a competitive advantage for the business (Andendorff, 2004: 153). Recent research suggests that there are three dimensions of entrepreneurial orientation that may vary independently from one another. They are: risk taking, innovation and pro-activeness (Lumpkin & Dess, 2001: 439). Venter, Urban and Rwigema (2008: 506) indicate that innovativeness is at the centre of entrepreneurship and is the fundamental endeavour of an entrepreneurial organisation to develop new products or invent new processes. According to Rauch, Wiklund, Lumpkin & Frese (2009: 763) entrepreneurial orientation has its roots in the strategy-making process literature. Strategy making is an organisational phenomenon that incorporates planning, analysis, decision making and many aspects of an organisation's culture, value system and mission. Firm entrepreneurial orientation therefore represents policies and practices that provide a basis for entrepreneurial decisions and actions (Rauch et al., 2009: 763).

Individuals or businesses with entrepreneurial orientation have the capability to discover and exploit new market opportunities (Wiklund & Shepherd, 2003: 12). Entrepreneurs with entrepreneurial intentions are more likely to try new approaches and pursue new opportunities. These behaviours are consistent with the innovative, proactive and risk-taking characteristics of entrepreneurial orientation. Therefore firms which led by entrepreneurs who engage in these behaviours will be more likely to be more efficacious as they may be more willing to take on the challenge of introducing new products. Therefore the study hypothesises that: Null hypothesis; there is no relationship between entrepreneurial orientation and entrepreneurial intentions (H04a).

There is a significant positive relationship between entrepreneurial orientation and entrepreneurial intentions: H4a.

## METHODOLOGY

The population of the study is SMEs (Small and Medium enterprises) in the retail sector of the Gauteng province of South Africa. The researchers use the Brabys.com populations of SMEs in Gauteng. This organisation is a reliable and leading registry of SMEs in the country (GEM, 2011). The population size of brabys.com is 10 000 SMEs in the retail industry in Gauteng province. The study population was therefore based on 10 000 SMEs.

According to Cooper and Schindler (2008: 409), the sample size that is acceptable is 5% of the total population. Given this study's estimate of a population of 10 000, it means that the targeted sample was 500 respondents (that is,  $10\ 000 \text{ entrepreneurs} \times 0.05 = 500 \text{ respondents}$ ). Probability sampling was used to ensure that each member of SME population is given a known non-zero chance of selection. Simple random sampling was utilised to identify the respondents. This increased accuracy and precision of the sample in representing the characteristics of the

population of SMEs in retail industry in that province. A total of 500 SMEs completed the questionnaire using simple random sampling technique. A structured research instrument (a questionnaire) was used to collect data through self-administered interview. Each of the 500 identified businesses was approached to complete the questionnaire.

The measurement questions were all aimed at showing the relationship between start-up factors and entrepreneurs in starting a business. The scale ranged from one, which indicates that the motive is not significant to a score of five, which indicates that the motive is extremely significant. The investigative questions concerned the following constructs:

### **Entrepreneurial Intention**

The construct "entrepreneurial intention" was based on Krueger's work which tested Shapero's conceptual model. Krueger (1993: 58) tested Shapero's conceptual model of entrepreneurial intention and found that perceived desirability directly and positively influenced entrepreneurial intention. Krueger (1993: 59) identified factors influencing entrepreneurial intention. The respondents were asked to state to what extent they agreed with statements on entrepreneurial intention. The factors were grouped into: social network, perceived desirability and perceived feasibility. This section was aimed at establishing the extent to which a person's entrepreneurial intent is influenced not just by self-efficacy but by some human capital factors and social capital factors. These factors inform the intention to start or not to start a business. The 12 statements aimed at getting the respondents the extent to which they view certain factors as their basis for start-up. A five-point Likert scale (strongly disagree, disagree, neutral, agree and strongly agree) was used for each of the three questions with subsections. The assumption was that entrepreneurs intend to start businesses because of different factors. The researcher therefore wanted to see if this was true and to find out which factors affect them and to what extent.

### **Culture**

The concept of culture as used in this study was based on the work by Hofstede (2001) who posits that human problems and their solutions are limited in number. Hofstede (2001: 147) found statistical evidence for four underlying dimensions of culture, together with their consequences, that reflect a given society's culture in the institutions and behaviour it maintains. Hofstede (2001) identified cultural values and dimensions. The respondents were asked to state the extent to which they agreed with statements on cultural values and dimensions: values: success is owning a business; success is being promoted up through the ranks in business; having a lot of money means you come from an influential family; time is a limited resource; being successful means making a lot of money; being an entrepreneur means running a business; there is a duty to uphold the values and reputation of your family; starting a business means the risk of not getting past employment back; starting a business is risky due to uncertainty; cultural dimensions: high individualism, masculinity, uncertainty avoidance and power distance.

The 22 items were aimed at showing the relationship between culture and start-up factors. A five-point Likert scale (strongly disagree, disagree, neutral, agree and strongly agree) were used for each of the 22 items. The assumption was that the decision of entrepreneurs to start businesses is based on different cultural factors to start the business. The researcher wanted to see if this was true and to find out which factors affect them and to what extent.

### **Self-efficacy**

The construct of self-efficacy that was outlined in this study builds on underlying mechanisms of self-efficacy beliefs identified in social cognitive theory. The theory of self-efficacy was advanced by Bandura and his colleagues (Bandura, 2001: 122) to explain individual variability in attaining goals.

The strength of these beliefs and the certainty with which they are held are personal self-efficacy beliefs relative to that set by challenges. The respondents were asked to state the effort they put into dealing with the different situations. Self-efficacy was measured through the following statements (as designed by Bandura, 1982) the extent to which one manages: to get through to the most difficult employee; to promote team support; to keep employees on task; to motivate employees who show low interest in their work; to get employees to work together; to overcome the influence of negative employees on employees achieving goals; and to get employees to do their work. Bandura's questionnaire on self-efficacy was used. Bandura's questionnaire covers the sections on disciplinary self-efficacy, efficacy to enlist business involvement and general self-efficacy. The questions indicate the factors that influence individual choice, goals, emotional reaction, effort, coping and persistence to start a business. The 22 items were aimed at getting the respondents to indicate the extent to which they (entrepreneurs) viewed certain factors as a basis for their start-ups. A five-point Likert scale (none, very little, moderate, quite a bit and a great deal) were used for each of the 22 items. The assumption was that entrepreneurs have beliefs about being able to attain various levels. The researchers therefore wanted to see if this was true and to find which factors affect them and to what extent.

### Entrepreneurial orientation

The concept of entrepreneurial orientation as used in this study was based on the work by Lumpkin & Dess (2001: 439) who posit entrepreneurial orientation as the strategy-making processes that provide organisations with a basis for entrepreneurial decisions and actions. The respondents were asked to state the extent to which they agreed with statements on the three dimensions of entrepreneurial orientation, risk taking, innovation and pro-activeness.

**Risk taking items:** It is important to have a strong proclivity for low-risk projects (with normal and certain rates of return; a strong proclivity for high-risk projects with chances of very high returns); it is unimportant to have a strong proclivity for low-risk projects; it is unimportant to have a strong proclivity for high risk projects; innovation items: one should try new ways of doing things; one should adopt from competitors new ways of doing business and one should try new lines of products. pro-activeness measures: In dealing with competitors my business typically responds to actions that competitors initiate; is seldom the first business to introduce new product/services, administrative techniques and operating technologies; is very often the first business to introduce new product/services, administrative techniques, operating technologies; is the one with strong tendency to follow the leader in introducing new product or ideas. The 12 items were aimed at finding out how the owner managers deal with risk and internal and external business factors in their businesses. A five-point Likert scale (strongly disagree, disagree, don't know, agree and strongly agree) were used for each of the three items with sub-sections. The assumption was that most business owners start businesses because others are doing so. The researcher wanted to see if this was true and to find out to what extent they value risk.

## RESULTS AND DISCUSSION

Statistical analyses were conducted to determine the reliability of the data. Item analysis was done to assess the reliability of the different dimensions or constructs in the questionnaire via Cronbach alpha values. According to Hair, Anderson, Tatham, & Black (1998: 118), the Cronbach alpha of above 0.8 is regarded as good; an alpha value between 0.6 and 0.8 is regarded as acceptable reliability; an alpha value of below 0.6 is regarded as unacceptable reliability. Nunnally (1978) suggested a cut of 0.7 as acceptable reliability. This study will adopt the measure of 0.6 as acceptable based on Hair et al (1998:118)'s analysis. To determine the reliability of the data, a reliability analysis Cronbach alpha was used to test all the constructs. The reliability coefficients in respect of the various criteria of the data with their results are reflected in the table below.

## Reliability test

**TABLE 1: CRONBACH'S RELIABILITY TEST OF THE CONSTRUCTS**

	Cronbach's alpha
Culture	.782
Self-efficacy	.850
Entrepreneurial intention	.633
Entrepreneurial orientation	.831

All the variables show high alpha values ranging from 0.633 for entrepreneurial intention to 0.850 for self-efficacy as shown in Table 1. All the constructs show acceptable reliability levels as shown by Cronbach alphas above the recommended measure of 0.6.

## Correlation matrix between business start-up factors

A relationship between the following start up factors: culture; self-efficacy; entrepreneurial intentions and entrepreneurial orientation was tested using "The Pearson" correlation matrix. This was to test the Hypotheses that, there is a relationship between the different business start-up factors.

**TABLE 2: PEARSON CORRELATION MATRIX OF VENTURE START UP FACTORS**

P-value indicates significance if  $\alpha = 0.05$

		Culture	Self-Efficacy	Entrepreneurial Orientation	Entrepreneurial Intentions
Culture	Pearson Correlation	1	.377**	.180**	.334**
	Sig. (2-tailed)		.000	.000	.000
	N	462	462	461	462
Self-Efficacy	Pearson Correlation	.377**	1	.296**	.286**
	Sig. (2-tailed)	.000		.000	.000
	N	462	462	461	462
Entrepreneurial Orientation	Pearson Correlation	.180**	.296**	1	.367**
	Sig. (2-tailed)	.000	.000		.000
	N	461	461	461	461
Entrepreneurial Intentions	Pearson Correlation	.334**	.286**	.367**	1
	Sig. (2-tailed)	.000	.000	.000	
	N	462	462	461	462

r- indicates strength of correlation (small, medium or large)



## Culture and start up factors

The null hypothesis H01 stated that: There is a no relationship between culture and other start up factors (self-efficacy H01a, entrepreneurial intentions H01b and entrepreneurial orientation H01c) and the alternative hypothesis states that: There is a significant linear relationship between culture and self-efficacy, entrepreneurial intentions and entrepreneurial orientation. The correlation coefficient value of 0.377 between culture and self-efficacy; coefficient value of 0.180 (small) of culture and entrepreneurial orientation and correlation coefficient value of 0.334 (medium) between culture and entrepreneurial intentions is significant at a 99% level of confidence. The null hypotheses H01a, H01b and H01c are all accepted and the alternative hypothesis is rejected. It is therefore concluded that there is a significant positive correlation between the culture of an individual entrepreneur and his or her self-efficacy; entrepreneurial orientation and entrepreneurial intentions. One's believe in oneself to start or run a business relates on one's cultural background. Culture shapes one's self efficacy, Hofstede (2001) and therefore the result is not surprising. The results support the literature where it shows the 10 value types distinguished by Schwartz (1999): respect, commitment and acceptance of the customs and ideas that traditional culture or religion provide (which include accepting my portion in life, humble, devout, respect for tradition and so on). A strong tradition in the entrepreneurship literature links an entrepreneur's beliefs with low uncertainty avoidance.

The results also support the literature by Mueller and Thomas (2000: 65) who posited in their review of culture and entrepreneurial potential that one would expect some cultures to be more closely associated with certain entrepreneurial orientations than others. A culture that is supportive of entrepreneurship is therefore likely to breed more entrepreneurs and the opposite would also be true.

The results further support McClelland (1961), who indicated that societies with cultures that emphasise achievement are more successful than societies that do not. The propensity to engage in entrepreneurship is therefore affected by the surrounding culture.

## Self-efficacy and start-up factors

A relationship between self-efficacy and the start-up factors (entrepreneurial intention and entrepreneurial orientation) was tested using the Pearson correlation coefficient. This was to test the hypotheses that there is no relationship between self-efficacy, and the other variables (entrepreneurial orientation and entrepreneurial intention). The null hypothesis H02, stated that: There is a significant correlation between self-efficacy and entrepreneurial orientation (H02a) and entrepreneurial intention (H02b). The alternative hypothesis states that: There is a significant linear relationship between self-efficacy, entrepreneurial intentions and entrepreneurial orientation. The correlation coefficient values of 0.296 and 0.286 between self-efficacy and entrepreneurial orientation, self-efficacy and entrepreneurial intention respectively are significant at a 99% level of confidence. The null hypotheses, H02a and H02b are therefore accepted and the alternative hypothesis is rejected.

It is therefore concluded that there is a significant and positive correlation between self-efficacy and entrepreneurial orientation and entrepreneurial intention. The entrepreneur's self-belief encourages him or her to come up with the strategy-making processes that provide organisations with a basis for entrepreneurial decisions and actions. The results support the literature, which states that self-efficacy is an important influence on people who contemplate and then evaluate both the desirability and the feasibility of a new venture. If the evaluation results in a compelling

combination of desirability and feasibility, the person will form the intention to start a new venture (Carsrud & Brannback, 2009: 35).

Entrepreneurial orientation and entrepreneurial intention

The null hypothesis H03 stated that: There is a significant correlation between entrepreneurial orientation and entrepreneurial intention. The alternative hypothesis stated that: There is a significant linear relationship between entrepreneurial orientation and entrepreneurial intentions.

The correlation coefficient of 0.367 between entrepreneurial orientation and entrepreneurial intention is significant at a 99% level of confidence since the p-value of 0.0001 is  $< \alpha = 0.01$ . The null hypothesis is therefore rejected and the alternative hypothesis is accepted. It is therefore concluded that there is a significant correlation between entrepreneurial orientation and entrepreneurial intention. Entrepreneurial intention and entrepreneurial orientation are distinct constructs and entrepreneurial orientation mediates the relationship between intention and action. A strong correlation is expected because entrepreneurial orientation and entrepreneurial intention are interrelated; i.e, entrepreneurial orientation is disposition and entrepreneurial intention is converting orientation to action or behaviour. Orientation is what you possess inside which then capacitates (enables) you to act if you have the intention to act (start a business). The results support the literature which highlights that individuals with an entrepreneurial orientation are likely to establish new businesses.

## CONCLUSION AND RECOMMENDATION

The article looked at the basis of entrepreneurial formation by investigating the culture, entrepreneurial intention, self-efficacy, and entrepreneurial orientation of entrepreneurs for business start-up. To address this aim, a number of hypotheses were postulated and tested and recommendations are now suggested.

### Culture

If a society emphasises getting a good education for the purpose of getting a good job, entrepreneurship is viewed as less desirable as a career choice. The nation, together with the government, needs to set the stage to enable a larger part of the population to participate in a more open, more accessible and more widespread culture of entrepreneurship. This can be done by attempting interplay of several factors, like promoting the benefits of creativity, opting for the systematic development of ideas, and adapting them to society's values and problems.

A culture of entrepreneurship can be created by opening up the field to more groups in society that is not traditionally linked to business. By this, a new influx of values, new patterns of problem solving, new ideas being put into entrepreneurship and new quality of participation in the economic sphere can be expected. The influence of human institutions such as norms, values, morals, family ties and support forms the framework within which individuals can pursue entrepreneurial opportunities.

### Self-efficacy

The study further revealed a positive correlation between self-efficacy and the start-up factors. Strong advocacy and encouragement should be provided for people who wish to take advantage of entrepreneurial opportunities and demonstrate some passion and technical competence to start or grow a business.

It is recommended that adults teach young people to identify and challenge negative thoughts that undermine their self-belief to master a task. Adults can teach children to challenge negative thinking

by helping them to first identify the negative thought and then to use evidence to prove why the negative thought is inaccurate. Self-efficacy can be developed by replacing negative thoughts with positive truths. Adults must increase self-efficacy by teaching young adults to identify successes and to accurately assess their potential contribution. Giving young adults opportunities to control their environment, to make decisions, to use and practice their skills, and to try different paths to achieve their goals will help build self-efficacy. Society and organisations should empower employees as this enhances their self-esteem.

### **Entrepreneurial intention**

The study shows a positive correlation between entrepreneurial intention and the start-up factors. The motivators of entrepreneurial intention (employment, autonomy, creativity, macro-economy and capital) need to be improved. This can be done through entrepreneurial education. Entrepreneurial education is needed to enhance the skills and knowledge of entrepreneurs. Entrepreneurial skills include creativity, innovation, risk taking and ability to interpret successful entrepreneurial role models. Entrepreneurial education provides the basics of practical business practices. Introducing learners to entrepreneurship education at an early stage can be beneficial as they develop intentions toward starting a new business. Studies have found that the majority of South Africans have no tertiary education and the quality of its primary education is ranked 11th worst by the World Economic Forum and 73rd by the Global Competitiveness Index for higher education and learning. Improving access to tertiary education and the quality thereof will help impart entrepreneurial education to an increased number of potential and existing entrepreneurs.

### **Entrepreneurial orientation**

Entrepreneurial intention and entrepreneurial orientation and action, are distinct constructs and entrepreneurial orientation mediates the relationship between intention and action. Entrepreneurial orientation contributes to performance, defined as a compound measure incorporating dimensions of growth and financial performance. Then risk-taking, innovativeness and pro-activeness keep small firms ahead of competitors.

## **LIMITATION AND FUTURE RESEARCH**

Due to localised nature of the study in Gauteng province as well as small sample size involved, the findings of this study cannot be generalised. This becomes a major limitation when the small sample in Gauteng province only is considered against the fact that there are more than 10 000 SMEs in the country. It is suggested that future studies perhaps use sample from all nine provinces in South Africa to present an overall picture of SMEs. The study is based on SMEs and results may not apply to big businesses. Future research can also be done to include small and medium enterprises in other sectors other than retail. In addition research could also be done in other parts of the world, in other emerging economies or advanced economies to see if similar results will be registered.



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# THE IMPORTANCE LEVEL OF SPECIFIC SKILLS AS PERCEIVED BY SMALL AND MEDIUM BUSINESS OWNERS

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## ABSTRACT

In an attempt to understand the underlying factors contributing to the high failure rate of small and medium businesses, this study focused on the extent to which small and medium business owners from two age groups perceived five identified skills generally associated with entrepreneurial behaviour as conducive to either success or failure. The following five skills were selected: the skill of leadership; the skill of creativity and innovation; the skill networking; the skill of time management and the skill of goal setting and commitment. For this purpose a literature as well as a quantitative research approach was exploited. The sample consisted of small and medium enterprises conveniently selected from small and medium entrepreneurs across the Johannesburg Metropolitan area. A measuring instrument was distributed and 150 usable questionnaires were returned. The validity of the measuring instrument was assessed by means of a factor analysis and its reliability was evaluated by calculating Cronbach alpha coefficients. Inferential statistics were used to assess whether the mean scores for the five identified skills differed significantly between the two targeted age groups namely small and medium business managers aged 40 years and older and those younger than 40 years. The analysis of the data was conducted using SPSS and recommendations were made.

## KEYWORDS

Small and Medium Owners, Leadership, Innovation, Creativity, Networking and Time Management



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## INTRODUCTION

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Research conducted among SMEs retailers indicated that 52 percent of SMEs owners, reported that their businesses had survived for more than two years as a result of prior business experience. The research also confirmed that the lack of entrepreneurial skills appeared to be the main reason for the failure of SMEs in South Africa (Van Scheers & Radipere, 2005: 336).

In 2008, Rogerson (2008: 71) further conducted an investigation into the challenges faced by SME development in the areas of finance, training and the regulatory environment. The research highlighted the fact that over the past ten years much research had emphasised the fact that South Africa's SME entrepreneurs had very limited skills and, accordingly, stressed the importance of training and acquisition of skills for business development.

The South Africa government support start-up businesses through tax benefits, a stable macro-economic environment and a development programme among young entrepreneurs (Maas & Herrington, 2006: 18). The challenges faced by entrepreneurs while operating a small business may include the necessity of having a strong network in order to survive, and also the necessity of being able to multi-task owing to the fact that SMEs employ a limited number of people (Maas & Herrington, 2006: 19). The development of SMEs is crucial for the South African government in that the initiative will reduce the unemployment rate, estimated to stand at 21.9 percent. This means that out of a population of 48.68 million, 11 million people were unemployed (Dimant, Eddy, Lebone, Macfarlane & Roodt, 2009: 7).

In order to support the development of SMEs, the Department of Trade and Industry uses intermediaries such as Khula Enterprises. The main objective of this institution is to provide financial and skills development support to SMEs owners. In 2009 Khula Enterprises invested an amount of R329 million in SMEs projects, and it is planning to increase its participation by 20 percent in the coming years (South African Yearbook, 2009). Business Partners is another provider of financial and skills development support for SMEs. This institution was formed by the Small Business Corporation, the Department of Trade and Industry, and other private sector corporations. An enabling environment with favourable market conditions, combined with some support to young dynamic entrepreneurs would be the generator for employment creation and economic growth (Rolfe, Woodward, Ligthelm & Guimaraes, 2010: 5).

### PROBLEM STATEMENT AND RESEARCH OBJECTIVE

According to Kermova (2007: 4) a lack of skills appeared to be the major constraint and explained performance in a business. Rogerson (2008: 72) established that owing to the lack of entrepreneurial skills, business owners tend to be inefficient in their ability to run their organisations on a daily basis. Furthermore, it was found that 90 percent of a sample of 1,000 entrepreneurs indicated that SMEs failed owing to a lack of entrepreneurial skills. The fact that skills constitute a critical factor for business success of SMEs in South Africa suggests strongly the current dire situation of SMEs development. The Global Entrepreneurship Monitor reported that potential entrepreneurs lacked the mindset and the skills to become true entrepreneurs (GEM, 2008).

Based on the above considerations, the following problem statement can be derived: The perception owners have towards certain skills and how they view these skills indicates to the inability to manage their business on a daily basis.

The following research question can be formulated:

**Does the perception of certain skills by and medium owner have an influence on the success or failure of small and medium enterprises?**

**Research objective:** To determine to what extent the selected entrepreneurial skills are perceived as important by small and medium business owners.

## RESEARCH DESIGN AND METHODOLOGY

### Research approach

A quantitative research approach was adopted in this study. A quantitative research makes use of numerical data in order to obtain information. It proceeds by examining the relationship between variables, determining the cause-and-effect interactions between variables and by describing variables (Blumberg, Cooper & Schindler, 2005: 128).

### Population and sample

A population refers to the group of people or entities that have the same characteristics. The target population was small and medium sized businesses operating in the Johannesburg metropolitan area.

A sample can be defined as a portion of the population studied. It enables the researcher to analyse some characteristics of the population and use this as the basis for drawing conclusions about the entire population (Zikmund, 2009: 369). The sample consisted of one hundred and fifty small and medium sized businesses operating in the Johannesburg Metropolitan Area.

### Data collection

Data related to SMEs were obtained from government sources such as SEDA, the Randburg Chamber of Commerce and the Centre for Small Business of the University of Johannesburg on the Soweto campus. In quantitative research, a questionnaire can be defined as a process by which a series of questions are put by the fieldworker to the respondent in order to gather data. (Tharenou, Donohue & Cooper, 2007: 102).

The questionnaire used for the survey was divided into Section A and Section B:

**Section A:** The section comprised nine questions relating to biographical information such as age, the number of years in operation, business experience, qualification levels, involvement in entrepreneurial associations and registration with small business support associations. Section B consisted of thirty four questions. A series of questions was designed in order to assess how entrepreneurs made use of skills in the areas of leadership, creativity innovation, networking, time management, goal setting and commitment.

### Data analysis

After the collection of the data using the questionnaires, data were analysed by using SPSS (Statistical Package of Social Sciences). Data were presented using measures of central tendency (mean, mode and standard deviation) and frequency tables. The frequency table summarised in percentages and per section the responses of the respondents based on the questions that were

asked. The research used descriptive statistics as a tool in order to summarise the information that was gathered using questionnaires (Zikmund, 2009: 402). The descriptive statistics were thereafter presented in the form of measures of location (mean, mode and median) and the measures of spread (variance, standard deviation and range).

Factor analysis is a technique used in quantitative research in order to summarise the data gathered from a large number of variables into a small and manageable number of variables or factors (Hair, Money, Samouel & Page, 2007: 368). It enables the researcher to perform a correlation analysis between variables by putting into groups of variables the ones that are highly correlated and presenting them as one single factor. The factor analysis was performed using:

- Total variance: This refers to a statistical technique used in quantitative research. It displays the amount of variance explained by each factor.
- Anova (Analysis of variance): This refers to a parametric statistical test used in quantitative research methods to compare three or more means simultaneously
- T-test refers to a parametrical statistical analysis performed in quantitative research methods for comparing two means.

### **Validity and reliability**

Reliability refers to a recognition given when several studies confirm the findings of previous researchers over the years and across similar events (Zikmund, 2009: 300). Validity on the other hand, refers to the ability of assessing what is supposed to be assessed (Zikmund, 2009: 302). The reliability of the sample was tested with the "Cronbach alpha". It is a statistical test conducted in quantitative research in order to perform an intercorrelation analysis between pairs of items. It is suggested that all the selected entrepreneurial skills have at least a Cronbach alpha of 0.75 percent (Blumberg, Cooper & Schlinder, 2005: 322).

### **Ethical considerations**

According to Blumberg, et al. (2005: 93) to conduct the research successfully, both researcher and participant must agree on certain procedures that need to be followed. The questionnaire was preceded by a covering letter that informed the respondents about the purpose of the research.

## **LITERATURE REVIEW**

Homer (2001: 62) stated that skills management is crucial to organisational success. The ability to assess, manage competencies and determine skills shortage, enables an organisation to implement the training required to boost the employee performance. An assessment of competencies will enable an organisation to determine the skills gaps and implement the required cost-effective training and development practices required to develop individual capabilities and foster firm performance through selection and retention of talented employees.

Entrepreneurial performance is a function of entrepreneurial skills, motivation and business skills (Pretorius, Millard & Kruger, 2005: 58). Entrepreneurial skills require personal skills (risk-taking, innovation, responsibility, and commitment), interpersonal skills (communication skills, negotiation skills), and process skills (planning, controlling) (Pyysiainen, Anderson, McElwee & Vesala, 2006: 21). According to Nieuwenhuizen (2008: 1) entrepreneurial skills include personal and interpersonal competencies of people and are expressed in their behaviour.

A three-dimensional model was developed by Botha, Nieman and Van Vuuren (2006: 483). It states that through entrepreneurial training and education, entrepreneurs can gain a certain level of

skill that is crucial for their performance. The three-dimensional model is explained as follows:

- **Entrepreneurial Skills:** Creativity, education, risk-taking and opportunity identification skills are the major key requirements in order to enhance entrepreneurial awareness.
- **Business Skills:** This category includes human capital management, knowledge management and technical expertise crucial for an entrepreneur.
- **Motivation factor:** This includes personal factors such as leadership, commitment and the strong desire to succeed and perform in the business environment.

This paper focused on the following specific skills:

**The skill of creativity and innovation:** Creativity refers to the initial process by which the idea of establishing a new business venture occurs. Creativity is the essence of entrepreneurship in the sense that it is needed in order to spot the patterns and trends that set targets (Pretorius, et al., 2005: 56). Creativity is not just a useful or desirable component of entrepreneurship, but it is in fact a central feature of this phenomenon. Without creativity, there would not be any entrepreneurship. In every situation, the initial process for entrepreneurship must be the creative potential of the entrepreneur (Stokes, Wilson & Mador, 2010: 30).

Entrepreneurship is a form of creativity and can be described as business or entrepreneurial activity owing to the fact that often new businesses are original, useful and transform opportunities into ideas as the establishment of viable growth-oriented businesses. Moreover, it is recognised that a differentiating factor defining the true entrepreneur is represented by the entrepreneurial skills of creativity and innovation. (Sarri, Bakouros, & Petridou, 2010: 274). It is important to encourage creativity education in order to develop entrepreneurial skills. These may include training for enhancing creativity, the barriers to becoming creative, critical thinking development, creative thinking and personal attributes (Pretorius, et al, 2005: 56).

The success of the innovation process is influenced mainly by the personality of the owner manager, the ability of the firm to face and manage the external environment forces, the formality of the innovation management process, whether they have a culture supportive of innovation, their scarcity of resources, and the lack of bargaining power within markets (Mazzarol & Reboud, 2008: 225).

Entrepreneurship is about innovation and this is an important aspect in managing an enterprise. Entrepreneurial characteristics such as commitment and determination, leadership, opportunity obsession and motivation to excel, are important for successful management of small enterprises. Persistence and determination are estimated to be contributing to over 90% of small business success (Bateman & Snell, 2009: 260).

The intellectual ability of the entrepreneur brings innovation and continued ability to create and deliver products and services of the highest quality. The knowledge of the entrepreneur is a critical factor for the successful development of products and an increase in the innovative performance of an organisation. Organisations that use knowledge management assets effectively, know more about their customers, products, technologies, markets and linkages and should perform better (Kibet et al., 2010: 73).

**The skill of networking and trust:** Cozzolino (1992: 11) listed the following skills required of an entrepreneur to embark successfully on business networking with other entrepreneurs: self-knowledge (it is important for an entrepreneur to know his strengths and weaknesses), dedication to what he is doing, the ability to act and look his best, the ability to be selective, the ability to

encourage people to talk to him, the ability to look for commonalities, a willingness to pay tribute, the ability to search actively for the double win, the ability to send leads and the ability to ask open-handed questions.

Networking can be defined as the linkage between businesses in order to improve efficiency. Networking in business improves the ability of firms to operate by using marketing and distribution models more efficiently (De Klerk & Kroon, 2007: 89). According to Ge, Hisrich and Dong (2009: 224), networking is the combination of time, feeling, familiarity (mutual trust), mutual feelings, benefits of reciprocal services, and closeness of a network to the overall network intensity. The benefits of networking in a business includes: the ability to share knowledge, improved access to market, easier access to technology, the safeguarding of propriety rights, the ability to share risk and the ability to increase speed in the market (Ring, Peredo & Chrisman, 2009: 177).

Generally, an entrepreneur networks everywhere (e.g. at church or at work) with people who share the same interest. It is important for an entrepreneur always to keep record of information related to potential business partners by means of business cards, websites information and network associations for entrepreneurs (Mabrouk, 2009: 2).

**The skill of leadership:** According to Starke, Sharma, Mauws and Dyck (2011: 31) leadership skills require the following attributes: knowledge, skills, self-managed teams, and organisational structure. In order to become successful in entrepreneurial ventures, leaders are required to consider employees as assets that require investment through education and training. In order to achieve their goals and objectives successfully, leaders/managers are required to communicate a clear vision, to ensure that action is taken in order for the vision to be communicated and to possess a charismatic personality style (Papalexandris & Galanaki, 2008: 367). One of the main challenges uncouneted by most leaders is to develop capacity in others by creating a climate in which acquiring and sharing knowledge is encouraged or even demanded (Nguyen & Mohamed, 2010: 208). It is important for leaders always to reiterate, reinforce and redefine the vision of the organisation (Roodt, 2005: 22).

Entrepreneurs must demonstrate a high level of competency in their duties. Leadership competencies refer to the knowledge, skills, abilities, and attributes required of leaders in order to perform their duties efficiently. Competent leaders also need to be aware of world standards of competition and know what it takes to match and beat those standards. They need to understand the global nature of their business and be able to analyse current trends and market conditions (Das, Kumar & Kumar 2010: 198).

**The skill of time management:** Time management refers to an attitude of personal commitment and, more importantly, a dramatic reordering of priorities and work habits. Time management includes: a combination of time assessment, goal setting, planning and monitoring of activities (Hafner & Stock, 2010: 433). Time management is a critical skill for success in business. The notion of time in business is becoming crucial owing to the fact that expanding globally requires an improvement of speed of telecommunications and pressure to get one's services and products to market (Fischer & Lehman, 2005: 198). Effective management of time increases the ability of employees to perform their duties within the allocated time and leads to job satisfaction.

In today's competitive environment, managers who misuse their time are at a distinct disadvantage. Time management does not provide solutions to management problems. It does however, provide the discretionary time in which the manager can find those solutions, plan for the future, and assess overall progress (Farooq, Rehmani & Afridi, 2010: 253).

**The skill of goal setting and commitment:** "The effectiveness of goal setting, however, presupposes the existence of goal commitment; it is virtually axiomatic that if there is no

commitment to goals, then goal setting does not work" (Dodd & Anderson, 1996: 330). Goal commitment can be defined as the determination to attain a specific goal (De Clerq, Menzies, Diochon & Gasse, 2009: 133). According to Liccione (2009: 26), goal commitment must be measurable, within performance range, consistent with job responsibilities, attainable and clear in order to be implemented successfully.

Goals must be realistic and the trends and other factors that may impact on the goal stated by the organisation must be taken into consideration. It is the responsibility of the employers to communicate their goals clearly to their employees in order to ensure that tasks will be executed according to the plans (Liccione, 2009: 26).

## PRESENTATION OF FINDINGS

A data analysis was conducted to reveal the characteristics of the basic components of the data which have been collected.

### Statistics relating to biographical information:

**Age category:** Figure 1 provides an illustration of the respondents per age category. It can be seen that the youngest participant was 23 years old (the minimum) while the oldest participant was 82 years old (the maximum) and the mean age of the respondents was 44.5 years. This provides the possibility of assessing the perception of two different age categories and comparing their views and perceptions. The graph shows that respondents aged 57 and 62 scored the highest frequency (frequency=5) followed by respondents aged 36, 37, 38, 42 and 55 years old (frequency=4). For further analysis the age was dichotomised into two categories (groups): younger than 40 years and 40 years and older. The decision to divide respondents into the two groups can be justified by the intention to have two equal groups.

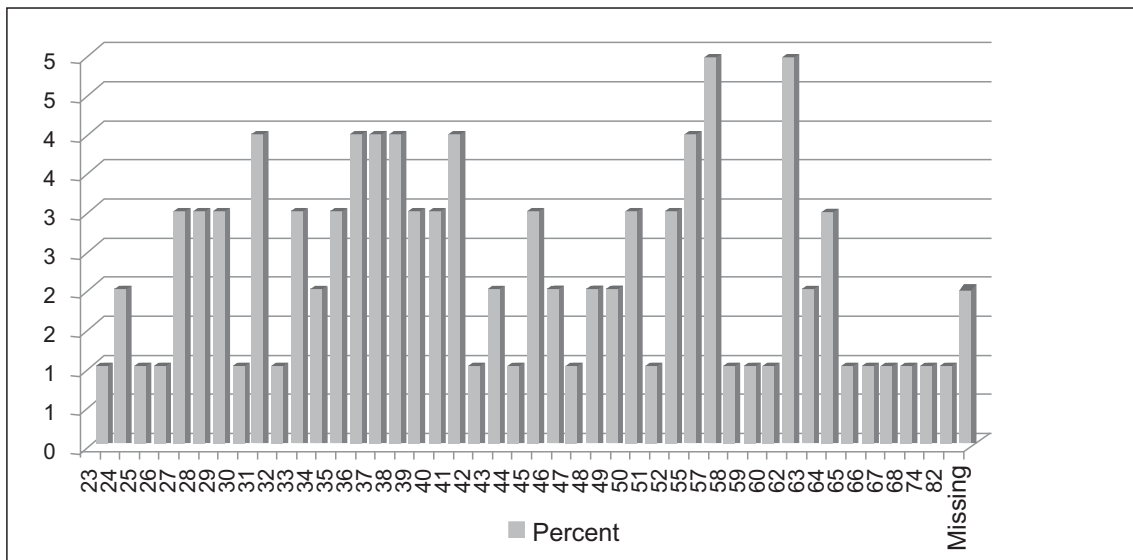


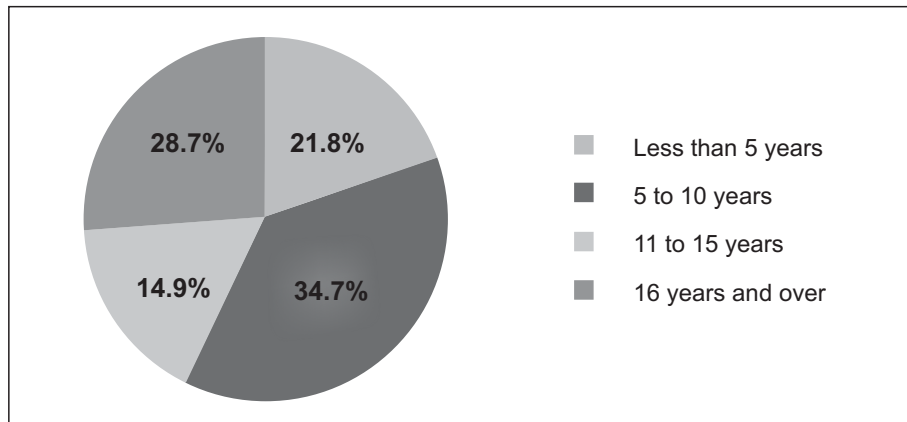
FIGURE 1: AGE CATEGORY OF RESPONDENTS

The X-Axis represents the range used for measurement starting from 0 to 5. The Y-Axis represents age range of the participant starting from the youngest (23) to the oldest (82). The missing (next to



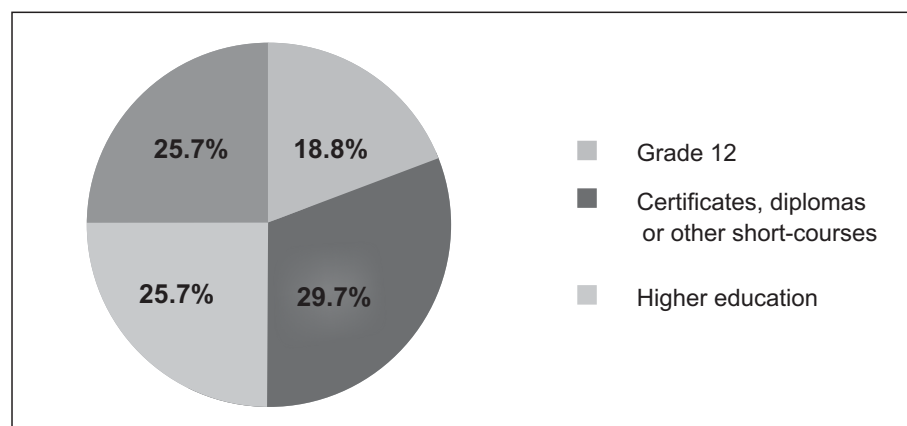
82 on the Y-Axis) represents the participants (two) who did not mention their age on the questionnaire.

Number of years in operation: Figure 2 illustrates the number of years the respondents had been in operation. It is clear that the majority of the respondents had been in operation for at least 5 to 10 years (34.7%), followed by the ones who had been in operation for 16 years and longer, representing 28.7%. 21.8% of the respondents had operated for less than five years and 14.9% of the respondents had been in operation for 11 to 15 years. This enabled the researcher to analyse the perception of the two different groups and to confront the findings.



**FIGURE 2:** NUMBER OF YEARS IN OPERATION

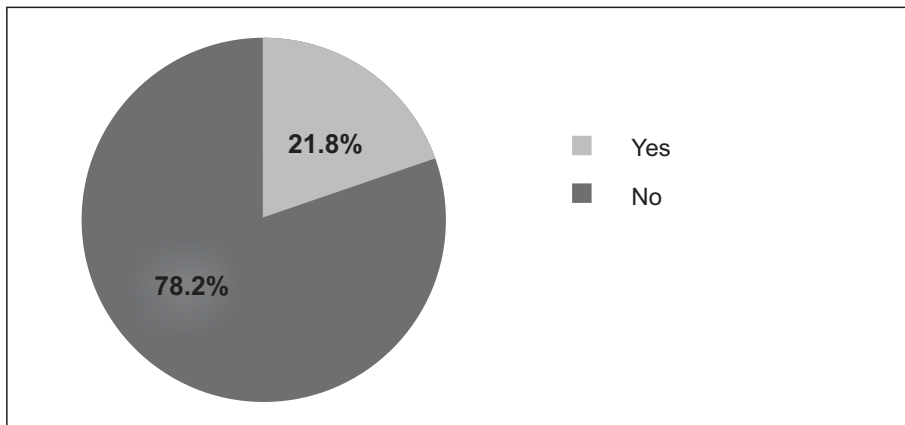
Academic qualification levels: Figure 3 illustrates the academic qualifications obtained by the respondents. It shows that 18.8% of the business owners who responded had a grade 12 level of education, 29.7% had obtained certificates or diplomas or had attended other short-courses, 25.7% had higher education qualifications and 25.7% were in possession of post-graduate degrees. It is interesting to see that all the participants had attained an academic qualification level and could therefore understand the survey questionnaire submitted to them.



**FIGURE 3:** ACADEMIC QUALIFICATION LEVELS

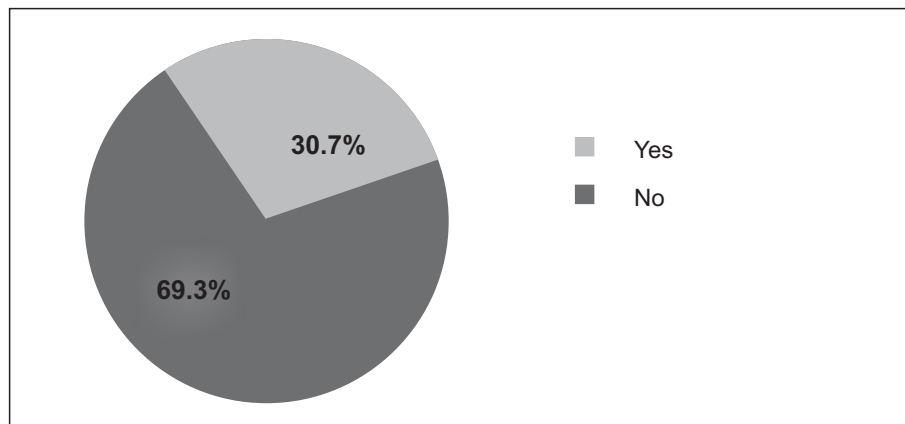
Involvement in entrepreneurial association: Figure 4 shows the owners involvement in entrepreneurial associations. The aim of an entrepreneurial association is to foster knowledge sharing and networking. The figure shows that 79% of the business owners were not involved in entrepreneurial association activities (e.g. Rotary Club or South African Women Network

Association). It was noted that most of the business owners were not involved in any form of association.



**FIGURE 4:** INVOLVEMENT IN ENTREPRENEURIAL ASSOCIATION

Registration with small business support groups: Figure 5 shows that out of the 101 business owners, 69% were not registered with a small business support association and only 31% business owners were registered. This means that the majority of the businesses did not make use of the benefits provided by various institutions in terms of entrepreneurship training and education.



**FIGURE 5:** REGISTRATION WITH SMALL BUSINESS SUPPORT GROUPS

### Factor analysis

**Kaiser-Meyer-Olkin:** Factors were extracted using principal axis factorisation and rotation with Varimax. The analysis showed that each proposed entrepreneurial skill formed a factor and that the size of the sample was adequate. The total variance explained by each factor is displayed in Table 1.

**TABLE 1: KAISER-MEYER-OLKIN**

<b>KMO test of sampling adequacy</b>	<b>Current</b>
Skill of leadership	0.862
Skill creativity & innovation	0.851
Skill of networking & trust	0.862
Skill of time management	0.847
Skill of goal setting & commitment	0.838

The Kaiser-Meyer-Olkin test was performed to measure the adequacy of the sample and to check whether the researcher could proceed with factor analysis. A higher KMO mean that a factor analysis of the variable was possible because a correlation between pairs of variables could be explained by the other variables. The researcher obtained a KMO ranging from 0.838 to 0.862. The high KMO obtained confirmed the fact that the set of data was suitable for factor analysis.

**Total variance:** Table 2 displays the amount of variance explained by each factor, which yielded between 42.4-53.4%. In four of the cases the total variance explained is the same (i.e., the sum of the eigenvalues is 59.55)

**TABLE 2: TOTAL VARIANCE**

<b>Total variance explained</b>	<b>Cumulative %</b>	<b>% of variance</b>	<b>Cumulative%</b>
Skill of leadership	49.943	42.372	42.372
Skill of creativity & innovation	59.513	53.381	53.381
Skill of networking & trust	57.550	51.537	51.537
Skill of time management	59.591	51.802	51.802
Skill of goal setting & commitment	57.698	50.858	50.858

Factor analysis was performed to test the unidimensionality of the five entrepreneurial skills. The dataset was suitable for factor analysis as there were several significant correlations above 0.30 among the measured variables (Tabachnick & Fidell, 2007: 632). Factors were extracted using principal axis factoring. Each factor analysis resulted in one-factor solution, when Kaiser's criterion of an eigenvalue (Tabachnick & Fidell, 2007: 633) equal or greater than 1 was used as a cut-off point to indicate a reasonable amount of variance explained by the factor. One-factor solution suggests that the variables within each scale were measuring the same latent construct, namely the skill of leadership, the skill of creativity and innovation, the skill of networking and trust, the skill of time management, and the skill of goal setting and commitment.

**T- test:** The T-test was carried out to test the difference between the two means of each entrepreneurial skill. The T-test tells whether there is a statistical difference between the mean scores. In other words, the T-test aims at verifying whether the probability of the two sets of scores came from the same population.

**TABLE 3: T-TEST**

		Levene's Test for Equality of	t-test for Equality of Means			
		Variances Sig.	T	df	Sig. (2-tailed)	Mean Difference
Leadership 1	Equal variances assumed	0.217	1.897	97	0.061	0.213
	Equal variances not assumed		1.924	96.686	0.057	0.213
Leadership 2	Equal variances assumed	0.028	2.013	97	0.047	0.214
	Equal variances not assumed		2.050	95.674	0.043	0.214
Creative Innovation 1	Equal variances assumed	0.023	1.251	97	0.214	0.197
	Equal variances not assumed		1.273	95.956	0.206	0.197
Creative Innovation 2	Equal variances assumed	0.114	1.602	97	0.112	0.228
	Equal variances not assumed		1.623	96.834	0.108	0.228
Network Trust 1	Equal variances assumed	0.012	0.777	97	0.439	0.099
	Equal variances not assumed		0.795	93.730	0.428	0.099
Network Trust 2	Equal variances assumed	0.008	0.980	97	0.330	0.127
	Equal variances not assumed		1.008	90.867	0.316	0.127
Time Management 1	Equal variances assumed	0.003	1.628	97	0.107	0.203
	Equal variances not assumed		1.675	90.409	0.097	0.203
Time Management 2	Equal variances assumed	0.007	1.318	97	0.191	0.159
	Equal variances not assumed		1.354	91.617	0.179	0.159
Goal Commitment 1	Equal variances assumed	0.141	0.933	97	0.353	0.107
	Equal variances not assumed		0.945	96.841	0.347	0.107
Goal Commitment 2	Equal variances assumed	0.227	0.383	97	0.703	0.044
	Equal variances not assumed		0.387	96.996	0.700	0.044

The T-test was carried out to test whether the two age groups differed in their ratings on the ten leadership scales. The T-test was suitable for this analysis as means of two groups were compared to each other. The test showed that respondents younger than 40 years of age reported significantly higher ratings on the Leadership 2 scale compared to respondents who were 40 years or older (  $t=2.01, p<.05$ ).

This indicates that those younger than 40 years old place more importance on the skill of leadership than older entrepreneurs did. Generally, Start-up entrepreneurs have a strong desire to achieve their goals and targets. In order to succeed, they demonstrate extraordinary leadership skills in order to drive the organisation towards a vision that will enable the organisation to growth. The majority of the participants emphasised the fact that “job experience” constituted a critical factor that led to the improvement of leadership skills.

Analysis of the reliability of the sample: In order to ensure that a sample is reliable, the Cronbach's Alpha test was performed. The test aims at conducting an inter-correlation analysis of every pair of items in a sub-scale in order to measure to what extent they correlate with each other. The samples become reliable if they are highly correlated and if they are measuring the same thing (the scales must be above 0.75).

**TABLE 4: SAMPLE RELIABILITY**

Skill	Cronbach's Alpha	
	Current	Level of importance
Leadership	0.824	0.789
Creativity & innovation	0.859	0.859
Networking & trust	0.873	0.873
Time management	0.855	0.834
Goal setting & commitment	0.855	0.834

All the scales were higher than 0.75. Therefore, it can be argued that all the selected entrepreneurial skills demonstrated a high internal consistency with the Cronbach's Alpha.

## CONCLUSIONS AND RECOMMENDATIONS

A hundred and one respondents of the research consisted of business owners who had at least an academic certificate with business experience. It can be argued that the qualification level of an entrepreneur constitutes a strategic advantage that will improve his/her understanding of the trends in the markets and improve his/her ability to run an organisation more effectively on a daily basis.

**The skill of leadership:** In the literature review, it was mentioned that the primary functions of leaders included setting direction, aligning people and motivating and inspiring people. The secondary role of a leader focused on the competencies required of an efficient leader in order to manage an organisation successfully (Das et al., 2010: 198).

- The analysis of the perception of the two groups (40 years and younger and older than 40 years) showed that entrepreneurs in both age categories had a clear understanding and knowledge of the characteristics of efficient leaders. The majority of the participants emphasised the fact that “job experience” constituted a critical factor that led to the improvement of leadership skills.
- The two age categories (40 years and younger and older than 40 years) were further divided according to the number of years in operation and in view of the fact that leadership skills were mainly performed better if the entrepreneur had prior business experience.

- It was established that people with different degrees of business experience as well as varying numbers of years in operation demonstrated the same views about leadership skills. Furthermore, the participants emphasised the need for entrepreneurial education and training as a tool for improving the ability of entrepreneurs to manage their organisations more effectively.

**The skill of creativity and innovation:** In order for entrepreneurs to become successfully productive and operate their businesses smoothly, it is required of them to be creative and innovative in their ideas.

- The analysis performed on the two groups (40 years and younger and older than 40 years) indicated the perceptions of the two categories of the importance attached to creativity and innovation. The participants reported that financial resources played an important role in the implementation of ideas, but did not constitute the most important factor.

The process of implementing creative ideas was divided into four main stages namely, preparation, incubation, illumination and realisation.

- The two age groups agreed on the fact that the process of creative ideas had to be mastered by entrepreneurs.
- It is also important to observe that strong emphasis was placed on the importance of entrepreneurial training and education in order to improve the ability of entrepreneurs to implement creative and innovative ideas.

**The skill of networking and trust:** The benefits of using networking in business include: the ability to share the knowledge and the risk, improved access to the market and increased speed in the market.

- An analysis of the skill of networking showed that entrepreneurs in the target group had greater expectations regarding the benefits of networking for an organisation.
- Both groups (40 years and younger and older than 40 years) felt that networking enabled entrepreneurs to develop business relationships with outside business contacts and to share common challenges faced in the business environment.
- However, one condition that was attached to the decision to network was the notion of trust between entrepreneurs. It was reported that entrepreneurs embarked upon business relationships when there had been sufficient previous business collaboration.

**The skill of time management:** Time management affects the entire course of a business. If an entrepreneur fails to use time efficiently, delays in the supply chain process are created, leading to customer dissatisfaction.

- The analysis of the importance of time management appeared to be important for both categories (40 years and younger and older than 40 years). The participants reported that it was important to look constantly for the best alternatives in the supply chain process in order to minimise the production or service process and maximise the profit. By managing time effectively, entrepreneurs were able to prioritise and perform their duties in a more organised manner which in turn improved job satisfaction.

The respondents also reported that “job experience” constituted an important factor in improving the ability of an entrepreneur to manage time more effectively. The principle of “learning by doing” supported the idea that the time management process was mainly improved through “job experience”.



**The skill of goal setting and commitment:** Business goals enable an entrepreneur to have a clear picture of the needs of an organisation and to develop an appropriate plan in order to succeed.

- An analysis of the two groups (40 years and younger and older than 40 years) showed that both groups understood the need to focus on the set goals of the organisation in order to maximise the chances of succeeding.
- Entrepreneurs had to ensure that business goals were stated clearly in terms of costs, resources and activities. A project plan of all the activities should be drawn up and each task should be divided into smaller activities according to the level of importance in order to enable entrepreneurs to use their time more effectively. Performing each individual task to the best of their ability would bring about job satisfaction.
- The majority of the participants furthermore emphasised the importance of entrepreneurship training and education as a tool to improve the ability of an entrepreneur to set consistent and measurable goals. By providing adequate training, entrepreneurs would learn how to make more effective use of their resource.

## **LIMITATIONS OF THE RESEARCH**

The sample used for the research was relatively small, considering the number of small and medium enterprises that are currently operating in the Johannesburg metropolitan area. The current results can therefore not be generalised. A briefing session did not take place before the completion of the questionnaires by the respondents; therefore it is possible that respondents did not understand the concept of some of the questions.

## **RECOMMENDATIONS REGARDING THE SPECIFIC SKILLS**

In general, leadership skills can be improved through business coaching and mentoring in order to address shortcomings in the formal entrepreneurial training and education programmes. The nature and characteristics of a business determines the leadership style that should be adopted owing to the fact that respondents of the research operated in different fields (construction, consulting, sales & marketing etc.). It is therefore important for leaders to demonstrate an ability to assess a situation and apply the suitable leadership style promptly. It is also suggested that leaders ensure appropriate and effective use of the workforce by empowering them through the decision making process and giving rewards in order to stimulate their commitment to their work.

Entrepreneurs must always be both flexible and dynamic in their duties. The right strategy will lead to an effective management of resources and create a pleasant, practical work environment that will enhance employee commitment and performance. Creativity and innovation can be improved by combining business coaching and mentoring. It is necessary for all stakeholders to participate in extensive seminars in order to give direction to entrepreneurs on how to implement creative ideas from the preparation phase until the realisation phase successfully. An idea will only become valuable if it is well prepared and well designed.

Generally, small and medium sized businesses operate in a highly competitive environment. It is therefore always important to ensure that the participation and the contribution of the workforce are taken into account. This can be done by finding a way to capture creative and innovative ideas from the workforce. Rewards and bonuses can be used as a way to stimulate employees to participate actively in the development of the organisation.

The skill of networking may be improved by making use of information technology tools such as the internet, social media or other information technology systems to increase access to the global market. Entrepreneurs should join professional networks such as the Chamber of Commerce and Industry and should also consider joining social network clubs such as the Rotary Club or the Lions Club. The business environment is characterised by competition, and entrepreneurs should therefore consider being more active in attending workshops and forums related to their field of interest.

In order to improve time management skills, entrepreneurs must find the best alternatives that will improve the current process in order to increase customer satisfaction by focusing on activities that generate a higher profit within a shorter period of time. In order to improve goal setting and commitment, it is important for employers to explain their aspirations and goals clearly to the employees and to find new ways of improving communication so as to increase efficiency. Entrepreneurs should also find innovative ways to get employees together in order to close the gap.

### **SUGGESTIONS FOR FUTURE RESEARCH**

The research only focused on personal entrepreneurial skills, management skills and competencies such as accounting, marketing and finance were not researched and are also very important for an entrepreneur.

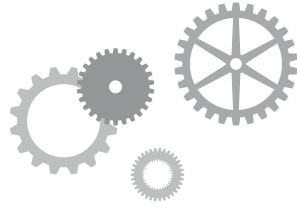


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## Section 2: Marketing Management Resilience

# INVESTIGATING DEMOGRAPHIC AND PATRONAGE DIFFERENCES WITH REGARD TO THE SPREADING OF ONLINE WORD-OF-MOUTH COMMUNICATION ABOUT CELLPHONES

13



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## ABSTRACT

This paper provides insight into consumers' demographic and patronage differences (referring to cellphone networks service providers and general cellphone usage) and the impact these have regarding the spread of online messages through word-of-mouth about cellphones. Data collection was conducted through convenience sampling amongst consumers who have access to the Internet and who share opinions online. A total of 269 usable questionnaires were retained for data analysis. The results indicate that respondents do not spread information through word-of-mouth online, unless they know about the topic or unless their friends are talking about a specific topic. The results also reveal that respondents who speak an indigenous language (African languages) spread online word-of-mouth more than the respondents who speak the European (English and Afrikaans) languages. The study further reveals which online platforms consumers are using. All of the above provides marketers of cellphones with the necessary insight as to which online platforms they should monitor and how they can encourage customers to spread positive information online through word-of-mouth.

## KEYWORDS

Online word-of-mouth, Cellphones, Cellphone industry, Cellphone network service providers



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## INTRODUCTION

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Cellphones are becoming the preferred channel of communication among global consumers with 4.1 billion global cellphone subscriptions in 2008 compared to only 1.27 billion fixed global line subscriptions (Guardian, 2009). Cellphone subscriptions in Africa increased from 54 million in 2003 to 3500 million in 2008. This is viewed as the fastest subscription increase in the world (Mail and Guardian, 2009). According to The British Broadcasting Corporation (2011), African consumers are choosing to purchase cellphone subscriptions over fixed line subscriptions owing to underdeveloped and expensive fixed line connections.

The Initiative Communications study, conducted in 2012, reveals that 29 percent of consumers are spending more time online making decisions regarding which products to purchase, as they do not want to make purchases without readily available information (Initiative, 2012). Consumers are also increasingly relying on reference groups such as their friends, family, associates and online sites when deciding which cellphones to purchase (Yang, He & Lee, 2007: 322). Schiffman and Kanuk (2007: 281) state that word-of-mouth has a strong influence on the purchase decision of consumers, as the initiator is seen as having nothing to gain from their recommendation or opinion. Word-of-mouth is, therefore, a powerful promotional tool for the marketers to use, especially in the cellphone market Globally, 91 percent of consumers trust word-of-mouth recommendations online or offline more than paid advertising (Mokhlis & Yaakop, 2012: 10; Strutton, Taylor & Thompson, 2011: 560).

In the sections to follow, a literature review is provided with regards to a background on the cellphone industry in South Africa, patronage in the cellphone industry and online word-of-mouth. The problem statement, research objectives and hypotheses will then be discussed. Thereafter a discussion on the research methodology will follow where after the results of the study and the results of the hypotheses formulated will be discussed. Managerial implications and recommendations and the limitations and future research will also be presented.

### LITERATURE REVIEW

The literature review provides an outline of both the cellphone industry in South Africa as well as the patronage in the cellphone industry, and the importance thereof. The online platforms used in South Africa are discussed with a focus on online word-of-mouth highlighting how consumers spread online word-of-mouth and the importance thereof to marketers.

### THE CELLPHONE INDUSTRY IN SOUTH AFRICA

Consumers who are unable to connect to fixed land lines, owing to the lack of infrastructure, regard cellphones as an essential way of communicating with others (Mail and Guardian, 2009). Goldstruck (2005: 8) explains that South Africa began its involvement in the cellphone industry when Vodacom and MTN were awarded the first cellular licenses in Africa. According to Tubbs (2012), Vodacom and MTN dominate the industry with an equal market share of 42 percent each, while Cell C achieves a 15 percent market share. The success of the cellphone market is clearly demonstrated in the fact that African consumers have better access to cellphones than to clean drinking water (Nielsen, 2011).

A Mail and Guardian (2009) report indicates that the introduction of smart phones into the South African market has provided 39 percent of urban consumers and 27 percent of rural consumers over the age of 16 with access to the Internet, which has dramatically increased South Africa's

Internet penetration rate. Consumers use their cellphones' Internet to access online platforms such as Mxit and Facebook, which accounts for 24 percent and 22 percent of Internet usage respectively, to send emails and to do Internet banking (Mail and Guardian, 2011). Smart phones have therefore given consumers the ability to access the Internet in a more convenient way compared to other platforms such as desktop computers, laptops and tablet devices. In many cases, these platforms are used in conjunction to accessing the Internet (Speckman, 2012).

## **PATRONAGE IN THE CELLPHONE INDUSTRY IN SOUTH AFRICA**

Patronage is defined as the financial support a consumer gives to an organisation in terms of making repeat purchases (Oxford dictionaries, 2012). Omotayo and Joachim (2008: 26) suggest that consumers will continue their support of an organisation when they are satisfied with the service, therefore marketers should be concerned with patronage as it could lead to long-term customer retention. Poovalingam and Veerasamy (2007: 86) state that the competitors within the cellphone industry should aim to differentiate themselves as well as offer superior quality to their consumers in order to encourage support from the customer: in other words, increase the consumer's patronage. Customer loyalty is a crucial factor – if customers are loyal to their particular cellphone brand, then their patronage of that cellphone brand will increase (Poovalingam & Veerasamy, 2007: 94).

Joss (2012) states that 95 percent of cellphone subscribers remain loyal to their cellphone provider for at least 4.2 years. A study conducted by AC Nielsen in 2011, indicates that most consumers left their previous cellphone network service provider due to poor network quality (Nielsen, 2011). The Unisa Bureau of Market Research (2011) conducted research that revealed that the younger generation in South Africa are not loyal to one cellphone brand. These consumers tend to change brands in order to purchase the latest cellphone recommended by family and friends.

## **ONLINE WORD-OF-MOUTH**

For Laric and Lynagh (2009: 1-2), the implementation of Integrated Marketing Communications (IMC) is one way in which an organisation can develop, execute and implement brand communication programmes with consumers over time. The goal of IMC is to create sustainable profits for the brand as well as to create a long term relationship between the customer and the brand. The marketer should aim to use their IMC to send consistent messages to their consumers and shareholders, regardless of whether it is offline or online. Lee (2009: 579) states that due to the increasing amount of consumers using the Internet as a portal to share messages, marketers have been forced to include the Internet and all the online portals into their IMC programmes.

As the Internet evolved, consumers gained the opportunity to gather unbiased product information from others. It allows consumers the opportunity to use online word-of-mouth as a method of offering their own product advice (Hennig-Thurau, Gwinner, Walsh & Gremler, 2004: 39). Chen (2011: 2) as well as Bickart and Schindler (2001: 32) suggest that online word-of-mouth communication occurs when opinions and information are spread by using various portals, such as: email; social networking sites; online discussion forums; message boards and product review sites; brand websites, and personal blogs.

Online information spreads at a rapid pace compared to the traditional forms of word-of-mouth; online word-of-mouth is not limited by distance or time. If a consumer is dissatisfied with the service they have received and choose to use traditional forms of word-of-mouth they would be able to inform approximately six people. On the other hand, if consumers choose to use online word-of-

mouth, they could reach thousands of other consumers by utilising the various online platforms available to them (Chen, 2011: 2). Zhang, Craciun and Shin (2010: 1) state that consumers use online word-of-mouth as a way to review the product that they want to purchase. Lee and Youn (2009: 490) confirm that the various online word-of-mouth platforms (i.e. email, websites, social media) available to consumers, simplify the process as customers are able to connect with each other to receive product-related information. Chen (2011: 1) concurs that consumers prefer receiving experience and opinions regarding products from online sources as the communications through online portals are more reliable and neutral, as they originate from fellow consumers, compared to the communication from the organisation itself. Online word-of-mouth messages are also more permanent compared to traditional forms of word-of-mouth because consumers are able to obtain the information they need and they can also refer back to it at any time (Nekmat & Gower, 2012: 85). According to Chen (2011: 1), consumers prefer using online word-of-mouth sources because it is a faster and more convenient method for consumers to read information regarding a product or to spread the information for other consumers to read.

Kumar, Petersen and Leone (2007: 1) state that it is imperative for marketers to encourage their consumers to spread positive word-of-mouth as this attracts new customers. Online word-of-mouth communication has the ability to influence positive or negative brand feelings and it also has the power to decrease sales of a particular brand because consumers believe what other consumers have to say online about various brands. Consumers regard the purchase of expensive items, such as cellphones, to be risky. However, using online platforms in order to assess what other consumers have said about a particular cellphone brand has the ability to decrease the perceived risk (Goldsmith & Horowitz, 2006: 3). Jansen, Zhang, Sobel and Chowdury (2009: 2171) suggest that online word-of-mouth will become increasingly important for marketers to monitor as the use of social networking increases.

Brink and Berndt (2008: 89) mention that exceptional customer service should, in turn, lead to positive word-of-mouth. If consumers are unsatisfied with the service they receive, they can turn to the Internet where they could discuss their unsatisfactory service on their social media pages or create a website regarding the unpleasant service they received from an organisation. It is therefore imperative that marketers monitor online word-of-mouth and encourage consumers to spread positive messages online.

Cooke (2008) suggests that in terms of gender, men tend to spread online word-of-mouth content about cars, finance, cellphones and alcohol, while women tend to spread online messages through word-of-mouth about clothes, toiletries, food and household products. In South Africa, word-of-mouth is particularly important as it is seen as story-telling and socialising, which is important in terms of traditional African culture. It is also important to note that South African consumers are inclined to spread positive messages about brands, 80 percent of South African consumers are likely to recommend a brand to another person compared to the global average of only 69 percent (Van Loggerenberg & Herbst, 2010: 13).

## **PROBLEM STATEMENT, RESEARCH OBJECTIVES AND RESEARCH HYPOTHESES**

The cellphone industry has evolved from handsets that had limited functions and appealed to mostly business professionals, to cellphones that are almost as sophisticated as personal computers (Anderson & Jonsson, 2005: 2). The Mail and Guardian (2009) reports that there are 60 cellphone subscriptions per 100 global consumers compared to 48 cellphone subscriptions per 100 consumers in developing countries. Yet in many African countries the penetration of cellphones is still low, for example in Burundi, Djibouti, Eritrea, Ethiopia and Somalia there are less than ten cellphone owners per 100 consumers. However, countries such as South Africa, Gabon and the

Seychelles are close to achieving a 100 percent cellphone penetration rate (Mail and Guardian, 2009). The South African cellphone industry has become increasingly competitive since 1994, making it the fourth fastest growing Global System Mobile (GSM) market in the world (MediaclubSouthAfrica, 2012). This claim is confirmed by Mbendi (2012), who states that the cellphone industry in Africa, particularly in South Africa, has become increasingly competitive and that local networks, such as Vodacom and MTN, have expanded into other African countries.

Strauss, El-Ansary and Frost (2006: 362) explain that word-of-mouth is important regardless of the type of industry because it has the ability to attract customers, but negative word-of-mouth has the ability to drive consumers away. Marketers should concentrate on creating positive customer experiences to ensure that consumers pass on positive word-of-mouth messages. Traditional word-of-mouth has transformed into online word-of-mouth due to the increasing role of the Internet. Online word-of-mouth allows the consumer to read or write messages available for global viewing, and this in turn has increased the role that online word-of-mouth plays in terms of consumer purchase decisions (Duan, Gu & Whinston 2008: 233). Stewart (2011) stresses the importance of online word-of-mouth by stating that online word-of-mouth is a tool that consumers utilise to view the brand and decide on whether to make the purchase or not. Owing to this importance it is essential that the cellphone industry provides consistent products and services to the consumer and responds to customer complaints in a positive and timely manner (Hawkins & Mothersbaugh, 2010: 240). Ryu, Han and Kim (2007: 461) believe that if customers are satisfied with the level of service that they receive, organisations can benefit from positive word-of-mouth, particularly from potential future patronage because customers could influence other customers to purchase from the organisation through the spreading positive content by word-of-mouth. Online word-of-mouth communication has become particularly important for organisations whose reputation is an important factor of their business (Jansen et al., 2009: 2170). Strauss et al. (2006: 254) explain that a marketer can scan the online environment and determine what consumers are saying about them. This, in turn, enables marketers to refine their products and services in order to meet the needs of these consumers. However, finding these online messages is challenging to marketers as customers have the control over which online platform to use when conveying their positive or negative messages (Strauss et al., 2006: 317). The Global Purchase Influencers Report, conducted in 2006, reveals that 39 percent of global consumers rely on the Internet to influence their decision-making on which cellphone brand to purchase. The study also reveals that the brand reputation is the second most likely decision-influencer that consumers use when deciding which cellphone brand to purchase (ACNielsen, 2006).

With regards to the demographic variables, a study conducted by Durukan, Bozaci and Hamsioglu (2012: 155) established that male and female consumers do not differ in terms of their spread of online word-of-mouth messages, however, male and female consumers differ in terms of what they spread online word-of-mouth communication about. With regards to age, in a study conducted by East and Lomax (2010), it was established that respondents up to the age of 55 spread a similar amount of word-of-mouth online. The study suggests that the decline in the spread of online word-of-mouth among respondents aged 55 and above could be linked to their lack of knowledge regarding the Internet and its uses. Van Loggerenberg and Herbst (2010: 14) state that it has become increasingly important for marketers to understand that word-of-mouth, online or offline, is embedded in the African culture. Middle-class black women (who speak indigenous home languages) continuously use word-of-mouth as acceptance and being part of the trend is important to them. Podoshen (2008: 212) suggests that African consumers make use of word-of-mouth as a way of sharing information with their friends and family. According to Podoshen (2008: 213), African consumers rely on word-of-mouth as a tool to search for and receive information regarding their purchases.

This study therefore investigates the demographic and patronage differences of consumers regarding the spread of online word-of-mouth communication about cellphones. Patronage refers to the patronage of cellphone network service providers and general cellphone usage, while the use of word-of-mouth communication refers specifically to messages about cellphones. It will be of value for the marketers of cellphones to be aware of the aforementioned differences and their influence on the spread of online word-of-mouth content, as it will assist them in determining which platforms they use when spreading online word-of-mouth regarding cellphones. Xue and Zhou (2011: 46) reveal that it is important to research online word-of-mouth in countries other than the United States of America and other Western countries, as most existing research is based on these countries. The dominance of research in these countries justifies this study. South Africa's variety of cultures presents a unique opportunity to compare online word-of-mouth and gender, online word-of-mouth and age as well as online word-of-mouth and languages.

Based upon the aforementioned discussion, the primary objective of this study is to determine the demographical and patronage differences of consumers regarding the spreading of online word-of-mouth messages about cellphones.

In order to attain the primary objective, the following secondary objectives are formulated:

- To determine the demographic profile of the consumers taking part in this survey.
- To determine the cellphone patronage and online habits of the consumers taking part in the survey.
- To investigate how and why online word-of-mouth content is spread among consumers in the cellphone industry.
- To explore the demographic differences with regard to the spread of online word-of-mouth messages about cellphones.
- To explore the patronage differences with regard to the spread of communication online through word-of-mouth about cellphones.

The following hypotheses are formulated for this study:

**H1** There are significant differences between means with regards to the demographic variables of consumers and their overall level of spreading of word-of-mouth content online regarding cellphones. This hypothesis is further refined as follows:

**H1a** There are significant differences between means in terms of gender with regards to consumers' overall level of spreading of word-of-mouth online regarding cellphones.

**H1b** There are significant differences between means in terms of the home language with regards to consumers' overall level of spreading of word-of-mouth online regarding cellphones.

**H1c** There are significant differences between means in terms of age with regard to consumers' overall level of spreading of word-of-mouth messages online regarding cellphones.

**H2** There are significant differences between means with regards to the patronage variables of consumers and their overall level of spreading of word-of-mouth communication online regarding cellphones. The hypothesis is further refined as follows:



**H2a** There are significant differences between means in terms of which cellphone network service provider consumers' are currently using or use the most with regard to the overall level of spreading of word-of-mouth messages online regarding cellphones.

**H2b** There are significant differences between means in terms of the type of customer with regards to the overall level of spreading of word-of-mouth content online regarding cellphones.

**H2c** There are significant differences between means in terms of the length of time the consumers' have been using the cellphone network service provider and the overall level of spreading of word-of-mouth communication online regarding cellphones.

## RESEARCH METHODOLOGY

The study is descriptive in nature. Quantitative research in the form of self-administered questionnaires was used to collect the data. The target population of this study included all consumers who own and use a cellphone and who send messages, share content, thoughts and opinions online (i.e. using the Internet) with other individuals in Johannesburg, Gauteng. In order to identify the aforementioned respondents, non-probability two-stage sampling techniques, including convenience sampling and quota sampling, was used. Burns and Bush (2010: 383) state that convenience sampling is choosing samples at the convenience of the interviewer where the interviewer was placed in high-traffic locations. Quota sampling refers to quota characteristics such as age and gender that are chosen in accordance with the requirements of the study (Burns & Bush, 2010: 383). This method ensures that an equal amount of consumers completed the questionnaire to allow for statistical comparison. A total of 269 useable questionnaires were retained for statistical analysis.

A self-administered questionnaire using a mall-intercept method was used to distribute the questionnaires by trained fieldworkers. The measuring instrument (questionnaire) used for this study was adapted from the studies of Wu and Wang (2011), Riegner (2007) and Goyette, Ricard, Bergeron and Marticotte (2010), which adds to the validity of the study. The questionnaire consisted of four sections and included structured questions. The structured questions included dichotomous, multiple-choice and scaled-response questions, including labelled Likert-type scale questions, which are particularly useful in measuring the impact that the particular brand has on the consumer (Burns & Bush, 2010: 314). The first section in the questionnaire was the preamble, which consisted of an introduction to the study as well as screening questions. The screening questions ensured that consumers who currently own or use a cellphone and who go online to send messages content, thoughts or opinions were included in the study. The next section was Section A and it consisted of questions relating to the respondents gender, home language and age in order to obtain a demographic profile of the respondents'. Section B obtained information regarding the respondent's cellphone patronage as well as their online habits by using Likert-scale questions as well as open-ended questions. The final section was Section C, which measured the spread of online word-of-mouth messages by respondents regarding their online behaviour using an unlabelled Likert-scale anchored at one 'never' and five 'always'.

The data collected from the questionnaires was coded, entered and cleaned using the Statistical Package for Social Sciences (SPSS) version 20. The analysis of the data entailed an examination of the frequency distribution of the results for each of the scale items included in the questionnaire, which established whether the data was normally distributed. The normality of the distribution of each scale item is required in order to determine whether parametric or non-parametric tests should be used in order to test the hypotheses formulated for the study. West, Finch and Curran (1995: 79)



state that the distribution of results are considered normal if the distribution presents a skewness of less than the absolute value of 2.00 and a kurtosis of the distribution of less than the absolute value of 7.00. All the scale items used in this study fell between these parameters. Parametric tests were considered suitable for the hypotheses testing as the sample size is reasonably large (n=269).

Descriptive analysis is usually conducted in the early stages of the analysis process as it is the foundation for subsequent analysis and tests (Burns & Bush, 2010: 463). Descriptive statistics such as: the frequencies; mean scores; percentages, and standard deviations were used to portray a typical respondent, to reveal a potential pattern in terms of responses and to allow for statistical analysis. A significance level of p-value less than 0.05 was used in this study.

An independent sample t-test was used to determine whether significant differences between means exist in terms of the respondents' demographics in terms of their gender, language and age with regard to the respondents' overall level of spreading word-of-mouth content online regarding cellphones. The same test was used to determine if significant differences between means exist in terms of the type of cellphone network service provider the customers (contract versus prepaid) are, and the length of time that they have been with the cellphone network service provider in terms of the overall level of spreading word-of-mouth messages online about cellphones. In addition, a one-way analysis of variance (ANOVA) was used to test for significant differences between means in terms of which cellphone network service provider was used and the respondents' overall level of spreading content by word-of-mouth online.

With regards to testing the reliability of the scale, the Cronbach Alpha was used. The Cronbach Alpha determines the reliability of the responses by providing a value between 0 and 1. The closer the value is to one, the more reliable the scale (Eiselen et al., 2005: 112). The Cronbach Alpha value for the measurement scale was found to be 0.949, this confirms that the scale of this study is reliable.

## RESULTS

This section provides the results obtained concerning the demographic profile of the respondents, the respondents' cellphone network service provider patronage behaviour and the spread of online word-of-mouth messages with regards to the way in which respondent's use of online word-of-mouth as well as the platforms they use to spread online word-of-mouth.

### DEMOGRAPHIC PROFILE OF RESPONDENTS

Of the 269 respondents who participated in the study, 41.6 percent were male and 58.4 percent were female. The majority of the respondents' home language is English (61.9 percent), with 15.3 percent speaking Afrikaans. The majority of the respondents were between the ages of 18 and 25 years (37.7 percent) and 19 percent were between the ages of 26-30 years. Table 1 exhibits the demographic profile of the respondents.

TABLE 1: DEMOGRAPHIC PROFILE OF THE RESPONDENTS

Demographics		Percentage
Gender	Male	41.6
	Female	58.4
Language	Afrikaans	15.3
	English	61.9

	Nguni (Zulu, Xhosa, Swati, Ndebele)	9.7
	Sotho (Sepedi, SeSotho, Tswana)	7.5
	Venda/ Tsonga	1.9
	Other	3.7
<b>Age</b>	18-25	37.7
	26-30	19.0
	31-35	10.8
	36-40	10.8
	41-45	8.6
	45-50	13.1

## RESPONDENTS' CELLPHONE NETWORK SERVICE PROVIDER PATRONAGE HABITS

Table 2 indicates that the majority of the respondents use Vodacom (54.7 percent) as their cellphone network service provider, while 34.5 percent use MTN and 10.9 percent use Cell C. The largest percentage (65.4 percent) of respondents is contract customers and 34.6 percent of respondents are prepaid customers. The majority of the respondents have been using their cellphone network service provider for five years or longer, but for less than ten years (32.6 percent) and 30 percent of respondents have been using the same cellphone network service provider for longer than ten years. In terms of the platforms the respondents use to access the Internet, the majority (35.8 percent) of them use their cellphones, fewer respondents (23.5 percent) use a computer at work to access the Internet. Even less respondents (5.6 percent) use a tablet and the least used access point is the desktop computer at university (1.1 percent).

**TABLE 2: CELLPHONE NETWORK SERVICE PROVIDER PATRONAGE HABITS**

Question		Percentage
<b>Cellphone network service provider</b>	Vodacom	54.7
	MTN	34.5
	Cell C	10.9
<b>Type of customer</b>	Contract	65.4
	Prepaid	34.6
<b>Length of using this cellphone network service provider</b>	Less than 6 months	4.1
	6 months or longer but less than 1 year	2.6
	1 year or longer but less than 3 years	14.2
	3 years or longer but less than 5 years	16.5
	5 years or longer but less than 10 years	32.6
	Longer than 10 years	30.0
<b>Platforms used to access the Internet</b>	Cellphone	35.8
	Tablet	5.6
	Smartphone	10.1
	A notebook/laptop computer	15.7
	A desktop computer at university	1.1
	A desktop computer at home	8.2
	A computer at work	23.5

<b>Length of using this cellphone network service provider</b>	Less than 6 months	4.1
	6 months or longer but less than 1 year	2.6
	1 year or longer but less than 3 years	14.2
	3 years or longer but less than 5 years	16.5
	5 years or longer but less than 10 years	32.6
	Longer than 10 years	30.0
<b>Platforms used to access the Internet</b>	Cellphone	35.8
	Tablet	5.6
	Smartphone	10.1
	A notebook/laptop computer	15.7
	A desktop computer at university	1.1
	A desktop computer at home	8.2
	A computer at work	23.5

## RESPONDENTS' SPREAD OF ONLINE WORD-OF-MOUTH

Table 3 provides the standard deviations and mean scores for the level of agreement respondents indicated when presented with statements regarding their online word-of-mouth behaviour.

**TABLE 3: REACTIONS OF RESPONDENTS WITH REGARD TO THE SPREAD OF ONLINE WORD-OF-MOUTH MESSAGES**

<b>Statement</b>	<b>Std. dev.</b>	<b>Mean</b>
I talk to friends online about cellphones	1.234	2.17
I send / forward emails about cellphones	1.244	2.12
I talk about cellphones in a chat room / forum	1.039	1.74
I meet other people online who like cellphones	1.147	1.81
I write about cellphones on a personal page, blog or website	0.905	1.58
I write reviews / stories or rate cellphones online	1.036	1.65
I post messages on Facebook / MySpace / Twitter about cellphones	1.296	2.07
I share content related to cellphones online	1.137	1.89
I comment online when people specifically ask me for my opinion	1.357	2.60
I comment online when a cellphone is much better than I expected	1.297	2.38
I comment online when I know a lot about the topic	1.301	2.56
I comment online when a cellphone is much worse than I expected	1.274	2.37
I comment online to ask or post a question	1.214	2.31
I comment online when I am bored and have nothing to do	1.310	2.32
I comment online when I disagree with a review or rating	1.228	2.17
I comment online when my friends are talking about it	1.308	2.55
I comment online when I want to meet other people who share my interests	1.243	2.03
Overall level of spreading word-of-mouth content online	0.904	2.12

From Table 3, it can be noted that respondents are relatively neutral with the statement 'I comment online when people specifically ask me for my opinion' (mean = 2.60), as well as the statement 'I comment online when I know a lot about the topic' (mean = 2.56). Respondents are also relatively neutral with the statement 'I comment online when my friends are talking about it' (mean = 2.55). Similarly, respondents are relatively neutral with the following statements, 'I comment online when a cellphone is much better than I expected' (mean = 2.38) and 'I comment online when a cellphone is much worse than I expected' (mean = 2.37). Lastly, respondents stated that they almost never write about cellphones on a personal page, blog, or website (mean = 1.58). The table indicates that the overall level of spreading of word-of-mouth messages for the study has a mean of 2.12, indicating that respondents almost never spread online content through word-of-mouth.

## RESULTS OF HYPOTHESES FORMULATED FOR THE STUDY

Various findings were observed regarding the hypotheses formulated for this study. Hypothesis 1 (there are significant differences between means with regards to the demographic variables – gender, home language and age - and respondents' overall level of spreading of word-of-mouth messages online regarding cellphones) is partially supported as it has been concluded that significant differences, in terms of gender and age with regards to the overall level of spreading of word-of-mouth online content, are not visible. However, there is a significant difference with regards to the respondents' home language and their overall level of spreading word-of-mouth communication online.

With regards to gender, male (mean = 2.16) and female (mean = 2.10; p-value = 0.609) respondents do not differ significantly with regards to their overall level of spreading word-of-mouth messages online regarding cellphones. Therefore hypothesis H1a is not supported.

Owing to the group sizes of the home language group, the age group and the length of time (that consumers have using cellphone network service providers) the groups were collapsed which, increased the reliability of the measure. A significant difference with regards to the respondents' home language and their overall level of spreading word-of-mouth communication online was observed. The home languages were collapsed into two categories, namely European home languages (comprised of the Afrikaans and English languages) and indigenous home languages, which include Nguni (Zulu, Xhosa, Swati, Ndebele), Sotho (Sepedi, Sesotho, Tswana) and Venda / Tsonga. Afrikaans and English are considered as European languages due to the fact that Afrikaans is derived from the Dutch language (Giliomee, 2003: 3). Respondents speaking European languages (mean = 2.02) differed significantly from those speaking indigenous languages (mean = 2.50; p-value = 0.000). This suggests that respondents who speak indigenous home languages have a higher overall level of spreading word-of-mouth content online regarding cellphones compared to the respondents who speak European home languages. Therefore hypothesis H1b is supported.

In terms of age, the categories were collapsed into two categories, namely "30 and younger" and "older than 30". No significant difference in the means between "30 and younger" (mean = 2.15) and "older than 30" (mean = 2.09; p-value = 0.573) with regards to the respondents overall level of spreading word-of-mouth messages online regarding cellphones was observed. Therefore hypothesis H1c is not supported.

Hypothesis 2 (there are significant differences between means with regards to the patronage variables of consumers and their overall level of spreading of messages by word-of-mouth online regarding cellphones) cannot be supported as it has been concluded that there are no significant differences in terms of how online word-of-mouth is spread with regard to patronage differences

regarding cellphones. It was observed that there are no significant differences between means of respondents using Vodacom (mean = 2.14), MTN (mean = 2.08) and Cell C (mean = 2.16; p-value = 0.755) and their overall level of spreading of word-of-mouth content online (p-value = 0.755). Therefore hypothesis H2a is not supported.

Results indicated that there are no significant difference in means in terms of the type of customer respondents, namely contract respondents (mean = 2.10) and prepaid respondents (mean = 2.16; p-value = .643), and their overall level of spreading of word-of-mouth communication online regarding cellphones. Therefore hypothesis H2b is not supported.

The respondents were collapsed into two groups according to the length of time that they have been with their cellphone network service provider. The groups were "Less than 3 years" and "More than 3 years." The analysis found that there are no significant differences between the mean length of time that the respondents had been using their cellphone network service provider ("Less than 3 years" (mean = 2.10) and "More than 3 years" (mean = 2.13)) and the mean level of their spreading of word-of-mouth messages online about cellphones. Therefore hypothesis H2c is not supported.

## **MANAGERIAL IMPLICATIONS AND RECOMMENDATIONS**

The results of the study indicate that the respondents almost never spread word-of-mouth online regarding cellphones (Table 3). This poses a threat to cellphone handset marketers because, as the literature review demonstrates, it is evident that consumers are more likely to purchase cellphones which have been recommended by others. Therefore it is imperative that marketers of cellphone handsets encourage their current consumers to spread positive word-of-mouth messages online regarding their cellphones. This positive online word-of-mouth communication will then be available for multiple consumers around the world to see and this has the potential to affect their purchase intentions regarding cellphone handsets. Cellphone network service providers should therefore encourage consumers to participate positively on social networking sites to encourage the spread of content online by word-of-mouth.

The majority of the respondents use their cellphones as their primary platform (35.8 percent) to access the Internet and fewer use a computer at work (23.5 percent). This provides various opportunities for marketers of cellphones because access to the Internet is not the limitation, but can instead be used as a motivation for spreading word-of-mouth content online. The study reveals that respondents will comment online when people specifically ask for their opinion, when they know a lot about the topic and comment online when their friends are talking about various topics. This provides an opportunity for marketers to increase the amount of word-of-mouth content that is spread online about cellphones. This can be done by creating opinion leaders to ensure that other consumers ask a particular consumer for their opinion, educate consumers about cellphones to ensure that they will increase their spread of word-of-mouth communication online when they know a lot about the topic and create a 'buzz' about their cellphones in order to encourage numerous consumers to talk about them. In order to achieve this, marketers could run competitions based on how well the consumer knows the cellphone handset which will educate the consumer and create a 'buzz.' The competition could entail that the winner wins the latest product produced by that cellphone company or the marketer could collaborate with the cellphone network service provider and offer the customers discounts or airtime.

With regards to the patronage variables (cellphone network service provider that the customer is using, the type of customer and length of time) and how these variables impact the spread of online word-of-mouth messages, no significant differences between means were observed. This allows for the marketer of cellphones to create a generic marketing strategy, which in turn saves costs as

the marketer does not need to create specific marketing strategies and promotions for each segment. Generic market strategies can be used because the customers support similar cellphone network service providers and they are similar types of customers (contract and prepaid) and they have been using the same cellphone network service provider for a similar amount of time. Therefore, this allows the marketer to focus their capital on other areas such as creating an online presence (in terms of social media, websites and review sites).

With regards to the demographic variables (gender, home language and age) and how they have an impact on the spread of online word-of-mouth messages, marketers of cellphone network service providers and cellphone handsets should focus on the home language variable as this revealed that there is a significant difference in terms of respondents who spoke indigenous home languages and how they spread online content through word-of-mouth (they use word-of-mouth more), compared to respondents who spoke European home languages. This will require the marketer to create a separate marketing strategy aimed at consumers who speak indigenous home languages as these consumers regard word-of-mouth to be traditional and part of their cultural heritage. Stewart (2012) explains that African women who speak indigenous home languages, contribute 40 percent of the total consumer spending in South Africa. African consumers tend to rely on word-of-mouth as they trust the opinions of their friends and family and story-telling is embedded in their African culture (Stewart, 2012). The marketers of cellphone network service providers and cellphone handsets could use this to their advantage by specifically choosing an African brand ambassador who many African consumers would relate to and trust and try to encourage their African consumers to spread positive online content through word-of-mouth.

## **LIMITATIONS AND FURTHER RESEARCH**

A convenience sample was used, making the results of the study only representative of those who participated in the study. This, therefore, poses limitations to the generalisation of the results to the entire South African population. Owing to this, future research should be conducted on a variety of customers, such as those in different geographical areas (other than Gauteng), backgrounds and cultures in order to ascertain whether these variables influence the level of spreading of word-of-mouth messages online.

## **CONCLUSION**

This research study investigates the demographic and patronage differences with regard to the spreading of online messages by word-of-mouth about cellphones. This study also revealed the factors that influence consumers to do so (i.e. friends and their knowledge about the product). The research lastly uncovered the relationship between the demographic differences (gender, home language, age) and the patronage differences (cellphone network service provider used, the type of customers, length of using the cellphone network service provider) regarding the spread of online word-of-mouth.

This study contributes significantly to the understanding of how the customers' demographic and patronage variables affect their overall level of spreading of online word-of-mouth with regards to cellphones as the study reveals which demographic and patronage variables the marketers of cellphones should focus on. The study assists marketers in determining which platforms to monitor to ensure that their capital and marketing efforts are being distributed appropriately.





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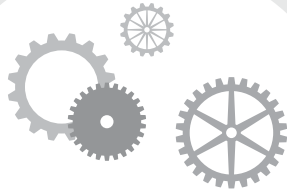
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**CULTURAL ORIENTATION AS ANTECEDENT OF OPENNESS TOWARDS  
MOBILE MARKETING IN AFRICAN CULTURES:  
HOW DOES CULTURE SHAPE MOBILE IMPORTANCE?**

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**ABSTRACT**

This study investigated the role of cultural orientation as antecedent in mobile marketing. A sample of 323 students from seven African countries participated in the study. The study addressed four objectives. Firstly the psychometric properties of five dimensions of Sharma's (2010) cultural orientation scale, namely tradition, independence, interdependence, consumer ethnocentrism and consumer innovativeness were evaluated. A number of problematic items were identified and eliminated, which improved the construct validity and reliability of the scale. Secondly, the psychometric properties of a proposed scale of mobile importance suggested two dimensions, mobile addiction and mobile utility. Third, the relationships between the individual cultural orientation dimensions and mobile importance dimensions found a very significant relationship between consumer innovativeness and mobile addiction as well as mobile utility. A weak but positive relationship between traditional values and mobile addiction and mobile utility was found. Fourth, mediation analysis suggests that mobile addiction mediates mobile utility.

**KEYWORDS**

Culture, Africa, Marketing, Mobile media

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## INTRODUCTION

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From a commercial point of view Africa's one billion (and growing) population, is attracting the attention of investors, developers, retailers and other traders across the globe as the market of the future. For example, multinational fast moving consumer corporations, like Procter & Gamble and Unilever, have publicly and tangibly declared their interests in Africa. The former announced a US\$170 million investment to develop a multi-product manufacturing plant (Moorad, 2013) and the latter declared that it will double its revenue in Africa by 2017 (Reuters, 2012).

It is anticipated that these ambitions for growth will, in part, be driven through relevant marketing practices. The customer-centric perspective of marketing requires comprehensive understanding of the target customers and relationship channels (Baker, 2000; Kotler & Armstrong, 2010: 29), with culture being recognised as a key influence on consumer behaviour (Gbadamosi, 2013). Variances in consumer behaviour in different geographic regions have been attributed to cultural differences, as indicated by cross-cultural studies. In the main cross-cultural studies compare Western and Eastern countries and Hofstede's national culture measures predominate (Bearden, Money & Nevins, 2006). These findings, from the extant literature, draw attention to two discrepancies in cultural research that warrant investigation. Firstly, since cross-cultural studies identified differences between Western and Eastern cultures, there is a strong likelihood for variance in African cultures. Furthermore, the African continent consists of 54 different countries; each with its own cultural characteristics, hence cross-cultural studies between various African countries is valid in understanding cultural homogeneity or heterogeneity characteristics among these countries. Secondly, although Hofstede's cultural dimensions are popular in cross-cultural studies, the use of these work-related national level cultural values have been criticised when applied to studies concerning personal culture (Sharma, 2010; Blodgett, Bakir & Rose, 2008). A subsequent related point is that measurement scales are domain specific and therefore cultural research pertaining to marketing should use a scale that has been devised in a marketing domain.

In the marketing discipline, mobile marketing has become a significant point of interest in Africa, based primarily on the high penetration of mobile phones and the various utility capabilities offered by these devices. In 2012, the mobile phone subscription rate in Africa reached 76%, an increase of 17% from 2011 (ABI research, 2012). Additionally mobile phones have developed into multi-functional utilitarian devices; even simple feature phones using basic USSD technology enable people to access to financial utilities like M-PESA in Tanzania.

Taking these factors into consideration, the intention of this cross-cultural study is to examine the combined perspectives from seven African countries, utilising Sharma's (2010) measure of personal cultural orientations (PCO) with respect to marketing, specifically mobile marketing, to investigate the role of cultural orientation as antecedent in mobile marketing.

### PROBLEM INVESTIGATED

The role of individual cultural values in marketing outcome variables has not always produced useful insights. How culture affects marketing outcomes is under-researched phenomena, especially from an African perspective (Gbadamosi, 2013). Using Schwartz's (1994) dimensions, Ungerer and Strasheim (2011) found in a South African sample of 2 566 consumers that the relationships between individual-level culture and life satisfaction was moderated by living standards. However, Schwartz's (1994) dimensions are not frequently used in marketing contexts. But, the personal cultural orientation (PCO) scale suggested by Sharma (2010) was specifically developed to investigate an individual's cultural orientation from a marketing perspective, and may



provide a more useful angle. In consideration of a) African countries as new commercial markets for growth and b) the potential of mobile marketing in these territories, on account of the high penetration of mobile phones in Africa, the question of how to achieve acceptance of mobile marketing amongst African consumers is still to be investigated. Should marketers consider cultural orientations as predictors of mobile marketing?

## LITERATURE REVIEW:

### Cultural Orientation

Numerous typologies of cultural-values have been suggested for cross-cultural marketing research. Steenkamp (2001) remarks that the work of Hofstede (1980) and Schwartz (1994) have provided influential frameworks for cross-cultural studies; with Hofstede's (1980) work addressing national culture, and Schwartz's (1994) work focussing on human values. These two frameworks will be addressed briefly in the ensuing discussion.

Hofstede (1980) initially developed four dimensions characterising national culture; namely uncertainty avoidance, power distance, individualism versus collectivism, and masculinity versus femininity. Subsequent research led to a fifth dimension of long-term versus short-term orientation (Hofstede & Bond, 1988). More recently, a sixth dimension has been included, labelled indulgence versus restraint (Hofstede, Hofstede & Minkov, 2010). Hofstede's cultural dimensions have been popular in cross-cultural marketing studies. Recent bodies of research include: the role of culture as antecedents in the adoption of mobile banking, comparing respondents in Finland and Portugal (Laukkanen & Cruz, 2012); the impact of national culture on adoption of innovation, comparing respondents in South Korea and the United States (Lim & Park, 2013); and the effect of culture on technology adoption, using respondents in South Korea and the United States (Lee, Trimi & Kim, 2013). Despite the continued use of Hofstede's cultural framework in contemporary marketing research studies, decades after its development, it has several shortcomings. The most pertinent criticisms point to the application of Hofstede's national cultural values to measure culture at the individual level (Blodgett et al., 2008; Sharma, 2010) and that work-related values do not necessarily overlap with consumer values (Steenkamp, 2001; Sharma, 2010).

In contrast to Hofstede's (1980) national cultures, Schwartz (1994) developed a cultural typology addressing individual values and motivational types. The typology consists of three bipolar dimensions, plotting seven contrasting domains, which are: conservatism, intellectual autonomy, affective autonomy, hierarchy, egalitarianism, mastery and harmony. Schwartz's (1994) framework overcomes the issue of applying Hofstede's (1980) national culture measures in the context of individual culture. However, Schwartz's (1994) framework is not widely used in marketing research (Steenkamp, 2001), it is mostly applied in management studies for its strength on measuring personality.

Based on the discourse thus far, it would seem that neither Hofstede's (1980) nor Schwartz's (1994) cultural frameworks adequately address cross-cultural marketing research challenges to explain differences in outcome variables based on culture. To address these gaps in cross-cultural marketing research, Sharma (2010) reconceptualised Hofstede's national-level cultures as multi-dimensional personal cultural orientations at individual-level. Two marked benefits of Sharma's (2010) personal cultural orientation framework in comparison to Hofstede's (1980) framework are that a) it allows for the measure of culture at the individual level, and b) it is a more general culture framework making it relevant for use in the marketing discipline.



In this study Sharma's (2010) personal cultural orientations of tradition, independence, interdependence, consumer ethnocentrism, and consumer innovativeness have been used. As a dimension of personal cultural orientation: tradition, relates to valuing traditional ideals, such as: heritage, morals, social awareness, hard work and compassion (Sharma, 2010); independence is associated with individualism, a strong sense of self, personal achievement and autonomy (Sharma, 2010); interdependence, contrasts with independence, it is associated with group identity, collectivism and placing the goals of the group foremost to those of the individual (Sharma, 2010); consumer ethnocentrism, relates to consumers preference for purchasing national goods over foreign goods (Cleveland, Laroche & Papadopoulos, 2009); consumer innovativeness concerns the inclination of individuals to purchase new products more frequently and before other people (Roehrich, 2004). These personal cultural orientations are considered in this study to be possible antecedents of mobile importance.

### **Mobile Importance:**

Mobile importance, as investigated by Goneos-Malka (2012), was suggested to be a three-factor construct. The first factor, Mobile addiction, can be viewed as being indicative of the postmodern characteristic of de-differentiation, through the reversal of roles between subject and object as inferred through the status conferred by individuals to their mobile phones. This factor is suggestive of dependence and addictive attributes in individuals' responses to perceptions of their mobile phones.

The second factor, Empowered choice, is suggestive of individuals' right to choose what media they wish to consume under conditions of abundant choice. Using their mobile phones to access media facilitates selective consumption of media. This factor is therefore indicative of postmodernism's philosophy for tolerance of diversity.

The third factor, Convenient interconnection, is suggestive of the postmodern characteristics of hyperreality and de-differentiation, exemplified through the blurring of boundaries. The boundaries in this instance are between physical and virtual domains of media and the dissolution of boundaries between media forms, which is made possible through the use of mobile phones.

## **RESEARCH OBJECTIVES**

**The following research objectives guide this study.**

**Objective 1:** To evaluate the psychometric properties of the five dimensions tradition, independence, interdependence, ethnocentrism and consumer innovativeness of Sharma's (2010) cultural orientation scale.

**Objective 2:** To evaluate the psychometric properties of a proposed scale for mobile importance.

**Objective 3:** To investigate the relationships between the five cultural dimensions of tradition, independence, interdependence, ethnocentrism and consumer innovativeness on mobile importance.

**Objective 4:** To evaluate the nature of the relationship between cultural orientation and mobile importance, and the possibility of a mediating role between the outcome variables.

**In order to meet the above stated objectives, the following research questions are pertinent:**

**RQ1:** Does Sharma's measure of cultural orientation replicate in an African sample?

**RQ2:** How should mobile importance be conceptualised in an African context?

**RQ3:** Does one or more of the cultural orientation dimensions explain one or more dimensions of mobile importance?

**RQ4:** Are there clear antecedent or mediating roles between the dimensions of mobile importance?

In order to address RQ3, the following research hypotheses are posited (see Figure 1):

**H1: Traditional values are negatively related to mobile importance**

Traditional values are grounded in customary practices with established conservative patterns. Individuals favouring traditional personal cultural orientation are anticipated to avoid new products or services, therefore the expectation is that these individuals will be less receptive to mobile marketing. It is thus posited that there is a negative relationship between tradition and mobile importance.

**H2: Independence is negatively related to mobile importance**

Independence is associated with individualism and the fulfilment of personal goals. In developed markets, one might expect independence to be positively related to mobile importance because of individual ownership of mobile handsets. But in the African context, where there is poor distribution of landline infrastructure, it is not uncommon for mobile handsets to be shared between family members in some communities. The low penetration of smart phones compared to feature phones and high costs of data may preclude consumers from certain applications and services requiring internet access or subscription fees, which will negatively affect these individuals' views of mobile importance. Thus it is posited that there is a negative relationship between independence and mobile importance, specifically in an African context.

**H3: Interdependence is positively related to mobile importance**

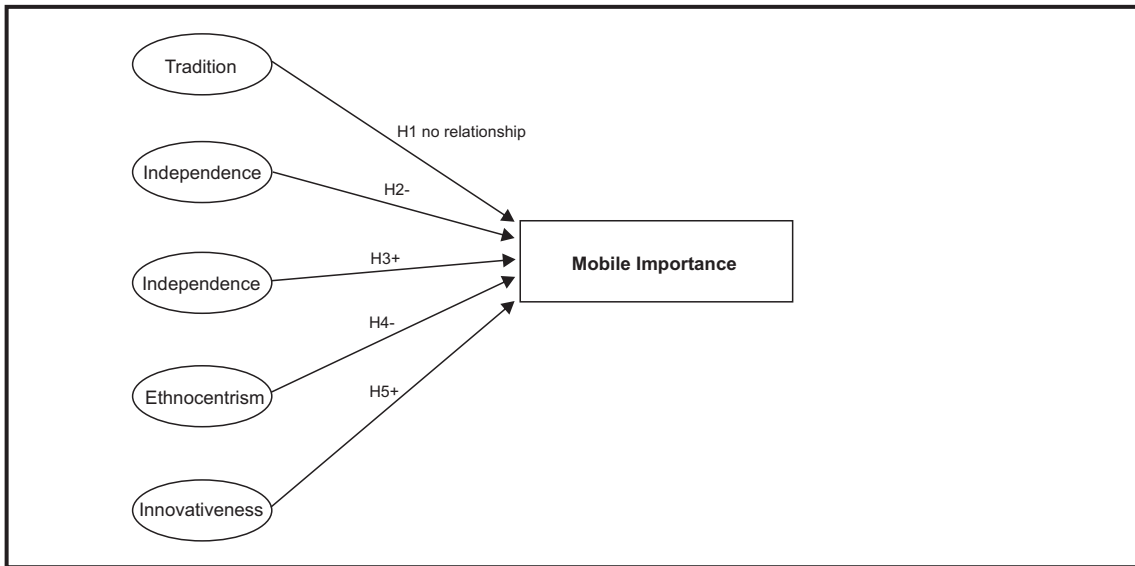
Individuals with a high interdependence personal cultural orientation are mindful of the needs of their groups. It is anticipated that they will utilise their mobile devices to connect and organise members of their groups. Thus it is posited that interdependence is positively related to mobile importance.

**H4: Consumer ethnocentrism is negatively related to mobile importance**

Consumers with high ethnocentrism scores are anticipated to have low affinities to mobile importance. If one considers that most mobile phones in Africa are not manufactured locally, they are foreign imports, then mobile device ownership may have negative implications for consumers with high levels of ethnocentrism, let alone mobile marketing. Consumer ethnocentric consumers are likely to restrict their media consumption to local media providers and are therefore less likely to be open to mobile marketing initiatives that utilise global media platforms, for instance, Facebook or Twitter. It is therefore posited that there is a negative relationship between ethnocentrism and mobile importance.

**H5: Consumer Innovativeness is positively related to mobile importance**

Individuals scoring high on consumer innovativeness like to purchase items before anyone else, and thus due their innovative nature are expected to be more open to mobile marketing because of its novelty, variability and the immediacy of mobile communications. It is posited that there is a positive relationship between consumer innovativeness and mobile importance.

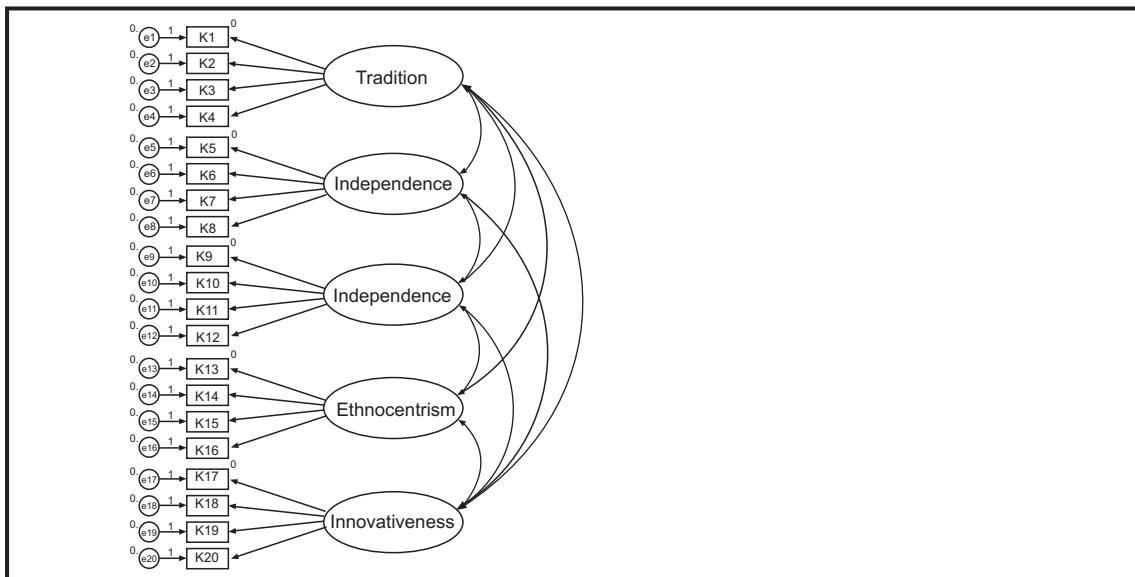


**FIGURE 1: HYPOTHESES OF THE RELATIONSHIP BETWEEN DIMENSIONS OF CULTURAL ORIENTATION AND MOBILE IMPORTANCE**

## RESEARCH METHODOLOGY

### Measurement of cultural orientation

For cultural orientation, Sharma's (2010) conceptualisation was used as a base. Proposed as a ten-dimensional measure of cultural orientation, the dimensions in this study were limited to five dimensions, namely tradition, independence, interdependence, ethnocentrism and consumer innovativeness that may be useful to explain the importance of mobile devices for consumers. These five dimensions were deemed as important antecedents of Mobile Importance, and only these dimensions were tested to obtain measures of how individuals perceive their own individual culture. The measurement model for all the items used to measure cultural orientation is provided in Figure 3, with the corresponding items appearing in Appendix 1.



**FIGURE 3: THE ORIGINAL MEASUREMENT MODEL FOR FIVE DIMENSIONS PROPOSED**

(Source: Sharma (2010))

## Measurement of mobile importance

The initial conceptualisation of mobile importance was based on exploratory work by Goneos-Malka (2012), where a set of initial items were generated from literature. Using exploratory factor analysis, mobile importance was found to be a three-dimensional measure (see Figure 4) with dimensions suggested to represent mobile addiction, empowered choice and convenient interconnection, in a South African sample of 333 students. Two additional items were generated for the follow-up phase targeting students from African universities, and these were initially thought to be indicators of the factor convenient interconnection.

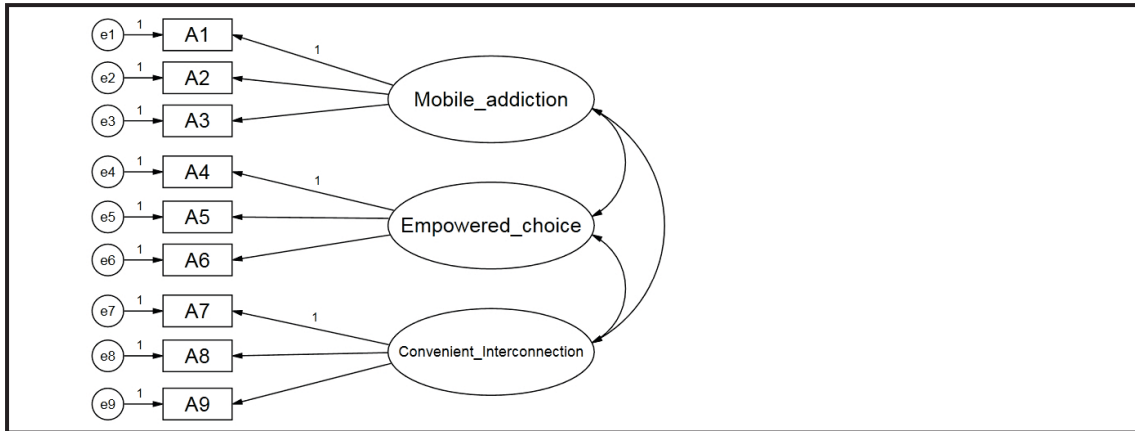


FIGURE 4: INITIAL MEASUREMENT MODEL FOR MOBILE IMPORTANCE

## Population and sample

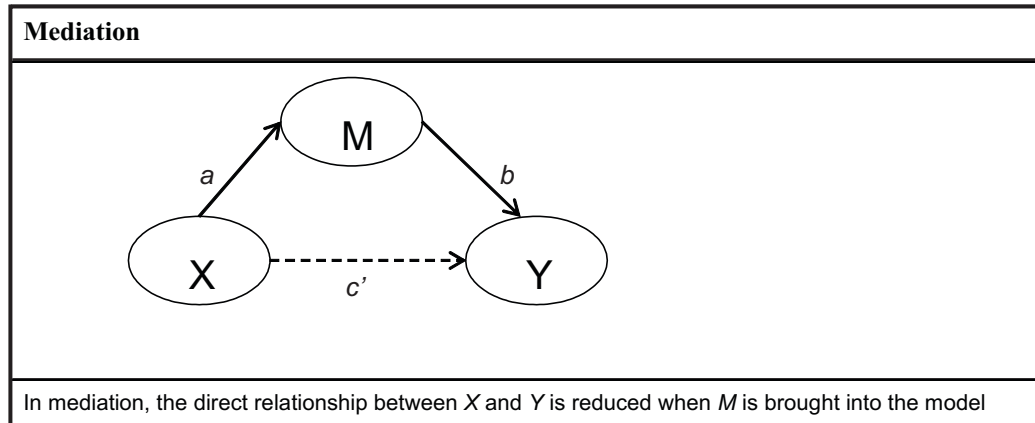
For the purpose of this study, the target population is defined as young student consumers studying at African universities. Data collection happened using an online survey instrument (SurveyMonkey). Personal connections with international academics of the first author were contacted via e-mail, and they were requested to send the survey link to students studying at their universities. The sample can therefore be considered a convenience sample. Data collection was a trying process, for several reasons, which include: the time required to establish productive relationships, based on goodwill and academic collegiality; understanding that several institutions have unreliable access to Internet, which was a critical factor for respondents to complete the web based survey; and negotiating different methods to contact students within the constraints of the various institutions, which included accessing students directly or through a mediating partner at the institution or posting a link to the survey on the institutional web page.

## Data analysis

In order to address the research questions, confirmatory factor analysis was used to address research questions 1 and 2. Building on the preceding analyses for RQ1 and RQ2, structural equation modelling was further used to address RQ3 and RQ4. More specifically, the following background about mediation analysis is necessary.

Using similar symbols as Little, Card, Boviard, Preacher and Crandall (2007), with X depicting the independent variable, Y the dependent variable, and M the mediator variable, the process of mediation is shown in Figure 2. Baron and Kenny (1986) assert that the role of a mediating variable is to explain how an independent variable effects a dependent variable through a transformation

process. Little et al. (2007: 207) explains it succinctly: "... a mediator can be thought of as the carrier or transporter of information along the causal chain of effects." Therefore, mediation is part of a chain of effects and explains why or how a predictor variable has an effect on the outcome variable. Little et al. (2007: 208) simplifies the conditions of Baron and Kennedy (1986) to three necessary (although not sufficient) conditions that need to be met before the researcher can claim that mediation occurs. In the second column of Figure 1, mediation may be present when X is significantly related to M, (relationship a), M is significantly related to Y (relationship b), and the relationship between X and Y, (relationship c') is weaker when M is in the model.



**FIGURE 2: MEDIATION IN STRUCTURAL EQUATION MODELLING**

## RESEARCH RESULTS

The final sample and representation by each of the seven countries, split by male and female are provided in Table 1. The majority of respondents were from Nigeria (32.5%) and the smallest sample from Namibia (6.8%).

**TABLE 1: SAMPLE BREAKDOWN BY AFRICAN COUNTRY**

	<b>Frequency</b>	<b>Percentage</b>
Nigeria	105	32.5
Tanzania	82	25.4
Ghana	31	9.6
Uganda	31	9.6
Zimbabwe	28	8.7
Zambia	24	7.4
Namibia	22	6.8
<b>Total</b>	<b>323</b>	<b>100.0</b>

## PSYCHOMETRIC ASSESSMENT OF PERSONAL CULTURAL ORIENTATION

The first objective of the study (RQ1) was to evaluate the psychometric properties of the PCO scale. Confirmatory factor analysis is the most suitable approach for this purpose. The initial model did not

fit the data satisfactory, (fit measures in Table 2, IFI, TLI and CFI <0.9; RMSEA > 0.05). Several items had low squared multiple correlations, which may have been due to items being too complex for the target group. It should be remembered that English is frequently the second or third language of students in Africa, and is not the mother tongue of the majority of Africans. Therefore, in order to use a valid instrument in the study, problematic items were removed from the model on a step-by-step basis to obtain an improved fit of the data, but with care not to remove too many items so that there are at least two, but preferably four items per latent variable, and also being careful to retain the original five dimensions to test the stated hypotheses of this study.

After a step-by-step removal of items that did not seem to be well understood by the respondents, a very acceptable fit was obtained (fit measures in Table 2, IFI, TLI and CFI >0.95; RMSEA < 0.05, criteria based on recommendations by Hu and Bentler (1999) and Browne and Cudeck, (1993). The fit measures of the initial measurement model and final measurement model (with the models in between omitted for the sake of brevity) used in this study appear in Table 1. The final model had the same form as Figure 3, but items K1, K6, K11, K12 and K16 were removed. From the fit measures in Table 2 it is clear that the removal of problematic items resulted in remarkable improvement on all fit measures, with the Chi-Square difference test being highly significant.

**TABLE 2: SUMMARY OF FIT MEASURES FOR INITIAL AND FINAL CULTURAL ORIENTATION MEASUREMENT MODEL**

Fit measure	Initial model	Final model	Chi-square difference
NPAR	70	55	
Chi-Square	364.7	129.4	235.352
Df	160	80	80
Prob	0.000	0.000	0.000
Chi-Square/df	2.28	1.617	
IFI	0.879	0.960	
TLI	0.837	0.938	
CFI	0.876	0.959	
RMSEA	0.060	0.042	
LO 90 RMSEA	0.052	0.028	
HI 90 RMSEA	0.068	0.054	
PCLOSE	0.023	0.851	

The maximum likelihood estimated regression coefficients are provided in Table 3, for both the initial measurement model, and the final model which excludes the problematic items. The confirmatory factor analysis model included means and intercepts, and the corresponding intercepts for each model is also reported in Table 3. All the reported slope coefficients were highly significant, a finding that suggests convergent validity of the instrument.



**TABLE 3: ESTIMATED REGRESSION COEFFICIENTS AND ITEM INTERCEPTS OF THE CULTURAL ORIENTATION MEASUREMENT MODEL**

	Initial model		Final model	
	Slope	Intercept	Slope	Intercept
K1 ← Tradition	1.000	0.000		
K2 ← Tradition	2.264	-6.402	1.000	0.000
K3 ← Tradition	2.247	-6.457	1.012	-0.191
K4 ← Tradition	2.689	-8.650	1.236	-1.259
K5 ← Independence	1.000	0.000	1.000	0.000
K6 ← Independence	0.527	2.356		
K7 ← Independence	0.895	0.318	0.960	0.051
K8 ← Independence	0.609	1.926	0.616	1.895
K9 ← Interdependence	1.000	0.000	1.000	0.000
K10 ← Interdependence	0.693	1.549	0.596	1.981
K11 ← Interdependence	0.804	0.820		
K12 ← Interdependence	0.733	1.252		
K13 ← Ethnocentrism	1.000	0.000	1.000	0.000
K14 ← Ethnocentrism	0.929	0.970	0.849	1.202
K15 ← Ethnocentrism	1.078	0.454	1.038	0.571
K16 ← Ethnocentrism	0.693	2.025		
K17 ← Innovativeness	1.000	0.000	1.000	0.000
K18 ← Innovativeness	0.984	0.554	0.979	0.570
K19 ← Innovativeness	1.028	-0.269	1.045	-0.320
K20 ← Innovativeness	0.822	0.224	0.835	0.184

The confirmatory factor analysis model included means and intercepts, using identification constraints that constrained at least one item per latent variable equal to unity (to set the scale) and by setting the corresponding intercept to zero (Strasheim, 2011). This method allows one to obtain model implied means. The model implied variances and standard deviations (calculated by hand) are given in Table 4.

**TABLE 4: ESTIMATED MEANS AND VARIANCES OF LATENT VARIABLES**

	Means		Variances		Standard deviations	
	Initial	Final	Initial	Final	Initial	Final
Tradition	4.775	4.409	0.121	0.600	0.348	0.775
Independence	4.100	4.103	1.081	1.036	1.040	1.018
Interdependence	4.504	4.504	0.366	0.538	0.605	0.733
Ethnocentrism	2.927	2.931	1.081	1.211	1.040	1.100
Innovativeness	3.003	3.005	1.116	1.097	1.056	1.047

From the estimated means of the final model, it appears that on a five-point scale, the highest values reported in the sample were traditional and interdependence values, with independence also at 4.1. The mean estimated values for ethnocentrism and innovativeness are close to the midpoint of the scale, which are interesting in itself. Although the respondents were on average high on traditional values, it did not result in high ethnocentric values. This may be due to a scarcity of most consumable products originating from Africa. The relatively low average level of consumer innovativeness may also be due to a lack of exposure to products. The model implied correlation coefficients (from the standardised output of the confirmatory factor analysis) are provided in Table 5. The correlations between the latent variables are not very high, which is desirable, since it suggests that the dimensions are understood differently, suggesting discriminant validity of the scale.

**TABLE 5: MODEL IMPLIED CORRELATIONS BETWEEN LATENT VARIABLES FOR THE CULTURAL ORIENTATION MEASURE**

			Initial model	Final model
Tradition	↔	Independence	0.515	0.476
Tradition	↔	Interdependence	0.622	0.517
Tradition	↔	Ethnocentrism	0.406	0.349
Tradition	↔	Innovativeness	0.470	0.468
Independence	↔	Interdependence	0.405	0.290
Independence	↔	Ethnocentrism	0.334	0.314
Independence	↔	Innovativeness	0.306	0.300
Interdependence	↔	Ethnocentrism	0.372	0.214
Interdependence	↔	Innovativeness	0.410	0.304
Ethnocentrism	↔	Innovativeness	0.544	0.484

The psychometric assessment of the scale is incomplete without considering the internal consistency reliability of each of the dimensions of the scale. The Cronbach's coefficient alpha values are acceptable for the final model, as can be seen in Table 6, with alpha values ranging between 0.690 and 0.850 for the five PCO dimensions. The commonly suggested cut-off criterion for alpha is 0.7 (Peterson, 1994).

**TABLE 6: CRONBACH'S COEFFICIENT ALPHA INTERNAL CONSISTENCY RELIABILITY FOR INITIAL AND FINAL MEASUREMENT MODEL OF CULTURAL ORIENTATION**

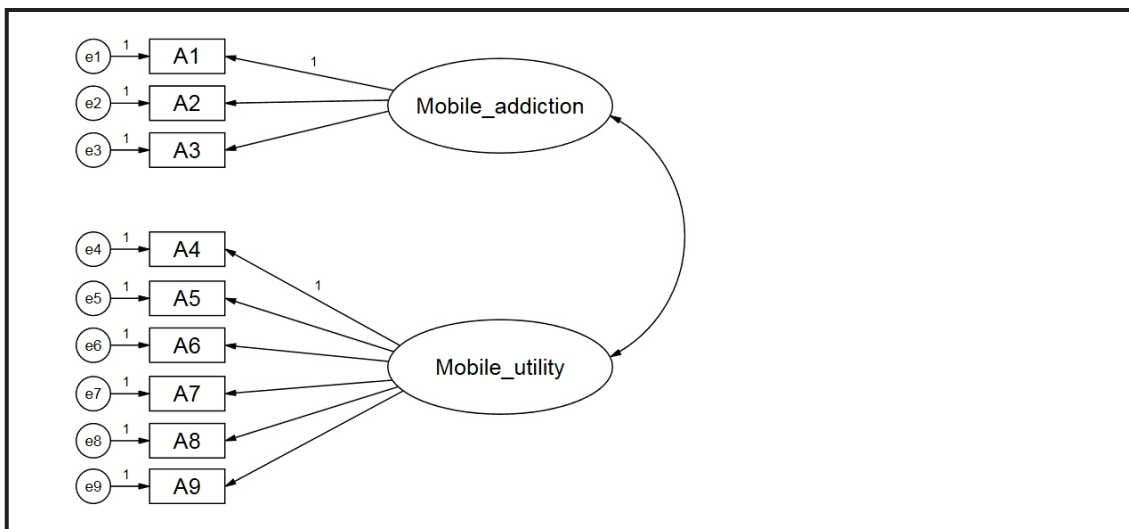
Dimension	Initial model		Final model	
	Items	Cronbach's alpha	Items	Cronbach's alpha
Tradition	K1, K2, K3, K4	0.834	K2, K3, K4	0.850
Independence	K5, K6, K7, K8	0.796	K5, K7, K8	0.790
Interdependence	K9, K10, K11, K12	0.649	K9, K10	0.690
Ethnocentrism	K13, K14, K15, K16	0.787	K13, K15	0.750
Innovativeness	K17, K18, K19, K20	0.822	K17, K18, K19	0.821

## PSYCHOMETRIC PROPERTIES OF THE MEASUREMENT MODEL FOR MOBILE IMPORTANCE

This section addresses the second research objective (RQ2). The three-dimensional measure of mobile importance in Figure 3 was imposed on the African sample. The model yielded reasonable fit, with IFI and CFI > 0.95; TLI > 0.9, but RMSEA=0.063. Moving away from a strictly confirmatory approach, a model generating approach, taking into account substantive and theoretical plausibility as point of departure, was adopted in subsequent analyses (Byrne, 1989). When the estimated model parameters were investigated, the model implied correlation coefficient between the latent variables empowered choice and convenient interconnection were 0.985 (Table 7). Since this is very close to unity, it could be interpreted that these two dimensions are viewed similarly in the African sample, allowing the simplification of this measurement model to a model with only two latent variables. The newly formed dimension was named mobile utility, which is a better description of what the six items seem to measure. The two-dimensional mobile importance model appears in Figure 5.

**TABLE 7: MODEL IMPLIED CORRELATION COEFFICIENTS OF INITIAL THREE-DIMENSIONAL MODEL OF MOBILE IMPORTANCE**

		Correlation
Mobile_addiction	↔ Empowered_choice	0.653
Mobile_addiction	↔ Convenient_Interconnection	0.641
Empowered_choice	↔ Convenient_Interconnection	0.985



**FIGURE 5: FINAL MEASUREMENT MODEL FOR MOBILE IMPORTANCE**

In order to investigate the plausibility of an alternative uni-dimensional model of mobile importance (where there is only one latent variable, mobile importance, with the nine items A1 to A9 emanating from it), a confirmatory factor analysis model with a single latent variable was also tested as an alternative. The fit measures of the initial three-dimensional model, the two-dimensional and the uni-dimensional model are provided in Table 8. However, as will be seen in the psychometric assessment of the scale, the more parsimonious two-dimensional conceptualisation provided acceptable fit, made theoretical sense and was used in the final stage of this study, where the nature of the role of cultural orientation on mobile importance is investigated.

**TABLE 8: FIT MEASURES OF MOBILE IMPORTANCE MEASUREMENT MODELS EVALUATED**

Model	Initial model with three latent variables	Final measurement model with two latent variables	Alternative with single latent variable
NPAR	30	28	26
CMIN	57.46	57.70	144.28
DF	24	26	28
P	0.000	0.000	0.000
CMIN/DF	2.394	2.219	5.153
IFI	0.964	0.966	0.874
TLI	0.931	0.939	0.793
CFI	0.963	0.965	0.871
RMSEA	0.063	0.059	0.108
LO 90	0.042	0.038	0.091
HI 90	0.084	0.079	0.126
PCLOSE	0.148	0.227	0.000

The maximum likelihood regression estimates, the corresponding intercept, squared multiple correlations and error variances are provided in Table 9. Noteworthy is that all the regression coefficients are highly significant ( $p < 0.001$ ), suggestive of convergent validity of the two-dimensional mobile importance model. Furthermore, except for a few items, the squared multiple correlations are mostly over 0.5, and the remainder larger than 0.35.

**TABLE 9: REGRESSION ESTIMATES OF A TWO-DIMENSIONAL MOBILE IMPORTANCE MEASUREMENT MODEL**

	Slope	Intercept	Squared multiple correlations	Error variances	
A1 ← Mobile_addiction	1.000	0.000	0.535	e1	0.568
A2 ← Mobile_addiction	1.046	-0.276	0.512	e2	0.680
A3 ← Mobile_addiction	1.180	-1.887	0.427	e3	1.221
A4 ← Mobile_utility	1.000	0.000	0.505	e4	0.861
A5 ← Mobile_utility	1.003	0.008	0.532	e5	0.777
A6 ← Mobile_utility	1.058	-0.315	0.468	e6	1.119
A7 ← Mobile_utility	0.860	0.578	0.359	e7	1.161
A8 ← Mobile_utility	0.966	0.539	0.568	e8	0.621
A9 ← Mobile_utility	1.004	-0.182	0.424	e9	1.202

The model implied means in Table 10 provide interesting insights – mobile addiction was very high at 4.2 (on a 5-point scale) and mobile utility also high at 3.6 (5-point scale). The correlation between the latent variables is 0.65, suggesting that 42.25% shared variance between mobile addiction and mobile utility. This low level of shared variance suggests that discriminant validity holds for the two-dimensional model of mobile importance.

**TABLE 10: MODEL IMPLIED MOMENTS OF LATENT VARIABLES**

	Mean	Variance	Standard deviation
Mobile_addiction	4.244	0.653	0.808
Mobile_utility	3.600	0.877	0.936
			Correlation
Mobile_addiction	↔	Mobile_utility	0.650

The final stage of the psychometric assessment of the measurement model of mobile importance requires that internal consistency reliability is calculated. Although the initial three-dimensional model had acceptable levels of alpha (above 0.7), the two-dimensional model also has very good internal consistency with alpha at 0.734 for the three items indicating mobile addiction, and 0.843 for the six items A4 to A9 indicating mobile utility.

**TABLE 11: CRONBACH'S COEFFICIENT ALPHA INTERNAL CONSISTENCY RELIABILITY FOR THREE-DIMENSIONAL AND TWO-DIMENSIONAL MEASUREMENT MODELS OF MOBILE IMPORTANCE**

Three-dimensional	Two-dimensional	Items	Cronbach's alpha
Mobile_addiction	Mobile_addiction	A1, A2, A3	0.734
Empowered_choice		A4, A5, A6	0.749
Convenient_Interconnection		A7, A8, A9	0.709
	Mobile_utility	A4, A5, A6, A7, A8, A9	0.843

Therefore the two-dimensional model, with acceptable fit (IFI, TLI and CFI close or more than 0.95; RMSEA equal to 0.063) and with acceptable internal consistency was used in the final structural equation mediation analysis where alternative models of how mobile importance may function as outcome of cultural orientation. The two dimensions were calculated as the means of the items indicating it, in order to simplify the mediation analysis of how personal cultural orientation (PCO) may have an effect on mobile addiction and mobile utility.

## CULTURAL ORIENTATION AS ANTECEDENT OF MOBILE IMPORTANCE

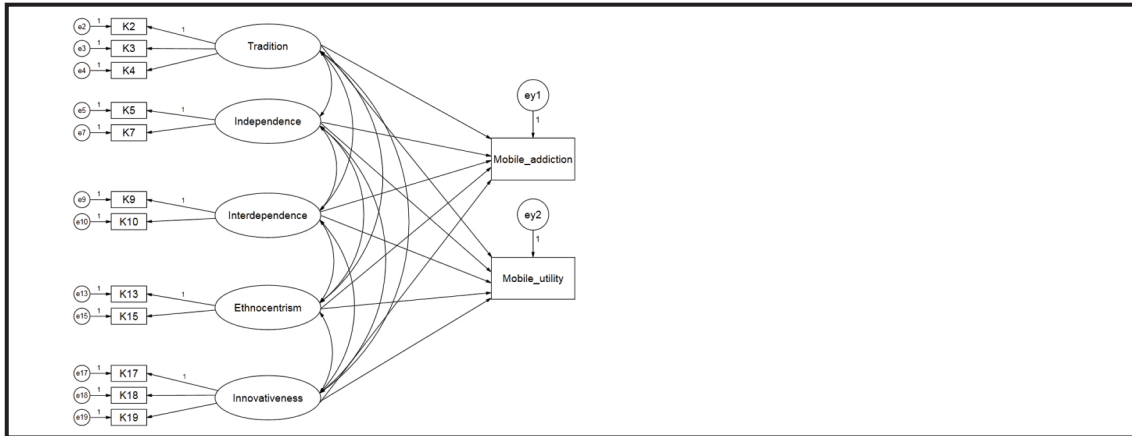
The last phase of the analysis in this study was to investigate the role PCO plays in mobile importance as an outcome variable. With five dimensions of PCO, and two dimensions of PCO, there are alternative ways of viewing how these relationships may be explained. In this study, research objective 3 (RQ3) is best addressed using the path diagram shown in Figure 6.

The fourth research objective (RQ4) is graphically depicted by the path diagram shown in Figure 7. Based on the outcome of the mediation analysis in RQ4, a proposed model that best explains the relationships between cultural orientation and mobile importance was suggested, and this is shown in Figure 8.

### Cultural orientation as antecedent of mobile importance

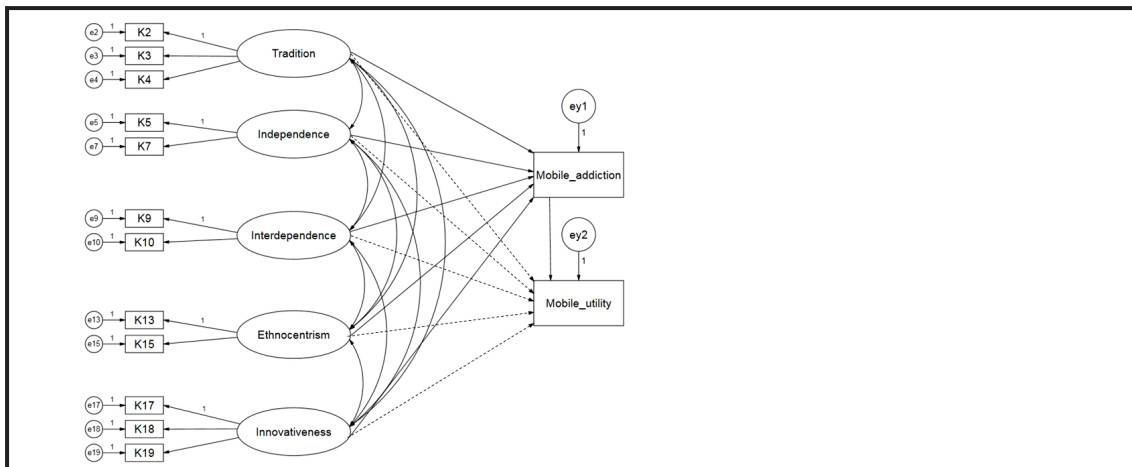
The model in Figure 6 suggests that the five correlated latent variables of cultural orientation have an effect on the two dimensions of mobile importance. According to this model, the path coefficients between the latent variables tradition, independence, interdependence, ethnocentrism and

innovativeness have an effect on mobile addiction and an effect on mobile importance, each representing the hypotheses H1 to H5. When this model was fitted to the data, the path coefficients between tradition and mobile addiction and the path coefficient between tradition and mobile utility were marginally significant at  $\approx 0.10$ . The path coefficients between innovativeness and mobile addiction and mobile utility were very highly significant with  $p < 0.001$ , suggesting a very strong positive relationship between consumer innovativeness and mobile addiction as well as between consumer innovativeness and mobile importance.



**FIGURE 6:** Rq3: DOES ONE OR MORE OF THE CULTURAL ORIENTATION DIMENSIONS EXPLAIN ONE OR MORE DIMENSIONS OF MOBILE IMPORTANCE?

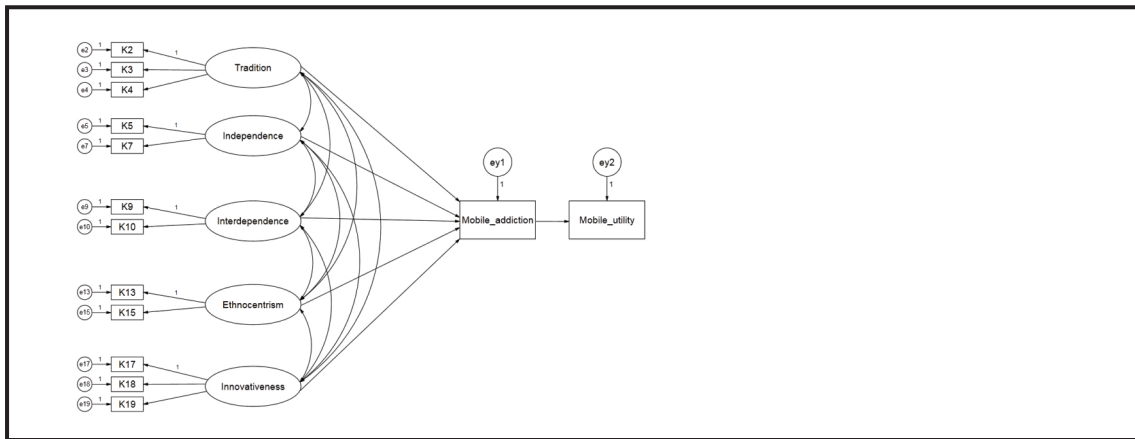
However, the question remains, how will a path between mobile addiction and mobile utility affect the relationships between the cultural values and mobile utility. If mediation is present, one expects that if mobile addiction plays a mediating role, the relationships between the cultural values and mobile utility will weaken when the path is included. This model is depicted in Figure 7.



**FIGURE 7:** RQ4: DOES MOBILE IMPORTANCE MEDIATE THE RELATIONSHIP BETWEEN CULTURAL ORIENTATION AND MOBILE UTILITY?

This model fitted very well, and this leads to the final model shown in Figure 8. The proposed simplified model for depicting the antecedent role of cultural orientation on mobile addiction and the mediating role of mobile addiction on mobile utility is shown in Figure 8. This model results from the path coefficients from the five latent variables to mobile utility becoming insignificant, as indicated by the dotted lines in Figure 7.





**FIGURE 8:** RQ5: HOW SHOULD THE ROLE OF CULTURAL ORIENTATION ON MOBILE IMPORTANCE BE CONCEPTUALISED?

The fit measures in Table 10 suggest that the mediation models in Figures 7 and 8 provide an improved fit to the data, with a significant reduction in the chi-square with mediation in the model.

**TABLE 10:** FIT MEASURES OF SEM MODELS IN FIGURES 6, 7 AND 8

Model	Figure 6	Figure 7	Figure 8
NPAR	60	61	56
CMIN	164.008	98.891	106.19
DF	59	58	63
P	0.000	0.001	0.001
CMIN/DF	2.780	1.705	1.686
IFI	0.907	0.964	0.962
TLI	0.828	0.932	0.934
CFI	0.903	0.962	0.960
RMSEA	0.071	0.045	0.044
LO 90	0.058	0.029	0.029
HI 90	0.084	0.059	0.058
PCLOSE	0.004	0.714	0.747

Also, as shown in Table 11, the mediation path which was included in Figure 7, resulted in the coefficients from tradition to mobile utility to become insignificant (sig. changed from 0.069 to 0.506), and the highly significant relationship between innovativeness and mobile utility became insignificant from sig. < 0.001 to sig.=0.768. This finding suggests that mobile utility is indirectly affected by cultural orientation, and the mechanism through which this is affected is through mobile addiction.

**TABLE 11: ESTIMATED REGRESSION COEFFICIENTS OF ANTECEDENT MODEL (FIGURE 6) AND MEDIATION MODEL (FIGURE 7)**

	Figure 6		Figure 7	
	Regression coefficient	Sig.	Regression coefficient	Sig.
Mobile_addiction ← Tradition	0.253	0.036	0.229	0.069
Mobile_addiction ← Independence	0.044	0.574	0.030	0.710
Mobile_addiction ← Interdependence	-0.188	0.099	-0.158	0.183
Mobile_addiction ← Ethnocentrism	-0.128	0.110	-0.036	0.654
Mobile_addiction ← Innovativeness	0.466	***	0.349	***
Mobile_utility ← Tradition	0.230	0.069	0.078	0.506
Mobile_utility ← Independence	0.083	0.310	0.067	0.366
Mobile_utility ← Interdependence	-0.035	0.757	0.143	0.197
Mobile_utility ← Ethnocentrism	-0.138	0.101	-0.014	0.852
Mobile_utility ← Innovativeness	0.346	***	-0.025	0.768
Mobile_utility ← Mobile_addiction	Excluded	Excluded	0.506	***

The final simplified mediation model appears in Figure 8, which follows from the results in Table 11, where none of the path coefficients from the five cultural orientation latent variables to mobile utility were significant. The estimated regression coefficients of this model in Table 12 model suggest that tradition has a somewhat significant (=0.10) effect on mobile addiction ( $p=0.070$ ), and consumer innovativeness has a very highly significant (=0.01) ( $p<0.001$ ) relationship with mobile addiction. In turn, mobile addiction has a highly significant (=0.01) ( $p<0.001$ ) relationship with mobile utility. All the estimated regression coefficients and other model parameters are provided in Tables 12 to 14.

**TABLE 12: SIMPLIFIED MEDIATION MODEL OF CULTURAL ORIENTATION AND MOBILE IMPORTANCE**

	Slope	P	Intercept	Error variance	
Mobile_addiction ← Tradition	0.228	0.070			
Mobile_addiction ← Independence	0.025	0.754			
Mobile_addiction ← Interdependence	-0.165	0.160	2.539	ey1	0.827
Mobile_addiction ← Ethnocentrism	-0.035	0.661			
Mobile_addiction ← Innovativeness	0.351	***			
Mobile utility ← Mobile_addiction	0.531	***	1.583	ey2	0.767
K2 ← Tradition	1.000			e2	0.277
K3 ← Tradition	1.018	***	-0.215	e3	0.370
K4 ← Tradition	1.222	***	-1.195	e4	0.317
K5 ← Independence	1.000			e5	0.376
K7 ← Independence	0.881	***	0.374	e7	0.662
K9 ← Interdependence	1.000			e9	0.175
K10 ← Interdependence	0.553	***	2.176	e10	0.270
K13 ← Ethnocentrism	1.000			e13	0.814
K15 ← Ethnocentrism	0.997	***	0.689	e15	0.874
K17 ← Innovativeness	1.000			e17	0.855
K18 ← Innovativeness	0.975	***	0.581	e18	0.524
K19 ← Innovativeness	0.928	***	0.03	e19	0.774

**TABLE 13: MODEL IMPLIED MEANS, VARIANCES AND STANDARD DEVIATIONS**

	Means	Variance	Standard deviation
Tradition	4.402	0.603	0.777
Independence	4.102	1.120	1.058
Interdependence	4.502	1.271	1.127
Ethnocentrism	2.928	1.204	1.097
Innovativeness	3.005	0.581	0.762

**TABLE 14: MODEL IMPLIED CORRELATION COEFFICIENTS**

Correlations			Estimate
Tradition	↔	Independence	0.448
Tradition	↔	Interdependence	0.507
Tradition	↔	Ethnocentrism	0.337
Tradition	↔	Innovativeness	0.451
Independence	↔	Interdependence	0.264
Independence	↔	Ethnocentrism	0.279
Independence	↔	Innovativeness	0.294
Ethnocentrism	↔	Interdependence	0.223
Innovativeness	↔	Interdependence	0.317
Ethnocentrism	↔	Innovativeness	0.459

The squared multiple correlations in Table 15 show that 19.2% of the variability in mobile addiction can be explained by the cultural orientation and 27.4% of the variation in mobile utility is explained by cultural orientation (specifically consumer innovativeness) and this is mediated by mobile addiction. In addition, the individual squared multiple correlations of each indicator item variable are, with the exception of K10, all above 0.5, which is very desirable in the model. The fit in this model, is also marginally poorer than the model shown in Figure 7.

**TABLE 15: SQUARED MULTIPLE CORRELATIONS**

	Estimate		Estimate
<b>Mobile addiction</b>	0.192		
<b>Mobile utility</b>	0.274		
K17	0.585	K10	0.397
K18	0.686	K5	0.749
K19	0.572	K7	0.568
K13	0.610	K2	0.685
K15	0.591	K3	0.628
K9	0.769	K4	0.739

## CONCLUSIONS

This study provided evidence that cultural orientation is an important factor in understanding some of the more subtle aspects of marketing to consumers in Africa. The only cultural dimension that had a highly significant effect on mobile addiction and mobile utility, was consumer innovativeness. It may be possible that this finding could replicate anywhere else in the world, suggesting the African consumers do not need to be approached very differently.

In addition, an important contribution in this study is that mobile importance as an outcome variable is possibly best conceptualised as a two-dimensional construct of mobile addiction and mobile utility, and that mobile addiction mediates the relationship between consumer innovativeness and mobile utility. This suggests that the causal link between consumer innovativeness towards the utility or usefulness of the mobile device (and mobile marketing) is mediated by how much the consumer is addicted to his or her mobile phone. Therefore, marketing efforts that could stimulate mobile addiction, may result in higher utility of the device to consumers to simplify decision-making or minimising efforts for the consumer, thereby making mobile marketing more effective.

Another important finding relates to the relatively high mean levels of traditional and interdependence cultural orientations, with both these model implied means around 4.5 on a five-point scale (see Table 13). Consumer ethnocentrism was close to 3, and so was consumer innovativeness. This may be due to a lack of the financial means of acquiring products, and a lack of consumer choice due to the remoteness of the markets and a lack of choice of products from originating from Africa. This may however change in future, especially if economic growth in African countries continues.

A number of limitations in this study warrant mentioning. Firstly, the sample was convenience based, and very small due to several challenges. The relatively small samples from each country disallowed an investigation of the research questions by country, and it may be that there are important differences between African countries that were not investigated in this study due to a lack of sufficient numbers of respondents.

## **MANAGERIAL IMPLICATIONS/RECOMMENDATIONS:**

Managerial implications derived from this study are categorised into two groups. The first pertains to market development and the second to marketing communication practice. In relation to market development, this study has provided insight into cross-cultural research in Africa with respect to personal cultural orientation. Tradition and interdependence personal cultural orientations scored relatively high mean values, which indicates that these personal cultural types are more prevalent in the sample. These findings offer organisations insight into the type of products or services to introduce into new markets, as well as how these offerings should be positioned in the market in question, according to the various factors associated with tradition and interdependence; such as heritage, social awareness, strong-group identity and community value. This understanding may also influence the segmentation strategies of global markets. The low mean score for ethnocentrism is advantageous to multinational suppliers; it indicates that foreign goods are likely to be well received by these countries.

In terms of marketing communication practice, personal cultural orientation factors of tradition, interdependence and ethnocentrism are applicable in the development of market communication material as well as the choice of media channels. The results showed a positive association between consumer innovativeness and mobile addiction. This insight suggests that innovative marketing offers presented in the mobile marketing space will lead to increased mobile addiction and thus raise the value of mobile phones as marketing platforms in Africa.



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## APPENDIX 1: ITEMS AND DIMENSIONS USED TO MEASURE CULTURAL ORIENTATION

	<b>Tradition</b>
K1	I am proud of my culture
K2	Respect for tradition is important for me
K3	I value a strong link to my past
K4	Traditional values are important to me
	<b>Independence</b>
K5	I would rather depend on myself than on others
K6	My personal identity, independent of others, is important to me
K7	I rely on myself most of the time, rarely on others
K8	It is important that I do my job better than others
	<b>Interdependence</b>
K9	The well-being of my group members is important to me
K10	I feel good when I cooperate with my group members
K11	It is my duty to take care of my family members, whatever it takes
K12	Family members should stick together, even if they do not agree
	<b>Consumer Ethnocentrism</b>
K13	We should not buy foreign products, because it hurts our economy
K14	Only products that are unavailable in our country should be imported
K15	Purchasing foreign products allows other countries to get rich off us
K16	It may cost me in the long run but I support my own country's products
	<b>Consumer Innovativeness</b>
K17	I am more interested in buying new than known products
K18	I like to buy new and different products
K19	I am usually among the first to try new products
K20	I know more than others about latest new products

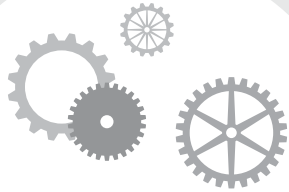
## ITEMS AND DIMENSIONS USED TO MEASURE MOBILE IMPORTANCE

	<b>Mobile addiction</b>
A1	I feel like my cell phone is part of me
A2	My cell phone is always on – I'm always connected so that I would not miss out on anything
A3	My cell phone is my most important possession
	<b>Empowered choice</b>
A4	I mainly use my cell phone to access digital media applications and content I want to check, to see what is going on
A5	My cell phone enables me to not only choose what digital media applications I want to use, but when I want to and for how long
A6	My cell phone connects me to other media (eg If I enter a competition advertised in a magazine through SMS, or casting a vote for someone in reality TV, like Idols or Big Brother, or call into a radio station)
	<b>Convenient interconnection</b>
A7	I think location based services delivered through my cell phone would be useful (eg using applications to navigate to specific products in a store, knowing which shops stock your brands, receiving special promotions from your stores valid for one day only)
A8 <sup>1</sup>	My cell phone gives me the freedom to choose which digital media applications and content I want to use (eg. the Internet, social network sites, blogs, instant messaging, email, games etc).
A9 <sup>1</sup>	I frequently make use of downloaded applications on my cell phone.

1: Newly developed items  
(Goneos-Malka, 2012)

# A FRAMEWORK TO INVESTIGATE PRIVATE LABEL BRANDS AT PICK N PAY STORES

15



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## ABSTRACT

This paper outlines useful theories to conceptualize a framework for investigating the three private label brands at Pick n Pay Stores, namely 'no name™'; 'Pick n Pay™'; and 'Finest™'. The intention of the research is to provide a framework that can be used to test and provide empirical information to marketers regarding consumer perceptions of multiple private label brands being held by grocery retailers. Private label brands represent a substantial and lucrative market segment for numerous grocery retailers and thus warrants further research. Furthermore, research focusing on consumer perceptions of multiple private label brands held by one retailer is limited. Even more specifically, research into the brand associations held by consumers amongst the three private label brand concepts (generations) is lacking. This paper develops a framework to investigate the three private label brands at Pick n Pay Stores. The framework is based on product related brand associations and non-product related brand associations.

## KEYWORDS

Branding; Private label brands; Consumer perceptions; Brand associations

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## INTRODUCTION

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Due to the mass of information readily accessible through the media and the internet, retail customers are well informed and thus have higher expectations of retailers. Armed with the great availability of information sources, including social media and empowered by price transparency, shoppers are migrating between manufacturer brands and private label brands more easily than before. With an increasing number of brands – particularly in the packaged goods categories, coupled with increased promotional expenditures, the promotional task has become ever more difficult and complex (Kay, 2006: 745). Retailers increasingly place a stronger focus on the importance of private label brands in retail marketing due to retailers expecting increased store loyalty (Corstjens & Lal, 2000: 287), and to become less dependent on the manufacturer brand producers (Narasimhan & Wilcox, 1998: 595).

In the last decade brand assortment has become a particularly important tool for retailers to influence their image and develop their own brand name. It is this assortment strategy which has been attributed to the increase in private label brands being held by many retailers (Ailawadi & Keller, 2004: 336). Nielsen's (2008: 8) study concluded that one in two global consumers (54%) associate “good value” with a supermarket that offers a wide range of private label brand products that are cheaper than manufacturer brands. It is this expectation by consumers that retailers should provide money saving alternatives along with adequate choice alternatives, which has fuelled the growth of private label brands in the supermarket retail sector. According to a global private label brand consumer study (Nielsen, 2005a: 1), two thirds of global consumers consider supermarket owned, or 'private label' brands to be a good alternative to other brands. In the case of the developed markets of Europe, the Pacific and North America, this sentiment is echoed by as many as four out of five consumers.

Historically, private label brands signified good value for consumers while manufacturer brands were usually seen as the premium item in a category. Private label brands have come to mean more than value and thus opening the market for many retailers to offer a wide range of private label brand products not solely focused on value. They offer premium products that replicate the manufacturer brands. As retailers become more than just a place to buy products, stores are actively involved in finding and developing new items they can put their own name or brand on. This study thus focuses on developing a framework to investigate private label brands, using those of Pick n Pay Stores.

### PROBLEM INVESTIGATED

As private label branding concepts have developed over the past few decades, the general perceptions historically held by consumers towards private label brands are being challenged. Retailers increasingly reposition private labels brands along varying price-quality tiers (Nenycz-Thiel & Romaniuk, 2009). It was this attempt by retailers to reposition private label brands along varying price-quality tiers that lead Laaksonen and Reynolds (in Ailawadi & Keller, 2004: 338) to identify at least four tiers of private label brands. They were: low quality generics; medium quality private label brands; somewhat less expensive, but of comparable quality products; and premium quality private label brands that are priced in excess of competitor manufacturer brands.

Consumers are no longer being presented with a single private label brand, but individual grocery retailers offer multiple private label brands (private label brand concepts) under one retailer. The result of multiple private label brands is the increased consumer buyer involvement in the purchase of private label brands.

The private label brand has become of increasing importance in the South African retail sector as shown in a study by Nielsen (2005b: 1) which noted that 72 percent of South Africans surveyed believe that private label brands are a good alternative to the manufacturer brands, this being above the global average of 68 percent. Private label brands first appeared abroad in European countries before being introduced into South Africa in 1976 by Raymond Ackerman (Sutcliffe, 2007: 105). Mr Ackerman successfully introduced a no-frills private label brand into the South African retail market through his Pick n Pay (PnP) stores. His no-frills brand still trades under its original private label brand name, Pick n Pay no name™. More recently, Pick n Pay introduced two additional private label brands, namely that of the 'PnP™' brand in 2007, and their 'PnP Finest™' brand in 2011 (Marsland, 2007). While there may be abundant research on private label brands of multiple retailers, this paper takes the study into the space of multiple private label brands where the question of how do consumers distinguish between the different private label brands in the same store arises.

## OBJECTIVES OF THE STUDY

The primary objective of this study is to develop a framework to investigate private label brands of Pick n Pay Stores. To achieve the primary objectives the following secondary objectives were formulated:

To provide a literature overview of branding, private label brands and branding mix.

To critically analyse the literature, so as to propose components to include in a framework to investigate private label brands at Pick n Pay stores.

## LITERATURE REVIEW

In the following sections, a brief literature review will be given. To start, the concepts of branding and private label brands will be defined. The various generations of private label brands will be noted, the three private label brands at Pick n Pay Stores discussed and previous research in the area of private label brands provided. The literature review will conclude with an overview of consumer perceptions of product attributes as it relates to the formation of brand associations.

### A definition of the concept of Branding

As defined by Egan (2007: 79) branding is, "a collection of actual and emotional characteristics associated with a particular identified product or service that differentiates that product or service from the rest of the marketplace". The importance of brand is noted in Roberts and Wong's (2011: 3) definition of brand as being the sum of all variables that influence future sales. Three main purposes of branding are that of product identification, repeat sales (loyalty), and enhancing new-product sales (Lamb, Hair, McDaniel, Boshoff, & Terblanche, 2008: 214).

A brand has intrinsic (direct factors; core aspects) and extrinsic (indirect factors; augmented aspects) attributes associated with a product or service. The intrinsic attributes relate to the functional characteristics, such as basic product/service, shape/texture, performance and physical capacity; while the extrinsic attributes include packaging/presentation, price/terms, guarantees, extras and after-sales support (Egan, 2007: 80).

An effective brand image is needed to create brand loyalty, which can be defined as the consumer's conscious or unconscious decision to re-use or repurchase a branded service or product (Lamb et al., 2008: 216). The mental image that reflects the way a brand is perceived in the consumer's mind, including all the identifiable elements, the product or business personality, and the emotions and

associations evoked, constitutes as brand image. Thus brand image can refer to both intangible and tangible aspects, intrinsic or extrinsic cues, and can be the result of both internal and external stimuli to each individual depending on their own experience with the brand in question (Hart & Murphy, 1998: 2).

### **The concept of private label brands**

Private label brands, also known as store brands, retail brands or house brands, refer to those brands that are owned by, and sold through, a specific chain of stores (Baltas, 1997: 315). Thus, instead of being owned by the producer, private label brands are brands belonging to a retailer or a supplier.

In contrast to private label brands there are manufacturer brands, also known as national brands. A manufacturer brand refers to a brand name owned by a manufacturer or other producer (Boone & Kurtz, 2012: 380).

### **Types of private label brands**

To classify private label brands one can follow a generation-based approach using dynamic models to analyse the private label brand phenomenon's evolution. One such model by Burt and Sparks (2002: 198) defines a typology of product brand development. Based primarily on market research lead by Laaksonen and Reynolds (in Ailawadi & Keller, 2004: 338), they suggest it is possible to distinguish between four generations of private label brand development. These four evolutionary generations of private label brands are categorized with respect to product characteristics, production technology input, market position, and consumer motivation. The four generations are: low quality generics; medium quality private label brands; somewhat less expensive but comparable quality products; and premium quality private label brands that are priced in excess of competitor manufacturer brands. Zielke and Dobbstein (2007: 113) further distinguish different types of private label brands depending on their strategic orientation as follows:

The generic private label brand emphasizes the basic use of a product. A plain packaging design, limited advertising activities and cuts in quality yield, a positioning in the lowest price tier. The classic private label brand is positioned similarly or slightly below smaller manufacturer label brands and positioned in the middle price tier.

Premium private label brands are positioned like leading manufacturer label brands and positioned in the higher price tier.

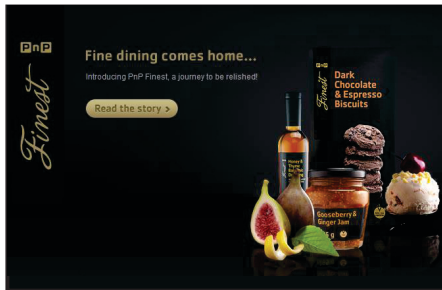
Burt and Sparks (2002: 199) noted that not all retailers have fully progressed through these product generations, with the direction of movement across the generations sometimes being complex, overlapping or co-existing.

### **Private label brands at Pick n Pay Stores**

As seen in the supermarket retailers, such as Pick n Pay Stores and Kroger's, retailers have been attempting to create a line of private label brands that spans all the product generations and price tiers. Kroger offers three private label brands – FMV (For Maximum Value) brand; the Kroger Brand that is guaranteed to be better than or equal to manufacturer label brands, and the most economical; and the premium quality "Private Selection" (Ailawadi & Keller, 2004: 21).

The range of products under the PnP brand as illustrated in Figure 2 is extensive and promotes a wide variety of products. The typical trade dress of the brand features the same copy font found on the PnP no name brand but is white instead of blue and features on a varying array of colourful backgrounds. Full colour images also feature on the packaging.

Guaranteeing the highest quality of ingredients, PnP Finest™ as illustrated in Figure 3 represents the premium private label brand held by Pick n Pay Stores (Pick n Pay Stores Limited, 2013)



**FIGURE 3: PNP FINEST PRIVATE LABEL BRAND**  
(Source: Pick n Pay Stores Limited) (2013))

The range of products under the PnP Finest brand as shown in Figure 3 is the least extensive of all Pick n Pay's private label brands, but is still able to promote a wide variety of unique products. The typical trade dress of the brand features a unique gold coloured font for the brand's logo, accompanied with a varying array of coloured text (still the same font as the previous two private label brands), but on a black background.

## Previous research on private label brands

For the better part of four decades the research on private label brands has been of substantial interest to marketing researchers. The recent prolific growth in private label brands has prompted further research on who buys private label brand products. It also prompts whether and how private label brands provide leverage to retailers, as well as the category and market determinants of private label share. The main findings from such research, and similar, is summarized below. During the 1960s and 1970s researchers were attempting to profile the private label brand prone shopper. Their studies profiled private label brand buyers in terms of personality characteristics (Myers, 1967), socioeconomic variables (Coe, 1971; Frank & Boyd, 1965; Murphy, 1978), information processing (Bettman, 1974), and shopping style (Bellizzi, Krueckeberg, Hamilton & Martin, 1981). As revealed by these and other experimental studies households were reluctant to buy private label brands as they associated these brands with products of relatively poor quality (Bellizzi, et al., 1981; Cunningham, Hardy & Imperia, 1982).

In the 1990s the research on private label brands turned its focus to identifying the factors that had led to the remarkable success of private label brands. Factors such as: improved private label brand product quality; increased retailer power and, decreased manufacture brand innovation and advertising were identified as significant contributors to this phenomenon (Hoch & Banerji 1993; Krishnan & Soni, 1997; Steenkamp & Dekimpe, 1997; Mela, Gupta & Jedidi, 1998; Narasimhan & Wilcox, 1998).

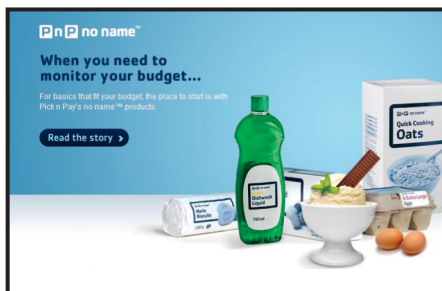
The ever increasing success of private label brands has become a cause of concern amongst the manufacturer brands. The factors that determine the category share a private label brand attained, as well as the reasons retailers decided to carry private label brands, became the focal point of



Similarly, Pick n Pay Stores' current private label brands co-exist as 'no name™'; 'Pick n Pay™'; and 'Finest™', and are synonymous with the generic, classic, and premium private label brand concepts respectively. The private label brands that existed under the Pick n Pay banner prior to the 2007 rebranding were 'no name™', 'Choice™' and 'Foodhall™'. But for their new branding a three-tier strategy under the concept of "Good, Better, Best" was implemented, with 'Good' representing the 'PnP no name™' brand, 'Better' representing the 'PnP™' brand, and 'Best', which was still in development in 2007 but eventually revealed in 2011 as their 'PnP Finest™' brand (Marsland, 2007).

For the purpose of this research, the three private label brands held by Pick n Pay Stores, namely: 'PnP no name™'; 'PnP™'; and 'PnP Finest™', will be categorised according to Zielke and Dobbelstein's (2007: 113) strategic orientation categorisation, namely: generic private label brand; the classic private label brand; and the premium private label brand, respectively.

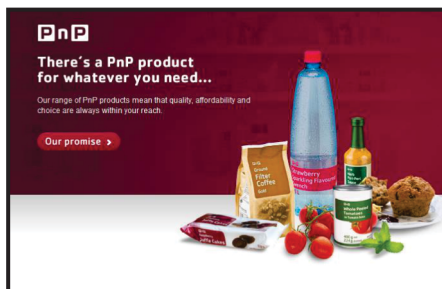
Ackerman's plain private label brand launched in 1976 is an example of how private label branding can be successful and enjoy longevity in the consumer market. Figure 1 illustrates some of these 'no name' items.



**FIGURE 1: PNP NO NAME PRIVATE LABEL BRAND**  
(Source: Pick n Pay Stores Limited) (2013))

Pick n Pay Stores promote the PnP 'no name™' as their no-frills brand, for tried and trusted good value basic household essentials (Pick n Pay Stores Limited, 2013). The typical trade dress of the brand is consistent with its no-frills positioning strategy physically in its almost bland packaging which deliberately represents the low cost through its plain white background, plain blue font and simple images (see Figure 1).

Pick n Pay Stores promote their PnP™ private label brand as the brand of choice when a consumer needs good brand value at a reasonable price (Pick n Pay Stores Limited, 2013). The PnP™ brand packaging slightly more sophisticated design promises to offer quality products, at lower prices than expected. This brand is illustrated in Figure 2.



**FIGURE 2: PNP PRIVATE LABEL BRAND**  
(Source: Pick n Pay Stores Limited) (2013))

research. Research outlined the need for manufacturer brands to continually invest in brand building by adherence to solving consumer problems with a higher-quality product supported by good advertising which aggressively communicated the differentiating benefit (Hoch & Banerji, 1993; Hoch, 1996). This supported the notion at the time that perceived quality was much more important than the level of price discount in determining the private label brand category share. It was found that private label brands gain higher share in large, less promoted categories with a small number of brands, and when the price differential between manufacturer brands and private label brand is extensive (Dhar & Hoch, 1997; Hoch & Banerji, 1993).

The consumers' ratings of private label brands were found to be higher when store image was favorable (Richardson, Jain & Dick, 1996). Store image and loyalty improved as consumers become familiar with the private label brands and their shopping was facilitated by the ability to buy a single brand across a wide range of product categories (Steenkamp & Dekimpe, 1997). In other words, when retailers stocked high quality manufacturer brands the valuation of their private label brands were improved, hence improving the consumers' perceptions of the retailer's overall image. Research by Narasimhan and Wilcox (1998) proved the fears of the manufacturer brands true in that private label brands did give the retailers negotiating leverage. However, Dunne and Narasimhan's (1999) findings suggested that manufacturer brands should not openly oppose the notion of producing private label brands themselves. The manufacturer brands could use the following factors in their favour. Manufacturers often had the capability of producing premium quality private label brand products; had existing experience with producing low quality price fighter products; and had existing supply agreements with retailers. Manufacturers could capitalise on the new opportunities that producing private label brands could offer.

The more recent line of research on private label brands has primarily focused on readdressing the profile of the private label brand prone consumer (Ailawadi, Neslin & Gedenk, 2001) and consumer-side factors that drive private label brand success (Erdem, Zhao & Valenzuela, 2004). Their empirical generalizations highlighted the private label brand user as price sensitive, but not image sensitive, middle-income, educated, spanning a wide array of demographic and psychographic characteristics.

As private label brands matured from predominantly being representative of inferior, low quality products into premium private label brand products, which were similar in quality standards to manufacturer label brands (Geyskens, Gielens & Gijbrecchts, 2010; González-Benito & Martos-Partal, 2012; Zimmerman, Kesmodel & Jargon, 2007), a question of concern by producers of manufacture label brands was whether consumers were still willing to pay a price premium for their manufacture label brands over private label brands. Research by Steenkamp (2010) indicated that consumer willingness to pay decreased as private label brands matured.

In terms of store loyalty, when a retailer uses an appropriate balance between private label and manufacture label brands, private label brands have been found to positively contribute to a retailer's performance (González-Benito & Martos-Partal, 2012). The customer's perception of private label brands inherently relates to their perception of the retailer, which indicates that the success of private label brand strategy depends on its coherence with the retailer's positioning (González-Benito & Martos-Partal, 2012).

### **Non-product-related brand associations**

It is commonly mistaken that a brand image is a logo, but in truth the brand image is the accumulation of every customer or prospect's interaction and observation with a business that creates an impression in their mind (Randall, 2000: 7). These consumer perceptions of and preferences for a brand, are reflected by the various types of brand associations held in their

memory. These brand associations can form essential points-of-difference between brands, and thus be sources of brand equity to drive the differential effects (Keller, 2009: 143). The search for goods of which consumers might be familiar with is sometimes ineffective, and consumers must rely on some cues in making their assessments of a product. Non-product-related attributes are extrinsic cues. These consist of brand name, packaging, price, and user and usage imagery (advertising) which are not part of the physical product and can be changed without changing the product (Aaker, 1996a; Keller, 1993). In other words, non-product-related attributes form the image of the product and reflect marketing strategies independent of the physical characteristics of the product.

In a study by Dick, Jain and Richardson (1996: 20) which entailed in-depth interviews with a sample of grocery shoppers revealed that when the consumers were asked how they predict good or poor levels of intrinsic product quality, they stated price level, brand name, advertising, and packaging are all correlated with the real quality of product offerings.

These four components of non-product-related attributes that consumers use in making brand associations, namely: brand name, price, packaging and advertising are discussed in the following sections.

### **Brand name**

It has been said that the brand name is arguably the most important element of the marketing mix because unlike packaging, advertising campaigns and product formulations which are often periodically updated, the brand name is one element that stays constant (Hart & Murphy, 1998: 34). The part of the brand that can be verbalised (such as letters for example, MTN, words for example Pick n Pay and numbers for example 3M), is referred to as the brand name (Lamb et al., 2008: 250).

A brand can be represented in a name, term, design, symbol, a combination of these, or any other feature that identifies one seller's good or service as distinct from those of other sellers in the mind of the consumer (Venter & Jansen Van Rensburg, 2009: 206). Furthermore it is the brand imagery that is associated with a brand, represented through its brand name that has been shown to be a point of potential differentiation and hence competitive advantage for a product. Brand name is a primary cue consumers utilize in the quality assessment of products (Dick et al., 1996: 25)

### **Price**

Consumers use price as an important extrinsic cue and indicator of product quality or benefits. Price remains one of the most important market place cues, largely because price cues are present in almost all purchase situations (Lichtenstein, Ridgway & Netemeyer, 1993: 234).

Past research by Erickson and Johansson (1985: 198) noted the dual role of the price cue and found that price-level perceptions had a direct negative effect on purchase intentions (a budget constraint role) and an indirect positive effect on purchase intentions via product quality perceptions. In other words, higher prices resulted in less demand but lead to higher product quality perceptions held by consumers. Similar findings were noted when consumers were found to perceive that a lower price is made by cutting costs and product quality to maintain profit margins (Yoo, Donthu & Lee, 2000: 206). Thus frequent use of price promotions such as price deals, coupons, refunds, and rebates, should be avoided as it causes consumers to infer low product quality.

Such consumer behaviour associated where consumers are willing to pay higher prices to support their perception of higher quality have been referred to as "price seeking" (Tellis & Gaeth, 1990: 36). Because of limited cognitive processing abilities, over time consumers develop a repertoire of abstract ideas or "schemas" about the working of the marketplace to process incoming information efficiently.

### **Packaging**

Packaging is an essential element of a manufacturer's product strategy. Manufacture label brands try to increase the perceived quality gap by using distinctive packaging. Packaging plays a crucial role in consumers' perceptions of manufacture label brands as highlighted in a study by Steenkamp (2010: 1022) investigating the marketing mix effects which lead to consumers' willingness to paying price premiums for manufacturer label brands. The study revealed that distinctive packaging was the strongest driver of the perceived quality gap between private label brands and manufacturer brands.

### **Advertising**

Most manufacturer brands use pull tactics in the form of advertising (TV, newsprint, and magazine) to increase differentiation, reduce price sensitivity, and increase top-of mind awareness, each of which increases demand for their brands and adversely affect private label brands (Dhar & Hoch, 1997: 214).

Advertising has been documented as playing a key role in enhancing the perceived quality gap between private label brands and manufacturer brands (Steenkamp, 2010: 1021). With brand identity being defined as the essence and expression of what is transmitted in the market place (Randall 2000: 7), advertisings' important role in transmitting such brand message becomes apparent. Frequent exposure to a brand's advertising has been found to lead to strong brand equity, as consumers not only develop higher brand awareness and associations, but also a more positive perception of brand quality (Yoo et al., 2000; Dick et al., 1996).

The perceived expense of a new product's advertising campaign has been found to influence consumers' product quality judgments, as many people spontaneously assume higher advertising expense implies managerial confidence and high quality (Kirmani & Wright, 1989: 352).

### **Product-related brand associations**

Keller (1993: 4) refers to product-related attributes as the required components to perform the product or service function sought by the consumer. Dick et al.'s (1996: 20) study of grocery shoppers revealed further that when the subjects were asked what differentiates between a "good" versus a "bad" private label brand three primary product-related (intrinsic) attribute responses emerged. These were: taste, the overall brand quality of the product, and the fineness and reliability of ingredients.

These product-related attributes that consumers use in making brand associations, are briefly discussed in the following sections.

## **Taste**

Product-related attributes, such as taste, are said to be only verifiable by consumers having used the product (Batra & Sinha, 2000: 179). Thus the greater uncertainty and risk felt by consumers who have not used, or experienced products that rely on taste benefits, nudge the consumer to prefer known brands they are familiar with. A product category which relies on the user benefits of taste, such as the taste of ground coffee, or a soft drink, leads to a greater felt purchase anxiety about quality than a category with purely 'search' attributes.

Consumers not having tasted a product has been shown to contribute uncertainty and risk, and thus various promotional activities, such as offering free samples or tasting at the point of sale, have been recommended to minimise such uncertainty and risk (Dumoluhle, 2011: 61; Mieres, Martín & Gutiérrez, 2006: 78).

Furthermore, brand awareness can affect consumers' taste perceptions and attitudes toward a product (Aaker, 1996b: 114). Regarding private label brands in particular, the retailer is responsible not only for promotion, shelf placement, and pricing, but also for defining the exact positioning of store brands' precise quality and taste specifications (Morton & Zettelmeyer, 2004: 161).

## **Ingredient quality**

In most cases, packaging is considered as part of the purchase and consumption process, but does not relate to the necessary ingredients for the product's performance (Keller, 1993: 4). However, it has been noted that consumers can compare the functional attributes of a product such as ingredients used, based on written or often numerically quantifiable descriptions in product packaging or other communications (Batra & Sinha, 2000: 179). Thus, retailers are advised to put as much objective information as possible on the package label, detailing product ingredients, in a bid to reduce the uncertainty the consumer feels about the quality they will experience on consumption (Batra & Sinha, 2000: 188). Previous research has highlighted that those consumers who are more price reliant when evaluating private label brand quality are especially suspicious of the ingredient quality (Dick et al., 1996: 25).

The association of manufacturer brand name ingredients with that of private label brand products, referred to as co-branding, have a positive impact on consumer evaluations of an unfamiliar product (Vaidyanathan & Aggarwal, 2000: 223). Thus private label brands could benefit through communicating a quality image by emphasising the use of manufacturer label brand ingredients in their products

## **Overall brand quality**

The overall brand quality pertains to the host of attitudes that customers may hold toward a brand, most importantly in relation to the way they perceive the quality of the brand (Keller, 2001: 13). An example would be in-store aesthetics (i.e. quality of fixtures, ease of navigating the aisles, keeping the store clean, and making immediate repairs when needed, etc.) help in enhancing the customer's overall brand quality perceptions of a private label brand (Richardson et al., 1996: 24).

The most important driver of private label brand share is its perceived quality (Sethuraman, 2001: 28). The more frequent a consumer's exposure to a brand's advertising, the more positive is the consumer's perception of overall brand quality as higher brand awareness and associations are formed (Yoo et al., 2000: 207). Price has also been noted to play a major role in consumers' perceptions of private label brands overall brand quality (Dick et al., 1996: 20).

## RESEARCH METHODOLOGY

The development of a framework requires a critical review of secondary sources. In order to successfully research consumer perceptions and evaluations of the private label brands at Pick n Pay Stores a basic but thorough understanding of the product attributes that constitute brand associations and ultimately lead to the formation of brand image is needed.

In this study a qualitative research approach is followed where secondary sources are critically evaluated to design the required framework.

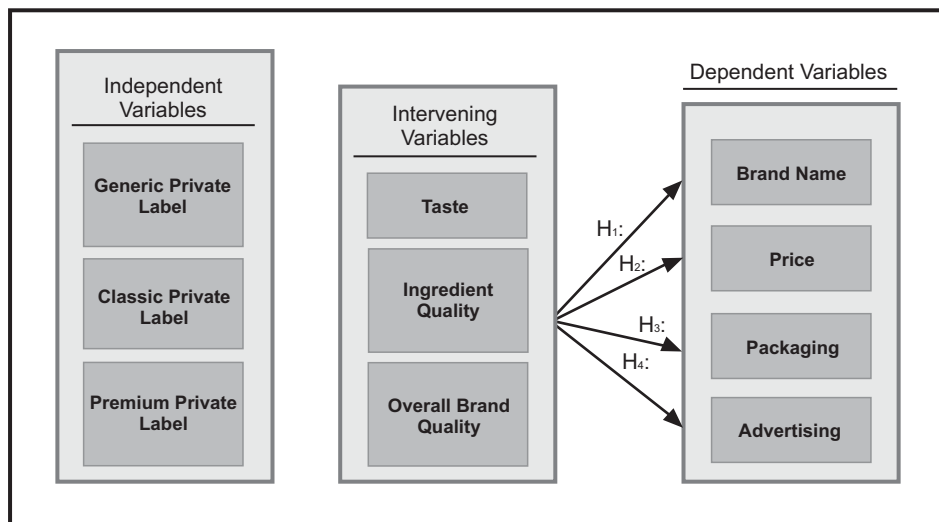
## RESULTS/FINDINGS

The proposed framework (Figure 4) explores the extent to which consumers' brand associations rely on non-product-related brand associations (brand name, price, packaging, and advertising) to make product related quality judgments (taste, overall brand quality and ingredient quality) of grocery products across Pick n Pay's three Private Label Brands.

Pick n Pay Stores current private label brands co-exist as 'no name™'; 'Pick n Pay™'; and 'Finest™', and are synonymous with the generic, classic, and premium private label brand concepts respectively. These three private label brand concepts constitute the independent variables in the framework (Figure 4).

It is the three product attributes namely: taste; ingredient quality; and overall brand quality, that were identified by grocery consumers (Dick et al., 1996) as being important in defining a product as "good" or "bad". These three product-related attributes constitute the intervening variables in the framework (Figure 4).

It is the four non-product-related brand associations, namely: brand name; price; promotion; and packaging, as identified by Dick et al. (1996) which constitute as the dependent variables in the framework (Figure4).



**FIGURE 4:** PNP FINEST PRIVATE LABEL BRAND

(Source: Author's own construct)

When one considers the framework as indicated in Figure 4 it can be seen that the four non-product-related brand associations are shown to be dependent on the three private label brand concepts



(independent variables). However, the three product-related brand associations are the intervening variables between the independent and dependent variables because the intervening variables are causally affected by the independent variable and itself affects the dependent variable. The hypotheses that can be formulated for the framework are:

**H1:** There is a relationship in consumer perceptions of private label brands and Brand Name.

**H2:** There is a relationship in consumer perceptions of private label brands and Price.

**H3:** There is a relationship in consumer perceptions of private label brands and Packaging.

**H4:** There is a relationship in consumer perceptions of private label brands and Advertising.

## **CONCLUSIONS AND MANAGERIAL IMPLICATIONS/RECOMMENDATIONS**

It is essential that practising managers and marketers update their understanding of the nature and role that brand plays in how consumers perceive their products as building brand equity, or strong brands, is considered to be one of the key drivers of a business's success (Prasad & Dev, 2000: 22). The main goal of many organisations is to build a strong brand as strong brands bring many benefits to firms, including greater customer loyalty and being able to gain a much larger market share in the future (Keller, 2009: 144). The importance of brand equity as a revenue driver is noted the definition of brand as being the sum of all variables that influence future sales (Roberts & Wong, 2011: 3).

The goal of this article is to present a framework that would provide useful structure for managers at Pick n Pay Stores developing private label brand strategies and researches studying retailers employing multiple private label brands. The development of the framework shows the constructs that may have relationships with the three private label brands of Pick n Pay Stores. The framework can be empirically tested thus revealing how Pick n Pay shoppers perceive the three private label brands in terms of their product attributes, and in turn the brand associations held by each of the three private label brands.

Further value of the framework lies in suggesting areas where managerial guidance is possibly needed but academic guidelines are currently lacking.



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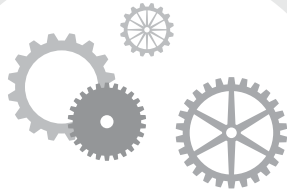
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# HOW WEEKLY RATES OF PRODUCT CONSUMPTION AFFECT THE WAY WE RESPOND TO PRICE INFORMATION

16



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## ABSTRACT

Across bands of increasing rates of product consumption how do we become conditioned by the priming effects of extrinsic product cues like price? This study reports on the synthesised results of three blind-versus-sighted tasting-room experiments using orange-juice, coffee and wine to model levels of experienced utility in the presence of price information. The rate of consumption ranged between one and 35 units per week. Through an analysis of the significant price-coefficients computed across three consecutive bands of weekly consumption this study reveals how the size of sight-based rapid and intuitive “System 1” type judgement errors increases progressively with rates of consumption. Those consuming less than five units per week appear the least affected by price information, with those consuming over 21 units or more appear the most affected. The corresponding increase in affectation is 21 percent.

## KEYWORDS

Price, Heuristic, System 1, System 2

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## INTRODUCTION

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“(O)ne of the most powerful ways of characterising the way the mind does anything is by looking at the errors that the mind produces while it is doing it because the errors tell you what it is doing. Correct performances tell you much less about the procedures than the errors do. ... We focussed on errors. We became completely identified with the idea that people are generally wrong. We became like prophets of irrationality.”

(Daniel Kahneman, 2011.)

Over time, intuitive fast-acting systems of thought may be primed to solicit heuristic-type cues aimed to enable optimal swift decision making tasked to maximise reward utility (Berridge & Aldridge, 2008). This neurological dynamic is an evolutionary antecedent, designed over millennia to either get us out of trouble fast, or to enable procreation (Taleb, 2007). With its emphasis on rapid (as opposed to rigorous) decision making, some errors in sight-based judgement are likely to occur. In this study errors are specified as intuitive aspects of judgement mistakenly influenced through the erroneous deployment of situational cues that deleteriously serve to obfuscate the true nature of the phenomenon at hand. In our contemporary world, certain price actions have been shown to correlate with errors of this sort; their deployment being observed to influence the level of experienced utility without genuine product improvement (see for example Plassmann et al., 2008).

The occurrence of these cue-driven intuitive errors is now well documented within literature on market research, and elsewhere. This said little is known of how, with increasing rates of consumption, we become conditioned by these extrinsic cues. In the instance of consumer research, for example, at what rate of product consumption do our associative processes begin to twin price with quality so as ultimately to deploy the price cue as a surrogate for genuine quality? More so, does this association deepen with increasing rates of consumption, and how, exactly, does the fluency of any such price-to-quality association correspond with any such increase in the rate of consumption? Through the analysis of three tasting experiments employing subjects reporting varying rates of weekly product consumption, it is questions of this type that this research piece seeks to answer.

Proceeding so, this study reports the results of a synthesised analysis of three tasting room experiments: respectively on orange juice, coffee and (merlot) wine. In each experiment, subjects assessed seven products first blind (round one) and then sighted (round two). In each experiment the sequence of blind and sighted tastings was randomized to discourage order-guessing. In the orange juice experiment, 105 respondents tasted one-litre juices ranging in price between R7.50 and R69.00. In the coffee experiment, 100 respondents tasted products with prices per 200 grams ranging between R22.00 and R97.00. In the wine experiment, 73 respondents tasted wines with prices points ranging between R25.00 and R160.00.

Collating the seven paired ratings of each of the 278 subjects (105 + 100 + 73 as per above), a dataset of 1946 (7 x 278) corresponding blind and sighted product assessments was consequently assembled to gauge the conditioning effects of price across a range of consumption-rate segmentations. Proceeding from this introduction, a brief review of the relevant literature is presented. The experimental design follows in Section Three, along with a fuller description of the dataset. Section Four lays out the empirical findings of the experiment, with a discussion on the implications concluding the paper.



## LITERATURE REVIEW

Metacognitive theory suggests a dual structure of rationality operated by two interconnecting systems: the sight based “System 1” and the blind-based “System 2” (Kahneman, 2012). To negotiate common-place environments, System 1 is thought to generate surface level sight-based associations, proclivities and preferences, which, when sanctioned over time by the blind and more ponderous System 2, enmesh to become a guiding architecture of more deeply embedded principles, protocols and beliefs. System 1 operands are inferential, rapid and mechanistic; mobilized like drones with little or no conscious effort or finer levels of calibration or control (Kahneman, 2012). As such they are prone to systemic errors of judgement, and hence bias. These judgement errors can be attributed to undetected “System 1” failures of intuition, licensed, in turn, by rational “System 2” failures to detect and correct as required (Morewedge & Kahneman, 2010).

In research reported, inter-alia, by Plassmann et al. (2008), such errors have been identified wherein extrinsic cues like price appear, unconsciously, to alter the experienced utility of particular hedonic products usually increasing or in some cases diminishing a prior subjective account of the actual intrinsic quality of the product in question. This said, marketing-type literature on cue-conditioning, while acknowledging the prevalence of the effect (see Shiv, Carmon & Ariely (2005), Rao (2005), Montague (2006), and Almenberg and Dreber (2011)) appears silent on the issues of whether and how price cues may escalate or diminish experienced utility with increasing rates of consumption.

On the basis of the above, across three different product classes, this study aims firstly to assess the strength of the price cue in sighted tastings when controlling for intrinsic merit and individual bias. Given a set of price points, the literature would anticipate a positive correlation between price and sighted merit. Secondly, this study aims to examine the prevalence of price-effect errors as they might manifest across a range of consumption-rate strata. A priori it is predicted that increases in consumption per week will see an increasing magnitude of System 1 errors signalled by bias towards disclosures of price information.

## DATA DESCRIPTION AND MODEL CONSTRUCTION

### Data description

In this analysis 278 subjects (141 males; 137 females) were invited to a two-stage sighted-to-blind product-tasting. The design followed a three group pre-experimental design-format (see Malhotra, 2010, 158), with subjects tasting either wine (n=73 subjects), orange juice (n=100 subjects) or coffee (n=105 subjects). In each of the three experiments, the first stage consisted of a blind product tasting of eight products. The only information offered to participants was the nature of the product: i.e.: merlot wine, coffee or orange juice. To dissuade respondents from predicting the sighted line-up from the blind, the order of the “sighted” second stage was re-shuffled, with one of the eight products removed; thus leaving only seven differently ordered products. It is important to note that no one under the age of eighteen tasted wine, only orange juice and coffee; and in no instances of sampling were subjects proffered payment.

The products sampled were orange juice (price per litre): Sonnendal (R7.50), Clover Crush (R11.99), Pick 'n Pay (retailer) house-brand (R13.99), Liquifruit (R16.99), Orange 100% Juice (R18.64), Woolworths (retailer) Freshly Squeezed house-brand (R26.60), and Vida e Café freshly squeezed (R69); coffee (price per 200 grams) Ricoffy (R22), Koffiehuise (R27), Frisco Original

(R27), Nescafe Classic (R27), Nescafe Gold (R80), Douwe Egberts (R96), and Jacobs Original (R97), and merlot wines: Obikwa 2010 (R25), the Spier Savannah Sun 2009 (R30), the Spier Signature Selection 2009 (R45), the Villiera 2008 (R45), the Spier Creative Block 2007 (R85), the Groot Constantia 2007 (R116) and the Spier Private Collection 2008 (R160).

Before the start of the first tasting round, respondents were asked to provide personal details including weekly product consumption, age, and gender. Each round of tasting was scored using an eleven point likert scale equivalent to the “five star” quality scorecard employed in the wine industry, inter-alia, where, with half star calibrations, zero denotes an unpalatable offering, and five, a product of exceptional character.

Consolidating information on frequency of weekly consumption (mean: 3.40, stdev: 6.71, min: 1, max: 35), age (mean: 34.52, stdev: 17.03, min: 11, max: 77), and gender, (141 males; 137 females); from the 278 self-administered questionnaires and ratings for each of the products sampled blind (mean: 2.64, stdev: 1.20, min: 0, max: 5) and sighted (mean: 2.72, stdev: 1.25, min: 0, max: 5), a dataset of 1946 product paired blind and sighted assessments was assembled. Controlling for intrinsic (blind) merit, relevant demographic factors, inter-product-class differences and individual-subject-bias, tests were conducted to determine the impact of price cues on sighted scores, both at an aggregate level and across a set of three weekly consumption bands.

### Model construction

Analysing an unreported (Spearman) correlation matrix of the described variables, a strong positive correlation (0.56) is observed between the blind and sighted ratings. Price is the next strongest correlate (0.43). The correlations between demographic variables and the sighted tasting are all weak and insignificant.

For purposes of statistical scrutiny the “gender” and “product class” variables are specified as non-linear dummy variables. This done, a series of four stepwise multiple regressions is developed to explain sighted wine quality. Models are presented at (1) a general meta-level as well as from perspectives of a number of consumption bands, namely: (2) “1-4 units per week” (n = 1253 paired tastings (i.e.: 179 x 7)), (3) “5 to 20 unit per week” (n = 553 paired tastings (i.e.: 79 x 7)), and (4) “More than 20 units per week” (n = 140 paired tastings (i.e.: 20 x 7)). With seven blind and sighted (hence non-independent) observations coming from each of the 278 subjects, to control for individual bias subject-level dummy controls were also specified within each of the seven models as presented below in Table 1.

## RESULTS

### The meta model

As per Table I below, the general regression equation describing the sighted score for each wine,  $i$ , is laid out below together with a residual error term ( $\epsilon$ ) that conforms to the classical assumptions. (The 26 unreported subject bias-effects are however excluded from this equation). Relevant t statistics appear in brackets below.

$$\text{Sighted score}_i = 0.98 + 0.50 \text{ Blind rating}_i + 0.013 \text{ Price}_i - 0.30 \text{ Coffee control} - 0.33 \text{ Wine Control} + \epsilon_i$$

t score:            (17.03)            (27.42)            (19.19)            (-5.42)            (-5.31)

Reading from the equation above, note that the model's constant is 0.98, meaning that if all the independent variables are held at zero, the sighted score is likely to be a fraction under one star. Next observe that for each “intrinsic” “blind” star, the sighted score is likely to increase by a half a star. Thus the net contribution of three blind stars would be one-and-a-half sighted stars. Thereafter the effect of the price cue is described by the coefficient 0.013. Therefore, with all other factors held constant, including intrinsic merit, a R75 increase in price, will ramp the sighted score of a product by approximately one star; a significant error of intuition.

Accounting for the statistically dominant price and blind cues, the wine and coffee product controls present with -0.33 and -0.30 stars respectively; meaning that relative to the orange juice control-comparator, respondents were likely to deduct approximately one third of a star for these two product classes. Orange juice was obviously rated more highly. Finally, through unreported subject-controls, note that 26 of the 278 subjects presented with sighted assessments either statistically significantly higher or lower than those of their peers. (See model 1 in Table 1 below for details).

### Consumption-rate Models

Investigation was also conducted as to how subjects within certain consumption-rate segmentations responded to the price cue. As per Table 1, three models were developed explaining rates of weekly consumption; explicitly for those between “1 and 4 units”, “5 and 20 units”, and “21 or ore units”. Across all three consumption-rate models (being models 2 to 4 in Table 1), intrinsic (blind) merit is found to be the most significant factor, with the intrinsic coefficient ranging between 0.52 ( $t=22.20$ ) for “1 to 4 units”, and 0.44 for both “5 to 20 units” ( $t=13.21$ ) and “21 units or more” ( $t=7.43$ ).

**TABLE 1: SEGMENT-BY-SEGMENT ESTIMATED STEP-WISE REGRESSIONS EXPLAINING SIGHTED ASSESSMENTS.**

<p><b>1. Meta-model:</b>  <i>Dependent variable: Sighted rating: Adj R<sup>2</sup>: 46.44%, F: 57.21 (p=0.0000), n = 278 subjects x 7 tastings = 1946.</i></p> <p>Sighted Rating: mean: 2.72, standard deviation: 1.25.          Constant: 0.98 (17.03).          Blind rating: 0.50 (27.42).          Price-effect: 0.013 (19.19).          Coffee Control: -0.30 (-5.42).          Wine Control: -0.33 (-5.31).</p> <p>Subject controls (x 26): coffee sbj.14: -1.01, (-2.90), coffee sbj.18: -0.94 (-2.69), coffee sbj.19: 0.88, (2.54), coffee sbj.2: 0.74 (2.12), coffee sbj.33: 0.85 (2.43), coffee sbj.36: 0.95 (2.74), coffee sbj.37: 0.85 (2.43),          coffee sbj.38: -1.05 (-3.01), coffee sbj.42: 0.70 (2.02), coffee sbj.43: 0.74 (2.13), coffee sbj.49: -0.76 (-2.18), coffee sbj.52: 0.78 (2.23),          coffee sbj.6: 0.88 (2.54), coffee sbj.63: -0.76 (-2.18), coffee sbj.72: -1.26 (-3.62), coffee sbj.95: -0.76 (-2.18), coffee sbj.99: -1.12 (-3.21),          juice sbj.31: -0.75 (-2.16), wine sbj.14: 0.92 (2.63), wine sbj.18: -0.90 (-2.59), wine sbj.2: -0.73 (-2.08), wine sbj.20: -0.83 (-2.39), wine sbj.26: -1.05 (-3.00),          wine sbj.28: -0.87 (-2.49), wine sbj.39: 0.92 (2.62), wine sbj.57: -0.80 (-2.28).</p>
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<p><b>2. Sub-segment model: Consumption rate per week: "1 to 4 units".</b></p> <p><i>Dependent variable: Sighted rating: Adj R<sup>2</sup>: 43.02%, F: 56.61 (p=0.0000), n = 179 subjects x 7 tastings = 1253.</i></p> <p>Sighted Rating: mean: 2.69, standard deviation: 1.24.</p> <p>Constant: 0.95 (13.76).</p> <p>Blind rating: 0.52 (22.20).</p> <p>Price-effect: 0.0124 (13.89).</p> <p>Coffee Control: -0.27 (-3.03).</p> <p>Wine Control: -0.31 (-3.93).</p> <p>Subject controls (x 13): coffee subj.72: -1.28 (-3.53), coffee subj.14: -1.00 (-2.76), wine subj.26: -1.06 (-2.96), coffee subj.63: -0.78 (-2.17), coffee subj.49: -0.76 (-2.10), wine subj.14: 0.92 (2.57), wine subj.18: -0.91 (-2.55), wine subj.20: -0.84 (-2.34), wine subj.57: -0.80 (-2.25), coffee subj.36: 0.96 (2.64), coffee subj.6: 0.87 (2.42), orange juice subj.31: -0.75 (-2.11), coffee subj.52: 0.76 (2.10).</p>
<p><b>3. Sub-segment model: Consumption rate per week: "4 to 20 units".</b></p> <p><i>Dependent variable: Sighted rating: Adj R<sup>2</sup>: 48.77%, F: 48.76 (p=0.0000), n = 79 subjects x 7 tastings = 553.</i></p> <p>Sighted Rating: mean: 2.86, standard deviation: 1.24.</p> <p>Constant: 0.82 (7.40).</p> <p>Blind rating: 0.44 (13.21).</p> <p>Price-effect: 0.0137 (13.37).</p> <p>Subject controls (x 9): coffee subj.38: -1.09 (-3.22), coffee subj.18: -1.06 (-3.09), wine subj.28: -0.93 (-2.75), coffee subj.95: -0.88 (-2.56), coffee subj.33: 0.88 (2.59), coffee subj.19: 0.86 (2.53), wine subj.2: -0.78 (-2.31), wine subj.39: 0.76 (2.20), coffee subj.2: 0.67 (1.98).</p>
<p><b>4. Sub-segment model: Consumption rate per week: "21 or more units".</b></p> <p><i>Dependent variable: Sighted rating: Adj R<sup>2</sup>: 61.79%, F: 38.46 (p=0.0000), n = 20 subjects x 7 tastings = 140.</i></p> <p>Sighted Rating: mean: 2.45, standard deviation: 1.34.</p> <p>Constant: 0.44 (2.59).</p> <p>Blind rating: 0.48 (7.43).</p> <p>Price-effect: 0.0150 (5.98).</p> <p>Subject controls (x 4): coffee subj.99: -0.97 (-2.97), coffee subj.37: 1.02 (3.15), coffee subj.43: 0.93 (2.79), coffee subj.42: 0.89 (2.70).</p>

Model 1 of 4 is a meta-model spanning the entire dataset. Thereafter follow 3 consumption-rate sub-segmented models. Model variables appear in the sequence: constant, blind rating, price, product control, subject control. All variables are statistically significant at the 5% level; their coefficients presented by order of the absolute value of their associated t-statistic which appears in parenthesis.

Price is the second significant variable, contributing explanation to the sighted scores across every one of the three computed consumption-rate models. In analysing the spread of price coefficients across the various consumption-rate models - see Table 2 - the "1 to 4 weekly consumption-rate" price coefficient of 0.0124 (t = 13.38) is employed as base comparator. Thus, with the increase in consumption, observe initially, an 11% price-coefficient move to 0.0137 for "5 to 20 units" (t = 13.37) and then a 21% move to 0.0150 for "21 or more units" (t = 5.98).

**TABLE 2: PRICE-EFFECTS ACROSS THE AGGREGATED META-MODEL AND THE THREE CONSEQUENT CONSUMPTION-RATE SUB-MODELS DEVELOPED IN THIS STUDY.**

Model type:	1. Meta model	Bands of Weekly Consumption		
		2. 1 to 4 units	3. 5 to 20 units	4. 21 to 35 units
Price coefficient	0.0130	0.0124	0.0137	0.0150
t-stat	19.91	3.89	13.37	5.98
Standard error	0.0007	0.0009	0.0010	0.0025
<i>Price coefficient % increase relative to base</i>	-	<i>base</i>	11%	21%

(Estimated with controls, all price coefficients are strongly significant, as per the relevant cited t-statistic)

As with the meta-model, note from Table 1 that in all three of consumption-rate models individual instances of subjective bias are also notified. Note too that in both the “1 to 4 weekly units” model, the coffee and wine product control-variables presents as significant, respectively deducting 0.27 (t = -3.03) and 0.31 (t = -3.93) stars for those consuming this product, relative to orange juice.

## CONCLUSION

The results of this study outline the extent to which price cues impact upon the sighted appreciation of a product, in this instance, either orange juice, coffee or wine. Through a cross-section of prices ranging between R7.50 and R160, this study finds, *ceteris paribus*, that a R25 increment in product price will increase its sighted appreciation by one-third of a star.

Additionally through an analysis of the price coefficients computed in each of the three consumption-rate models, results indicate how such System 1 judgement errors accrue and increase progressively with consumption. Note for example how those consuming one to four units per week (with a price coefficient is 0.0124), appear the least affected by price information, with those consuming three or more units per day the most affected (price coefficient = 0.0150). Across the three models of weekly consumption the increase in affectation is 21% (see again Table II), a finding which is novel and seemingly significant.

By way of elaboration, from the models computed in this study, it should be observed that any notification of statistically significant price-effects effectively flag the presence of those judgement errors alluded to in the Kahneman quotation cited in this paper’s introduction. As such, these effects tell us what the human mind is doing as it struggles to grapple with the situation at hand. In the experimental situation of this research, specifically, the mind is attempting to discern the utility of a product in the presence of a potentially enabling price cue. In his recent book, *Thinking, Fast and Slow*, Kahneman’s quote from the work of psychologist Herbert Simon (1992) is instructive here: “The situation has provided a cue, this cue has given the expert access to information stored in memory, and the information provides the answer. Intuition is nothing more and nothing less than recognition” (2012: 237). Through the lens of Simon’s definition of intuition Kahneman continues from this passage, observing how “the apparent magic of intuition” is thus reduced “to the everyday experience of memory.” He concludes by stating then that “the moral of Simon’s remark is that the mystery of knowing without knowing is not a distinctive feature of intuition; it is the norm of mental life.”

Certainly, from this paper we can observe from the ongoing amplification of the price cue, how “knowing without knowing” becomes merely a function of a memory conditioned by ever increasing rates of consumption to recognize and appropriate cues as they appear to be helpful to situations potentially requiring interpretation. Discounting for potential cohort effects, and the possibility that the assessment of other hedonic products proves less malleable in the presence of extrinsic cues, the study presented here would thus seem to corroborate Kahneman's conflation of intuition as classically conditioned memory. Given repeated cue exposure from a tender age, it would seem inevitable that with escalating rates of consumption, young blank-slates become increasingly sensitised by the persuasion of extrinsic cues, including price. Clearly this neurological conflation once served an important prehistoric function. However, given the extent to which the architecture of associative memory can increasingly provoke systemic errors in intuitive judgement - as shown in this study - the contemporary importance of this phenomenon should be conditioned by what ameliorative steps should be considered to protect the vulnerable from instances where price-ramping strategies amount to no more than unfounded persuasion. In this regard there is still some work to do.



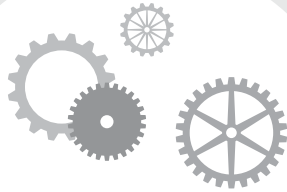


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## HOW WE RESPOND TO PRICE INFORMATION ACROSS DIMENSIONS OF EXPERIENCE

17



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### ABSTRACT

How are our faculties primed by dimensions of utility experience? This study reports on a blind-versus-sighted cheddar-cheese tasting-room experiment aimed to model experienced product utility when in the presence of price information. Eight cheeses are tasted by 127 subjects producing 1016 paired blind and sighted tastings. Aggregating the data, regression models are run to estimate significant price-effects across bands of both (1) self-confessed expertise (novice, intermediate and expert) and (2) four consecutive periods of consumption experience as measured over years. In both versions, sight-based judgement errors are shown to strengthen with increasing experience, thereby confirming a process of exposure driven cue-conditioning. Thus regardless of intrinsic merit, in the presence of price information, novices with fewer years of product consumption prefer cheaper cheddars, intermediates appear price neutral, and experts with greater years of tasting experience favour the more expensive variety; the differentiating factor here being relative familiarity with the price-quality heuristic.

### KEYWORDS

Associative learning, Experience, Price, Heuristic

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## INTRODUCTION

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By way of attempting to better understand how our mental processes are classically conditioned by dimensions of experience, this study introduces two related questions. Firstly, over years of product consumption, to what degree do we become progressively conditioned by the priming effects of extrinsic product cues like price? Secondly, how do levels of relative expertise deepen or accelerate any such conditioning?

With little known of how we become conditioned through the acquisition of experience as it relates to degrees of cue-exposure and cue-fluency, two questions can be posed. First: within contemporary market conditions, how many years of product consumption are required before our associative processes begin to twin price with quality so that ultimately we deploy the price-cue as a heuristic substitute for genuine quality? This question would address the issue of expertise acquired passively through the process of time. Here years of consumption would convert to a proxy for expertise. Second: how does the fluency of the price-cue association differ between those who explicitly call themselves either novices, intermediates or experts? In a recent paper by Priilaid, Sevenoaks, Aitken and Chisholm, (2011), self-confessed wine experts, when sampling wines sighted, appeared to be more affected by price information than non-experts. An earlier paper by Goldstein, Almenberg, Dreber, Emerson, Herschcowitsch and Katz, (2008) also found that, when running similar tests on blind-based scores, non-experts preferred cheaper wines, while experts were generally price-neutral. Following on from these pieces, *ex ante*, this study anticipates a similar set of results: with price-effects manifesting with increasing magnitude across bands of increasing relative experience. It is worth noting that the expertise construct is read here as a self-professed level of confidence regardless of time passed. Thus, whereas the first question deals with passively incurred levels of expertise acquired over time, the second addresses a more assertively defined construct; that being a self-conferred level of expertise. It is these two forms of question that this research-piece seeks to consider.

So doing, this study reports on the results of a tasting-room experiment employing cheddar cheese wherein subjects assessed eight cheeses first blind (round one) and then sighted (round two). In each round the sequence of blind and sighted tastings was randomized to discourage order-guessing. Here 127 respondents each sampled eight cheeses ranging in price between R64.99 per kg; the cheapest; and R192.99 per kg; the most expensive.

Aggregating the eight blind and eight sighted ratings made by of each of the 127 subjects, a dataset of 1016 (8 x 127) paired blind and sighted cheddar assessments was consequently constructed to determine the scale of price-effects manifesting across a transect of experience-related segmentations. Proceeding from this introduction and the literature review that follows hereafter, this study's experimental design is described along with a fuller description of the dataset. Thereafter the empirical findings of the experiment are presented, with a discussion on the implications concluding the paper.

## LITERATURE REVIEW

Classical or Pavlovian conditioning occurs when two stimuli are paired such that affect is transferred from one stimulus to another, and as such has been identified as an important mechanism in the development of hedonic preferences and hence behaviour modification (De Houwer, Thomas and Baeyens, 2001). This conditioning mechanism is embedded within a dual system of mental processing: on the one hand is a conscious rational system based on verbal reasoning specific to humans; on the other is a non-conscious experience-driven system of associative learning common to both humans and animals (Evans, 2008; Epstein, 2010). Through

the acquisition of experience, the intuitive fast acting thought system may be primed to solicit heuristic-type cues aimed to enable efficient and rapid decision making and maximum reward utility (Simon, 1992; Berridge and Aldridge, 2008). This associative-experiential system is hedonically motivated and affect driven, tasked to achieve positive ends and avoid negative ones, and believed to have been adopted over millennia by most animal forms including humans as an evolutionary strategy for rapid extrication from life threatening situations (Montague, 2006; Taleb, 2007). Observe here that unless the conditioned stimulus can be employed to predict the unconditioned one, an organism acquires no ecological benefit in learning an association between the two (Abrahamson, 1994).

The older, rapid and reactive thought process has been described as “associative” (Smith and DeCoster, 2000), “tacit” (Hogarth, 2001), “implicit” (Strack and Deutch 2004), and “peripheral” (Petty and Wegener, 1999); terms which are all character appropriate. In turn, Stanovich and West (2000), Kahneman (2003; 2012) and Morewedge and Kahneman (2010) have termed it “System 1”; labelling the slower, more deliberate and analytic thought-twin “System 2”. Presenting a defining framework of this dual-system and calling it Cognitive-Experiential Self Theory, or CEST, Epstein (2010) places the role of experience centrally within it, stating that the CEST is an “an experiential system because its primary function is to learn from experience” (Epstein, 2010: 298).

Experiential learning of this sort has been shown to be susceptible to systemic errors of judgement (see for example Kahneman, Slovic and Tversky, 1982; Myers, 2002; Nisbett and Ross, 1980; and Shermer, 1997), errors that in the medical and marketing literature have been interpreted as placebo-effects (see Amanzio and Benedetti, 1999; and Shiv, Carmon, and Ariely, 2005, respectively). Employing the dual thought process framework, Morewedge and Kahneman (2010) ascribe such errors to both System 1 detection failures, and an inability of the logical System 2 to sense and remediate as appropriate. Hence, under conditions of enduring levels of cue exposure, System 1 appears to develop superficial cue associations that over time become repeatedly endorsed by System 2. Through continual reinforcement, this dual reasoning process is seen to learn and mature, in time becoming a behavioural generator of associatively driven protocols and general rules of thumb.

While working together, the learning styles of System 1 and 2 appear somewhat different, with the deliberately rational thought process learning through a slower pattern of deductive reasoning, sifting through the correlates of sensation and reward as it goes. By contrast, the sight-based system learns through a combination of observational learning and operant and classical conditioning, these forms combining as an adaptive means to negotiate one's surroundings. In a corroborating study employing a blind-to-sighted sampling of colas, McClure, Li, Tomlin, Cypert, Montague and Montague (2004) reported neural responses correlating with brand choice. Tasted blind, Pepsi was generally preferred; tasted sighted, the majority preferred Coke; arguably because of its dominant market share. Here, critically, the two styles of tasting revealed differing levels of activity in different parts of the brain: the ventral putamen region being activated in blind tastes; the ventromedial prefrontal cortex in the sighted. These two regions serve different purposes. The former region is known to process hedonic sensation and reward, the latter serves as the locus of recall and judgement. Findings from the study implied a neurological peculiarity: that when tasting sighted, instead of processing a judgement of intrinsic merit as it would under blind tasting conditions, the brain rather prefers the ease of employing familiar heuristic-type cues. Here the degree of experience and extent cue familiarity is critical, System 1's adaptive-style of learning believed to correlate with the intensity of formative cue-priming experiences (see Dollard and Millar (1950) and Hull (1943) as cited in Epstein (2010, 298). With sight-based System 1's stress on speedy (as opposed to meticulous) decision making, some heuristic judgement errors become inevitable. The occurrence of these cue-driven errors is now well documented within the literature

on experimental psychology (Kahneman, 2012), the brain sciences (Plassmann, O'Doherty, Shiv and Rangel, 2008) and even wine (Almenberg and Dreber, 2011). While this might be so, little is known of how the magnitude of such errors might correlate with ongoing experience. It is this gap in our knowledge that forms the central problematic focus of this paper.

## DATA DESCRIPTION AND EXPERIMENTAL DESIGN

### Data description

In this analysis 127 subjects (56 males; 71 females) were invited to a two-stage blind-to-sighted cheese tasting. No payment was proffered. The experiment followed a causal two-stage pre-experimental design format (see Malhotra, 2010, 158), wherein the aim was to examine a potential cause-and-effect relationship between the price-cue and experienced sighted pleasantness. In the first stage nine cheeses were sampled blind. There the only information offered to participants was the nature of the product: i.e.: cheddar cheese. To dissuade subjects from guessing the line-up of the second sighted round, one of the nine cheeses tasted blind was removed, and the order of the remaining eight cheeses to be sampled sighted was re-shuffled. For the purposes of analysis this left eight cheeses each sample blind and sighted.

By order of price-per kilogram, the eight cheese products sampled sighted were R64.99, R72.90, R83.30, R121.99, R136.99, R151.99, R171.99 and R192.99. Before the start of round one, respondents were requested to provide personal details including gender, relative expertise and rate of weekly product consumption.

Each round of tasting was scored using a self-reporting eleven point likert scale equivalent to the "five star" quality scorecard employed in South African publications such as the John Platter's South African Wine Guide (see van Zyl, 2012), which, with half-star calibrations, ranges between zero ("worst possible") and five ("best possible"). A five star score would indicate that the respondent rated the cheese as a world class product of exceptional distinction. Conversely, a low score would indicate that their experienced pleasantness was very low and that under normal conditions they would not choose to eat the cheese.

Aggregating demographic information from 127 self-administered questionnaires and the eight cheeses scored blind and sighted by each participant, a dataset of 1016 (8 x 127) cheese assessments was compiled. Critically, participants were asked (a) whether they considered themselves novices, intermediates or experts, (b) how many years they had been eating cheese and (c) how often a week they consumed the product.

Details regarding these and other descriptive statistics pertinent to the study are presented in Table 1. Controlling both for intrinsic merit as measured in the first blind round, and for significant levels of individual-subject-bias, tests were conducted to determine the potential impact of price-cues on sighted scores, both at an aggregate level, as well as, across two sets of experience bands: relative expertise (novice, intermediate or expert) and years of cheese consumption.

**Table I:** Descriptive statistics. Total participants: 127: 56 males, 71 females. Relative self-confessed expertise: novices: 74, intermediates: 42, experts: 11. Prices in ZARands.

	Blind tasting	Sighted tasting	Price of cheese per kg.	Years of eating cheese	Cheese tastings per week
Mean	3.15	3.06	124.64	23.38	3.47
Median	3	3	129.49	20	3
Mode	3	3	136.99	25	3
Standard Deviation	1.07	1.14	44.41	14.37	1.82
Kurtosis	0.04	-0.06	-1.39	1.37	-0.76
Skewness	-0.46	-0.45	0.04	1.30	0.39
Range	5	5	128	68	6
Minimum	0	0	64.99	4	1
Maximum	5	5	192.99	72	7
Count	1016	1016	8	127	127

Hoppert, Mai, Zahn, Hoffmann and Rohm, (2012), citing numerous food sensory tests of this nature, observe that contradictory results may occur if contending intrinsic and extrinsic cues are incorrectly specified and managed. In this study appropriate care was exacted by omitting sighted cues relating to issues of brand, area-of-origin, fat content, months of maturation, and designated retailer. With first round blind tastes already accounted for and hence controllable in the second, no further second round procedural controls were deemed necessary.

### Preliminary analysis

Analysing the (Spearman) correlation matrix of the entire dataset's described variables (see Table II), a strong positive correlation is observed (0.48) ( $p=0.00$ ) between the blind and sighted ratings.

**Table II:** A correlation matrix depicting variables across the entire dataset ( $n=1016$ ). \*: Correlation is significant at the 0.05 level (2-tailed). \*\*: Correlation is significant at the 0.01 level (2-tailed). Note: the -0.09 correlation between sighted scores and years of eating is remarkable, and valid: its t-score is -2.84.

		Sighted (Round 2)	Blind (Round 1)	Price	Years of Eating	Tastings per week	Relative Expertise
<b>Sighted (Round 2)</b>	Correlation Coefficient	1					
<b>Blind (Round 1)</b>	Correlation Coefficient	<b>0.47**</b>	1				
	Sig. (2-tailed)	0.00					
<b>Price</b>	Correlation Coefficient	-0.03	-0.06	1			
	Sig. (2-tailed)	0.40	0.06				
<b>Years of Eating</b>	Correlation Coefficient	<b>-0.09**</b>	-0.02	0.00	1		
	Sig. (2-tailed)	0.00	0.61	0.92			
<b>Tastings per week</b>	Correlation Coefficient	0.03	0.00	0.00	0.04	1	
	Sig. (2-tailed)	0.38	0.99	0.92	0.25		
<b>Relative Expertise</b>	Correlation Coefficient	-0.02	-0.08	0.00	<b>0.38**</b>	<b>0.36**</b>	1
	Sig. (2-tailed)	0.44	0.92	0.91	0.00	0.00	



Surprisingly perhaps, the all important price-to-sighted correlation is weak, negative and insignificant: -0.03 (p=0.40). The remaining correlations against the sighted variable are also weak and, but for the sighted correlation against years of eating (-0.09) (p=0.00), also all insignificant. Additionally, it should be noted that the correlation between blind scores and price (-0.06, p=0.06) is almost weak and negative, suggesting (1) the possibility for these two variables to contribute explanatory power to sighted scores without multi-colinearity and (2) that in the main, respondents prefer cheaper cheddar when tasting blind.

Assuming the presence of typical System 1 price-to-quality heuristic errors, reading from the above, it is clear that while one might expect the sighted-to-price correlation to present as significantly strong, in the main it does not. The correlation as demonstrated is both weak and insignificant. This dynamic does change however when Spearman tests are run in the three segmentations of relative expertise: novice, intermediate and expert, and in the four segmentations on years of cheese consumption: 1 to 15 years, 16 to 20 years, 21 to 45 years and 46 to 70 years. (See Table III for details). Within the three segmentations of relative expertise, the correlations range from -0.16 for novices, to 0.20 for intermediates, and 0.24 for experts. All correlations are significant, with  $p \leq 0.05$ . Observe here how the correlations strengthen with growing expertise. Within the four segmentations on years of cheese consumption, the correlations demonstrate a similar pattern of increasing strength; ranging from -0.18 for those with up to 15 years of consumption, to -0.05 for 16 to 20 years, to 0.08 for 21 to 45 years and finally 0.38 for 46 to 70 years. The extreme segmentations (0-15 and 46-70 years) are both significant, while the inner segmentations (16-20 and 21-45 years) are not.

**Table III:** An overview of the sight-to-price Spearman correlation coefficients across the 8 segmentations under scrutiny (n=1016). \*: Correlation is significant at the 0.05 level (2-tailed). \*\*: Correlation is significant at the 0.01 level (2-tailed).

Spearman correlation coefficients	1. Meta model	Relative Experience			Years of Cheese Consumption			
		2. Novice	3. Intermediate	4. Expert	5. 1 to 15	6. 16 to 20	7. 21 to 45	8. 46 to 70
Sighted to Price correlation	-0.03	<b>-0.16**</b>	<b>0.20**</b>	0.24*	<b>-0.18**</b>	-0.05	0.08	<b>0.38**</b>
Two-tail P-Value	0.40	0.00	0.00	0.03	0.00	0.43	0.15	0.00
n	1016	592	336	88	304	256	344	112

What is thus evident in this preliminary analysis of sighted scores is a moderate strengthening of price coefficients as experience accrues. In the sighted-to-price correlations, it should be clear though that no controls are in place. These are relatively crude relationship estimates (witness the uneven spread of p-scores), and serve as a proximate flag for further and more rigorous investigation. In the light of this and proceeding thus from the descriptive statistics presented above, a suite of appropriately specified step-wise linear regressions is developed to explain sighted tastings across a span of experiential segmentations.

With eight blind and sighted (hence non-independent) samplings drawn from each of the 127 respondents, the potential for individual sampling-bias is controlled for with the specification of subject-level dummy controls. The full specification for these sighted models reads thus:

$$\text{Sighted score}_i = \alpha + b_1(\text{Price})_i + b_2(\text{Blind})_i + b_3(\text{Subject})_i + \varepsilon_i \quad (1)$$

Where:

$\alpha$  = the estimated intercept term for each of the sighted regressions.

Subject = subjects identified with statistically significant levels of tasting bias.

$\varepsilon_s$  = a random residual error term for each sighted score following classic assumptions.

And  $b_1$ ,  $b_2$ , and  $b_3$  explains the perceived marginal effects of price, blind scores, and individual subject bias, respectively.

So specified, a suite of step-wise regressions is computed to explain sighted tastings across a span of experiential segmentations. Sighted models are presented at (1) a general meta-level (n=1016), as well as from a number of sub-segmented experiential perspectives, namely: (2) self-confessed “novice” (n=592), (3) “intermediate” (n=336), (4) “expert” (n=88), (5) “years of consumption: 1 to 15” (n=58), (6) “years of consumption: 16-20” (n=256), (7) “years of consumption: 21-45” (n=344) and (8) “years of consumption: 46-70” (n=112).

(Importantly it should be stressed that these sub-segments were selected not because of any divergence in their mean sighted scores, but rather to codify any potentially underpinning price-effects variously explaining these scores. Differences in the price-effects are alluded to in the various price-to-sighted correlations as presented earlier in Table III. Were this segment-by-segment correlation analysis not run, the similarities in their mean sighted scores would do little to persuade the researcher that there was any merit in further sub-segmented investigation. (See Panel 2 of the later Table V to attest to the similar mean scores derived across each sub-segment.)) The consequent eight models are depicted in Table IV according to the specifications outlined above.

## FINDINGS

### Sighted meta-model

The meta-model computed for sighted scores is featured below with a residual error term ( $\epsilon$ ) and underpinning  $t$  statistics. Out of the 127 subjects sampled, 11 present with statistically significant levels of bias. (Full details are presented in Table IV below).

Sighted score  $_i = 1.52 + 0.48 \text{ Blind rating}_i + 11 \text{ subject controls} + \epsilon_i$

$t$  score:            (16.06)        (16.92)

From the equation above observe that the model's constant is 1.52, implying that with all independent variables held at zero, the sighted score is likely to be a fraction over one-and-a-half stars. Thereafter note that for each “intrinsic” “blind” star, the sighted score is likely to increase by a just on half a star. Thus the nett contribution of three blind stars would be one-and-a-half sighted stars. Thus the 2.96 aggregate of these two scores makes sense since the mean sighted score across the entire sample, controlling for subject-bias, is 3.01 ( $t=81.24$ ) (see Table I). Additionally, from Table V note that with subject-controls, 11 of the 127 subjects are shown to elicit sighted cheese assessments either significantly higher or lower than those of their peers.

Finally, observe that with the statistically dominant blind score accounted for, the model holds no place for the price-cue. From earlier observations around the correlations driving this model, this is not unanticipated. Recall that the sighted-to-price correlation is extremely weak ( $-0.03$ ,  $p=0.40$ ). Were the price-cue to enter the meta-model equation, its coefficient would be negligible ( $-0.0002$ ) and insignificant ( $t=-0.37$ ): a R50 increment in cheese price implying the deduction of 1/100th of a sighted star. We observe here therefore that, with its coefficient close to zero, price's  $t$ -value is less than the critical 1.96.

**Table IV: Segment-by-segment estimated step-wise regressions explaining sighted cheese assessments.**

<p><b>1. Meta-model:</b> Dependent variable: Sighted rating: <math>Adj R^2: 29.90\%</math>, <math>F: 37.07</math> (<math>p=0.0000</math>), <math>n=127 \times 8=1016</math>.  Sighted Rating: mean: 3.06, standard deviation: 1.14.  Constant: 1.52 (16.06).  Blind rating: 0.48 (16.92).  Price-effect: -0.0002 (-0.37). Note: not significant so does not officially enter the model.  Subject control: Subj.123: 1.59 (4.67), Subj.94: -1.28 (-3.77), Subj.15: 1.21 (3.57), Subj.115: -1.17 (-3.43), Subj.127: 1.16 (3.42),  Subj.89: -1.09 (-3.21), Subj.126: 1.024 (2.99), Subj.42: 0.95 (2.79), Subj.87: -0.85 (-2.49),  Subj.102: 0.70 (2.05), Subj.121: 0.67 (1.97).</p>
<p><b>2. Cheese Novice model:</b> Dependent variable: Sighted rating: <math>Adj R^2: 33.07\%</math>, <math>F: 20.47</math> (<math>p=0.0000</math>), <math>n=74 \times 8=592</math>.  Sighted Rating: mean: 3.07, standard deviation: 1.24.  Constant: 2.07 (10.89).  Blind rating: 0.42 (10.99).  Price-effect: -0.0032 (-3.40).  Subject control: Subj. 123: 1.62 (4.46), Subj. 94: -1.23 (-3.40), Subj. 15: 1.25 (3.45), Subj. 127: 1.24 (3.42), Subj. 43: 1.17 (3.24),  Subj. 115: -1.17 (-3.21), Subj. 126: 1.18 (3.21), Subj. 42: 1.06 (2.93), Subj. 89: -1.02 (-2.82),  Subj. 87: -0.79 (-2.19), Subj. 102: 0.80 (2.22), Subj. 121: 0.79 (2.17), Subj. 84: -0.71 (-1.97).</p>
<p><b>3. Cheese Intermediate model:</b> Dependent variable: Sighted rating: <math>Adj R^2: 35.28\%</math>, <math>F: 61.86</math> (<math>p=0.0000</math>), <math>n=42 \times 8=336</math>.  Sighted Rating: mean: 3.06, standard deviation: 1.02.  Constant: 0.76 (3.95).  Blind rating: 0.62 (12.71).  Price-effect: 0.0031 (3.09).  Subject control: Sbj. 56: 0.58 (1.97).</p>
<p><b>4. Cheese Expert model:</b> Dependent variable: Sighted rating: <math>Adj R^2: 23.32\%</math>, <math>F: 14.23</math> (<math>p=0.0000</math>), <math>n=11 \times 8=88</math>.  Sighted Rating: mean: 3.05, standard deviation: 0.86.  Constant: 1.38 (4.15).  Blind rating: 0.36 (4.61).  Price-effect: 0.0047 (2.57).</p>
<p><b>5. Yrs of consumption "1 to 15 years" model:</b> Dependent variable: Sighted rating: <math>Adj R^2: 30.24\%</math>, <math>F: 15.59</math> (<math>p=0.0000</math>), <math>n=38 \times 8=304</math>.  Sighted Rating: mean: 3.18, standard deviation: 1.45.  Constant: 2.51 (8.51).  Blind rating: 0.38 (6.85).  Price-effect: -0.0054 (-3.41).</p>
<p><b>6. Yrs of consumption "16 to 20 years" model:</b> Dependent variable: Sighted rating: <math>Adj R^2: 29.90\%</math>, <math>F: 22.75</math> (<math>p=0.0000</math>), <math>n=32 \times 8=256</math>.  Sighted Rating: mean: 2.96, standard deviation: 1.04.  Constant: 1.11 (4.19).  Blind rating: 0.59 (9.95).  Price-effect: 0.0002 (0.20). Note: not significant so does not officially enter the model.  Subject control: Sbj. 87: -0.80 (-2.55), Sbj. 91: 0.66 (2.11), Sbj. 112: -0.62 (-1.98).</p>
<p><b>7. Yrs of consumption "21 to 45 years" model:</b> Dependent variable: Sighted rating: <math>Adj R^2: 38.33\%</math>, <math>F: 36.53</math> (<math>p=0.0000</math>), <math>n=43 \times 8=344</math>.  Sighted Rating: mean: 3.01, standard deviation: 0.94.  Constant: 1.07 (5.76).  Blind rating: 0.54 (12.53).  Price-effect: 0.0022 (2.49).  Subject control: Sbj. 94: -1.29 (-4.87), Sbj. 89: -1.11 (-4.19), Sbj. 102: -0.65 (2.43), Sbj. 41: -0.54 (-2.03).</p>
<p><b>8. Yrs of consumption "46 to 70 years" model:</b> Dependent variable: Sighted rating: <math>Adj R^2: 35.69\%</math>, <math>F: 21.53</math> (<math>p=0.0000</math>), <math>n=14 \times 8=112</math>.  Sighted Rating: mean: 3.18, standard deviation: 0.95.  Constant: 1.11 (4.03).  Blind rating: 0.42 (5.63).  Price-effect: 0.0052 (3.07).  Subject control: Sbj. 56: 0.60 (2.17).</p>

Model one is a meta-model spanning the entire dataset. Thereafter follow seven sub-segmented models. Model variables appear in the sequence: constant, blind rating, price, subject control. All variables are statistically significant at the 5% level; their coefficients presented by order of the absolute value of their associated t-statistic which appears in parenthesis.

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variables are statistically significant at the 5% level; their coefficients presented by order of the absolute value of their associated t-statistic which appears in parenthesis.

This suggests that at a meta-level, subjects are unaffected by price when sampling a cheese sighted. However, in the experience bands that follow, we shall see that this price-coefficient-zero forms but part of a continuum of price coefficients falling left and right of zero – each coefficient specific to a particular level of relative expertise, suggesting changing levels of conditioning within System 1 processing. In the sub-models that follow price-driven preferences are shown thus to strengthen with experience.

### Sighted models of relative expertise

As per Table IV the study used sighted assessments to interrogate how segmentations of relative expertise, novice, intermediate and expert respectively, responded to the price-cue. Analysed in conjunction, these three descriptors convey a clear perspective on how heuristic errors compound with increasing levels of expertise. Across all three versions explaining sighted preference, blind-based merit presents as the most significant factor, with the intrinsic coefficient ranging between 0.42 (t=10.99) for novices, to 0.62 (t=12.71) for intermediates, and 0.36 (t=4.61) for experts.

Price is the second significant variable; presenting also across all three of these sub-segmentations. The spread of price coefficients across the experience models (see Table V for purposes of comparison) shadows the afore-noted spread of correlations. Invoking the “novice” price coefficient of -0.0032 (t=-3.40) as a base comparator, we note, with the advance to “intermediate” expertise, a 197% change in the price-coefficient to 0.0031 (t=3.09) and then, subsequently, a 247% shift to 0.0047 for “experts” (t=2.57). For a novice the -0.0032 coefficient implies that each additional R75 increment in price will yield a 0.240 decrease in stars. For an intermediate (with a 0.0031 price coefficient) this implies a 0.23 increase in stars; essentially a half-star difference. For an expert (with a 0.0047 price coefficient and a consequent 0.352 increase in stars), this difference widens further to 0.59 stars.

From Table V below observe that individual instances of subjective bias are also notified: 13 cases in the novice model and 1 in the intermediate model. No individual bias is detectable in the expert sample.

**Table V:** Price-effects across the sighted meta and experiential sub-models developed in this study.

Sighted model type:	1. Meta model	Relative Experience			Years of Cheese Consumption			
		2. Novice	3. Intermediate	4. Expert	5. 1 to 15	6. 16 to 20	7. 21 to 45	8. 46 to 70
<i>Panel 1: Sighted price coefficients across experience bands.</i>								
Sighted price coefficient	-0.0002	-0.0032	0.0031	0.0047	-0.0054	-0.0002*	0.0022	0.0052
Absolute difference	-	0	63	79	0	56	77	106
t-stat	-0.37	-3.40	3.09	2.57	-3.41	0.20	2.49	3.07
Standard error	0.001	0.001	0.001	0.002	0.002	0.001	0.001	0.00
Price coefficient % increase relative to base	-	base	197%	247%	base	104%	143%	196%
<i>Panel 2: Mean sighted scores with subject controls.</i>								
Mean sighted score	3.01	2.92	3.19	3.05	2.92	2.93	3.02	3.25
t-stat	81.24	56.20	55.63	32.78	33.68	43.89	58.57	36.50
Standard error	0.0371	0.0520	0.0573	0.0930	0.0868	0.0668	0.0516	0.0892
Sighted score % increase relative to base	-	base	9%	4%	base	0%	3%	11%

Estimated with appropriate controls, in Panel 1, observe how sighted price-cue-effects increase with both relative experience and years of consumption. Thus less experienced cheese eaters present with strongly negative price coefficients; older, more experienced consumers with stronger positive

effects. (\*: Only where close to zero do price coefficients become insignificant, with the absolute value of the associated t-stat less than 1.96.) Panel 2 presents the mean sighted score of each model estimated with subject controls; with the strongly significant t-statistics below. Observe the similarity in sighted scores across all models by comparison to the markedly divergent price-effects in Panel 1.

### Sighted models of years of cheese consumption

The study also sought to model the effect of price across years of cheese consumption. Recall that this particular slant renders the passage of time (via an increasingly acquired degree of cue fluency) as a version of expertise. Four sub-segments were set up for scrutiny: 1 to 15 years, 16 to 20 years, 21 to 45 years and 46 to 70 years. (Refer to Table V for details).

Once more, intrinsic merit presents as the most significant factor throughout: with blind rating coefficients observed at 0.38 (t=6.85) for years 1 to 15, at 0.59 (t=9.95) for years 16 to 20, 0.54 (t=12.53) for years 21 to 45 and 0.42 (t=5.63) for years over 45. These coefficients are in line with the 0.48 blind coefficient (t=16.92) of the meta-model; equating to roughly half a sighted star per blind star increment.

Again, price is the second significant variable; showing a marked inflection with the progress of years. Employing as base comparator the “1 to 5 years” price coefficient of -0.0054 (t=-3.41), we note an increase of 104% as we move to the “16 to 20 years” of consumption model. Here the coefficient is 0.0002, with a t-score of an insignificant 0.20, effectively reducing the price coefficient to zero which, for all intents and purposes, it practically is. In the “21 to 45 years” model the coefficient strengthens further to 0.0022 (t=2.29), increasing the change from base to 143%. This figure increases further to 196% as we move to the final model of “46 to 70 years” of cheese consumption: coefficient=0.0052, t=3.07. Converting the coefficients to stars, across these four sub-models, a R75 increment will yield star increments of -0.40 stars for consumption up to 15 years, zero stars for 16 to 20 years, 0.165 stars for 21 to 45 years and 0.39 stars for 46 years consumption or more. Using the R75 yardstick, between the two extreme models of 1 to 15 years and 46 years and more, the change in coefficients from -0.0054 to 0.0052 represents a difference of 0.8 stars, 36% greater than the 0.59 star difference observed between the novice and expert models in the section above.

Price aside, in the four sub-models under examination again we observe certain levels of subjective bias: with 6 instances in the “1 to 15 years” model and 1 instance in the “46 to 70 years” model.

## DISCUSSION AND CONCLUSION

With respect to the sighted models herewith discussed, as well as the summation table of sighted price-cue-coefficients presented in Table V above, a number of observations are appropriate.

1. Three factors are identified explaining sighted scores: (1) intrinsic merit (referring to the blind scores cited in all eight of the models), (2) price-effects (statistically significant in six of the eight models), and (3) subject bias effects presenting variously across seven of the eight models.
2. With respect to price effects, these are found to accrue and strengthen progressively with levels of self confessed experience. This dynamic appears to align well with the findings of the earlier cited work on self-confessed expertise done by Priilaid et al., (2011). Employing the same novice-to-intermediate-to-expert typology, these authors found that in the instance of wine consumption, price-effects appear to compound with this dimension of experience. That wine-

based result appears to find equivalence here; suggests that the correspondence between price-effects and degrees of experience might find application across a broader range of hedonic consumables.

3. Price-effects are also found to accrue across year bands of consumption experience, a study finding that appears completely novel, and represents a contribution to the literature.
4. An additional empirical feature is noteworthy. From the comparative Table V observe that a largely similar spread of mean sighted scores (as per the Panel 2 output) is underpinned by a divergent spread of concealed price-coefficients (as per the Panel 1 output). What explains this pattern of price-effect divergence and affect convergence is a matter for speculation.
5. In the assessment of how price-effects accrue with experience, two constructs of experience were employed: (1) self-conferred levels of either novice, intermediate or expert, or (2) years of cheese consumption. Which is better? Here perhaps what is most telling is that with years of consumption, there is by far a greater divergence between the price coefficients, where the coefficient range is from -0.0054 to 0.0052, yielding an absolute difference of 0.0106. By contrast, across the three experience bands, the divergence between price coefficients is smaller: with the coefficient range from -0.0032 to 0.0047, yielding a continuum of 0.0079. Thus, as stated earlier, experience appears to yield a wider, more sensitive calibration when employing the construct of years of consumption.

Worth noting is that the conditioning effects observed here take many years if not decades to accrue. Past studies employing relatively shorter time-frames, have not yielded the same level of cue-response (see the Koedijker, Oudejans and Beek (2008) experiment using 10,000 table tennis repetitions), and according to Taleb (2012: 126) there is good reason for this: "The more frequently you look at data the more noise you are likely to get (rather than the valuable part, called the signal); hence the higher the noise-to-signal ratio." Following this logic, over increasing periods of time, noise is filtered out, allowing the signal to assert more clearly. And this study bears this out: changes in price effects are most dramatic over many decades, not merely weeks, months or even years.

6. From the body of evidence presented in this paper, it would thus seem reasonable to conclude that experience does indeed affect the way we process price information: whether measured (a) through the lens of self-confessed expertise or (b) via years of consumption. These findings have been verified in an additional unreported analysis of sighted data designed to test for intra-sample variations, and hence control for different sample sizes across the experience bands employed. In the analysis statistically significant intra-sample price-effects are identified across all the experience-bands under scrutiny. Underpinned by this additional analysis, the findings of this study thus appear to be statistically robust.
7. Further to this, the clinical significance of these results can be established via the guidelines initially published by Cohen (1988) and later modified by McCarthy, Cichetti, Sznajderman, Forsyth, Baron, Finkl, Czarkowski, Bauchner and Lustman-Findling (1991). These relate the size of each sub-segmented model's adjusted R figure to the clinical effect size. Adjusted R figures less than 0.10 can be considered trivial, between 0.10 and 0.29 small, 0.30 to 0.49 medium, 0.50 to 0.69 large and 0.70 or more very large.

From these guidelines the significance of regression-based effect sizes (ES) (such as the price-effects) may be deduced from adjusted R correlation values. The clinical significance of the output derived from this study is hence presented in Table VI below, revealing a suite of predominantly large sighted effect sizes.



In conclusion then, this study explores the issue of how, with increasingly greater levels of experience, System 1 cognitive judgements are progressively influenced by price information. In the main, a degree of receptivity to price information appears to be built into these sight-based systems of judgment, with significant clinical capacity but prone to ever increasing systemic errors, or bias. Discounting for potential cohort effects, and the possibility that the assessment of other hedonic products proves less sensitive to price information, this experimental study confirms the theory that, psychologically, the price-quality heuristic is acquired by experience via an intuitive process of conditioned association through which novices with fewer years of product consumption experience appear thus to prefer cheaper cheese, intermediates are price neutral and professing experts with more years of tasting experience prefer the more expensive variety, regardless of intrinsic merit. Increasingly with experience the mind appears thus increasingly conditioned to accept the price-quality conflation, despite the apparent shortcomings of this behavioural strategy.

**Table VI:** Effect sizes (ES) per experience model. Note: Adjusted R values read as the square root of the more conventional Adjusted R<sup>2</sup>. Observe how the ES(S) sizes are large for all models save that of self-confessed “experts”.

		Adj R Sighted (S)	ES (S)
Experience bands	1. Novice	0.57	Large
	2. Intermediate	0.59	Large
	3. Expert	0.48	Medium
Years of consumption bands	1. 0-15 yrs	0.55	Large
	2. 16-20 yrs	0.55	Large
	3. 21-45 yrs	0.62	Large
	4. 46-70 yrs	0.60	Large

For marketers of cheese and related products such findings suggest that the promotion of the extrinsic price cue be targeted more specifically at cheese “experts” rather than at the less experienced and wider cheese consuming public. This is usually not the case, a generic shot-gun approach typically being favoured. The implied narrowing of the marketing focus would in turn suggest a more specified approach to marketing price-actions in general, and, specifically, a more astute deployment of budgets as they relate to advertising and promotional activities. Price has a particular hedonic message, with the message changing in intensity depending on levels of experience. The tone, style and manner of advertorials should be adjusted accordingly. This being so, such findings should apply not merely to the price cue but also to other cues hitherto identified in the literature, such as expert ratings, brand and area-of-origin. These no doubt also have influence in utility judgments. This said further research required to identify and map out the extent to which experience mediates the effect of experience across (1) other product classes and (2) across other cue-types. With respect to (1): we know little of how people with differing levels of experience respond to products like chocolate, orange juice and coffee, for example. With respect to (2), equally, we know little of how we absorb cues like brands and area of origin; and how these cue-forms differ in their psychological effect upon the consumer.

This aside, one important rider should however be noted in closing. Given the degree to which the price-quality conflation is shown here to increasingly provoke pervasive errors in utility judgements, the present-day significance of this phenomenon should be tempered by what mitigatory measures might be considered to shield the vulnerable from situations where excessive price actions signify little more than unsubstantiated humbug and hubris. Thus rather than seeking out means whereby marketers might so manipulate consumers (a common management-driven implication in this form of marketing research), results from a study such as this should do the opposite. That is to say, where appropriate, price actions should be tempered. In this respect too, much effort is still required.





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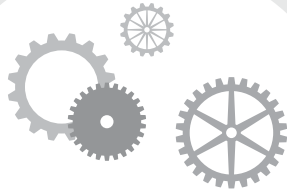
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# THE INFLUENCE OF TRUST AND COMMITMENT ON CUSTOMER LOYALTY – AN APPLICATION TO THE FOUR MAJOR BANKS AND CAPITEC BANK

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## ABSTRACT

The banking industry in South Africa is confronted by many external factors it cannot control. Alternative measures are required to improve the financial situation of this sector forming the most important component of the country's financial system. The efficacy of South Africa's banks directly impacts the efficacy of the country's economy. Customer loyalty strategies could assist in addressing the problem as they might result in customers staying with the bank, leading to greater profitability. It has also been established that trust and commitment can act as predictors of customer loyalty. Consequently, the primary objective of the study was to investigate the influence of trust and commitment on customer loyalty within the banking sector in Gauteng. A quantitative research approach was followed. The population included all retail customers banking with the four major banks and Capitec Bank in Gauteng. The sample consisted of 287 banking customers interviewed via a person administered mall intercept. Primary data was gathered using a structured questionnaire, with items on a 7-point Likert scale referring to trust, commitment and customer loyalty. The statistical analysis that was used in the study included descriptive statistics and multiple regression analysis to test the hypotheses. The findings emphasised that both trust and commitment exerted a positive relationship on customer loyalty. Therefore, banks can improve and maintain their relationships with customers if they have strategies in place to build both trust and commitment with their customers which include providing consistent and reliable services of high quality tailored to customers' unique sets of needs. This will ultimately contribute to customer loyalty, which will ensure financial prosperity for the bank and could lead to economic growth for the country.

## KEYWORDS

Banking sector, Customer loyalty, Customer retention, Trust and commitment

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## INTRODUCTION

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Over the past year the South African economy has been crippled by many challenges, including labour unrests, industry strikes, cut downs in growth forecast and the downgrading of South African banks by credit rating agencies - demonstrating a lack of faith in the South African investment market (Scherer, 2012; Clark, 2012). According to Moody's Investors Services, for example, factors such as the sizeable holdings of government securities, the banks' reliance on short-term wholesale deposits as well as weak macroeconomic conditions elevating credits risks and restraining the banks' profit margins contributed to the negative outlook (Clark, 2012). Moody's is further of the opinion that the operating environment in South Africa will continue to be challenging for banks, given the weakened domestic environment (Clark, 2012). Local banks experience difficulties in continuing their profitability in the changing global macroeconomic environment, resulting in a reduced demand in credit, higher funding cost and reduced income fees (The Banking Association of South Africa, 2012: 11).

While it is not possible to control these external environmental factors impacting on the performance of banks, implementing alternative measures to improve the banks' financial situation do seem to be vital to facilitate growth in the country. The banking sector in South Africa is important to the economy, given the fact that it represents just over 50 percent of total financial services sector assets. (Total financial assets in South Africa are valued at approximately R6 trillion and contributes 10.5 percent to the gross domestic product (GDP) of the country (The Banking Association of South Africa, 2012: 4; The National Treasury of South Africa, 2011).

A possible alternative measure to improve the financial situation of banks for example could be to focus on increasing the level of loyalty of customers. Anani (2010: 82) is of the opinion that this approach will result in customers staying with the bank. Should the banks then succeed in retaining their customers, it will result in higher profitability. Ndubisi, Wah and Ndubisi (2007: 223-224, 232) confirm that increased customer loyalty can lead to improved profitability through cost reductions, improvements in the organisation's ability to attract and retain customers and ultimately increased customer satisfaction. Building customer loyalty, however, appears to be challenging given the fact that some customers in the banking industry in South Africa are not loyal to their banks (Anani, 2010: 83). Also according to the Banking Association of South Africa (2011: 16), an updated code of practice spells out that members of the banking association must commit to making it as easy as possible for all personal transaction account customers to switch banks if need be. This rule makes it easier than ever for customers to switch from one bank to another.

To facilitate successful implementation of loyalty strategies, banks in South Africa might accordingly first have to focus on winning the trust and commitment of their customers. According to Ndubisi et al. (2007: 225,233) long-term profitable relationships that lead to loyalty are influenced by trust and commitment. According to Theron, Terblanche and Boshoff (2010: 2) trust has always been regarded as a key building block in the development and management of long-term marketing relationships, and the variable has therefore been widely researched (Yeh & Li, 2009; Heffernan, O'Neill, Travaglione & Droulers, 2008; Liang & Wang, 2008; Tyler & Stanley, 2007). Similarly the value of commitment in a marketing relationship has also been recognised by scholars (Barry, Dion & Johnson, 2008; Schwepker & Good, 2007; Hsu, Chen & Huang, 2007). It has further been established that there is positive relationships between trust and customer loyalty as well as commitment and customer loyalty in industries such as optometric services (Van Vuuren, Roberts-Lombard & Van Tonder, 2012: 94) and insurance (Du Plessis, 2010: 188).

Regardless of the above findings, certainty regarding the impact of trust and commitment on long-term relationships within the banking sector in South Africa (inclusive of Capitec Bank) has to the

researchers' knowledge never been formally researched and is still unknown. Knowledge of the influence of trust and commitment on customer loyalty, though, could assist banks in South Africa in improving and maintaining their relationships with their customers and ultimately improve their financial performance and economic growth of the country. Further research on this matter is subsequently without a doubt warranted and must be further explored.

## RESEARCH PROBLEM

The banking industry in South Africa is confronted with a number of environmental factors impacting on their performance and ultimately the performance of the country. If the banks are to become more profitable in the current competitive climate within the financial services sector, long-term meaningful relationships might need to be built between the banks and their customers.

Scholars have identified two key underpinnings of a successful customer management strategy. They are the virtues upon which the customer management philosophy has been founded. These key pillars are trust (Morgan & Hunt 1994: 24, Moorman, Zaltman, & Deshpandè, 1992: 315) and commitment (Morgan & Hunt 1994: 24). Palmatier, Dant Grewal and Evans (2006) suggest that trust and commitment are cornerstones of profitable long-term relationships within organisations in that they directly impact customer retention and relationship quality. Morgan and Hunt (1994: 22) emphasise that trust and commitment cannot exist in isolation and when presented together in a relationship, they produce outcomes that promote efficiency, productivity and effectiveness. In short, trust and commitment lead directly to cooperative behaviours that are conducive to relationship marketing success.

The possibility further exists that trust and commitment might lead to customer loyalty within the banking sector in South Africa and ultimately improve the financial performance of the banks and the economic growth in the country. More research however is required to obtain certainty on this matter and close the gap in academic research that currently exists.

## OBJECTIVES

Emanating from the research problem, the purpose of the paper is to investigate the influence of trust and commitment on customer loyalty in the banking sector of Gauteng. The paper has the following objectives:

- Determine whether trust and commitment has a positive influence on customer loyalty within the banking sector of Gauteng.
- To establish whether a significant difference exist between males and females with respect to trust and commitment in the banking sector in Gauteng.
- To establish whether a significant difference exist between the different race groups of banks in Gauteng with respect to trust and commitment at their banks.

## HYPOTHESES

The following hypotheses were tested in order to assist in meeting the research objectives:

**HA1:** There is a positive relationship between trust and customer loyalty within the banking sector of Gauteng.

**HA2:** There is a positive relationship between commitment and customer loyalty within the banking sector of Gauteng.



- HA3:** There is a significant difference between males and females with respect to trust in the banking sector in Gauteng.
- HA4:** There is a significant difference between males and females with respect to commitment in the banking sector in Gauteng.
- HA5:** There is a significant difference between the different race groups of banks in Gauteng with respect to trust at their banks.
- HA6:** There is a significant difference between the different race groups of banks in Gauteng with respect to commitment at their banks.

## THEORETICAL BACKGROUND

Customer management, loyalty and the two independent variables of trust and commitment are examined in this section.

<b>Customer management and loyalty</b>	
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The management of customers encompass a strategic approach that is concerned with creating improved stakeholder value through the development of appropriate relationships with key customers and customer segments (Payne & Frow, 2005: 168). Managing customers is not only an IT solution to the problem of getting the right customer base, and growing it (Robinson, Neeley & Williamson, 2011: 91). It involves a profound synthesis of strategic vision, an organizational understanding of the nature of customer value and loyalty within a multi-channel environment, the utilization of the appropriate information management and customer management applications and high quality operations, fulfilment and service (Payne, 2009: 15).

Customer management therefore emphasizes that managing customer relationships is a complex and ongoing process, a response to, and reflection of a rapidly changing marketing environment (Payne, 2009: 15). Ndubisi (2007: 99) stresses that the goal of a customer management strategy is to create and maintain lasting relationships with customers that are rewarding for both the organisation and the customer. The relationship must be symbiotic- with promises from both sides of the relationship being fulfilled. There are many advantages of relational marketing for organisations, one of these advantages being increased customer loyalty (Ndubisi, Wah & Ndubisi, 2007: 233).

Customer loyalty refers to repeated purchasing and referring to others of an organisation by customers which generate positive and measureable financial results (Ndubisi, Wah, Gibson & Ndubisi 2007: 232). However, Javalgi and Moberg (1997: 166-167) distinguish between two kinds of loyalty where one is behavioural and one is attitudinal. Behavioural loyalty refers to the number and frequency of purchases from an organisation by a customer while attitudinal loyalty refers to customer preferences and disposition towards the brand or the organisation. It is also important to note that for loyalty to exist; acceptable competitive products or services must be conveniently available to the customer (Neal, 1999: 21). Research shows that generally two categories of antecedents exist for customer loyalty. Egan (2011) summarises these two categories as firstly cognitive or 'hard' antecedents which are benefits such as value for money, convenience, reliability, safety etc. In other words these refer to the functional benefits of a product or service offering that lead to cognitive loyalty. Secondly, affective or 'soft' antecedents refer to more intangible benefits such as emotional connections, feeling states of customers and perceived satisfaction.

The specific benefits of customer loyalty have been researched and documented at length in marketing literature (East, Gendall, Hammond & Lomax, 2005: 10-12). Ultimately the benefit of increased customer loyalty is increased financial returns in the form of reduced costs and improved brand equity (through positive word of mouth, referrals and more unaided brand awareness) (Duffy 2003: 480-481). Loyalty is especially important in the retail banking industry in South Africa because high levels of customer loyalty will mean that even when faced with appealing competitor products and services, customers will be unlikely to switch banks based on the level of loyalty they have with their bank. Building customer loyalty is therefore a form of competitive advantage and a defense against customer churn which can be very costly for banks (Anani, 2010: 16,17).

## Factors affecting customer loyalty

### Trust

According to Egan (2011) trust is not a behaviour or a choice, but rather an underlying condition that evolves through reaction and assessment between customers and organisations over time. Morgan and Hunt (1994: 24) were one of the first researchers to investigate trust as an underpinning in relationship marketing. They summarise trust in the context of customer management as 'a feeling of security based on the belief that favourable and positive intentions towards welfare are on the agenda as opposed to lying or taking advantage of the vulnerability of others'. Rousseau, Sitkin, Burt and Camerer (1998: 394-396) further identified specific impacts of trust in a relationship as the reduction in harmful conflicts, decreasing transactional costs by negating the requirement for constant checks and the promotion of adaptive organisational forms. Additional benefits can be seen in the form of the facilitation of more rapid working group formations and the promotion of more effective responses to crises.

Trust is especially important in customer relationships with financial institutions where importance should be placed on trust in the relationship (Egan, 2011). Customers willing to trust an organisation expect in return responsiveness and a swift delivery of service. Organisations must focus on simplicity to build trust in the long run. Maintaining trust means listening, valuing communication, acting in an honest manner and learning from stakeholder's observations (Bibb & Kourdi, 2007: 105). Literature further suggests that trust is an essential component of commitment and that commitment is not possible without trust (Nguyen & Mutum, 2012: 407-408).

### Commitment

Fullerton (2005: 1374) explains commitment as an implicit or explicit pledge of relational continuity between partners and implies that the level of commitment in a relationship depends on the desire between the partners to continue the relationship into the future. This emphasise the two-sided nature of customer management where the desire to continue the relationship must be from both parties. Ndubisi (2007: 100) states that commitment can be used as a construct for measuring future likelihood of loyalty and for predicting future purchase frequency.

Menon and O'Connor (2007: 159-160) identify two kinds of commitment in the context of customer management. The first is behavioural commitment which is characterised by customer perceptions of high switching costs, customer inertia or lack of alternatives. This kind of commitment occurs when customers are willing to continue their relationship with an organisation because it may be too inconvenient or difficult to switch. The second kind of commitment is affective commitment which in contrast to behavioural commitment is based on shared values and rapport existing between the organisation and the customer. Menon and O'Connor (2007: 159) argue that although both kinds of commitment are important in the successful implementation of a customer management strategy, affective commitment will play the most crucial and profitable role in a retail bank's customer management strategy.

Commitment further operates in the same manner as trust in that a certain degree of commitment is required to form the relationship, and then as the relationship progresses, the degree of commitment will also grow. Commitment is realised through behavioural, attitudinal, affective and calculative components (Davis-Sramek, Mentzer, & Stank, 2008; Du Plessis, 2010: 94-95).

## METHODOLOGY

Following the literature findings, the empirical investigation was exploratory and quantitative in nature. The population comprised all the customers of the four major banks and Capitec Bank who have an account with the bank for one year or longer and who visited the bank at least once in the last month. The four major banks in South Africa are Standard Bank, ABSA, FirstRand Bank and Nedbank. Capitec Bank was included in the population framework, given the fact that this bank together with the four major banks holds the majority of the SA banks consumer market share with respect to primary accounts (98%) and cellphone banking (99%) (Vermeulen, 2012). A non-probability sampling approach was followed and the convenience sampling technique applied.

The data was gathered over a four week period in 2012. During this time customers in Gauteng who visited their bank and who matched the sampling frame were asked to participate in the survey. Due to budget constraints, the study was restricted to the Gauteng area. A structured questionnaire, with a seven-point Likert scale, was used to gather the data. A mall-intercept technique was employed and respondents were personally interviewed. The researchers adapted the questionnaire that was previously fielded and validated by Du Plessis (2010) in a similar type of study among respondents in the insurance industry. The phrasing of some of the statements was slightly modified to ensure they relate to services provided in the banking industry. However, careful consideration was given to the statements to ensure they still assess the same concepts Du Plessis (2010) investigated.

A total of 285 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 banks 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. 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 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 they display 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 analysis and the fact that the sample surveyed is relatively large ( $n = 285$ ), parametric tests were considered suitable for hypothesis testing.

A descriptive and multiple regression analysis were used to analyse the results and determine if trust and commitment influence customer loyalty within the banking sector. The Independent Sample T-test and one-way ANOVA was also calculated to determine whether significant differences exist between gender, racial groups and the independent variables at the four major banks and Capitec Bank in Gauteng.

## 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 the banking sector.

### Reliability

Cronbach's alpha was used to determine the reliability of the measurement sets in the study. According to Ndubisi and Wah (2005: 550-551), the measure ranges from 0 to 1 and 1 indicates perfect reliability whereas 0.6 is regarded as an acceptable level of reliability. The reliability statistics for this study are reflected in Table 1, which indicates that all the measurement sets are in fact reliable, as they all are above 0.6.

TABLE 1: RELIABILITY STATISTICS

Constructs	Cronbach's Alpha
Trust	0.716
Commitment	0.704
Customer loyalty	0.695

### Validity

Validity can be attained by aligning the content of the questionnaire with the research objectives (Van Tonder & Ehlers, 2010: 300). The validity of the questionnaire was ensured through the use of a questionnaire, 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 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.

### Demographic profile of respondents

A total of 287 respondents participated in the study of which 53% was male and 47% was female (refer to Table 2 below). The race of the majority of the respondents was black (53%), with the white population representing 35% of the sample, the Coloured population 10% and the Asian population 2% (refer to table 3 below).

TABLE 2: GENDER OF RESPONDENTS

Gender	Percentage
Male	53
Female	47

**TABLE 3: GENDER OF RESPONDENTS**

Race	Percentage
Black	53
White	35
Coloured	10
Asian	2

The majority of the respondents (72%) were further between 20 and 39 years. These respondents had a bank account at their bank for a period of 1 to 5 years (52%). They visit their bank at least once a month (51%) and have a cheque account and credit card at their respective bank. Finally, a total of 21% of the population bank with Standard Bank, 21% with ABSA, 21% with FNB, 20% with Nedbank and 18% with Capitec Bank.

## Descriptive statistics

### Trust

Table 4 provides the standard deviations and mean scores for the level of agreement respondents indicated with regards to the importance of trust as a factor that could influence their relationship with their bank.

The respondents agreed most strongly with the statements “I feel that my money is safe in the bank” (mean = 5.96) and “My relationship with my bank depends on whether it is consistent in providing a quality service” (mean = 5.93). Respondents agreed the least with the statement “My relationship with my bank depends on the attitude of its employees towards customers” (mean = 5.59).

**TABLE 4: TRUST STATEMENTS**

Statement	Mean	Std. Deviation
I feel that my money is safe in the bank	5.96	1.273
My relationship with my bank depends on whether it is consistent in providing a quality service	5.93	1.103
My relationship with my bank depends on the confidence that I have in its service provision	5.90	1.168
My relationship with my bank depends on whether its promises are reliable	5.76	1.307
I will have a better relationship with my bank if it fulfils its obligations towards me	5.71	1.245
My relationship with my bank depends on whether its employees shows respect to customers	5.66	1.479
My relationship with my bank depends on the attitude of its employees towards customers	5.59	1.352

### Commitment

Table 5 provides the standard deviations and mean scores for the level of agreement respondents indicated with regard to the importance of commitment as a factor that could influence their relationship with their respective bank.

The respondents agreed most strongly with the statements “My relationship with my bank depends on whether it is flexible in serving my needs as a customer” (mean = 5.47) and “My relationship with my bank depends on whether it is willing to offer personalised services to meet my needs as a customer” (mean = 5.35). Respondents agreed the least with the statement “My bank is willing to invest in maintain relationships with its customers “(mean = 4.61).

**TABLE 5: COMMITMENT STATEMENTS**

Statements	Mean	Std. Deviation
My relationship with my bank depends on whether it is flexible in serving my needs as a customer	5.47	1.132
My relationship with my bank depends on whether it is willing to offer personalised services to meet my needs as a customer	5.35	1.168
My relationship with my bank depends on whether it makes adjustments to suit my needs	5.32	1.348
My relationship with my bank depends on whether it is flexible when its services are changed	5.14	1.356
I am very committed to my relationship with my bank	4.71	1.457
My bank is willing to invest in maintain relationships with its customers	4.61	1.583

### Customer loyalty

Table 6 provides the standard deviations and mean scores for the level of agreement respondents indicated regarding the influence of relationship building on customer loyalty. Respondents agreed most strongly with the statements “My loyalty to my bank depends on whether it understands my needs as a customer” (mean = 5.90) and “My loyalty towards my bank depends on my relationship with it” (mean = 5.67). Respondents agreed the least with the statement “My bank’s customer loyalty will increase if its interaction with customers increases” (mean = 5.14).

**TABLE 6: CUSTOMER LOYALTY STATEMENTS**

Statement	Mean	Std. Deviation
My loyalty to my bank depends on whether it understands my needs as a customer	5.90	.996
My loyalty towards my bank depends on my relationship with it	5.67	1.224
I conduct all my banking affairs at my bank	5.61	1.461
I am satisfied with my relationship with my bank and will remain in the relationship	5.23	1.246
I will recommend my bank to friends and acquaintances	5.20	1.396
It is important for me that my bank measures customer satisfaction on a regular basis	5.19	1.268
My bank will have satisfied clients, if it has extensive relationships with its clients	5.17	1.344
My bank’s customer loyalty will increase if its interaction with customers increases	5.14	1.330

### Influence of the selected variables on customer loyalty

Concerning the first research objective, multiple regression analysis was used to explain the relationship between the independent variables of trust, commitment and the dependent variable of customer loyalty.



## Influence of trust on customer loyalty

TABLE 7: INFLUENCE OF TRUST ON CUSTOMER LOYALTY

INDEPENDENT VARIABLE TRUST					
Framework	Sum of Squares	DF	Mean Square	F	Sig.
Regression	24.634	1	24.634	56.956	0.000
Residual	118.506	274	.433		
Total	143.139	275			
	R <sup>2</sup>				
	0.415				
Framework	Standardised coefficients, Beta	T	Sig.		
(Constant)	3.063	9.840	0.000		
Trust	0.399	7.547	0.000		

Table 7 indicates that trust exerted a statistically significant positive influence on the dependent variable customer loyalty ( $p < 0.05$ ). The researchers relied on a 95% level of confidence, therefore a p-value of less than or equal to 0.05 implied that it is highly unlikely that the results are due to chance alone according to the Independent Sample T-test. More specifically, the relationship between trust and customer loyalty is significant at  $p = 0.00$ . The independent variable in the multi-regression analysis explained 41.5% of the variance (R squared) in the dependent variable of customer loyalty. This implies that 41.5% of a positive change in the level of loyalty in banks in Gauteng is caused by trust. Table 7 further indicates that one unit increase in trust will increase customer loyalty by 39.9% when considering Beta.

Given the above findings it can be concluded that hypothesis 1 which states that there is a positive relationship between trust and customer loyalty within the banking sector of Gauteng can be accepted and the null hypothesis should be rejected.  
Influence of commitment on customer loyalty

TABLE 8: INFLUENCE OF COMMITMENT ON CUSTOMER LOYALTY

INDEPENDENT VARIABLE COMMITMENT					
Framework	Sum of Squares	DF	Mean Square	F	Sig.
Regression	49.137	1	37.646	145.201	0.000
Residual	90.692	268	.385		
Total	139.829	269			
	R <sup>2</sup>				
	0.593				
Framework	Standardised coefficients, Beta	T	Sig.		
(Constant)	2.612	11.227	0.000		
Commitment	0.537	12.050	0.000		

Table 8 indicates that commitment exerted a statistically significant positive influence on the dependent variable customer loyalty ( $p < 0.05$ ). The researchers again relied on a 95% level of confidence, therefore a p-value of less than or equal to 0.05 implied that it is highly unlikely that the results are due to chance alone according to the Independent Sample T-test. More specifically, the relationship between commitment and customer loyalty is significant at  $p = 0.00$ . The independent variable in the multi-regression analysis explained 59.3% of the variance (R squared) in the dependent variable of customer loyalty. This implies that 59.3% of a positive change in the level of

loyalty in banks in Gauteng is caused by commitment. Table 8 further indicated that one unit increase in commitment will increase customer loyalty by 53.7% when considering Beta.

Given the above findings it can be concluded that hypothesis 2 which states that there is a positive relationship between commitment and customer loyalty within the banking sector of Gauteng can be accepted and the null hypothesis should be rejected.

## CONCLUSION ON REMAINING HYPOTHESIS FORMULATED FOR THIS STUDY

Several findings were observed with respect to the hypotheses formulated for this study. With regard to research objectives 2-3 and hypotheses 3-6 the following can be reported.

### Hypothesis 3

Male and female respondents do not differ significantly in terms of trust as a factor that could influence their loyalty towards their bank. The mean score for males is 5.77 and for females is 5.91 with an overall p value of 0.64. It can therefore be concluded that hypothesis 3 is rejected. The null hypothesis which states that there is no significant difference between males and females with respect to trust in the banking sector in Gauteng is therefore accepted.

### Hypothesis 4

Male and female respondents do not differ significantly in terms of commitment as a factor that could influence their loyalty towards their bank. The mean score for males is 5.11 and for females is 5.24 with an overall p value of 0.36. It can therefore be concluded that hypothesis 4 is rejected. The null hypothesis which states that there is no significant difference between males and females with respect to commitment in the banking sector in Gauteng, is therefore accepted.

### Hypothesis 5

The different race groups do not differ significantly in terms of trust as a factor that could influence their loyalty towards their bank. The overall p value for the differences between the different race groups is 0.91. This implies that hypothesis 5 is rejected. The null hypothesis which states that there is no significant difference between the different race groups of banks in Gauteng with respect to trust at their banks, is therefore accepted.

### Hypothesis 6

The different race groups do not differ significantly in terms of commitment as a factor that could influence their loyalty towards their bank. The overall p value for the differences between the different race groups is 0.65. This implies that hypothesis 6 is rejected. The null hypothesis which states that there is no significant difference between the different race groups of banks in Gauteng with respect to commitment is therefore accepted.

The results of the findings of the empirical investigation are illustrated in Figure 1 below:

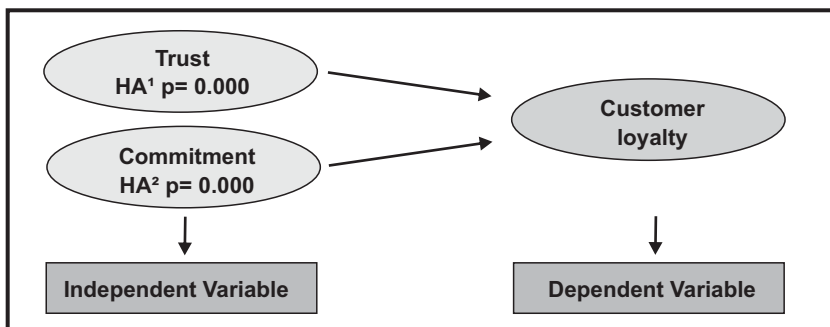


FIGURE 1: EMPIRICAL FRAMEWORK MODIFIED

(Source: Researchers own construct)

## MANAGERIAL IMPLICATIONS

Following the research findings, it has been possible to identify a number of managerial implications for improving customer loyalty at banks.

### **Trust**

Ndubisi (2007: 99) refers to trust as the willingness to rely on a partner in whom confidence is entrusted. In developing relationships with customers, trust between the parties is of the utmost importance. When the employees of an organisation show respect to customers it is an indicator of the trustworthiness of the organisation. Customers regard the reliability of the promises of an organisation as an indicator of the trustworthiness of the organisation. Because trust has a significant impact on relationships between customers and banks, banks need to place utmost importance on building trust with their customers. Customers rated service quality consistency as one of the most important factors that influence their relationship with their bank, with customers rating this factor a mean score of 5.93 out of a possible 7. Banks therefore need to focus on providing high quality services consistently as part of their customer management strategy. Quality service delivery should form part of a bank's mission statement, as quality service delivery should form part of the culture of the bank if it is to filter through all aspects of the business to customers.

Another factor that strongly impacts customers' relationships with their respective banks is confidence. The research results indicate that customer's strongly agreed that their relationship with their bank depends on their confidence in their bank's service provision (agreement rating 5.90 out of a possible 7). Banks therefore not only need to provide quality services to their customers, but ensure that an image of competency of the bank is portrayed to customers. Positive word of mouth and personal referrals from other customers will be an important source of customer confidence for banks. An effective marketing strategy that supports positive word of mouth through provision of communication channels such as social media and other web-based sites which encourage positive customer feedback will be important for banks that wish to build customer confidence. These channels then need to be monitored by staff who can then react to any negative feedback as well as increase positive feedback through established channels.

Trust is an important dimension of the relationship between a bank and its customers, and ultimately in the development of customer loyalty. Therefore, banks should strive to win customers' trust and remind themselves continuously that trust develops over time and as a result of experiences and actions in the past. The organisation must be willing to be exposed to risks in order to be trustworthy. The organisation can also become more trustworthy by giving and keeping promises to customers, showing concern for the security of their transactions, providing quality services, showing respect for customers through front-line staff and fulfilling obligations. All these will contribute to building confidence in banks and the services it offers.

Anani (2010: 16,17) states that customer loyalty within the banking sector is a form of competitive advantage. The empirical results of this study indicate a positive relationship between trust and customer loyalty. Therefore if banks are to increase customer loyalty as part of a strategy to defend against customer switching, they will need to have strategies in place to build trust with their customers. Trust is not something that happens overnight, but rather is built over time as a result of continuous positive experiences. Therefore, banks need to view trust as a long term strategy that requires dedication to providing reliable quality service to its customers.

### **Commitment**

Palmatier et al. (2006: 136-137) state that commitment is one of the cornerstones of a customer management strategy. The empirical research results find that commitment has a significant effect on customer loyalty amongst banking customers. If banks are to expect commitment from customers, they will need to show customers their level of commitment to the relationship as well.

Customers strongly agreed with the statement that their relationship with their bank depends on whether the bank is able to provide personalised services to suit their needs. In order to respond to customer needs, banks must have customer management strategies in place whereby detailed customer information is collected and stored so that customers can be profiled and segmented into groups based on their unique sets of needs. Services can then be tailored to these segments in order to best satisfy customers' unique set of needs. Demographic and psychographic data about customers must be collected through all customer contact points including branches, call centres and the internet. Data collected through these contact points must be stored and then mined for in depth customer segmentation.

Further to demographic and psychographic data, customer behaviour information as well as compliments and complaints are also important to deepen the understanding of customer segments. Employees being in the front line are an excellent source of this customer information. Employees should be trained to listen to customer requests and complaints. A feedback system should also be in place where employees can effectively pass along customer comments to management where they can be actioned. The nature of commitment is two-way in that real commitment can only exist if both parties are invested in the relationship (Ndubisi, 2007). Customers therefore need to see their bank's investment into the relationship and perceive their banks to be committed to service delivery for the relationship to become truly committed. This can occur when customer perceive their bank to be making efforts to offer them high quality services that have been tailored for their needs.

Therefore, banks should accommodate customer needs by tailoring financial products to meet their requirements, and should generally be flexible in its relationships with customers. As stated above banks can identify the needs of different customers and satisfy them through customer segmentation. Financial products can then be developed that address the needs of the target market. The following segmentation criteria may be considered, namely relationship revenue and relationship cost, relationship volume, relationship profitability or relationship volume and profitability. By selecting relationship volume and profitability, a bank can ensure that its actions are directed to the most profitable customers, in order to increase their commitment and loyalty towards the organisation. Banks can also only fulfil and be flexible to the needs of customers if it understands what customers want. By understanding what customers want, a bank can create a pull for its services from committed customers. To better understand the segmented customer groups, banks must capture information each and every time the customer interacts with the organisation. The interactions can be as a result of the customer calling the call centre, complaining, visiting a banking branch or just visiting the website of the bank. This information can then be used with other information such as demographics and psychographics to better understand customers and to create products for customers' individual needs, or to treat customers as individuals. Finally, if banks are also flexible when serving customers, remembering their uniqueness, or when services are changed by the organisation (thereby accommodating individual customers), the level of customer commitment towards the bank will increase. Therefore, if managers provide timely and trustworthy information relating to new or important services through different media sources the level of customer management will increase. These findings corroborate the findings of a study by Ndubisi in 2007 (Ndubisi, 2007: 104).

## **LIMITATIONS OF THE STUDY**

The key limitation of the study is that it only focused on 285 customers and can therefore not be seen as representative of all the customers of the four major banks and Capitec bank in South Africa. The study specifically focused on Johannesburg and Pretoria and can therefore also not be viewed as representative of the banking industry in South Africa. Future research may also include the other banking groups in the country.

## CONCLUSION AND FUTURE RESEARCH

It is not possible for the banking industry in South Africa to control all the external environmental factors they are confronted with. However, banks are the most important component of a country's financial system and the efficacy of a country's banks directly impacts the efficacy of a country's economy (Falkena, Davel, Hawkins & Llewellyn, 2004: 2). It is therefore imperative for banks to revert to alternative measures to win and keep the hearts and minds of their customers.

Following the findings of this study it appears that one such alternative measure is for banks in South Africa to focus on building more trusting relationships with their customers and gain their commitment. The empirical results revealed that within the banking sector, trust and commitment are predictors of customer loyalty. The managerial implications that were highlighted in this paper would therefore need to be studied to improve the customers' trust and commitment towards the bank.

Finally, the findings of this paper, although limited in scope, contribute to the improvement of customer loyalty within the banking industry environment and could lead to larger market share, higher customer retention, greater profitability for banks and economic growth. Another research study in future could continue with this investigation and examine the two factors surveyed in more depth (and on a larger scale) to further assist banks in South Africa to grow their market share. 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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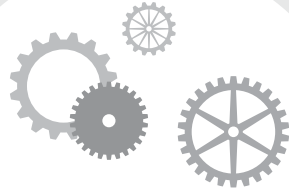
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## SERVICE BRAND EQUITY AND BRAND RELATIONSHIPS IN THE FAST-FOOD INDUSTRY

19



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### ABSTRACT

Increased competition in the South African fast-food industry presents various options to customers. To survive, marketers need to establish brand equity amongst customers. In doing so, fast-food outlets differentiate their brands and encourage long-term brand relationships. The aim of this study is to investigate service brand equity and brand relationships in the fast-food industry. Convenience sampling was used to collect data from 379 fast-food customers in the North-West province of South Africa. The results indicate that respondents rated the dimensions of service brand equity different from one another. A positive relationship exists between respondents' level of service brand equity and the strength of their brand relationships with fast-food outlets. Differences regarding service brand equity and strength of brand relationships with fast-food brands, based upon demographic differences between respondents, were also uncovered. The findings may guide fast-food outlets in improving service brand equity and building brand relationships.

### KEYWORDS

Service brand equity, Brand relationship, Fast-food industry, Fast-food outlet

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## INTRODUCTION

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Three out of four South African adults – the equivalent of 25.3 million people – bought fast foods during a four-week period in 2011. This is a substantial increase from the already high number of 20.6 million fast-food consumers in 2007 (Analytix Business Intelligence, 2012). In addition, Stats SA (2013) recorded the highest annual growth rate for fast-food outlets in January 2013 – realising an astonishing R1 290 million income for January alone. The South African fast-food industry is clearly highly appealing. However, these promising prospects have resulted in an influx of national and international rivals flooding the industry with diversified offerings and price competitions.

Consequently, organisations continuously strive towards building strong brands (with high brand equity levels), since a strong brand not only indicates a standardised level of quality to customers, but also acts as a means of differentiation for the organisation (O'Cass & Grace, 2012: 452). This enhances the organisation's survivability and profitability in a highly competitive environment, such as the South African fast-food industry. Kimpakorn and Tocquer (2010: 379) are of the opinion that it is vital to identify and measure the value-adding factors – more commonly known as brand equity – that contribute to the overall brand.

Along the same lines, Keller (2008: 75) notes that high brand equity forms the cornerstone for an organisation to develop a relationship with its customers. Smit, Bronner and Tolboom (2007: 627) add that customers' associations with a brand are reflected through their brand relationships. In order to encourage customers to invest in a brand relationship, the brand should maintain high brand equity levels (Kimpakorn & Tocquer, 2010: 378). Furthermore, by realising strong brand relationships, marketers can encourage positive word of mouth among customers, ensure a competitive advantage in the market, reduce marketing costs and increase profits (Dimitriadis & Papista, 2010: 393-394; Keller, 2008: 449).

### PROBLEM INVESTIGATED

It is evident from the preceding introduction that the fast-food industry in South Africa experiences high growth rates with an increase in the number of customers and fast-food outlets. Furthermore, the perceived attractiveness of the South African fast-food market has also led to the influx of many international rivals, making the industry even more competitive.

Building strong brands with customers are seen by many as key in surviving in such an environment. Since the market offering provided to customers in the fast-food industry involves a substantial service component, it is important for marketers to examine the service brand equity and brand relationships fast-food customers have with fast-food brands in order to build strong brands.

Despite the evident importance of service brand equity and brand relationships, these concepts are not well explored in a services setting. This article is based on research conducted specifically to gain insights into brand equity and brand relationships in a service setting, with a focus on the South African fast-food industry. Although fast foods include both a service and a physical component, Maumbe (2012: 158) note that in terms of fast-food outlets, the main differentiator is the service delivery itself.

The rest of the article is structured in the following manner: the review of the relevant literature on brand equity and brand relationships is followed by the research methodology and empirical results. Subsequently, the research findings are discussed, the limitations to the research are noted and future research possibilities are suggested.

## RESEARCH OBJECTIVES

The aim of the research was to gain insights into the service brand equity levels, as well as the brand relationships of the South African fast-food industry. The following objectives were formulated to support this aim:

- Develop a demographic profile of the typical respondent who took part in the research.
- Measure the level of service brand equity towards fast-food outlets.
- Measure the strength of the brand relationships customers have with fast-food outlets.
- Determine whether significant differences exist with regard to customers' level of service brand equity and the strength of their brand relationships with fast-food brands based upon demographic differences between them.
- Investigate the relationship between customers' level of service brand equity and their brand relationships with fast-food brands.

## LITERATURE REVIEW

The following section presents a literature background on the concepts under investigation in the research. First some background is provided regarding the fast-food industry, followed by a discussion on the concepts of brand equity and brand relationships.

### The fast-food industry

Kapica, Alexander, Mink and Butchko (2006: 139) describe fast foods as meals and/or drinks, in a packaged format, that are prepared on the premises for take-away purposes. These foods are sold at outlets – with or without provided seating – that focus on quick availability, and might have a 'drive through' service that allows customers to order and pick food up without leaving their cars (Stats SA, 2012: 8). Fraser, Edwards, Cade and Clarke (2010: 2291) remark that the success of the fast-food industry can be ascribed to the fact that it is quick, convenient and generally consistent in production standards.

The South African fast-food industry, in particular, has experienced exponential growth during the last number of years. In 2009, the income generated by the South African fast-food industry was estimated at R11 030 million, with predictions of 5% annual increases. However, by 2012, this industry surpassed the R15 000 million mark – realising annual increases of more than 10% (Stats SA, 2012; 2010). The 2012 Euromonitor International survey identified the fast-food sector as having the highest value sales in the South African food service industry, estimating sales per fast-food outlet in 2012 at R1 600 million.

FASA, the Franchise Association of South Africa (2012), notes that these increases in fast food consumption are in line with global trends and can be ascribed to the busier lifestyles of South Africans. As customers' lifestyles are becoming more demanding, their time becomes more limited, making it harder for them to find the time to prepare home-cooked meals. Although these significant growth rates might seem alluring, marketers need to keep in mind that – as the industry expands – more and more fast-food outlets are entering the market, presenting customers with an increasing variety of choices. As a result, customers are becoming increasingly selective and demanding, expecting a minimum level of quality with each transaction.

The South African fast-food industry is, furthermore, characterised as being extremely competitive, as it accommodates numerous well-established local and global franchises. Some of the most popular fast-food brand names include KFC, King Pie, McDonald's, Nando's, Steers and Wimpy. KFC and McDonald's are currently the leading brands, as they own almost half of the South African fast-food market share (Euromonitor International, 2012).

To ensure survival and growth within the highly competitive South African fast-food industry, marketers should not only be aware of aspects such as increasing competition, changing dietary requirements and demographic changes, but should also be able to respond to these changes promptly and efficiently. According to Maumbe (2012: 161), this can be done by implementing strategies that promote quick service delivery, quality food and customer care and friendliness, to improve the overall brand.

### **Service brand equity**

Aaker's (1991: 15) detailed definition of brand equity as "a set of brand assets and liabilities linked to a brand, its name and symbol that adds to or detracts from the value provided by a product or service to a firm and/or to the firm's customers" formed the foundation for brand equity as it is considered today. Later, it was more concisely defined by Keller (2009: 142) and Nath and Bawa (2011: 135) as the overall value that customers associate with a product or service, based on its brand name.

The concept of brand equity has been comprehensively researched over the last two decades – by scholars such as Keller (2009; 2008; 1993), Berry, Seiders and Grewal (2002) and Aaker (1996; 1991) – and has been identified as an invaluable asset to organisations. Hsu, Hung and Tang (2012: 357) note that brand equity directly influences an organisation's profitability and survival – which is evidently essential in the highly competitive South African fast-food industry. Keller (2009: 143) adds that brand equity also broadens marketers' knowledge and understanding of customers' thoughts, feelings, perceptions and experiences of the brand. This information can be implemented to develop new marketing strategies and to improve current ones. Keller points out that it is critical to understand brand equity from the customer's point of view, as it directly influences the organisation's ability to charge premium prices, determines customers' willingness to explore new distribution channels, affects the effectiveness of marketing communications and influences the success of brand extensions.

The value of brand equity to customers lies in the benefits of indicating the quality of the brand (Kim, Kim, Kim, Kim & Kang, 2008: 81), reducing customers' searching costs (Keller, 2008: 449), reducing purchasing risks and positively affecting customers' loyalty, preferences, purchase intentions and brand choices (Hsu et al., 2012: 357). Thus, strong brand equity levels can result in positive customer behaviour towards a brand.

Aaker (1991) identified four dimensions that add to the value and equity of a brand, namely brand loyalty, brand awareness, perceived quality and brand image. Keller (2008), on the other hand, proposed six dimensions of brand equity, namely brand salience, brand performance, brand image, brand feelings, brand judgements and brand relationships. However, as both these sets of dimensions are generally considered in determining the value of physical goods brands and not service brands specifically, the research reported in this article utilised the brand equity dimensions Kimpakorn and Tocquer (2010) implemented in their research on service brands, namely brand awareness, perceived quality, brand differentiation, brand associations and brand trust. These dimensions are discussed below.



### **Brand awareness**

Brand awareness refers to the strength of a brand's presence in the customer's mind (Pappu, Quester & Cooksey, 2005: 146). According to Keller (2009: 143), brand awareness can be presented as either brand recognition or brand recall – indicating different levels of brand awareness, ranging from mere recognition of the brand, to where a specific brand is the only one the customer recalls. High levels of brand awareness increase the probability of customers choosing one brand above another, thus resulting in increased brand loyalty and reduced vulnerability to competing brands.

### **Perceived quality**

As early as 1988, Zeithaml described perceived quality as the customer's subjective evaluation of a product or service. These evaluations are generally performed relative to the brand's intended purpose, and relative to alternative brands. A high-quality brand tends to encourage repurchase, preference and ultimately loyalty among customers (Balaji, 2011: 9).

### **Brand differentiation**

Brand differentiation refers to the extent to which customers consider a brand as being different, unique, or distinct with regard to competing brands (Kotler & Keller, 2012: 289). Wang and Li (2012: 167) explain that to attain brand differentiation, the brand should have a unique advantage over those of competitors. Brand differentiation is a critical factor in building a competitive advantage, and can be created by highlighting the brand's unique features, strengths, and advantages (Dibb, Simkin, Pride & Ferrell, 2012: 63). Kimpakorn and Tocquer (2010: 380) remark that brand differentiation adds to brand equity, in that customers find unique brands with distinctive features more appealing.

### **Brand associations**

Brand associations include those criteria customers use to 'link' a brand to their memories (Aaker, 1991: 109). According to Mourad, Ennew and Kortam (2011: 414), these associations can be established by symbolic attributes (such as brand personality, brand image and brand positioning), service attributes (such as price, quality and after sales service), and organisational attributes (such as the relationship between the organisation and its staff, and the location and size of the organisation). By subjecting customers to the positive attributes of a brand, customers can in turn develop positive criteria to 'link' the brand to their memory – establishing a positive brand association. According to Brodie, Whittome and Brush (2009: 345), brand associations are generally stronger when customers are repeatedly exposed to several experiences with, and communications regarding the brand.

### **Brand trust**

Brand trust is realised when the customer is confident that the specific brand is reliable, consistent, and competent (Delgado-Ballester & Munuera-Alemán, 2005: 188). According to Kimpakorn and Tocquer (2010: 380), brand trust is ultimately measured by the ability of the brand to keep its

promises. Therefore, in order to create and maintain a relationship with customers, organisations should establish brand trust, since a trustworthy brand encourages positive customer behaviours. From the above discussion, it is clear that brand equity positively influences customers' decisions and behaviours. High brand equity ultimately encourages brand loyalty and brand relationships among customers. These positive customer behaviours also benefit the organisation, since loyal customers tend to be less price-sensitive and are generally more receptive to new brand extensions.

Based on the literature presented above, the following alternative hypothesis was formulated:

**Ha1:** There are significant differences in the level of agreement customers assign to the underlying dimensions of service brand equity of fast-food outlets.

### Brand relationships

According to Jurisic and Azevedo (2011: 363), customers no longer purchase products solely for their utility, but also because of their perceived symbolic meanings. Marketers began to realise the importance of developing high-quality and reliable brands with which customers can relate. The way in which customers relate to or identify with a brand, their attitudinal attachment to the brand, and their willingness to recommend the brand to other people are known as brand relationships (Kimpakorn & Tocquer, 2010: 380; Smit et al., 2007: 627).

The dimensions of brand equity have been found to directly influence the customer-brand relationship, thus indicating that high levels of brand equity should result in a long-term relationship between the customer and the brand (Keller, 2008: 448). Petruzzellis, Romanazzi and Tassiello (2011: 324) add that personal interaction and repeated experiences are crucial to developing a successful brand relationship.

The organisation benefits from customer-brand relationships, as committed customers generally demonstrate favourable behaviours – such as positive word-of-mouth communications, continuity, and resilience – towards the organisation and its brand (Dimitriadis & Papista, 2010: 393). This strengthens the brand's competitive advantage, reduces marketing costs, increases customer retention rates and increases profits (Keller, 2008: 449; Smit et al., 2007: 627).

#### Service brand equity and the strength of brand relationships

Scholars such as Mourad et al. (2011), Brodie et al. (2009), Kim et al. (2008) and Aaker (1993) reason that service brand equity has a direct influence on brand relationships. This notion is supported by Kimpakorn and Tocquer (2010) who measured the influence of service brand equity on brand relationships within the hospitality industry and who found that service brand equity dimensions do indeed influence the strength of brand relationships. Therefore, based on these findings, the following alternative hypothesis was formulated for the study:

**Ha2:** There is a significant and positive relationship between customers' level of service brand equity towards fast-food outlets and the strength of their brand relationships with fast-food brands.

Significant differences between groups based on demographic differences between them  
According to Schiffman and Kanuk (2010: 76), customers' consumption behaviours and attitudes are directly related to their demographic characteristics. With regard to brand equity in particular, Dwivedi, Merrilees, Miller and Herington (2012) found that gender and age demographics have a significant influence on customers' brand equity levels, as female customers rated higher brand equity than male customers, and younger customers rated higher brand equity than older

customers. With regard to brand relationships, Papista and Dimitriadis (2012) found that younger customers are more inclined towards building and maintaining brand relationships than older customers. In addition, Petruzzellis et al. (2011) determined that young female customers are more invested in brand relationships than older male customers. Based upon the above discussion, the following alternative hypotheses were formulated for the study:

- Ha3:** There are significant differences in the service brand equity customers exhibit towards their favourite fast-food outlet, based upon differences in their age.
- Ha4:** There is a significant difference in the service brand equity customers exhibit towards their favourite fast-food outlet, based upon differences in their level of education.
- Ha5:** There is a significant difference in the service brand equity customers exhibit towards their favourite fast-food outlet, based upon differences in their gender.
- Ha6:** There is a significant difference in the service brand equity customers exhibit towards their favourite fast-food outlet, based upon differences in their home language.
- Ha7:** There is a significant difference in the service brand equity customers exhibit towards their favourite fast-food outlet, based upon differences in their employment status.
- Ha8:** There are significant differences in the strength of customers' brand relationships with their favourite fast-food brand, based upon differences in their age.
- Ha9:** There is a significant difference in the strength of customers' brand relationships with their favourite fast-food brand, based upon differences in their level of education.
- Ha10:** There is a significant difference in the strength of customers' brand relationships with their favourite fast-food brand, based upon differences in their gender.
- Ha11:** There is a significant difference in the strength of customers' brand relationships with their favourite fast-food brand, based upon differences in their home language.
- Ha12:** There is a significant difference in the strength of customers' brand relationships with their favourite fast-food brand, based upon differences in their employment status.

## RESEARCH METHODOLOGY

This section provides an overview of the methodology followed in the research.

### Research design

The research followed a quantitative descriptive research design. A descriptive design was deemed most suitable, since the problem under investigation was clearly defined, and the objectives as well as the associated hypotheses of the study had been formulated. The research was quantitative in nature, since constructs were measured by requiring respondents to assign numbers based on a predetermined scale for each statement measuring a particular construct.

### The target population

The researchers targeted all those customers who resided in the North-West province of South Africa, and who bought fast food during the past six months of the questionnaire being fielded. A total of 379 useable questionnaires were collected for analysis. This compares favourably with similar research conducted by Kimpakorn and Tocquer (2010), realising 270 responses for analysis.

## Sampling plan

Since a sampling frame or list of all possible population elements could not be obtained, the researchers opted for a non-probability convenience sampling technique. Those customers who bought fast food during the past six months in the North-West province were, therefore, approached to participate in the research on the basis of convenience.

## Questionnaire

In order to achieve the objectives formulated for the study, the researchers designed a self-administered questionnaire for the empirical phase of the study. Apart from the preamble – stating the completion instructions, rights of respondents, as well as the screening question – the questionnaire consisted of several sections. The first section of the questionnaire measured the demographic profile of respondents. The second section measured the fast-food patronage habits of respondents, focusing on respondents' favourite fast-food outlet and the amount spent on the most recent purchase. The final section of the questionnaire focused on measuring the main constructs of the research, with scales adapted from previous research by Kimpakorn and Tocquer (2010). Each of the statements included in the scales measuring service brand equity and its dimensions as well as brand relationship was measured on a five-point Likert-type scale, where 5 was 'strongly agree' and 1 was 'strongly disagree'.

## Method of data collection

The researchers used trained fieldworkers to collect the data. All fieldworkers were students studying towards an honours degree in either business management or marketing management. They had all been exposed to marketing research theory and practice during the course of their studies and were trained to field the questionnaires. Upon completion, the fieldworkers were required to return the completed questionnaires to the researchers, who checked for errors that might have occurred during the data collection phase of the research.

## Data analysis strategy

The researchers used SPSS to capture, clean, edit and analyse the data obtained. The data analysis strategy included the calculation of frequencies and valid percentages for variables, measuring the demographic profile and fast-food outlet patronage habits of respondents. The researchers subsequently calculated descriptive statistics (means and standard deviations) for all statements included in the scales measuring the service brand equity and brand relationship constructs. The validity and reliability of the scales were subsequently assessed, from which overall mean scores were calculated.

For the purposes of hypothesis testing, the researchers relied on a confidence level of 95%. The following response categories were collapsed to test the hypotheses:

- The response categories for the age variable were collapsed from five to three, namely 35 and younger, 36 to 47, and 48 and older.
- The response categories for the education variable were collapsed from five to two, namely matric or less and post-school qualification.
- The response categories for the home language variable were collapsed from six to two, namely languages with European origins and African languages.
- The response categories for the employment status variable were collapsed from seven to two, namely full-time and other employment statuses.

In order to test the hypotheses formulated for the study, both parametric tests and non-parametric tests were used. Parametric tests are suitable where the dependent variable is interval or ratio in nature, the groups that are compared are more or less equal in size, when the data is normally distributed, or the sample size is larger than 30 respondents (Pallant, 2010: 213; Eiselen, Uys & Potgieter, 2007: 79-80). Non-parametric tests are suitable when one or more of the preceding assumptions are violated.

The researchers subsequently used paired samples t-tests, independent samples t-tests and a Pearson product moment correlation when all assumptions could be met. The Mann-Whitney U and Kruskal-Wallis tests (both non-parametric in nature), were used when the above assumption regarding the more or less equally sized groups could not be met.

## RESULTS OF THE RESEARCH

This section of the article presents the empirical results of the research. It first provides a demographic profile of the typical respondent, and then the fast food habits of respondents. The descriptive results for the individual statements measuring service brand equity and brand relationships are reported next. The reliability and validity of scales used to measure the constructs mentioned above are addressed before the overall means scores for the constructs and the dimensions of the service brand equity construct are presented. The section finally presents the results of the hypotheses testing.

### Demographic profile of respondents

Table 1 provides insights into the demographic profile of the respondents who participated in the research. It reports the frequency and percentage of each of the demographic variables concerned.

#### The typical respondent is:

26 years old or younger (59.9%),  
has completed matric (48.3%),  
is female (58.0%),  
speaks Afrikaans as home language (77.6%), and  
is employed full-time (46.4%).

TABLE 1: DEMOGRAPHIC PROFILE

Demographic characteristics	Frequency	Percentage
<i>Age</i>		
26 and younger	227	59.9%
27 to 35	34	9.0%
36 to 47	52	13.7%
48 to 66	53	14.0%
67 and older	13	3.4%
<b>Total</b>	<b>379</b>	<b>100.0%</b>
<i>Highest level of education</i>		
Primary school	5	1.3%
Some high school	16	4.2%
Matric	182	48.3%
Tech diploma/degree	48	12.7%
University or postgraduate degree	126	33.5%
<b>Total</b>	<b>377</b>	<b>100.0%</b>

<i>Gender</i>		
Male	158	42.0%
Female	218	58.0%
<b>Total</b>	<b>376</b>	<b>100.0%</b>
<i>Home language</i>		
Afrikaans	294	77.6%
English	42	11.1%
Nguni (isiZulu, isiXhosa, siSwati, isiNdebele)	6	1.6%
Sotho (Sepedi, Sesotho, Setswana)	34	9.0%
Tshivenda/Xitsonga	0	0.0%
Other	3	0.7%
<b>Total</b>	<b>379</b>	<b>100.0%</b>
<i>Employment status</i>		
Full-time	175	46.4%
Part-time	21	5.6%
Self-employed	16	4.2%
Student	139	36.9%
Housewife/househusband	5	1.3%
Retired	7	1.9%
Unemployed	14	3.7%
<b>Total</b>	<b>377</b>	<b>100.0%</b>

### Fast-food outlet patronage habits of respondents

With regard to the fast food patronage habits of respondents, Table 2 indicates that KFC was the most popular fast-food outlet among respondents (39.9%), which was followed by McDonald's (19.8%) and Debonairs (12.2%). The results also revealed that respondents paid, on average, R76.57 per order the last time they bought fast food.

**TABLE 2: FAST-FOOD OUTLET PATRONAGE HABITS**

<b>Variable</b>	<b>Frequency</b>	<b>Percentage</b>
<i>Favourite branded fast-food outlet</i>		
Debonairs	46	12.2%
KFC	151	39.9%
McDonald's	75	19.8%
Nando's	23	6.1%
Scooters	12	3.2%
Steers	42	11.1%
Other	29	7.7%
<b>Total</b>	<b>378</b>	<b>100.0%</b>

### Service brand equity and brand relationships

From Table 3 it is evident that the statement, 'This fast-food outlet has good food' – measuring the brand association dimension – realised the highest mean of 4.07 with a standard deviation of 0.867. The statements that obtained the second and third highest means of 3.93 (SD = 0.858) and 3.90 (SD = 0.921) respectively are, 'This fast-food outlet has good beverages' and 'This fast-food brand offers value for money.'



The statement realising the lowest mean was 'I am always interested in learning more about this brand' with a mean of 2.76 (SD = 1.208), measuring brand relationship. This was followed by 'I would be interested in service or merchandise with this brand's name on it' with a mean of 2.77 (SD = 1.314), and 'I like to follow news about this fast-food brand closely' with a mean of 2.77 (SD = 1.289).

**TABLE 3: DESCRIPTIVE STATISTICS FOR SERVICE BRAND EQUITY DIMENSIONS AND THE BRAND RELATIONSHIPS CONSTRUCT**

Statements	Mean	SD
<i>Brand awareness</i>		
When I think of fast-food outlets in my area, this brand first comes to mind	3.83	0.972
<i>Perceived quality</i>		
Staff members at this fast-food outlet give me special attention	2.96	1.163
Staff members perform services right the first time	3.60	0.982
It is very convenient to purchase from this fast-food outlet	3.83	0.955
I can rely on this fast-food brand to keep promises and perform with the best interest of the customers at heart	3.62	0.954
This fast-food brand serves high quality food	3.90	0.935
This fast-food brand serves high quality beverages	3.88	0.901
<i>Brand differentiation</i>		
This fast-food brand really stands out from the other brands of fast-foods	3.60	0.941
This fast-food brand has unique features that other brands do not have	3.66	0.958
<i>Brand association</i>		
This fast-food outlet has attractive décor	3.53	0.968
This fast-food outlet offers a secure environment	3.52	0.903
This fast-food outlet is a safe place to go to	3.56	0.964
The staff members appear neat	3.73	0.863
Staff members are available to provide service	3.68	0.878
The facilities are clean	3.75	0.849
This fast-food outlet has a good ambience	3.68	0.804
This fast-food outlet has good food	4.07	0.867
This fast-food outlet has good beverages	3.93	0.858
This fast-food outlet has good service	3.77	0.870
This fast-food brand offers value for money	3.90	0.921
<i>Brand trust</i>		
I never had a bad experience with this fast-food brand	3.28	1.330
I feel confident in this fast-food brand	3.79	0.908
This fast-food brand has a good reputation with customers	3.91	0.877
This fast-food brand is honest and sincere in addressing my concerns	3.55	0.967
If this fast-food brand makes a promise about its service, it is probably true	3.62	0.973
I know that this fast-food brand does its best to satisfy me	3.63	0.937
I know that if I have a problem as a customer of this fast-food brand, they would do their best to help me	3.53	0.973
<i>Brand relationship</i>		
I really love this fast-food brand	3.95	0.884
It makes sense to purchase from this fast-food outlet instead of any other brand of fast-food	3.71	0.960
I feel like I belong to a club with other customers of this fast-food brand	2.93	1.196
I really like to talk about this fast-food brand to others	3.03	1.203
I am always interested in learning more about this brand	2.76	1.208
I would be interested in service or merchandise with this brand's name on	2.77	1.314
I am proud to have others know I use this brand	3.27	1.192
I like to follow news about this fast-food brand closely	2.77	1.289

## Reliability

According to Pallant (2010: 6), the reliability of a scale is determined in order to indicate the extent to which the scale is “free from random error”. The researchers used Cronbach's alpha coefficient as a measure to indicate the extent to which internal consistency reliability is present in the scales. A Cronbach's alpha coefficient of 0.7 or higher is indicative of internal consistency reliability and a coefficient of less than 0.7 indicates that the scale is not reliable (Pallant, 2010: 6). It is clear from Table 4 that all scales measuring the dimensions of service brand equity and the brand relationship construct are reliable, as all coefficients are above 0.7.

TABLE 4: RELIABILITIES

Constructs/Dimensions	Number of statements	Cronbach's alpha coefficient
<i>Service brand equity</i>		
Brand awareness	1 statement	Coefficient not calculated
Perceived quality	6 statements	0.811
Brand differentiation	2 statements	0.711
Brand association	11 statements	0.910
Brand trust	7 statements	0.893
<i>Brand relationship</i>	8 statements	0.899

## Validity

Validity refers to the ability of a scale to measure what the researcher wants it to measure (Pallant, 2010: 7). The scales used in this research were adopted from the work of Kimpakorn and Tocquer (2010: 382), who determined the scales used to measure the service brand equity dimensions as well as the scale measuring the brand relationship construct to be reliable. The scales were therefore considered to be reliable for use in this particular study.

## Overall mean scores

For the purposes of hypothesis testing, the overall mean score for the service brand equity construct, its underlying dimensions and brand relationship are presented in Table 5. Since a five-point scale was used to measure these constructs, the mid-point of the scale was 2.50.

TABLE 5: OVERALL MEAN SCORES

Constructs/Dimensions	Mean	SD
<i>Service brand equity</i>	3.69	0.593
Brand awareness	3.83	0.972
Perceived quality	3.64	0.703
Brand differentiation	3.64	0.823
Brand association	3.75	0.634
Brand trust	3.61	0.785
<i>Brand relationship</i>	3.14	0.893

The overall mean score for service brand equity was 3.69 with a standard deviation of 0.593. This was more than one unit above the mid-point of the scale (2.50) and indicated a strong level of

agreement with the statements measuring service brand equity. It was furthermore evident that the overall mean scores for the service brand equity dimensions ranged from 3.61 to 3.83 on the five-point scale. The brand awareness dimension realised the highest overall mean score of 3.83 with a standard deviation of 0.972. The brand trust dimension realised the lowest overall mean score of 3.61 with a standard deviation of 0.785.

The overall mean score for the brand relationship construct was 3.14 with a standard deviation of 0.893. The overall mean score was also above the midpoint of the scale.

### Results of hypothesis testing

With regard to Ha1 that there are significant differences in the level of agreement customers assign to the underlying dimensions of service brand equity of fast-food outlets, the following findings were made (Table 6 provides detailed insight):

Brand awareness (mean = 3.83) is rated significantly higher than all the other dimensions, except for brand association (mean = 3.75; p-value = 0.135).

Brand association (mean = 3.75) is also rated significantly higher than all the other dimensions, except for brand awareness (mean = 3.83; p-value = 0.135).

Brand differentiation (mean = 3.64) is rated only significantly higher than brand trust (mean = 3.61; p-value < 0.0005).

Perceived quality (mean = 3.64) is rated only significantly higher than brand trust (mean = 3.61; p-value < 0.0005).

Ha1, that there are significant differences in the level of agreement customers assign to the underlying dimensions of service brand equity of fast-food outlets can therefore be accepted with respect to brand awareness and brand association being rated significantly higher than brand differentiation, perceived quality and brand trust, and also perceived quality and brand differentiation being rated significantly higher than brand trust.

**TABLE 6:** SIGNIFICANT DIFFERENCES IN THE LEVEL OF AGREEMENT CUSTOMERS ASSIGN TO THE UNDERLYING DIMENSIONS OF SERVICE BRAND EQUITY

		<b>Brand awareness</b>	<b>Perceived quality</b>	<b>Brand differentiation</b>	<b>Brand association</b>	<b>Brand trust</b>
	<b>Mean</b>	<b>3.83</b>	<b>3.64</b>	<b>3.64</b>	<b>3.75</b>	<b>3.61</b>
<b>Brand awareness</b>	<b>3.83</b>		0.000*	0.000*	0.135	0.000*
<b>Perceived quality</b>	<b>3.64</b>			0.866	0.000*	0.000*
<b>Brand differentiation</b>	<b>3.64</b>				0.008*	0.643
<b>Brand association</b>	<b>3.75</b>					0.000*

\* indicates significant differences between the means of the pairs of key information sources (p-value ≤ 0.05)

With regard to Ha2, that there is a significant and positive relationship between customers' level of service brand equity towards fast-food outlets and the strength of their brand relationships with fast-food outlets, the results of the Pearson product moment correlation indicate a strongly significant and positive relationship between the two variables concerned (p-value < 0.0005; correlation coefficient 0.604). Ha2 that there is a significant and positive relationship between customers' level of service brand equity and the strength of their brand relationships with fast-food outlets can therefore be accepted.

With regard to Ha3, that there are significant differences in the service brand equity customers exhibit towards their favourite fast-food outlet based upon differences in their age, the Kruskal-Wallis test indicated that a significant difference exists between at least two age groups ( $p$ -value = 0.016). The results of the subsequent Mann-Whitney U tests used to uncover the groups between which the differences exist indicate that, once the Bonferroni adjustment was made ( $p$ -value = 0.0167), those who are 27 to 47 years of age (mean rank = 147.40) exhibit significantly higher levels of service brand equity towards their favourite fast-food outlet than those who are 26 years and younger (mean rank = 122.30;  $p$ -value = 0.015). Ha3, that there are significant differences in the service brand equity customers exhibit towards their favourite fast-food outlet based upon differences in their age, can therefore be accepted with respect to those who are 27 to 47 years of age and who exhibit significantly higher levels of service brand equity towards their favourite fast-food outlet than those who are 26 years and younger.

With regard to Ha4, that there is a significant difference in the service brand equity customers exhibit towards their favourite fast-food outlet based upon differences in their level of education, the Mann-Whitney U test could not uncover any significant differences based upon level of education ( $p$ -value = 0.146). Ha4, that there is a significant difference in the service brand equity customers exhibit towards their favourite fast-food outlet based upon differences in their level of education, can therefore be rejected.

With regard to Ha5, that there is a significant difference in the service brand equity customers exhibit towards their favourite fast-food outlet based upon differences in their gender, the independent samples t-test could not uncover any significant differences based upon gender ( $p$ -value = 0.324). Ha5, that there is a significant difference in the service brand equity customers exhibit towards their favourite fast-food outlet based upon differences in their gender, can therefore be rejected.

With regard to Ha6, that there is a significant difference in the service brand equity customers exhibit towards their favourite fast-food outlet based upon differences in their home language, the results of the Mann-Whitney U test indicate that those respondents who speak an African language as home language (mean rank = 227.58) exhibit a significantly higher level of service brand equity towards their favourite fast-food outlet than those who speak a home language that originates from Europe (Afrikaans and English) (mean rank = 148.38;  $p$ -value < 0.0005). Ha6, that there is a significant difference in the service brand equity customers exhibit towards their favourite fast-food outlet based upon differences in their home language, can therefore be accepted.

With regard to Ha7, that there is a significant difference in the service brand equity customers exhibit towards their favourite fast-food outlet based upon differences in their employment status, the independent samples t-test could not uncover any significant differences based upon employment status ( $p$ -value = 0.374). Ha7, that there is a significant difference in the service brand equity customers exhibit towards their favourite fast-food outlet based upon differences in their employment status, can therefore be rejected.

With regard to Ha8, that there are significant differences in the strength of customers' brand relationships with their favourite fast-food brand based upon differences in their age, the Kruskal-Wallis test could not uncover any significant differences based upon age differences ( $p$ -value = 0.138). Ha8, that there are significant differences in the strength of customers' brand relationships with their favourite fast-food brand based upon differences in their age, can therefore be rejected.

With regard to Ha9, that there is a significant difference in the strength of customers' brand relationships with their favourite fast-food brand based upon differences in their level of education, the results of the Mann-Whitney U test indicate that those respondents with a matric qualification or

less (mean rank = 134.05) exhibited a significantly stronger customer-brand relationship with their favourite fast-food outlet than those with a post-school qualification (mean rank = 89.20; p-value < 0.0005). Ha9, that there is a significant difference in the strength of customers' brand relationships towards their favourite fast-food brand based upon differences in their level of education, can therefore be accepted.

With regard to Ha10, that there is a significant difference in the strength of customers' brand relationships with their favourite fast-food brand based upon differences in their gender, the independent samples t-test could not uncover any significant differences based upon gender (p-value = 0.860). Ha10, that there is a significant difference in the strength of customers' brand relationships with their favourite fast-food brand based upon differences in their gender, can therefore be rejected.

With regard to Ha11, that there is a significant difference in the strength of customers' brand relationships with their favourite fast-food brand based upon differences in their home language, the results of the Mann-Whitney U test indicate that those respondents who speak an African language as home language (mean rank = 254.31) exhibit a significantly stronger customer-brand relationship with their favourite fast-food brand than those who speak a home language that originates from Europe (Afrikaans and English) (mean rank = 169.50; p-value < 0.0005). Ha11, that there is a significant difference in the strength of customers' brand relationships with their favourite fast-food brand, based upon differences in their home language, can therefore be accepted.

With regard to Ha12, that there is a significant difference in the strength of customers' brand relationships with their favourite fast-food brand based upon differences in their employment status, the independent samples t-test could not uncover any significant differences based upon employment status (p-value = 0.053). Ha12, that there is a significant difference in the strength of customers' brand relationships with their favourite fast-food brand based upon differences in their employment status, can therefore be rejected.

## **DISCUSSION AND RECOMMENDATIONS**

Regarding the service brand equity dimensions, the results indicate that customers agreed most with the statements related to brand awareness and brand association. The majority of the respondents agreed that their favourite fast-food outlet offers good food and beverages, and that this specific outlet first comes to mind when considering fast foods. Fast-food outlets can build on these aspects to further improve brand awareness and brand association.

Respondents agreed less with the statements regarding perceived quality, brand differentiation and brand trust – with brand trust being the least-agreed-with dimension of service brand equity. Some of the most significant aspects influencing customers' trust with their fast-food brand seem to be their experiences with the brand, and the way in which the fast-food brand addresses problems. As poor problem-solving and complaint-handling issues negatively influence the customer's experiences, fast-food outlets need to enhance their brand image to convey an image of reliability, consistency and competency; ultimately focusing on keeping their promises to customers.

In addition, older respondents exhibited significantly higher levels of service brand equity than young respondents; and those respondents speaking an African home language exhibited a significantly higher level of service brand equity than Afrikaans- and English-speaking respondents. Therefore, it is suggested that to improve overall service brand equity, marketers need to focus specifically on the improvement of trust levels amongst young Afrikaans- and/or English-speaking customers and foster the trust levels it already has amongst older respondents and those

respondents that speak an African home language. Overall, the differences uncovered in service brand equity, based upon demographic differences, provide market segmentation and targeting opportunities for fast-food outlets.

It is interesting to note that most respondents indicated little interest in learning more about their favourite fast-food brand, or receiving merchandise with the brand's name on it. Furthermore, less educated respondents (those with a matric qualification or less) as well as respondents speaking an African home language exhibited a significantly stronger customer-brand relationship with their favourite fast-food outlet than those with a post-school qualification or those speaking Afrikaans or English. Once again this opens up opportunities for fast-food outlets to segment the market according to demographic characteristics and strength of brand relationship with a fast-food outlet.

It was further determined that there was a strongly significant and positive relationship between customers' level of service brand equity towards fast-food outlets and the strength of their brand relationships with the fast-food brand. These two constructs are therefore related and go hand in hand. Since brand awareness, brand associations and brand trust were the least-agreed-with dimensions of brand equity in this study, fast-food outlets should specifically focus on these three dimensions to establish and maintain customer-brand relationships. Fast-food outlets should, therefore, focus on creating brand awareness, broadening brand associations, and conveying brand trust among young, educated, Afrikaans- and/or English-speaking customers.

## **CONCLUSION**

Sustaining a competitive advantage under current demanding economic and market conditions has proved to be difficult. This is especially true for the South African fast-food industry which has experienced exponential growth during the last few years. In addition to the multitude of competitors entering the South African fast-food industry, it is also confronted with already strong and well-known brands, such as KFC and McDonald's dominating the industry. These factors have contributed to marketers' realisation that prompt and efficient action is required to improve their customer-brand experiences, with the intention that customers will in turn invest in the brand over the long term.

Existing literature indicates that a strong brand can add significant value to both the organisation and its customers, in that long-term financial and marketing benefits can be realised. Thus, to improve the overall brand experience, it is suggested that organisations focus on the implementation of customer-focused service delivery strategies. The aim of this article was therefore to contribute to the service brand equity and brand relationships literature, by providing insights into the South African fast-food industry.

In terms of marketing applications, the findings of the research on which this article is based first indicate that brand awareness, brand associations and specifically brand trust as brand equity dimensions require additional attention from fast-food outlets. In addition, brand equity was found to significantly positively influence brand relationships. It is, therefore, suggested that if fast-food outlets wish to improve the overall relationships customers have with their brands, they should attempt to create brand awareness, broaden brand associations, and convey brand trust. This aim can be realised by continuously reminding customers of their brand, establishing high-quality and high-value fast foods, and providing effective problem-solving solutions to negative customer experiences.



## LIMITATIONS AND FUTURE RESEARCH DIRECTIONS

Some limitations of this study can be noted. Firstly, since this research was restricted to the fast-foods service industry, the results of this study cannot be generalised to all service types. Future research can, therefore, consider repeating a similar study in different service industries to improve the generalisability of current results.

Secondly, the research was limited to only one province in South Africa, namely the North-West province, indicating that the results are only representative of this specific province and not the entire country. Future research could consider expanding this research to include all nine South African provinces, so as to represent the entire population.

Thirdly, the research sample mostly comprised white South Africans, which is not an accurate demographic presentation of the North-West province. Since the black middle-class segment in South Africa is rapidly growing, it is important for organisations to obtain accurate information regarding this segment as well. It is therefore suggested that future research attempt to include a more accurate demographic representation of the South African population.

Finally, it was found that current service brand equity literature and measures are lacking; therefore this research had to rely on basic brand equity literature as well as on the research of Kimpakorn and Tocquer (2010) to evaluate the service brand equity levels within the fast-food industry. Future research could therefore attempt to ascertain specific service brand equity dimensions and measures, to assist in the expansion of service brand equity literature.



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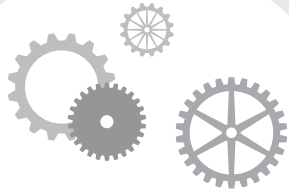
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## A GENDER PERSPECTIVE OF BRAND LOYALTY IN THE SOUTH AFRICAN CELL PHONE INDUSTRY

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### ABSTRACT

The South African cellular market is characterised by fierce competition between cell phone brands. With greater access to a variety of cell phone brands, it is becoming easier for cell phone users to switch between brands. Creating brand loyalty should therefore be a primary objective for cell phone brands if they want to retain existing customers. Drafting marketing strategies targeted at different genders is commonplace and can be effective as males and females are thought to exert different attitudinal and behavioural orientations in their product purchasing decisions. The purpose of this study was to determine the brand loyalty of males and females towards their current cell phone brands. Three-hundred-and-seventy-one respondents participated in the study. Results indicate fairly low overall levels of brand loyalty amongst respondents. However, female respondents have been using their current cell phone brand for longer and are significantly more brand loyal than males.

### KEYWORDS

Gender, Brand loyalty, Cell phone industry, Cell phone brands

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## INTRODUCTION

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With a saturating market, where more than 80 per cent of the South African adult population owns a cell phone (SAARF, 2012; Sibanda, 2008; South Africa.info, 2012), competition has not only intensified among cell phone network providers, but also between different cell phone brands (Datamonitor, 2010; Mbendi, 2010). Cell phone network providers are therefore actively pursuing new, and trying to keep existing, customers by offering numerous service option packages, each with a bouquet of affordable choices between different handsets and smartphones (Tubbs, 2012).

As consumers' access to handsets and smartphones improved, so too has their ability to switch between different cell phone brands (Tubbs, 2012; UNICEF, 2012: 6), thereby making it increasingly difficult for cell phone marketers to maintain a competitive advantage. Recent studies propose that marketers of cell phone handsets must move beyond tangible product attributes alone in striving to create brand loyalty (Sheng & Teo, 2012: 139; Li, Dong & Chen, 2012: 120; Belaid & Behi, 2011: 37). The importance of creating brand loyalty lies therein that creating and maintaining customer loyalty could lead to a competitive advantage within the cell phone industry (Petruzzellis, 2010: 616; Torres-Moraga, Vásques-Parraga & Zamora-González, 2008: 303).

One research area that could be further explored is that of gender differences within a cell phone context. The significance of performing gender research, and approaching genders differently, lies therein that gender remains one of the most common forms of segmentation as gender, as opposed to other demographic variables, is easily identifiable, accessible and measurable and therefore easier to target with organisations' marketing mix efforts (Nysveen, Pedersen & Thorbjørnsen, 2005: 247; Putrevu, 2001: 1). While abundant gender research studies have focused on consumers' retail shopping patronage (Kotzé, North, Stols & Venter, 2012: 416; Teller & Thomson, 2012: 961; Helgesen & Nettet, 2010: 114) and other product categories including wine and clothing (Kolyesnikova, Dodd & Wilcox, 2009: 200; Khare, 2012: 223; Barber, Dodd & Kolyesnikova, 2009: 415; Barber, Almanza & Donovan, 2006: 218), few studies focussing on gender have been done within a cell phone brand context.

The purpose of this study is therefore to provide a gender perspective on cell phone users' brand loyalty towards their current cell phone brands.

### LITERATURE BACKGROUND

<b>Gender differences in consumer behaviour</b>	
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Drafting marketing strategies targeted at different genders, and segmenting markets based on gender, remain lucrative as, opposed to other demographic variables, gender is easily identifiable, accessible and measurable and therefore easier to target with organisations' marketing mix efforts (Nysveen et al., 2005: 247; Putrevu, 2001: 1).

Research by Kolyesnikova et al. (2009: 200), Homburg and Giering (2001: 43) and Noble, Griffith and Adjei (2006: 177) support the notion that gender can be used as an effective segmentation approach as males and females are thought to exert different attitudinal and behavioural orientations in their product purchasing decisions. Barber et al. (2009: 415) and Babakus and Yavas (2008: 976) concur by explaining that male consumers are primarily guided by societal norms that require control, mastery and self-efficiency in the pursuit of self-seeking goals, whereas females in contrast are guided by concerns for self and others, placing more emphasis on harmonious

relationships with others. Also, research by Ndubisi (2006: 48) and Pan and Zinkhan (2006: 229) suggests that females are more relationship-orientated, socially minded and loyal than males.

Gender has been studied as a comparative variable with constructs such as information processing (Lau & Phau, 2010: 354), evaluation of products (Petruzzellis, 2010: 610; Singh & Goyal, 2009: 179), intention to purchase (Chiu, Lin & Tang, 2005: 416; Nysveen et al., 2005: 247) and brand loyalty (Lee, 2011: 2364; Melnyk, van Osselaer & Bijmolt, 2009: 82). Gender as a variable in consumers' cell phone choice has also been scrutinised. Investigating the effect of gender on cell phone buying behaviour, Haverila (2011: 238) examined cell phone feature preferences, customer satisfaction and repurchase intent among male users and established that business functionality, support functions and aesthetics were regarded as the most important product features to them. Singh and Goyal (2009: 179) established that although physical appearance of the handset and the brand name are considered to be the most important factors in the selection of a cell phone to both genders, males regard the brand name as more important than females.

Studies of gender differences in attitudes and behaviours in various different product categories are abundant in literature. Table 1 provides a summary of recent gender studies conducted within a cell phone context as well as studies focussing on branding, loyalty and product choice within a cell phone context

**TABLE 1: REVIEW OF GENDER STUDIES IN CONSUMER BEHAVIOUR**

Author(s)	Year	Researched area	Sample group	Sample size
<b>Gender studies within a cell phone context</b>				
Basha, Lakshmana & Fayaz	2011	Buying behaviour for cell phones	Indian individuals who have cell phones, older than 18 years	n = 400
Haverila	2011	Cell phone feature preference, satisfaction and repurchase intent	High school and college male cell phone users	n = 289
Lee	2011	Brand loyalty for mobile data services and gender	3G cell phone users	n = 1266
Nysveen <i>et al.</i>	2005	Intention to buy and gender	Respondents across all ages making use of cell phone chat service	n = 684
Shin & Kim	2008	Switching intention in cell phone service	Customers of cell phone services	n = 512
Singh & Goyal	2009	Buying behaviour, age and gender groups	Respondents across all ages using a specific cell phone brand	n = 240
<b>Branding, loyalty and product choice in cell phone context</b>				
Lee & Park	2012	Factors affecting smart phone users and mobile portal services	Users of smart phones using cell phone portal services	n = 218
Matzler, Grabner-Kräuter & Bidmon	2008	Brand loyalty, brand trust and brand effect	Cell phone users	n = 145
Petruzzellis	2010	Cell phone choice and branding effects	Respondents shopping at particular cell phone shop	n = 967
Qi, Zhou, Chen & Qu	2012	Satisfaction, loyalty and customer lifetime value	Users of cell phone data services in China and USA	n = 875 & n = 689
Santouridis & Trivellas	2010	Service quality, customer satisfaction and loyalty	Cell phone users	n = 205
Sheng & Teo	2012	Cell phone product attributes and brand equity	Cell phone users	n = 262

Table 1 indicates that gender studies conducted within a cell phone context have predominantly focused on product features and factors influencing the purchases of handsets and data, yet have failed to provide a gender perspective on brand loyalty. Additionally, loyalty was studied from a



service network provider and data service perspective and not specifically towards cell phone brands. Hence, no studies have focused explicitly on the influence of brand loyalty in the cell phone industry from a gender perspective. As all the studies referred to in Table 1 made use of a quantitative approach with the majority utilising Likert-scales as measurement scale, this study followed a similar methodological approach.

## **Brand loyalty**

With consumers' improved access to handsets and smartphones, combined with the ability to switch between different cell phone brands ( Tubbs, 2012; UNICEF, 2012: 6), it is now more than ever essential that marketers of cell phone brands focus on creating brand loyalty with their customers. Although traditional branding research conceptualises that product features and satisfaction exert a direct influence on brand loyalty, these constructs alone do not lead to brand loyalty (Sarkar, 2011: 80).

Although satisfying consumers' needs, creating consumer trust in the brand, and effective communication with customers as part of a brand's marketing strategy are considered as antecedents of brand loyalty (Ndubisi, 2007: 98), cell phone marketers might consider consumers to be loyal to their handset, when in fact they are not. Papista and Dimitriadis (2012: 33) propose that the period of time consumers have been engaged with a particular brand influences consumer-brand relationships. Petruzzellis (2010: 610) revealed that consumers' attitude towards a particular cell phone brand relates positively to their intention to purchase that specific brand above others, whereas Li et al. (2012: 120) discovered that consumers' emotions play a significant role in their cell phone consumption experience. Evidently, in an effort to create brand loyalty, it has been proposed that cell phone brands need to consider the manner in which consumers interact with, and form emotional attachments towards their brand (Patwardhan & Balasubramanian, 2011: 297).

Brand loyalty is of importance to cell phone marketers as brand loyal customers are believed to be less price-sensitive (Day, 1969: 34-35; Delgado-Ballester & Munuera-Alemán, 2001: 1254), will increase their spending in quantity and volume in the future (Homburg, Giering & Menon, 2003: 38), and will recommend the brand to prospective customers (Lam, Shankar, Erramilli & Murthy, 2004: 307). Brand loyalty thus directly and indirectly impacts the profitability of brands (Castro & Pitta, 2012: 126; Kuikka & Laukkanen, 2012: 534) and could therefore be regarded as a competitive advantage within the cell phone industry (Petruzzellis, 2010: 616; Torres-Moraga et al., 2008: 303).

## **The South African cellular industry**

The South African cellular industry, generating revenue in excess of R181 billion in 2010 (Stats SA, 2010: 2), boasts the third largest number of cellular subscribers on the continent after Nigeria and Egypt (UNICEF, 2012: 6). It is estimated that there are more than 51 million active cellular subscriptions in South Africa (Blycroft, 2012), and that more than 29 million adults have cell phones (Hutton, 2011).

While the rollout of fixed line telephony was traditionally mostly limited to metropolitan (and specifically business and affluent residential) areas, cellular technology made it possible that virtually all South Africans gained access to a telecommunications network (UNICEF, 2012: 9). Of such magnitude was the adoption rate of cellular technology since Vodacom and MTN commenced their operations as the first cellular network providers in 1993 and 1994 respectively (MTN, 2013; Vodacom, 2013), that today it is generally believed that South Africa enjoys more than 100% market

penetration (Blycroft, 2012: 20; Kujawski, 2012; Rawlinson, 2011; UNICEF, 2012: 5) due to many South Africans having multiple active SIM cards to meet various voice, text and data needs (Rawlinson, 2011). The rapid growth in the South African cell phone industry was fuelled by the introduction of prepaid cellular services by means of low cost SIM cards and cheap handsets, enabling cell phone network providers to grow the market to also include those with lower or irregular income (UNICEF, 2012: 5, 12).

With regard to cell phone patronage behaviour, the World Wide Worx' mobility study (in Tubbs, 2012) indicated that 84 per cent of South Africans use prepaid cellular services, nine per cent use top-up contract options, with the remaining seven per cent opting for post-paid contracts. The study furthermore found that 80 per cent of urban and 94 per cent of rural South Africans use prepaid cellular services, and that the average monthly spend of contract customers amounts to R387 compared to R165 of prepaid customers. Another characteristic of South African cell phone users according to Hutton (2011), is that almost 70 per cent prefer texting to calling, largely due to the lower cost of text messages.

Concerning cell phone handsets, competition between different brands has increased over the past few years as more manufacturers have started entering the South African market, making it accessible and affordable to more South African consumers and, therefore, easier to switch between brands (Tubbs, 2012; UNICEF, 2012: 6). Competition is further fuelled by a high demand for cell phones, as is evident by handset sales accounting for 21 per cent of South Africa's consumer electronics spending in 2010 (UNICEF, 2012: 13). The most popular handsets in South Africa are Nokia, BlackBerry and Samsung (Fripp, 2012; Hutton, 2011), with smart phones also becoming increasingly popular as a result of lower prices (UNICEF, 2012: 13), with estimations that the number of these handsets would have grown to more than 8.5 million by the end of 2011 (Goldstuck in Vermeulen, 2012).

## **PROBLEM STATEMENT, PURPOSE AND OBJECTIVES**

The South African cell phone industry is characterised by fierce competition between network providers as well as different cell phone brands (Datamonitor, 2010; Mbendi, 2010). It is becoming increasingly difficult for cell phone handset marketers to distinguish their products from that of competitors as cell phone product features become similar due to advancing technology, thereby increasing the ability of cell phone users to switch between different cell phone brands (Tubbs, 2012; UNICEF, 2012: 6). What should also be of concern to cell phone handset marketers, is that cell phone users are keeping their handsets for longer periods (World Wide Worx in Tubbs, 2012), thereby making it difficult to attract new customers. Cell phone handset marketers should therefore aspire to create and maintain customer loyalty as a means to create a competitive advantage (Petruzzellis, 2010: 616; Torres-Moraga et al., 2008: 303).

As a result of the country's history, the socioeconomic landscape of South Africa is characterised by significant gender and race inequalities (UNICEF, 2012: 14). Concerning telecommunications in particular, UNICEF (2012: 14) suggests that although a small gender participation gap can be identified between South African male and female cell phone users, a large gap exists concerning internet usage with 68 per cent males between the ages of 15 and 60 years using the internet as opposed to 31 per cent females (South African Digital Media and Marketing Association in UNICEF, 2012: 14). It is therefore warranted to explore whether differences exist between cell phone users based on their gender, since, should differences exist, marketers can relatively easily target different genders with their marketing strategies aimed at creating brand loyalty.

The purpose of this study is to investigate the brand loyalty of males and females towards their current cell phone brands. This objective is supported by the following secondary objectives:

- Investigate the cell phone patronage habits of male and female respondents.
- Compare the period males and females have been using their current cell phone brand.
- Determine the levels of brand loyalty males and females exhibit towards their current cell phone brand.
- Compare the levels of brand loyalty males and females exhibit towards their current cell phone brand.

The following alternative hypotheses were accordingly formulated for the study:

**Ha1:** There is a significant association between gender and the period of time cell phone users have been using their current cell phone brand.

**Ha2:** There is a significant difference in the level of brand loyalty males and females exhibit towards their current cell phone brand.

## RESEARCH METHODOLOGY

In order to achieve the objectives formulated for the study, a descriptive research design that is quantitative in nature was followed. The study population were residents of the North West Province of South Africa, who were 18 years or older, have owned a cell phone and have had a choice in selecting their current cell phone brand. In total 371 of the 400 questionnaires that were fielded could be used for further analysis.

Since a sampling frame of the target population was not available, a non-probability sampling technique had to be chosen for the study. The researchers utilised convenience sampling to select the sample from the study population.

A self-administered questionnaire was designed to collect the data. The questionnaire included structured questions and respondents had to select the appropriate response from a range of alternatives provided. Screening questions were included to ensure that prospective respondents were eligible to take part in the study. The questionnaire inquired about the demographic characteristics of respondents as well as their cell phone patronage habits. In order to measure respondents' brand loyalty towards their current cell phone brand, a five-point Likert-type scale was included in the questionnaire. Respondents had to indicate their level of agreement with items measuring brand loyalty, where 1 = strongly disagree and 5 = strongly agree. The measurement scale used to measure the brand loyalty construct was adapted from Keller (2001), and included seven items.

Postgraduate students specialising in Marketing Management (who have all completed a marketing research module) were selected and trained as fieldworkers for this study. It was expected of fieldworkers to select and approach prospective respondents from the study population, determine their eligibility to take part in the study by determining if they were cell phone users and whether they had a personal choice when choosing their cell phones, and finally, collect the completed questionnaire from respondents once completed.

The researchers assessed the internal consistency reliability of the items contained in the brand loyalty scale. Table 2 provides the results of the reliability testing. The researchers made use of the Statistical Package for Social Sciences (SPSS), Version 20 to capture, clean and edit the data. Once the data file was ready for analysis, the researchers used SPSS to calculate frequencies to portray a demographic profile of male and female respondents respectively as well as for all

respondents collectively. Frequencies were furthermore calculated for male and female respondents and the sample overall to provide insight into their cell phone patronage habits. Tables 3 and 4 provide the subsequent results.

To present the results of the Likert-type scale measuring brand loyalty, descriptive statistics (means and standard deviations) were calculated for male and female respondents. An overall mean score was also calculated for brand loyalty for each group once the reliability of the measurement scale was established. The results are presented in Table 5.

The researchers made use of a non-parametric and a parametric test to test the two hypotheses formulated for the study. In order to determine whether a significant association exists between two category scaled variables, the Pearson's chi-squared test (a non-parametric test) was used (Pallant, 2010: 219), and to determine significant differences in brand loyalty between males and females the Independent samples t-test (a parametric test) was used once it was established that the assumptions of using this test could be met (Pallant, 2010: 239). The researchers relied on a significance level of 0.05 to interpret the results of the abovementioned tests and the phi coefficient was used to determine the extent of the association between the two variables when the Pearson's chi-squared test was conducted.

## RESULTS

### Reliability

Before the researchers proceeded with calculating an overall score for the brand loyalty measurement scale, the internal consistency reliability of the scale was assessed by calculating a Cronbach's alpha coefficient. According to Pallant (2010: 6), a Cronbach's alpha coefficient of 1 indicates the highest possible level of reliability, while a Cronbach's alpha coefficient of less than 0.7 indicates that the measurement scale is unreliable. Table 2 presents the Cronbach's alpha coefficient for the brand loyalty measurement scale.

TABLE 2: CRONBACH'S ALPHACOEFFICIENT

Measurement scale	Value
Brand loyalty (7 items)	0.914

It is evident from Table 2 that the measurement scale is reliable to measure the study population's brand loyalty towards their current cell phone.

### Demographic profile of respondents

Table 3 presents a demographic profile for the overall sample as well as for male and female respondents.

TABLE 3: DEMOGRAPHIC PROFILE

Demographic characteristic	Males		Females		Total Sample	
	n	%	n	%	n	%
<i>Gender</i>						
Male	176	100	-	-	176	47.4
Female	-	-	195	100	195	52.6

<i>Age</i>						
26 years and younger	60	34.1	67	34.4	127	34.2
27 to 35 years	40	22.7	41	21.0	81	21.8
36 to 47 years	38	21.6	39	20.0	77	20.8
48 to 66 years	34	19.3	43	22.1	77	20.8
67 years and older	4	2.3	5	2.6	9	2.4
<i>Highest level of education</i>						
Primary school completed	1	0.6	2	1.0	3	0.8
Some high school	14	8.0	14	7.2	28	7.5
Completed high school	69	39.2	60	30.8	129	34.8
Tech diploma/degree	38	21.6	43	22.1	81	21.8
University degree or postgraduate degree	54	30.7	76	39.0	130	35.0
<i>Employment status</i>						
Full-time employed	100	56.8	110	56.4	210	56.6
Part-time employed	9	5.1	10	5.1	19	5.1
Self-employed	17	9.7	13	6.7	30	8.1
Student	39	22.2	44	22.6	83	22.4
Housewife or househusband	1	0.6	8	4.1	9	2.4
Retired	8	4.5	6	3.1	14	3.8
Unemployed	2	1.1	4	2.1	6	1.6

Table 3 indicates that slightly more females (52.6%) participated in the study than males (47.4%). Most respondents were 26 years old or younger (34.2%), between 27 and 35 years old (21.8%) or either between 36 and 47 years or 48 to 66 years (20.08% respectively). The majority of respondents have either completed high school (34.8%) or have a university degree (35.0%) and are full-time employed (56.6%). It is furthermore evident that both groups of respondents (male and female) share very similar demographic characteristics with regard to their ages, highest level of education and employment status.

## RESPONDENTS' CELL PHONE PATRONAGE HABITS

Table 4 provides an exposition of the cell phone patronage habits for the overall sample as well as for male and female respondents.

TABLE 4: CELL PHONE PATRONAGE

Patronage	Males		Females		Total Sample	
	n	%	n	%	n	%
<i>Customer classification</i>						
Contract customer	129	73.3	143	73.7	272	73.3
Prepaid customer	47	26.7	52	26.7	99	26.7
<i>Current cell phone brand used</i>						
BlackBerry	82	46.6	103	52.8	185	50.0
Nokia	48	27.3	51	26.2	99	26.8
Samsung	21	11.9	21	0.8	42	11.4
Apple	16	9.1	9	4.6	25	6.8
HTC	5	2.8	4	2.1	9	0.5
Sony Ericsson	1	0.6	4	2.1	5	2.4
LG	2	1.1	0	0.0	2	1.4
Motorola	0	0.0	2	1.0	2	0.5
Vodafone	0	0.0	1	0.5	1	0.3
<i>Time using current cell phone brand</i>						
Less than 6 months	21	11.9	28	14.4	49	13.2
6 months or longer but less than 1 year	39	22.2	33	16.9	72	19.4
1 year or longer but less than 3 years	66	37.5	79	40.5	145	39.1
3 years or longer but less than 5 years	33	18.8	20	10.3	53	14.3
5 years or longer but less than 10 years	10	5.7	22	11.3	32	8.6
Longer than 10 years	7	4.0	13	6.7	20	5.4

Table 4 indicates that most respondents who participated in the study were classified as having contracts with their cell phone network providers (73.3%), own a BlackBerry (50%), Nokia (26.8%) or Samsung (11.4%) cell phone, and have been using their current cell phone brand for 1 year or longer, but less than 3 years (39.1%). As with the demographic profile, male and female respondents seem to be very similar with regard to their cell phone patronage habits with the exception of the period they have been using their current cell phone brand. However, when further analysed, it can be determined that similar percentages of male and female respondents have been using their current cell phone brand for less than three years [males = 71.6% (11.9%) + (22.2%) + (37.5%); females = 71.8% (14.4%) + (16.9%) + (40.5%)] as well as for longer than three years [males = 28.5% (18.8%) + (5.7%) + (4.0%); females = 28.3% (10.3%) + (11.3%) + (6.7%)]. The period respondents have been using their current cell phone brand and gender are further explored when the results pertaining to the hypotheses formulated for the study are discussed.

### Brand loyalty towards cell phone brands

Table 5 portrays the descriptive statistics (means and standard deviations) for each of the seven items measuring brand loyalty towards cell phone brands, as well as for the overall brand loyalty construct for both male and female respondents. The table also reflects the p-values resulting from the Independent samples t-tests conducted. The p-values indicate whether the means for males and females with regard to each of the items measuring brand loyalty as well as the overall brand loyalty are significantly different from each other.

**TABLE 5: BRAND LOYALTY TOWARDS CURRENT CELL PHONE BRANDS**

Items	Males		Females		Significance
	Mean	SD	Mean	SD	p-value
I consider myself loyal to this brand	2.89	1.249	3.09	1.271	0.137
I buy this brand whenever I can	2.74	1.299	2.86	1.319	0.415
I buy as much of this brand as I can	2.27	1.257	2.26	1.238	0.935
I feel this is the only brand of this product I need	2.51	1.237	2.81	1.319	0.021*
This is the one brand I would prefer to buy or use	3.03	1.276	3.32	1.223	0.023*
If this brand was unavailable, it would be difficult if I had to use another brand	2.38	1.259	2.92	1.299	0.000*
I would go out of my way to buy this brand	2.51	1.214	2.82	1.249	0.014*
<b>Overall brand loyalty</b>	<b>2.62</b>	<b>1.026</b>	<b>2.85</b>	<b>1.028</b>	<b>0.027*</b>

\* indicative of significant difference;  $p \leq 0.05$

It is evident from Table 5 that both male and female respondents agree the most with the item 'This is the one brand I would prefer to buy or use' (a mean of 3.03 for males and 3.32 for females) followed by 'I consider myself loyal to this brand' (a mean of 2.89 for males and 3.09 for females). Both male and female respondents least agreed with 'I buy as much of this brand as I can' (a mean of 2.27 for males and 2.26 for females) as well as 'I would go out of my way to buy this brand' and 'I feel this is the only brand of this product I need' (a mean of 2.51 for males and 2.81 for females). The overall brand loyalty mean scores for both males and females are just above the mid-point (2.50) of the five-point scale (a mean of 2.62 for males and 2.85 for females). This is not indicative of a particularly strong level of brand loyalty towards current cell phone brands.



## Hypotheses testing

### Hypothesis 1

With respect to HA1 that there is a significant association between gender and the period of time respondents have been with their current cell phone brand, the Pearson's chi-square test was performed. Table 6 shows the results of a cross-tabulation between respondents' gender and the period they have been using their current cell phone brand.

**TABLE 6: A CROSS-TABULATION OF RESPONDENTS' GENDER AND HOW LONG THEY HAVE BEEN USING THEIR CURRENT CELL PHONE BRAND**

		Gender		Total
		Male	Female	
Period using current cell phone brand	Less than 6 months	21 11.9%	28 14.4%	49 13.2%
	6 months or longer but less than 1 year	39 22.2%	33 16.9%	72 19.4%
	1 year or longer but less than 3 years	66 37.5%	79 40.5%	145 39.1%
	3 years or longer but less than 5 years	33 18.8%	20 10.3%	53 14.3%
	5 years or longer but less than 10 years	10 5.7%	22 11.3%	32 8.6%
	10 years or longer	7 4.0%	13 6.7%	20 5.4%
<i>Total</i>		176 100%	195 100%	371 100%

From the cross-tabulation it can be seen that more male respondents have been using their current cell phone brand for 3 years or longer but less than 5 years (18.8%) than female respondents (10.3%), while more female respondents have been using their current cell phone brand for 5 years and longer [18% (11.3%) + (6.7%)] than male respondents [9.7% (5.7%) + (4%)]. The Pearson's chi-squared test was performed to determine whether a statistically significant association exists between respondents' gender and the period they have been using their current cell phone brand. The test indicated a significant, albeit weak, association between gender and the period of time respondents have been using their current cell phone brand ( $\chi^2 = 11.211$ ,  $p\text{-value} = 0.047$  &  $\phi = 0.174$ ). From the analysis it could be determined that females are associated with being with their current cell phone brand for a longer time than males.

With respect to HA1 that there is a significant association between gender and the period of time respondents have been with their current cell phone brand can therefore be accepted, since females are associated with being with their current cell phone brand for longer than males.

### Hypothesis 2

With respect to HA2 that there is a significant difference in the level of brand loyalty males and females exhibit towards their current cell phone brand, the Independent samples t-test indicates that females agree significantly more with four of the seven items measuring brand loyalty towards their current cell phone brands than males (refer to table 6). The items with which females agree significantly more than males, include:

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- I feel this is the only brand of this product I need' with a mean of 2.51 for males, 2.81 for females and an associated p-value of 0.021.
- This is the one brand I would prefer to buy or use' with a mean of 3.03 for males, 3.32 for females and an associated p-value of 0.023.
- If this brand was unavailable, it would be difficult if I had to use another brand' with a mean of 2.38 for males, 2.92 for females and an associated p-value of less than 0.005.
- I would go out of my way to buy this brand' with a mean of 2.51 for males, 2.82 for females and an associated p-value of 0.014.

With regard to overall brand loyalty, the Independent samples t-test indicates that females (mean = 2.85) are significantly more loyal towards their current cell phone brands than males (mean = 2.62; p-value = 0.027).

HA2 that there is a significant difference in the level of brand loyalty males and females exhibit towards their current cell phone brand can therefore be accepted, since females are significantly more loyal to their current cell phone brands than males.

## CONCLUSIONS AND MANAGERIAL IMPLICATIONS

The South African cellular market is characterised by fierce competition between cell phone network providers as well as cell phone brands (Datamonitor, 2010; Mbendi, 2010). With cell phone handsets becoming increasingly similar due to technological advances (Tubbs, 2012; UNICEF, 2012: 6) and the fact that cell phone users are keeping their handsets for longer periods (World Wide Worx in Tubbs, 2012), it is becoming critical that cell phone marketers build customer loyalty. By building customer loyalty, cell phone marketers are hoping that their customers will be less price-sensitive (Day, 1969: 34-35; Delgado-Ballester & Munuera-Alemán, 2001: 1254), possibly increase their spending in the future (Homburg & Giering, 2001: 38), and recommend the brand to prospective customers (Lam et al., 2004: 307), all of which could lead to greater profitability (Castro & Pitta, 2012: 126; Kuikka & Laukkanen, 2012: 534) and a competitive advantage (Petruzzellis, 2010: 616; Torres-Moraga et al., 2008: 303).

The purpose of this study was to explore whether differences exist between cell phone users based on their gender. From the results it could be seen that very similar percentages of male (47.4%) and female (52.6%) respondents participated in the study, making gender comparisons viable and practical. The three most popular cell phone brands used by respondents, as is the case of South African cell phone users (Fripp, 2012; Hutton, 2011) were BlackBerry, Nokia and Samsung. However, in contrast to the South African cell phone market where more than 80 per cent of cell phone users use prepaid cellular services (World Wide Worx in Tubbs, 2012), the majority of respondents in this study (73.3%) were contract customers.

It could be concluded from the results that the scale measuring brand loyalty towards current cell phone brands is reliable and thus it can be deduced that the items included in the particular scale indeed measure brand loyalty within the context of this particular study. When considering respondents' overall brand loyalty, it could be determined that respondents did not have a particularly strong level of brand loyalty towards the cell phone brands they currently use. This finding should be disconcerting to cell phone marketers as, by not being loyal, chances are that cell phone users will not necessarily buy the same cell phone brand when opting for a new handset. Cell phone marketers should therefore draft marketing strategies and use the marketing mix directly aimed at building customer loyalty. These could include offering discounts to customers buying the

same cell phone brand when replacing handsets as well as offering cell phone applications that are available exclusively to repeat customers. Cell phone marketers could also offer discounts to customers choosing the same brand when trading in or upgrading their cell phones.

Concerning the length of time respondents have used their current cell phone brands, from hypothesis 1 it could be derived that an association exists between gender and the period of time respondents have been using their current cell phone brand. Specifically, female respondents were associated with using their current cell phone brand for a longer time than males. It can therefore be recommended that marketers recognise that differences could exist between males and females pertaining to their loyalty towards their cell phone brands. Marketing strategies should therefore consider possible gender differences when setting out to build customer loyalty. As initial strategy cell phone marketers should place more emphasis on female customers when building brand loyalty as females could possibly be more receptive to initiatives directed at building loyalty.

Regarding hypothesis 2, it could be derived that female respondents were significantly more loyal towards their current cell phone brands than males and furthermore agreed significantly more with the items 'I feel this is the only brand of this product I need', 'This is the one brand I would prefer to buy or use', 'If this brand was unavailable, it would be difficult if I had to use another brand' and 'I would go out of my way to buy this brand'. From these findings it can be recommended that cell phone marketers approach gender groups differently when trying to build brand loyalty. Marketers could accordingly, initially, prioritise focussing marketing strategies and resources on females when attempting to build brand loyalty, while trying to create loyalty with males over a longer period.

Finally, findings from this research suggest that gender differences can be identified pertaining to cell phone users' loyalty towards their current cell phone brands. Marketers should therefore acknowledge that gender differences could possibly exist in terms of cell phone users' patronise behaviour and that it may be necessary to target genders differently with marketing strategies. Marketers should also realise that it is essential to conduct marketing research when drafting their marketing strategies as differences could exist between genders, thereby necessitating a different marketing approach to males and females.

## **LIMITATIONS AND DIRECTIONS FOR FUTURE RESEARCH**

Since a non-probability convenience sampling method was used, the interpretation of the results of this study is limited to those who participated in the study and not to all South African cell phone users. Also, the majority of respondents who participated in the study were contract customers and had high levels of education, both of which are in contrast to the characteristics of the North West Province and South African population.

Future research should consider addressing the limitations set above by placing more emphasis on prepaid customers and by also considering the demographic profile of South African cell phone users. Future research could also explore customer loyalty towards cell phone network providers as well as determining the factors influencing cell phone choice.



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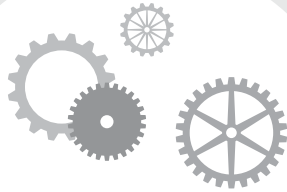




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## A STUDENT PERSPECTIVE ON IRRITATION: ASPECTS IN THE SHOPPING ENVIRONMENT

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### ABSTRACT

The study of components within the shopping environment that produce positive emotions among consumers is a fertile research topic among marketers. However, little research has been done on the components of the shopping environment that produce negative emotions among consumers. The main purpose of this study is to determine students' perceptions on irritating aspects in the shopping environment, and investigate gender and ethnicity differences with regards to their perceived irritability. The results revealed shoppers, irrespective of gender and ethnicity, were most irritated by ambient and social factors. The study also reported significant differences between male and female perceptions on ambient and social aspects of the shopping environment, where females are more irritated than males by these aspects. Even though the results showed mixed differences among the respective demographical groups, it was evident that every potential irritation mentioned did irritate the majority of shoppers, irrespective of their specific demographic characteristics. Store managers therefore need to ensure that they eliminate potential irritations, with particular focus on their store personnel.

### KEYWORDS

Perceived irritability, Shopping environment, Gender differences, Ethnicity

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## INTRODUCTION

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With the global boom in retail property and shopping centre development, the shopping environment has become of great relevance and interest to retailers (South African Council of Shopping Centres, 2010; d'Astous, 2000: 1). Research on the shopping environment has been abundant, with great focus placed on shopping centre attractiveness, shopping behaviour and tenant mix within shopping centres (Yiu & Xu, 2012; North & Kotze, 2004; Dennis, Marsland & Cockett, 2002; Bodkin & Lord, 1997; Bloch, Ridgway & Dawson, 1994). Existing literature clearly indicates that the shopping environment has an influence on consumers' emotions and behaviour in both a positive and negative ways (Walsh, Shiu, Hassan, Michaelidou & Beatty, 2011: 737).

It has been said that emotions are central to consumption (Penz & Hogg, 2011: 105; Watson & Spence, 2007: 501), which has resulted in numerous studies focusing on how retailers can create a shopping environment that produces positive emotions and thus increases purchases. Research has also shown that a negative shopping experience will have a greater influence on consumer behaviour than if that same consumer had a positive shopping experience (Arnold, Reynolds, Ponder & Lueg, 2004: 1142). In addition, when consumers with high performance expectations experienced negative or non-pleasurable shopping experiences, it resulted in negative emotions such as anger (Burns & Neisner, 2006: 59).

According to the expectancy-disconfirmation theory, customer satisfaction can be measured from perceived quality of products or services, where the customer has a prepurchase expectation of the product or service performance (Yüksel & Yüksel, 2001: 108). The customer then compares the performance with his or her expectation, where confirmation occurs when the expectation is met and disconfirmation occurs when the expectation is not met (Yüksel & Yüksel, 2001: 108). When a consumer desires to purchase a product, they may not necessarily follow through with the actual purchase (Penz & Hogg, 2011: 105). A consumer may abandon purchase intentions completely if dissatisfied, which results in a loss to the retailer (Turley & Milliman, 2000: 196). Research has shown that retaining 5% of one's customer base can result in a 25-100% increase in profit (Reichheld, Markey & Hopton, 2000: 138). But as competition increases, with the growth of shopping centres in South Africa (South African Council of Shopping Centres, 2010), this has become a difficult task. The need for retailers to understand which components in the shopping environment result in customer satisfaction and dissatisfaction is therefore critical to saving their bottom line (Harris & Ezech, 2008: 409). However, research on the elements that need to be avoided when designing one's shopping environment is scarce (d'Astous, 2000: 149).

Baker quoted by d'Astous (2000: 150), in his research on the shopping environment looked at the physical environment and divided it into three components; namely ambient factors, design factors and social factors. A study by d'Astous (2000: 151) uncovered the most popular irritations that consumers experienced in the shopping environment and classified them according to these main components. The study also explored gender and age as moderators of consumer reactions to shopping irritations.

### RESEARCH PROBLEM AND OBJECTIVES

Despite tough economic times, South Africa has seen a boom in retail property development, as retailers look to capitalize on fast growing middle income population (SA Commercial Property, 2013; McGaffin & Gavera, 2011: 1). From a research perspective, the literature is limited when considering the negative aspects of the shopping environment. Van der Merwe and Khamade

(2011) conducted a study, replicating d'Astous' (2000) study, to determine and test irritability differences in a South African context. This study looked at irritations as individual items, and not as groupings or sub-dimensions of irritability. With such focus on the retail industry, further attention and investigation is warranted in this regard. Given the diversity of South African consumers, understanding not only how consumers perceive irritation, but also understanding differences in the perception of irritating aspects amongst consumers can be of great value to and can have a positive implication for retailers. Retailers will be able to design their store environments to reduce or eliminate any irritations that their customers may experience whilst shopping, and thus reduce the likelihood of their customers switching to their competitors.

Against this background, the main purpose of this study is to determine students' perceptions of irritation in the shopping environment, and investigate the role of gender and ethnicity on their perceived irritability.

This study will be set out to answer the following research objectives:

- To determine perceptions of irritating aspects of the shopping environment.
- To determine the gender differences in perceptions of irritating aspects of the shopping environment with regards to ambient, design and social factors.
- To determine the ethnical differences in perceptions of irritating aspects of the shopping environment with regards to ambient, design and social factors.

The next section of the paper will incorporate a literature review of the current knowledge base regarding irritations in the shopping environment, as well as a discussion on the main constructs to be measured in the study. The specific methodology used to gather data for the study will then be explained. Thereafter, the results will be discussed in terms of the descriptive statistics and testing the hypothesis. In conclusion, a discussion based on managerial implications, limitations and recommendations for future research will be presented.

## LITERATURE REVIEW

### Irritability in the shopping environment

Irritating aspects in the shopping environment are those environmental elements that create negative consumer feelings during shopping (d'Astous, 2000: 149). Due to the lack of focused research on the elements in the shopping environment that evoke negative emotions, formal academic definitions on irritability in the shopping environment have not developed beyond d'Astous' definition. However, past research has focused on identifying dissatisfying incidents in the shopping environment (Michon et al., 2007: 456; Arnold et al., 2005: 1132; Turley & Milliman, 2000: 193). Dissatisfying incidents refer to those incidents that result in customer outrage due to perceived injustice (Arnold et al., 2005).

Irritating aspects in the shopping environment ultimately result in shopper dissatisfaction with the shopping environment and/or the product or service procured, or desired to be procured (Pan & Siemens, 2010: 105). For example, perceived crowding, an irritation in the shopping environment, can annoy a shopper and result in the shopper's dissatisfaction with the store and/or product or service purchased, or desired to be purchased (Pan & Siemens, 2010: 105).

The importance of ensuring customer satisfaction in the shopping environment has become increasingly important as competition continues to increase within the South African retail setting

(South African Council of Shopping Centres, 2010). However, listing all the elements of a shopping environment to identify potential irritations, is a futile task. It is much more efficient to divide them into finite sets of categories (Hunt in d'Astous, 2000: 149).

Bitner (1992: 65) began by suggesting three dimensions that the environment encompassed. They are the following: ambient conditions; spatial layout and functionality; and signs, symbols and artefacts. Ambient conditions include elements such as temperature, air quality, noise, music and odour. Spatial layout and functionality include layout, equipment and furnishings. Signs, symbols and artefacts include signage, personal artefacts and the style of décor amongst others.

Berman and Evans (in Turley & Milliman, 2000: 194) went on to divide the environment into four categories: the exterior of the store, the general interior, the layout and design variables, and the point-of-purchase and decoration variables. However, Turley and Milliman (2000:194) felt the need to add another component into the mix, namely human variables. Human variables include elements such as employee characteristics and crowding.

Baker, Grewal and Parasuraman (1994: 329) divided the physical environment into three different components which included all of the elements that previous studies have discovered. The first component was ambient factors which represented factors that the shopper may not be aware of but that never-the-less affects their human senses. An example of ambient factors would be elements such as scent or music in the shopping environment. They can be viewed as background factors. The second component of factors was design factors. Shoppers will be directly aware of these factors. Design factors include, among others, the layout of the shopping outlet and the colours or textures used in the shopping environment. Finally, the third component was social factors which are simply the people in the environment, such as sales personnel and customers. This study classified irritations in the shopping environment based on the latter research classification of the physical environment (i.e., ambient, social and design factors).

Although there has been research conducted in some Western Countries with regards to the above mentioned study, South African research on irritability in the shopping environment is scarce. Van der Merwe and Khamade (2011: 163) found that elements resulting in irritation amongst South African shoppers were similar to those found in other studies, and ambient and social factors generated higher levels of irritation compared to design factors. Tendai and Crispen (2009: 107) found that the shopping environment has an impact on impulsive buying among consumers. They identified that among poor black people there was a positive relationship between helpful shop assistants and impulse buying. Factors relating to the stores atmosphere, for example music and sound, seemed to influence the amount of time the South African consumer spent in the store, thus resulting in an increased chance of the consumer making a purchase (Tendai & Crispen, 2009: 107).

The irritations described above are not, however, equal for every consumer. A consumer's perception of the retail environment is shaped by several mediating variables. Thus, in order for marketers and retailers to be able to develop effective strategies to improve the retail environment, the effect of mediating variables such as gender and race have to be considered.

### **Gender and irritability in the shopping environment**

Previous research on retailing and consumer behaviour has emphasized the importance of identifying the distinct demands of customer segments based on gender and age (Anselmsson, 2006: 119; Dholakia, Pedersen & Hikmet, 1995: 27; Jarboe & McDaniels, 1987: 46). However, the understanding of these segments and their importance in their evaluation of shopping centres is rare (Anselmsson, 2006: 116).

### Women in the shopping environment:

There have been numerous studies supporting the claim that women generally enjoy shopping (Kuruvillea et al., 2009: 719; Michon et al., 2008: 463; Campbell, 1997: 167). Some researchers have gone a step further and identified that women generally enjoy shopping more than men (Kuruvillea et al., 2009: 716; Michon, et al., 2008: 463; Dennis, Murphy, Marsland & Cockett in Anselmsson, 2006: 119; Campbell, 1997: 167). This theory could be motivated by the fact that women view shopping as a social exercise more than a task to be conducted (Anselmsson, 2006: 133).

Women have also been identified as spending the most time in the mall, compared to men, but they spend the least amount of money (Kuruvillea et al., 2009: 719) and are more annoyed by ambient factors in the shopping environment (Kuruvillea et al., 2009: 719; Anselmsson, 2006: 128; d'Astous, 2000: 153). Although men have become more involved in shopping activities within South Africa, women are still the primary decision makers when it comes to purchasing clothing and household goods (Van Der Merwe, 2005: 52).

### Men in the shopping environment:

Men have always been characterised as having a level of disdain for the shopping environment (Campbell, 1997: 167). However, in recent years, the purchasing role of men has changed to a more active one due to women entering the workforce (Du Preez et al., 2007: 2), so much so that men have been identified as the big spenders in the shopping environment (Kuruvillea et al., 2009: 719).

A study by Du Preez et al. (2007: 16), conducted amongst male shoppers in South Africa, identified that South African males spend on average one to three hours in a shopping centre, per visit. They preferred shopping in male speciality stores, such as Markhams, and preferred shopping with a companion. The study also identified that South African males considered the variety of stores, proximity to home, knowledge of the mall, quality of the mall as well as the entertainment in the mall before choosing a specific shopping centre

There are a number of contradicting views regarding the relationship between gender and perceived irritability in the shopping environment. Women have proven to be more aware of irritations in the shopping environment than men (d'Astous, 2000: 154). This theory has been motivated as true based on the nature of women being detail focused (d'Astous, 2000: 154). Women are also more likely to be in the shopping environment and exposed to such irritations at a greater frequency than men (Dube & Morgan, 1996: 160). However, more recent studies have found results to support the notion that there is in fact no significant difference between male and female susceptibility to irritations in the shopping environment (Anselmsson, 2006: 132; Kuruvillea et al., 2009: 720). This study identifies the differences in gender and perceived irritability in the shopping environment. Thus, based on this evidence, one can hypothesise that:

**H1a:** Male and female students differ significantly with regard to irritating aspects from ambient factors of the shopping environment.

There has been research that identified no significant difference between gender and perceived irritability by design factors in the shopping environment (d'Astous, 2000: 154). However, more recent studies have identified that women are more irritated by design factors than men (Kuruvillea et al., 2009: 719; Helgesen & Nessel, 2010: 119). Thus, one can hypothesise that:

**H1b:** Male and female students differ significantly with regard to irritating aspects from design factors of the shopping environment.



d'Astous (2000: 154) and Anselmsson (2006: 131) identified that men are more irritated by social factors than women. Kuruvilla et al. (2009: 719) however identified no significant difference between male and female perceived irritability towards social factors in the shopping environment. Recently, however, a study was found to support the claim of d'Astous and Anselmsson that men are significantly more irritated than women in the shopping environment (Helgesen & Nasset, 2010: 119). Thus, one can hypothesise that:

**H1c:** Male and female students differ significantly with regard to irritating aspects from social factors of the shopping environment.

## Ethnicity

South Africa has been labelled the 'Rainbow Nation' because of the vast amount of ethnicities that are spread across the country (SouthAfrica.info, Not dated). There are 11 official languages used by the ever growing population (SouthAfrica.info, Not dated). In a consensus conducted in 2003 the population was divided into different groups, 79% of the population was Black, 9,6% was Caucasian, 8,9% was Coloured and 2,5% was Indian/Asian (Statistics South Africa, 2001: 13). In Gauteng alone 5,4% of the population was not born in South Africa, which may add even more ethnic groups that are not native to South Africa (Statistics South Africa, 2001: 23). The country is continuously becoming more racially and ethnically diverse. Thus ethnicity is a prominent demographic variable in South Africa and will therefore be taken into account in this study.

In America, Black people have been found to have the most distinctive shopping patterns and they tend to shop within their own ethnic group (i.e., black people shopped at stores owned by black people) (Herche & Balasubramanian, Not Dated). Hispanic people had the least distinctive behaviour. There is evidence suggesting that different Asian groups, Japanese, Korean and Chinese, have distinctive differences in their behaviour which suggests that Asians should not all be classified together as is the norm (Herche & Balasubramanian, Not Dated). The awareness of ethnic diversity is increasing which emphasises the need for businesses to take it into account when formulating marketing strategies and advertising (Herche & Balasubramanian, Not Dated).

Wong, Osman, Jamaluddin and Yin-Fah (2012: 240-248) also found that ethnicity does play a role in a shopper's behaviour. There were significant differences in how concerned the different ethnicities were with the store quality, convenience and price orientation. However, the study did not discover any notable difference in shopping enjoyment amongst the different ethnicity groups. A person's identity, particularly in terms of their ethnicity, can give meaning to a shopping experience (Friend & Thompson, 2003: 23).

Ethnicity has an impact on how people experience the shopping environment. North and Kotzé (2004: 37) discovered that people of different ethnicities, within Pretoria, South Africa, perceived the attractiveness of décor in the shopping environment differently. Lee (2000: 361) found that Black customers often perceive irritations in the sense that they feel 'shadowed' and 'watched' by store personnel, a trait that was not found in Caucasian customers. The study found that there were significant differences amongst the different ethnicities with regards to their perceptions. The other aforementioned studies also determined that ethnicity was a significant construct in their research. These previous findings lead to the following hypotheses:

**H2a:** Student shoppers from different ethnic backgrounds differ significantly with regard to irritating aspects from ambient factors of the shopping environment

**H2b:** Student shoppers from different ethnic backgrounds differ significantly with regard to irritating aspects from design factors of the shopping environment factors of the shopping environment

**H2c:** Student shoppers from different ethnic backgrounds differ significantly with regard to irritating aspects from social factors of the shopping environment

## METHODOLOGY

### Sampling and Data Collection

The target population for the study consisted of undergraduate students studying on the main campus of the University of Pretoria during the 2012 academic year. Since the purpose of this study was to compare gender and ethnical differences, the unit of analysis were the two gender groups, as well as the four ethnical groups, with a five category for 'other' ethnical groups.

The context of the study was executed among undergraduate students from the University of Pretoria. This could be viewed as a major limitation to the study due to its inability to provide a representative sample of the South African population. The Y-Generation (of which students are a part of) encompasses all people born after 1980 who have the most significant buying power in the market (Noble, Haytko & Phillips, 2009: 617). Thus, the decision to conduct the proposed study among students is still appropriate.

A convenience sampling method was used in the study. This study aimed to achieve a minimum sample size of 200 respondents. A total of 220 questionnaires were distributed of which 210 surveys were fully completed, resulting in a 95% response rate. The incomplete were disregarded from the analysis. A 48:52 split between male and female respondents was achieved. With regards to ethnical groupings, 26% of the respondents were Black, 25% were Caucasian, 15% were Coloured, 24% were Indian and 10% were Other.

The questionnaire was pretested among 20 undergraduate students from the University of Pretoria. Data for the main study was collected during October 2012 via campus self-completion intercept surveys conducted on the University of Pretoria's main campus in Hatfield. Incentives were not used to encourage participation.

### Measures

d'Astous' (2000: 15) five point Likert scale was used to measure shoppers' perceptions of irritating factors in the shopping environment. Respondents were required to rate the given irritations as irritating them hugely, a lot, average, very little, or not at all. d'Astous (2000: 152) originally used 38 irritations in the scale; however for the purpose of this study the decision was made to make use of the 18 irritations that was adapted for subsequent analyses. d'Astous (2000: 152) made use of judges instead of employing more structural statistical techniques, such as factor analysis, and other means to calculate reliability indices. None of the irritations were reverse scored within the scale. Question 3 and 4 answer the two demographic variables that are relevant to the study, namely gender and ethnicity.

Based on the study conducted by d'Astous (2000), Cronbach's alpha will not be used to calculate internal consistency reliability. d'Astous (2000: 152) motivated his decision based on the fact that irritations in a given class (e.g., "crowding" and "negative attitude of salespeople") may not be correlated even though they belong to the same conceptual category in the shopping environment (i.e., social).

## RESULTS

All data was captured in Microsoft Excel, and then exported to SPSS 20.0 for all data analysis.

## Descriptive statistics

Findings suggest that overall, “pressurised into buying something” (mean = 4.28) and “unavailability of sales personnel” (mean = 4.43) were considered the highest irritations. It is interesting to note that these two irritations belong to social factors. The lowest scoring irritations were “unable to find what one needs” (mean = 2.77) and “directions within the store are inadequate” (mean = 2.85). These two irritations belong to design factors.

Looking at male and female specifically, responses suggest that males are most irritated by “pressurised into buying something” (mean = 4.31) and “unavailability of sales personnel” (mean = 4.29). They are least irritated by “directions within the store are inadequate” (mean = 2.64) and “unsettled children around” (mean = 2.71). On the other hand, females are most irritated by “crowding” (mean = 4.38) and “unavailability of sales personnel” (mean = 4.57). They are least irritated by “unable to find what one needs” (mean = 2.80). These findings suggest that there may be gender differences in perceptions of irritations.

Looking at ethnicity specifically, responses suggest that there are no ethnic differences as all ethnic groups consider “unavailability of sales personnel” the most irritating with the following mean scores: Black (4.51), White (4.30), Coloured (4.42) Indian (4.48) and Other (4.43). Looking at irritations with the least scores, these vary marginally across the different ethnic groups.

## Hypothesis testing

It is important to note that although previously tested and reliable sub-dimensions do not exist, this study aims to investigate differences in ambient, design and social factors. Therefore items relating to each dimension will be tested together, but if individual items have significant results, these too will be considered.

Hypothesis 1a to 1c: Gender differences in perceived irritability  
Hypotheses H1a to H1c focuses on the differences between male and female student shoppers' perceived level of irritation from ambient, social and design factors in the shopping environment respectively.

## Ambient factors

Table 1 below summarises the mean values of the different groups as well as the results of the MANOVA.

**TABLE1: MEAN VALUES AND MANOVA RESULTS FOR GENDER GROUPS AND AMBIENT FACTORS**

AMBIENT	Bad smell in the store	Store is not clean	Temperature inside the store is uncomfortable	Music inside the store is too loud	F-Value	p-value
<b>GENDER</b>						
Male	4.05	4.02	3.48	2.95		
Female	4.36	4.34	3.84	3.19		
<b>UNIVARIATE ANALYSIS</b>	<b>0.03</b>	<b>0.01</b>	<b>0.01</b>	0.06		
<b>WILKS' Lambda</b>					2.56	0.04

Looking at the multivariate test statistics, Wilks' Lambda ( $p = 0.04$ ) meets the criteria of significance (0.05). This is in support of the alternate hypothesis that there are gender differences with respect to perception of ambient factors. The subsequent uni-variate statistics reveal that these differences are mainly due to all the irritations (all items) representing ambient factors. Looking at the means scores, it can be concluded that females are more irritated by ambient factors than men.

### Design factors

Table 2 below summarises the mean values of the different groups as well as the results of the MANOVA.

**TABLE 2: MEAN VALUES AND MANOVA RESULTS FOR GENDER GROUPS AND DESIGN FACTORS**

DESIGN	Unable to find what one needs	Arrangement of store items has been changed	Store is too small	Directions within the store are inadequate	No mirror in the dressing room	Finding your way in a large shopping centre	F-Value	P-value
<b>GENDER</b>								
Male	2.73	3.73	2.89	2.64	3.58	3.26		
Female	2.80	3.92	3.11	3.07	3.90	3.54		
<b>UNIVARIATE ANALYSIS</b>	0.67	0.18	0.18	<b>0.01</b>	<b>0.01</b>	<b>0.05</b>		
<b>WILKS' Lambda</b>							1.90	0.08

Looking at the multivariate test statistics, Wilks' Lambda ( $p = 0.08$ ) does not meet the criteria of significance (0.05). The null hypothesis can therefore not be rejected in favour of the alternate hypothesis. There is therefore no significant difference between males' and females' perceptions of irritation due to design factors. It is however interesting to note that despite the rejection of the model, subsequent uni-variate statistics reveal that there are gender differences with regards to "directions within the store are not adequate", "no mirror in the dressing room" and "finding your way in a large shopping centre", where females were more irritated than men by these irritations.

### Social factors

Table 3 below summarises the mean values of the different groups as well as the results of the MANOVA.

**TABLE 3: MEAN VALUES AND MANOVA RESULTS FOR GENDER GROUPS AND SOCIAL FACTORS**

SOCIAL	Crowding	Unsettled children around	Being deceived by sales personnel	Indifference of sales personnel	Pressurised into buying something	Negative attitude of sales personnel	Sales personnel not listening to clients needs	Unavailability of sales personnel	F-Value	P-value
<b>GENDER</b>										
Male	3.55	2.71	3.72	3.33	4.31	3.67	3.63	4.29		
Female	4.38	3.15	4.11	3.41	4.25	3.78	3.79	4.57		
<b>UNIVARIATE ANALYSIS</b>	0.00	0.00	0.01	0.66	0.61	0.42	0.22	<b>0.01</b>		
<b>WILKS' Lambda</b>									5.39	0.00

Looking at the multivariate test statistics, Wilks' Lambda ( $p = 0.00$ ) meets the criteria of significance (0.05). This is in support of the alternate hypothesis that there are gender differences with respect to perception of social factors. The subsequent uni-variate statistics reveal that these differences are mainly due to "crowding", "unsettled children around", "being deceived by sales personnel", and "unavailability of sales personnel". Looking at the means scores, it can be concluded that females are more irritated by social factors than males.

### Hypothesis 2a to 2c: Ethnic differences in perceived irritability

Hypotheses H2a to H2c focuses on the ethnic differences between student shoppers' perception of irritations from ambient, social and design factors in the shopping environment respectively.

#### Ambient factors

Table 4 below summarises the mean values of the different groups as well as the results of the MANOVA.

**TABLE 4: MEAN VALUES AND MANOVA RESULTS FOR ETHNICAL GROUPS AND AMBIENT FACTORS**

AMBIENT ETHNICAL GROUP	Bad smell in the store	Store is not clean	Temperature inside the store is uncomfortable	Music inside the store is too loud	F-Value	P-value
Black	4.04	4.18	3.58	3.13		
White	4.23	4.19	3.74	3.00		
Coloured	4.26	4.35	3.81	2.87		
Indian	4.36	4.14	3.58	3.22		
Other	4.05	3.90	3.57	3.00		
UNIVARIATE ANALYSIS	.525	.527	.781	.469		
WILKS' Lambda					1.04	0.41

Looking at the multivariate test statistics, Wilks's Lambda ( $p = 0.41$ ) does not meet the criteria of significance (0.05). The null hypothesis can therefore not be rejected in favour of the alternate hypothesis. There is therefore no significant difference between the ethnic groups' perceptions of irritation due to ambient factors.

#### Design factors

Table 5 summarises the mean values of the different groups as well as the results of the MANOVA.

**TABLE 5: MEAN VALUES AND MANOVA RESULTS FOR ETHNICAL GROUPS AND A DESIGN FACTORS**

DESIGN	Unable to find what one needs	Arrangement of store items has been changed	Store is too small	Directions within the store are inadequate	No mirror in the dressing room	Finding your way in a large shopping centre	F-Value	P-value
<b>ETHNICAL GROUP</b>								
Black	2.95	3.87	3.04	2.95	3.84	3.42		
White	3.09 <sup>a</sup>	3.98	3.08	2.72	3.62	3.38		
Coloured	2.39	3.97	3.06	2.81	3.90	3.32		
Indian	2.36 <sup>a</sup>	3.60	2.84	3.02	3.74	3.52		
Other	3.00	3.62	2.95	2.57	3.48	3.19		
<b>UNIVARIATE ANALYSIS</b>	<b>.003</b>	<b>.246</b>	<b>.866</b>	<b>.453</b>	<b>.435</b>	<b>.795</b>		
<b>WILKS' Lambda</b>							<b>1.60</b>	<b>0.03</b>

<sup>a</sup> Represents specific differences in ethnical groupings.

Looking at the multivariate test statistics, Wilks' Lambda ( $p = 0.03$ ) meets the criteria of significance (0.05). This is in support of the alternate hypothesis that there are ethnical differences with respect to perception of design factors. The subsequent uni-variate statistics reveal that these differences are mainly due to "unable to find what one needs". Looking at the means scores as well as the post-hoc results, it can be concluded that the differences come specifically from differences between White shoppers and Indian shoppers, where White shoppers are more irritated by not being able to find what they need than Indian shoppers.

### Social factors

Table 6 below summarises the mean values of the different groups as well as the results of the MANOVA.

**TABLE 6: MEAN VALUES AND MANOVA RESULTS FOR ETHNICAL GROUPS AND SOCIAL FACTORS**

AMBIENT	Crowding	Unsettled children around	Being deceived by sales personnel	Indifference of sales personnel	Pressurised into buying something	Negative attitude of sales personnel	Sales personnel not listening to clients needs	Unavailability of sales personnel	F-Value	P-value
<b>GENDER</b>										
Black	3.82	3.02	3.78	3.15	4.38	3.69	3.75	4.51		
White	3.87	2.87	3.92	3.68	4.19	3.68	3.70	4.30		
Coloured	4.19	2.58	4.06	3.48	4.03	3.61	3.65	4.42		
Indian	4.08	3.04	3.96	3.12	4.52	3.80	3.74	4.48		
Other	3.81	3.00	3.86	3.57	4.05	3.90	3.67	4.43		
<b>UNIVARIATE ANALYSIS</b>	<b>0.59</b>	<b>0.37</b>	<b>0.78</b>	<b>0.095</b>	<b>0.083</b>	<b>0.83</b>	<b>0.99</b>	<b>0.73</b>		
<b>WILKS' Lambda</b>									<b>1.03</b>	<b>0.43</b>



Looking at the multivariate test statistics, Wilks' Lambda ( $p = 0.43$ ) does not meet the criteria of significance (0.05). The null hypothesis can therefore not be rejected in favour of the alternate hypothesis. There is therefore no significant difference between the ethnical groups' perceptions of irritation due to social factors.

## **DISCUSSION AND MANAGERIAL IMPLICATIONS**

This study investigated students' perceptions of irritating aspects - from ambient, design and social factors - in the shopping environment, as well as gender and ethnical grouping differences with regards to their perceived irritability. This study serves to expand d'Astous' research as well as previous research from a South African context.

This study identified that student shoppers perceive irritations from social factors as far more irritating than irritations from ambient and design factors in the shopping environment. This insight is consistent with previous research that identified the same outcome (Van der Merwe & Khamade, 2011: 163; d'Astous, 2000: 152). Students, regardless of gender and ethnicity are most irritated by the unavailability of sales personnel.

Consistent with previous research (Van der Merwe & Khamade, 2011: 163; d'Astous, 2000: 154), females are significantly more irritated by ambient factors than men. It is however interesting to note that there were no gender differences with regards to design factors as this is inconsistent with previous research where females were more irritated by design factors than men. Females were also significantly more irritated by social factors than men. This result could be due to South African students being a traditional community where females still do the shopping for their male counterparts (Van Der Merwe, 2005: 52). Thus the frequency at which female shoppers are exposed to irritations is far greater than that of males thus resulting in their perception of the irritations to be higher (Dube & Morgan, 1996: 160).

Looking at ethnical differences, there are no significant ethnical differences with regards to ambient factors. It is interesting to note that this result differs from the results discovered by Van der Merwe and Khamade (2011: 165), where White shoppers were strongly affected by ambient factors in comparison to the other ethnical group. Looking at design factors, there are significant ethnical differences with regards to design factors, where White shoppers are significantly more irritated by not being able to find what they need than Indian shoppers. Finally, there are no significant ethnical differences with regards to ambient factors. This is inconsistent with results from Van der Merwe and Khamade (2011: 165), where Coloured shoppers were strongly affected by social factors in comparison to the other ethnical group.

People in general, irrespective of ethnic background or gender, are sensitive to irritations in the shopping environment. This indicates that from a managerial point of view it would be in their best interest to avoid any situation that will potentially irritate their customers. Stores should be very concerned with the impact an irritated customer has on store patronage. Specifically, store managers should ensure that social aspects, largely related to store personnel are minimised. Store managers should ensure that store personnel are readily available to assist all customers.

Given that females are more irritated by ambient factors, retailers largely targeting female consumers should ensure that the stores are clean and tidy at all times, that bad odours and noise are avoided, and that the temperature is kept cool. Retailers targeting predominantly female shoppers should also focus on design factors such as ensuring that clear directions are visible at the store in order to assist shoppers find their directions, particularly in large shopping centres. Retailers should also ensure that enough mirrors are installed in dressing rooms.

A retailer can do various things to eliminate any other possible irritations within their environment. For example, to avoid shoppers feeling that store personnel are unavailable to assist, they can better train their employees to deal with customers in a more visible and effective manner. They may also install evaluation systems to monitor the personnel's performance in relation to customer service.

## **LIMITATIONS AND RECOMMENDATIONS FOR FUTURE RESEARCH**

The first limitation of this study is the fact that a non-probability sampling method was used and therefore the results cannot be generalised to a larger population. Furthermore, the sampling method increased the likelihood of selection bias due to the discretion of the researcher when selecting respondents. The second limitation is that the contexts in which this study was conducted were limited and could not be generalised to other contexts, in that data was solely collected from male and female students at the University of Pretoria. A major limitation of this study is the measurement instrument. The non-existence of a scale to better measure ambient, design and social factors of the shopping environment made it difficult to conduct sophisticated statistics and analysis of the irritation in the shopping environment.

It would be a worthwhile exercise for researchers to identify a valid and reliable scale for grouping irritations in the shopping environment. This will allow for more sophisticated analysis to be conducted to better understand irritation in the shopping environment, locally and globally.

It may be that key irritations were also missing from this particular study. Exploratory research could therefore aim to find more irritations, and specifically, irritations which are specific to South African consumers.

It may too be worthwhile and important for retailers to look at how irritations in the shopping environment affect store patronage, whether for example someone would return to a store after experiencing crowding. The results may have major managerial implications.



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# ROLE PERCEPTIONS OF SELLING TEAMS IN THE SUPPLY CHAIN OF A FAST-MOVING CONSUMER GOODS ORGANISATION

22



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## ABSTRACT

This study aims to reveal whether members of selling teams have misperceptions of their own role and if these misperceptions influence their performance. Members of selling teams often depend on salespeople within the supply chain to perform their own role, therefore members of selling teams may have misperceptions of the roles of other salespeople with whom they work and on whom they depend. These misperceptions may also influence the selling team's performance. The study employed an exploratory mixed method design. The first phase comprised the collection of qualitative data, and the quantitative phase was then based on the learnings from the first phase. The results show members of selling teams felt that the performance of other members had some sort of impact on their own performance. In addition, there was a significant relationship between the role perceptions of the roles of others within the selling team and their performance perceptions among some of the respondents.

## KEYWORDS

Sales management, Role perceptions, Key account management, Sales performance, Selling teams



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## INTRODUCTION

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The selling function employs more people than any other area within marketing in an organisation. The sales team is one of the most effective tools marketers have and apply to reach their target market (Blythe, 2005: 1), and organisations spend large budgets on personal selling, particularly those which engage in business-to-business marketing (Ingram, LaForge, Alvila, Schwepker & Williams, 2008: 25). In today's competitive environment, many organisations use a team-selling approach employing different types of salespeople throughout the supply chain.

Members of selling teams have specific functions in servicing key accounts that may range from day-to-day selling activities and servicing the customers' accounts, to maintaining knowledge around the customers and the market (Salojärvi, Saarenketo & Puumalainen, 2013: 7). The roles of Salespersons in organisations include responsibility for building relationships with profitable customers while ensuring that both the organisation and the customers' goals are met satisfactorily (Blythe, 2005: 11). Salespeople embody the organisation's customer orientation and have impact on customer relationships (Cross, Brashear, Rigdon & Bellenger, 2007: 285). Sales roles in a selling team may include order takers, delivery salespeople, missionary salespeople, technical salespeople, creative salespeople and direct salespeople (Blythe, 2005: 6). Ingram et al. (2008: 25-26) further classify salespeople based on their responsibilities as sales support, new business, existing business, internal sales, direct-to-consumer sales and combinations of the aforementioned. To be effective, the salesperson depends on the performance of three parties: customers, sales support and the organisation (Yoon, Seo & Yoon, 2004: 395). Key Account Managers (KAM) often work as part of a team to service their customers, and often rely on trade service salespeople or sales agents to provide merchandising and promotional support at retail level (Johnston & Marshall, 2010: 56). Previous studies (Massey & Dawas, 2007; Miao & Evans, 2007; Mukherjee & Malhotra, 2006) focused on the effects of the performance determinants identified by Johnston and Marshall (2006) and questioned whether these could explain the performance of individual salespeople.

This research aimed to determine the role perceptions of team salespeople such as key account managers and sales agents in the supply chain of a fast-moving consumer goods organisation in order to identify whether role misperceptions have an influence on performance perceptions. Although the importance of salespersons' role perceptions as a determinant of sales performance has been established by previous research (e.g. Johnston & Marshall, 2010), the importance of role perception of the role of others in a team selling situation is yet to be established by research.

The rest of the paper is organised as follows: The specific features of business-to-business selling, key account management, trade servicers and sales performance are discussed next. Then the research problem is described and the hypotheses are presented followed by the description of the research methodology employed. The findings are presented, as well as the discussion and management implications and limitations.

### SELLING IN A BUSINESS -TO -BUSINESS CONTEXT

In business or industrial marketing, selling becomes focused around building relationships or so called relationship selling (Pels, Möller & Saren, 2009:323). Armstrong and Kotler (2006: 363) define selling as: "the personal presentation by the organisation's sales force for the purpose of making sales and building customer relationships." Salespeople are a dynamic power in the business world as they help goods and services change hands (Ingram et al., 2008: 7-8). Selling is effective in complex situations where salespeople can probe customers in order to learn more about their needs and then adjust their presentations to fit the customer (Armstrong & Kotler, 2006: 363).

Salespeople are paid to sell on a daily basis and build positive long-term relationships with their customers, as up to 80 per cent of future sales are generated from present customers (Futrell, 2009: 7). Key account salespeople, who are often involved in business-to-business selling, are increasingly expected to act as dynamic business advisers and partners to customers (Piercy, 2010).

## **KEY ACCOUNT MANAGEMENT**

Key account management involves a practice employed by organisations to identify their important customers and dedicate a key account manager to these customers and who also serves as an internal advocate for these important accounts within the organisation . Organisations introduce key account management to maintain collaborative relationships with important customers and often assign substantial management resources to service these customers . Key account managers often sell products on behalf of a manufacturer to wholesalers and retailers. These representatives call on a large number of already established customers, frequently performing promoting activities as well as introducing new products (Futrell, 2009: 9-11).

## **TRADE SERVICER**

Johnston and Marshall (2006: 52) describe a trade servicer as: The trade servicer is responsible for increasing the business from current and potential customers and resellers such as wholesalers, retailers and distributors. A trade servicer, sometimes also referred to as a sales agent, may provide merchandising and promotional support to help the resellers sell to the final consumer. For the purpose of this study, trade servicers will from here onwards be referred to as sales agents. Sales agents often form part of a key account selling team and get involved at store level taking orders and providing merchandising and promotional support to wholesalers, retailers and distributors (Weitz, Castleberry & Tanner 2009: 0; Ingram, LaForge, Avila, Schwepker & Williams, 2006: 42) In this study, the sales agents were further subdivided into two groups based on their role responsibilities and type of customers they serviced, therefore the sales agents are referred to as Type A and Type B sales agents in this study.

## **SALES PERFORMANCE**

Managing the sales function is key to running an organisation efficiently due to the high cost involved in employing sales teams and the important role they fulfil in the organisation (Ingram et al., 2006: 256). Salespeople need to understand their role and the role of others in order to be effective in their job (Miao & Evans, 2007: 90). This role clarity positively influences job satisfaction, organisational commitment and performance (Mukherjee & Malhotra, 2006: 444-445). Salespeople may experience stress due to role misperceptions and this may lead to dysfunctional psychological and behavioural consequences (Johnston & Marshall, 2006: 213). There is a relationship between job satisfaction and the performance levels of salespeople (Yilmaz, 2002: 1393). Furthermore, literature supports the view that satisfied employees perform at higher levels, leading to improved customer perceptions of service quality (Zeithaml, Bitner & Gremler, 2009; Hartline & Ferrell, 1996; Schneider & Bowen 1985). According to Johnston and Marshall (2006: 206), role misperceptions may cause psychological stress and job-related anxiety that in turn, lead to lowered performance.

### **Job roles**

The role attached to a position in an organisation represents a set of activities or behaviours to be performed by a person occupying that position (Blythe, 2005: 123). Roles are largely defined

through the expectations, demands and pressures communicated to the employee by individuals, both inside and outside the organisation. These individuals may have a stake in how the person performs in the job, for example, top management, the individual's supervisor, customers and family members (Johnston & Marshall, 2006: 199).

### **Role perceptions**

Role perceptions of salespeople are influenced by role ambiguity and role conflict (Miao & Evans, 2007: 90). Role ambiguity occurs when the person does not have the necessary information to adequately perform his job (Futrell, 2001: 289-290), whereas role conflict may be described as the incompatibility of the expectations of two or more role partners (Miao & Evans, 2007: 90). Role misperceptions may produce job dissatisfaction and influence the salespeople's motivation which, in turn, may increase a turnover in human resources and a decrease in sales performance (Johnston & Marshall, 2006: 200).

Sales support also plays an important part in the salespeople's overall ability to perform their role. Further, the role performance of salespeople is influenced by numerous complex factors, many of which are the result of individuals' personal characteristics, motivation, and perceptions of their role (Futrell, 2009: 75). These factors are not independent from one another, and interaction between factors plays a role, as organisational variables interact with other role determinants and may facilitate or constrain performance (Johnston & Marshall, 2006: 197-201).

Motivation should also be considered when looking at performance as it moves people into a certain direction and may be internally generated from within the person, such as ambition, or externally, from the environment, in aspects such as, sales incentive (Blythe, 2006: 158). Salespeople often face the disappointment of being turned down and frequently have to approach strangers who may not always be ready or willing to buy from the salesperson. Therefore, they need to be motivated in order to be effective in their job (Dalrymple, Cron & DeCarlo, 2004: 457-458). Salespeople also work away from the supervision of the sales manager and motivation becomes important, as an unmotivated salesperson is unlikely to perform (Blythe, 2006: 158).

### **Performance measurement**

Sales performance evaluation is usually done by comparing the sales team's goals and objectives with actual achievements (Dalrymple, Cron, & DeCarlo, 2004: 533). Sales management utilises various sales force reports for weekly or monthly sales reports, activity or call reports, expense reports and other information such as sales and profit performance of the territory to evaluate the performance of a salesperson or team (Armstrong & Kotler, 2006: 413). In order to better understand sales performance, Johnston and Marshall (2006: 198) developed a model indicating that a salesperson's job performance is a function of five combined basic factors: role perceptions, aptitude, skill level, motivation, and personal, organisational and environmental variables.

## **RESEARCH OBJECTIVES**

The objective of the research was to establish whether members of a selling team may have misperceptions of their own role and the role of the other salespeople on whom they depend. In addition, it was endeavoured to establish if these misperceptions may influence the performance of the selling team. Due to the variations in the roles of different salespeople, a further objective of the study was to develop a questionnaire that could measure role perceptions of selling teams. Since salespeople play an important part in the successful selling of an organisation's products and the eventual success of the organisation itself, this study aims to contribute to improving the performance of salespeople by investigating the perceptions and possible misperceptions of selling teams that include key account managers and sales agents, regarding their roles within the team. A further contribution comprises the questionnaire that was developed in this study to measure role perceptions among selling teams.

## HYPOTHESES

The following hypotheses were formulated:

- H1** Significant and positive relationships exist between selling team members' own role perceptions and their rating of their own performance.
- H2** Significant and positive relationships exist between selling team members' perception of other selling team members' role and their rating of their own performance.

## RESEARCH DESIGN AND METHODOLOGY

This study employed an exploratory mixed method design in that the researcher first collected qualitative data and then built the quantitative follow-up using the learnings from the first qualitative phase (Harrison & Reilly, 2011: 12-15). Mixed methods have often proved to be the best opportunity for addressing the research problem in many studies (Malina, Nørreklit & Selto, 2011: 60). Exploratory designs are better for investigation relationships when the study variables are unknown or developing new instruments, based on a preliminary qualitative inquiry (Harrison & Reilly, 2011: 15).

The research had two phases with the first phase facilitating the design of the instrument used in the main study.

### Research design: First phase-qualitative

The first phase employed semi-structured interviews to identify important variables for the second phase. The total population in the supply chain consisted of key account managers and sales agents, totalling 122. However, as the intention of the first phase of the research was developmental, a purposive sample of 11 respondents was drawn. A convenience sample was drawn by asking the supervisors to identify respondents who would most likely be able to provide the required information. The sample consisted of supervisors of key account managers and sales agents, as well as articulate key accounts managers and sales agents, with proportional representation from key account managers and the sales agents' functions. This phase of the study was aimed at exploring the problem further and to develop a structured questionnaire to serve as the measuring instrument for the second phase on role perception. These respondents were excluded from the second quantitative phase of the study.

### Research design: Second phase-quantitative

The second phase of the study had a quantitative research design in that the researcher used the structured questionnaire that was developed in the first phase from which to collect data. This design was used as the researcher aimed to determine the perception of the respondents of their role within the selling team.

Further, the research design of the second phase of the study was a cross-sectional study, evaluating the state of variables at approximately the same time (Welman & Kruger, 2001: 86). Such studies are useful in obtaining an overall picture of the object as it stands at the time of the study (Kumar, 2005: 93). The design is best suited to studies aimed at finding out prevalence of a phenomenon, attitude or issue, by taking a cross-section of the population (Babbie, 1989: 89). Retrospective studies look into a situation, phenomenon, problem or an issue that has already taken place in the past and thus require respondents to recall the situation or, in this case, past experiences with the organisation and members of their selling teams (Kumar, 2005: 99).

Correlational designs examine the relationship between a number of variables and there are no manipulations or interventions (Sloan Devlin, 2006: 43). The main objective of correlational research is to establish the existence of an association, or interdependence between two or more characteristics of a situation, in this case role perception and performance (Kumar, 2005:1 0).

Therefore, this study had a cross-sectional, retrospective, correlational and mixed method, research design.

### Population

The population consisted of sales teams including key account managers, sales agents Type A and sales agents Type B, who were dependent on one another to perform their sales roles. The target population consisted of the salespeople employed in the supply chain of an organisation selling fast-moving consumer products (FMCG) across South Africa. The list of key account managers and sales agents was obtained from the companies in the supply chain targeting the South African market, hereafter referred to as the organisations. The population for the research was 122 mutually dependent salespeople who worked as a team within the supply chain of an FMCG organisation targeting the South African market.

### Sample

Due to the relatively small population size of key account managers and sales agents, the researcher endeavoured to take a census among them. The mutually dependent salespeople across Gauteng, Kwazulu-Natal, the Eastern Cape and the Western Cape working for the organisations were approached with the survey with the aim of obtaining as many responses as possible from each type of salesperson. Using organisations in the same supply chain reduced extraneous variables that may have affected the results.

### Data collection instruments and procedures

The first phase of the study included interviews with a convenient sample of salespeople and their supervisors. Table 1 shows the questions asked by the researcher and common responses provided by the respondents. These interviews were transcribed and common themes were identified and thereafter compared to the individual job descriptions received from the organisations. The information was then compiled and the questions were developed for questionnaires.

**TABLE 1: SUMMARY OF QUALITATIVE PHASE OF THE STUDY**

Questions in Interview guide	Common theme in responses	Key job function or measures as per Job description
Please tell me your position within the organisation	KAM (key account manager), district manager and sales representative	Key account manager, key account executive, district manager, sales representative
Please tell me what you are responsible for in your job	KAM: Deal with retail buyers of retail chains and negotiate deals in order to grow the organisation's product success at retail level Sales agent: Service retailers at store level to make sure that the deals that were negotiated at head office level are implemented at store level. Some were responsible for management of in-store merchandisers	"To deliver sustained competitive advantage for our brands at retail-level via the achievement of our volume, share and retail presence"
Please tell me about the order process within your organisation	Each channel has a different type of customer in it and each customer has a particular business model. Some channels are fully automated and the merchandising company only manages stock and others channels the merchandising company needs to take an order and place it with the calls centre	

Questions in Interview guide	Common theme in responses	Key job function or measures as per Job description
Please tell me about common problems that salespeople within your organisation experience	Communication problems regarding promotions and new products. Logistic issues where customers are not serviced on a regular basis	
Can you tell me how the performance of salespeople is measured within your organisation?	Sales agents have Sales targets. KAM has work and development plans which include a combination of qualitative and quantitative performance measures	KAM: <ul style="list-style-type: none"> <li>• Building the business and the organisation</li> <li>• Sales targets</li> <li>• Implementation of promotional activities</li> </ul> Sales agent: <ul style="list-style-type: none"> <li>• Promotional activities</li> <li>• Management of stock</li> <li>• Sales targets</li> <li>• Implementation of market activities</li> <li>• Good trade relationships</li> </ul>

As the second phase of the study consisted of quantitative research, the researcher used a self-completion questionnaire to collect data among the target population. The self-completion questionnaire was developed using the information from the qualitative interviews in phase one, their job descriptions and the literature review. The questionnaire made use of the Likert attitudinal scale to measure the different variables. The measuring instrument was tested for validity before the fieldwork commenced.

The self-completion questionnaire was not administered by the sales manager or human resource department in order to maintain confidentiality and honesty. Instead, the researcher personally conducted the survey among the salespeople to ensure the quality of the results and to assist respondents where/if necessary (Kumar, 2005: 214-215). After the respondents had been notified of the survey by their organisations, the researcher attended their sales meetings at the different locations to conduct the survey in person.

### Data analysis

Being a mixed method study, the data from phase one was analysed manually and the data from the second quantitative phase was analysed using the Statistical Package for Social Sciences (SPSS) version 17.

### Statistical analysis

Once the data had been coded and classified, the following statistical analysis was done: frequency distributions, central tendencies and dispersion analysis, which was followed by the testing of the hypotheses on salespeople's role perceptions and respondents' rating of their own performance. The validity of the research instrument could not be assessed by calculation of the Cronbach alpha coefficient due to the small target population size. Therefore, the validity of the research instrument was tested using organisational experts; these experts examined the questionnaire and the questionnaire was pre-tested among selected members of the populations.

## FINDINGS

### Profile of Respondents

The main empirical study collected information from key account managers and sales agents who are mutually dependent and working in teams within the same supply chain. There were 16 key



account managers out of the total group of 21 who completed the questionnaire, resulting in a response rate for this group of 76.2%. As mentioned earlier, the Sales Agents were further divided into Type A and Type B, based on their job responsibilities. Type A Sales Agents serviced large retail chains and Type B sales agents serviced independent wholesalers and retailers. The difference in the needs of these customers necessitated a distinction in the role and responsibilities of the sales agents who serviced them. The Type A sales agents consisted of 18 salespeople and the Type B salespeople consisted of 83 salespeople, totalling the sales agents in this study to 101. Between the two types of sales agents, 81 participated with a response rate of 80.2%. The key account managers who responded were mostly female under the age of 35, with only 20% being male. The sales agents on the other hand were mostly males between the ages of 25 and 45 years. The results also showed that most of the key account managers had a three year diploma, degree or postgraduate qualification, compared to the sales agents who mostly had a grade 12 education level. The key account managers who responded also mostly had less than 10 years' sales and marketing experience, whereas more than half of the sales agents had more than 10 years' experience.

### Salespeople's perceptions of their own sales performance

The study aimed to investigate both the influence of salespeople's role perceptions on their own performance, as well as their perception of the role of others in their selling team. Therefore, the questionnaire contained statements to determine how the different salespeople felt about their performance. This section covered how the respondents rated their own performance and how they felt about matters that influence their own performance.

The respondents were asked to rate their own performance and the results are shown in Table 2. Clearly, most of the respondents felt that their performance was above average with most of the respondents rating themselves either good or excellent.

**TABLE 2: SALESPEOPLE' RATING OF THEIR OWN PERFORMANCE**

	Key account managers	Sales agents: Type A	Sales agents: Type B
<b>Excellent</b>	13.3%	22.2%	41.2%
<b>Good</b>	66.7%	77.8%	54.0%
<b>Average</b>	13.3%	0%	4.8%
<b>Poor</b>	6.7%	0%	0%
<b>Total</b>	100%	100%	100%
<b>n</b>	15	18	63
<b>N</b>	16	18	63

The following section of statements required the respondents to indicate how they felt about their own performance by choosing the category that best described their perceptions. Table 3 shows the response categories used in the questionnaire and their coding.

**TABLE 3. CODING OF RESPONSE CATEGORIES**

Category	Coding
Strongly agree	5
Agree	4
Unsure/ neutral	3
Disagree	2
Strongly disagree	1

The respondents' who strongly agree and agree were grouped together, as well as those who disagree and strongly disagree.

Table 4 shows that:

- most of the respondents (62.5 % of key account managers, 81.3% of sales agents Type A and 78.3 % of sales agents Type B) felt they understood how their performance was measured, with 62.5% agreeing to the statement
- 50% of Type A sales agents felt that they did not need help from other people to meet the requirements of their job.
- most sales agents (100% of Type A and 83.6% of Type B) and only a third of the key account managers agreed with the statement that their own performance influences the performance of other salespeople with whom they work in the supply chain.

**TABLE 4: RESPONDENTS' OWN PERFORMANCE**

Statements	Agree	Unsure	Dis-agree	N	n	Mean	Standard deviation
<b>Key account managers</b>							
B25: I clearly understand how my performance is measured.	62.5%	25.0%	12.5%	16	16	3.75	1.0
B26: I can meet the requirements of my job without any help from other people.	6.3%	6.2%	87.5%	16	16	1.88	0.806
B27: My performance influences the performance of sales agents.	31.3%	43.7%	25.0%	16	16	3.0	1.095
<b>Sales agents: Type A</b>							
B25: I clearly understand how my performance is measured.	81.3%	18.7%	0.0%	18	16	4.13	0.719
B26: I can meet the requirements of my job without any help from other people.	50.0%	37.5%	12.5%	18	16	3.13	1.5
B27: My performance influences the performance of key account managers.	100.0%	0.0%	0.0%	18	16	4.31	0.479

Statements	Agree	Unsure	Dis-agree	N	n	Mean	Standard deviation
<b>Sales agents: Type B</b>							
B25: I clearly understand how my performance is measured.	78.3%	16.7%	5.0%	63	60	3.98	0.792
B26: I can meet the requirements of my job without any help from other people.	31.1%	6.6%	62.3%	63	61	2.72	1.171
B27: My performance influences the performance of key account managers.	83.6%	4.9%	11.5%	63	61	4.1	0.943

From Table 4 it is clear that key account managers understood how their performance was measured, but were unsure or disagreed that their performance influenced the performance of Sales Agents. The majority of sales agents (81.3% of Type A and 78.3% of Type B) also reported that they understood how their performance was measured. The majority of respondents (87.5% of key account managers and 62.3% of Type B sales agents) felt that they could not meet their job requirements without the help of others. Lastly, most of the Sales Agents (all Type A and 83.6% of Type B) felt that their performance influenced the performance of key account managers.

### Respondents' perceptions of their own role

From the literature review it was determined that a salesperson's perception of his own role was one of the factors that influence their performance, and therefore, section A of the questionnaire was designed to determine the salespersons' perception of their own role. In order to measure each respondent's perception of his own role, the questionnaire was designed using the information obtained from the literature review, semi-structured interviews and job descriptions obtained from the organisations in the supply chain. Specifically, the salespersons' job description and the information obtained in the interviews conducted in the first phase were used to formulate statements about the respondents' job responsibilities.

To determine if respondents understood their own jobs, they had to respond to all the same statements and identify the statements that relate to their specific role. Therefore, it was viewed that respondents understood their role if they agreed with the statements that relate to their own job description in the specific supply chain, and disagreed with the statements that did not relate to their job description. All unsure or neutral responses were regarded as incorrect, because if the respondent understood his own role, he should be able to indicate that the statement was either true or untrue by agreeing or disagreeing with the specific statement. For example, the key account managers had to disagree with statement: "In my job I place and manage point-of-sale materials in retail stores", because this activity is not part of the job of a key account manager in this supply chain.

The same coding was used as displayed in Table 3, with strongly agree and agree responses being combined, as were the strongly disagree and disagree responses. For the statements where correct and incorrect responses were expected, the responses were recoded into understood and misunderstood. The responses on role perceptions were grouped together around specific tasks that relate to each other. The main tasks were identified as sales targets, sales promotion, in-store space and activities, pricing activities and communication responsibilities. For the purpose of this article, only the respondents' general perceptions about their own role were reported. The detailed responses, combined with the salespersons' perception of their own performance, were used to test the hypotheses.

**TABLE 5: KEY ACCOUNT MANAGERS' PERCEPTIONS OF THEIR OWN ROLE IN GENERAL**

Statements	Agree	Unsure	Dis-agree	N	n	Mean	Standard deviation
<b>Key account managers</b>							
A1: I know exactly what I am responsible for in my job.	62.5%	12.5%	25.0%	16	16	2.5	1.033
A2: In my job, to satisfy some people, I have to upset others.	62.5%	37.5%	0.0%	16	16	2.38	0.5

Sales agents: Type A							
A1: I know exactly what I am responsible for in my job.	100.0%	0.0%	0.0%	18	18	4.56	0.511
A2: In my job, to satisfy some people, I have to upset others.	22.3%	33.3%	44.4%	18	18	3.11	1.568
Sales agents: Type B							
A1: I know exactly what I am responsible for in my job.	96.8%	1.6%	1.6%	63	63	4.56	0.616
A2: In my job, to satisfy some people, I have to upset others.	58.1%	3.2%	38.7%	63	62	3.34	1.342

From Table 5 it is clear that most of the respondents (62.5% of the key account managers, all Type A sales agents and 96.8% of Type B sales agents) were confident in that they understood what was expected from them in their role. Most of Type B sales agents (77.7%) did not agree with the statement that they have to upset others to satisfy some people in their job.

## RESPONDENTS' UNDERSTANDING OF THE ROLE OF MUTUALLY DEPENDENT SALESPeOPLE WITH WHOM THEY WORK IN A TEAM

The second hypothesis aims to determine if significant and positive relationships exist between salespeople's perception of other salespeople's roles and their rating of their own performance in the supply chain of a fast moving consumer goods organisation. Therefore, Section C of the questionnaire requested the respondents to respond to statements relating to the role of other salespeople with whom they work in the supply chain. The same group of tasks was used as identified in the previous section, namely sales targets, sales promotion, in-store space and activities, pricing activities and communication responsibilities. Table 6 shows the responses to statements relating to the role of salespeople with whom the respondents work within the supply chain of the organisation.

Respondents' perceived understanding of other salespeople's role in general  
Table 6 shows the results of respondents' perceived understanding of the role of other salespeople in the supply chain of the organisation in general. The results in Table 6 clearly show that 60% of key account managers were not confident that they knew what the other salespeople in their team were responsible for, even though the majority of the respondents agreed that the performance of other salespeople in the team influences their own performance (78.6% key account managers, 72.2% of sales agents Type A and 77.8% of sales agents Type B).

**TABLE 6: RESPONSES TO STATEMENTS RELATING TO OTHER SALESPeOPLE'S ROLES**

Statements	Agree	Unsure	Dis-agree	N	n	Mean	Standard deviation
Key account managers							
C28: I know exactly what sales agents are responsible for in their jobs.	40.0%	33.3%	26.7%	16	15	3.13	1.246
C48: The performance of sales agents does influence my performance	78.6%	21.4%	0.0%	16	14	4.36	0.842

<b>Sales agents: Type A</b>							
C28: I know exactly what key account managers are responsible for in their jobs.	77.8%	5.6%	16.6%	18	18	3.83	0.985
C48: The performance of key account managers does influence my performance	72.2%	5.6%	22.2%	18	18	3.67	1.328
<b>Sales agents: Type B</b>							
C28: I know exactly what key account managers are responsible for in their jobs.	59.6%	19.4%	21.0%	63	62	3.52	1.156
C48: The performance of key account managers does influence my performance	77.8%	1.6%	20.6%	63	63	3.86	1.229

## TESTING OF THE HYPOTHESES

In order to test whether significant and positive relationships exist between sets of variables, the researcher used Pearson product moment correlations. In this study, correlations between salespeople's rating of their own performance and role perception of their own , as well as the salespeople's role perception of other salespersons' roles in their team within the supply chain of a FMCG, organisation were investigated. The sample size of key account managers and Type A sales agents was too small to use parametric tests and therefore, Spearman rank tests were used for these two groups. Parametric tests were used for Type B sales agents, as the sample size was large enough and the variables were normally distributed. To be able to interpret the results described above, the researcher relied on a 95 per cent confidence and significant differences or correlations indicated by a p-value of 0.5 or less. Correlations were further classified into weak correlations where those qualified with a correlation coefficient of 0.1 to 0.3, moderate correlations were those with a correlation coefficient of 0.3 to 0.5, and a correlation coefficient of more than 0.5 indicated a strong correlation between the variables (Eiselen et al., 2005:87). The results of these hypotheses tests will be discussed next.

### Hypothesis 1

**H<sub>1</sub>** states that significant and positive relationships exist between selling team members' own role perception and their rating of their own performance.

Table 7 indicates a p-value of between 0.237 and 0.410, indicating no significant correlation and weak to moderate correlation coefficient reported among the respondents. Therefore, it can be concluded that there was no significant positive relationship between the perception of salespersons' own role and their rating of their own performance.

**TABLE 7: THE RELATIONSHIP BETWEEN SALESPERSONS' PERCEPTION AND THEIR RATING OF THEIR OWN PERFORMANCE**

	Rating of own performance	
	P-value	Correlation coefficient
<b>Perception of the of Key account managers of their own role</b>		
I know exactly what I am responsible for in my job.	0.410	0.130
<b>Perception of the of sales agent Type A of their own role</b>		
I know exactly what I am responsible for in my job.	0.209	0.405
<b>Perception of the of sales agent Type B of their own role</b>		
I know exactly what I am responsible for in my job.	0.237	0.061

## Hypothesis 2

H<sub>2</sub> states that significant and positive relationships exist between selling team members' perception of other selling team members' role and their rating of their own performance.

Table 8 shows that there is no significant positive relationship between the key account managers' and Type A sales agents' perception of the role of team members and their rating of their own performance. There is however, a significant and positive relationship between the Type B sales agents' understanding of the role of key account managers' responsibilities and the rating of their own performance. The results for Type B sales agents indicate a p-value of 0.008, indicating a significant correlation and a moderate correlation coefficient of 0.336.

**TABLE 8:** THE RELATIONSHIP BETWEEN SALESPERSONS' PERCEPTION OF SALES TEAM MEMBERS' ROLE AND THEIR RATING OF THEIR OWN PERFORMANCE

Statement	Rating of own performance	
	P-value	Correlation coefficient
Key account managers' perception of the role of sales agents		
I know exactly what sales agents are responsible for in their jobs	0.119	0.685
Sales agents Type A's perception of the role of key account managers		
I know exactly what key account managers are responsible for in their jobs	0.233	0.353
Sales agents Type B's perception of the role of key account managers		
I know exactly what key account managers are responsible for in their jobs	0.008**	0.336

\*\* Indicates significant correlation between the statement and own performance rating

## DISCUSSION

This study included selling teams consisting of key account managers and two types of selling agents: Type A and Type B. The key account managers were the smallest group who were missionary sellers dealing mainly with reseller groups at head office level. The sales agents were responsible for servicing the trade, which explains the larger proportion of participants being either a sales agent Type A or sales agent Type B. There were distinct differences in the education level of the key account managers when compared to the sales agents, which may be due to the profile of the customer whom the key account managers are servicing. However, the key account managers had, on average, less sales and marketing experience compared to the sales agents in their team.

The respondents indicated that they understood how their performance was measured and most of the respondents felt positive about their level of performance, rating their own performance as either good or excellent. Furthermore, the respondents felt confident that they know what was expected of them in their role. Key account managers and Type A sales agents indicated that they sometimes experienced role conflict, whereas most Type B sales agents disagreed.

Type A sales agents felt they were not reliant on other selling team members to meet the performance requirement of their job. Key account managers, on the other hand, were unsure of how their performance influenced the performance of other members in the selling team. This may be expected as most of the key account managers said they were unsure of the role of members of the selling team, even though they felt that these members influenced their own performance.

This being said, there seems to be no relationship between the salespersons' role perception and their perception of their own performance. Furthermore, on the investigation into the relationship of the understanding of the role of other members of the selling team and the salespersons' own role perception, only Type B sales agents indicated a moderate correlation.



## **MANAGERIAL IMPLICATIONS**

There seems to be a gap between the experience and education of the members of selling teams. These gaps may increase conflict within selling teams as some members may feel that the education and experience may influence other members' role perceptions. Key account managers, for example, who have less experience, do not understand how their performance influenced other members of their selling teams and were also not completely aware of what the other members' roles were. Furthermore, some of the selling team members who had less education felt that they were not dependent on other teams, which could indicate that these team members either felt that they could not depend on other team members or they might be duplicating the efforts of other team members. The main aim of this study was to identify a relationship between role perception of selling teams' members and their performance, but respondents did not clearly link their role perception with performance. Those respondents who felt unsure about their own role still thought they performed well at their job. This is a major concern as role perceptions are one of the determinants identified for sales performance and management of salespeople and selling teams should address this. Also, the relationship between respondents' understanding the role of other team members and their own performance perceptions, is an indication of the importance of educating selling teams about the dynamics of team work and how efficiencies are created in the supply chain by employing sales teams. Therefore, it is clear that managers of selling teams need to put more emphasis on the influence of role perceptions in general, and how to better understand their own role and the role of selling team members. This may result in better sales performance.

## **LIMITATIONS AND SUGGESTIONS FOR FUTURE RESEARCH**

Although this study contributes to research on selling teams and role perceptions among salespeople, it also has some limitations that should be addressed in future research. Firstly, the performance perception of the respondents was used and it is suggested that, in future studies, the performance perception of the supervisor or sales manager of the respondents should be used. Furthermore, the influence of other performance indicators such as motivation was not tested. In addition, the respondents in this study were employed by more than one organisation and therefore, the organisational factors that influence role perceptions could not be investigated. Finally, as the respondents of this study came from one supply chain, it is recommended that this study should be duplicated in different supply chains to determine if similar results are obtained.



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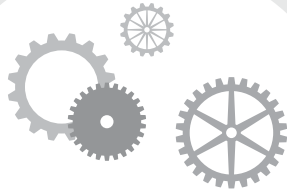
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## A COMPARATIVE ANALYSIS OF BRAND LOYALTY OF COMMON HOUSEHOLD PRODUCTS

23



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### **ABSTRACT**

The extensive review of literature and previously tested brand loyalty models resulted in the development of a validated brand loyalty model by Moolla (2010). The model succeeded in the identification of a manageable set of 12 reliable and valid brand loyalty influences that impact directly on brand loyalty of the Fast-moving Consumer Goods (FMCG's) industry. This paper reports on a study that further tests and applies the FMCG model by Moolla on brand loyalty of common household products. Three products have been selected to test brand loyalty in households, namely coffee, bread and toothpaste. In addition to assessing the brand loyalty of each of the products across the 12 brand loyalty influences, comparative analysis was also performed to see if there are differences between these three consumer products. The empirical was conducted among a sample of 550 customers who had access to a wide range of FMCG's. The results showed that consumers did not perceive brand loyalty influences to differ when they evaluate brand loyalty of coffee, toothpaste and bread. The results, therefore, confirmed that FMCG's could all be treated as a single entity when evaluating the influences of brand loyalty.

### **KEYWORDS**

Brand loyalty; Brand equity; Model; Brand influences

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## INTRODUCTION

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Since the emergence of branding as an approach to marketing, the concept has been received with a great deal of interest and has stimulated ever increasing research in the area. Businesses have realized the importance of retaining existing customers and have begun to identify and apply ways to build long-term relationships with customers. These relationships with customers require an understanding of customer needs, business requirements and the influences that create a long-term relation which is more commonly known as brand loyalty. Several research studies including this one present the results of brand loyalty research in the form of a conceptual framework. From an academic viewpoint, the identification and application of all the relevant influences are essential in the construction of a framework that can guide the promotion of brand loyalty.

Over the years the marketing environment has continuously evolved. These significant changes have resulted in a renewed effort by marketing academics and practitioners to understand and serve the needs and wants of consumers. These renewed efforts have resulted in the development of several orientations to marketing, such as the production, product, selling, marketing and societal marketing orientations (Kotler, 2003: 17). The concept of brand loyalty first appeared as a uni-dimensional construct. Two separate loyalty concepts then evolved, one to measure attitude and one to measure behaviour in the 1950s. The bi-dimensional construct or composite model presented by Jacoby in 1971 combined both the attitudinal and behavioural construct signalling the beginning of much interest in brand loyalty research (Rundle-Thiele, 2005: 494). Using the composite model as a base, several models have emerged since offering new dimensions and influences in various industries. Most notable was the model offered by Dick and Basu (1994: 111) which identified the need to define the different manifestations of composite loyalty as separate dimensions. The concept brand loyalty became one of the most researched topics within the field of services marketing from the 1990s onwards. With the increased interest in a more relational approach to marketing, the focus was now on building long-term relationships with customers. This approach was in contrast with the traditional view of transactional marketing, where the emphasis was on single transactions (Rao & Perry, 2002: 602). This new approach to marketing was met with enthusiasm, and represented, according to Scott (2006: 39), "a fundamental reshaping of the field". It became quickly apparent that retaining a customer was far cheaper and convenient than creating a new one. Successful marketing requires a balance between creativity and knowledge (Lamb et al., 2008: 211), and in this regard, branding has emerged as a more recent orientation that provides marketers with that balance of creativity and knowledge.

### PROBLEM STATEMENT

Branding has surfaced as a primary tool used to distinguish a company's products from that of the competition. Branding, according to Lamb, Hair, McDaniel, Boschoff and Terblanche (2008: 214) has three main purposes, namely product identification, repeat sales (loyalty) and enhancing new products. Firms in the last decade have recognised the importance of branding on these three levels and have discovered the benefits of retaining customers rather than seeking new ones. Brand loyalty is one way to ensure customer retention, and actively measuring and managing brand loyalty could be employed as tools in the competitive strive. However, measuring and managing brand loyalty of individual products could become impractical due to its enormity, and it would be beneficial of brand loyalty influences and management could be combined into groups or industries with communalities. As a result, this study randomly identified three frequently used consumer products in the fast-moving consumer goods category and compared the consumers' brand loyalty behaviour with regard to brand loyalty influences within these products. This was done to determine communities exist, and as such, if brand loyalty behaviour are similar amongst diverse FMCG products.

## OBJECTIVES OF THE STUDY

The primary objective of this study is to determine if the primary influences of brand loyalty in the FMCG are similar.

To address this primary objective the following secondary objectives were formulated, namely to:

- Apply the validated brand loyalty influences to each of the three products (coffee, bread and toothpaste);
- Determine if the brand loyalty influences differ between these products; and
- Assess the reliability of these brand loyalty influences.

## KEY BRAND LOYALTY INFLUENCES

Research studies over the past decade have uncovered several influences of brand loyalty. The research studies conducted has examined the influences from a behavioural, attitudinal and multi-dimensional perspective.

While a number of influences have been identified and tested over the years, it is not possible to test the strength of each and every one. Based on the literature review and brand loyalty studies by acclaimed academics – Jacoby and Chestnut (1978), Traylor (1981), Dick and Basu (1994), Park (1996), Chaudhuri and Holbrook (2001), Giddens (2001), Jensen and Hansen (2002), Schijins (2003), Musa (2005), Rundle-Thiele (2005), Punniyamorthy and Raj (2007), Kim. et al. (2008) and Maritz (2007) as well as other studies on the influences of brand loyalty, the following 26 influences have been identified.



FIGURE 1: KEY BRAND LOYALTY INFLUENCES USED IN RESEARCH STUDIES

However, further analysis of the research by Jacoby and Chestnut (1978), Traylor (1981), Dick and Basu (1994), Park (1996), Chaudhuri and Hoibrook (2001), Giddens (2001), Jensen and Hansen (2002), Schijins (2003), Musa (2005), Rundle-Thiele (2005), Punniyamorthy and Raj (2007), Kim et al. (2008) and Maritz (2007) focus on identifying the key influences of brand loyalty (thus reducing the list of 26 brand loyalty influences to 12). These common and key brand loyalty influences from their studies are as follows:



### **Customer satisfaction**

A number of academic studies in recent years have shown that satisfied customers do not necessarily buy more or more often, in any category (Gustafsson, Johnson & Roos, 2005: 210). Satisfaction as a proxy for loyalty is relative to each brand's position in the market at any given time. "If we accept that the perception of value most heavily influences comparative purchase decisions at any point in time, and past satisfaction is but an element of that perception, then if company B offers me greater value, all my satisfaction with company A likely will not prevent my switching for greater relative value" (Engels, 2005: 4). Customer satisfaction has therefore emerged as the most commonly used variable to measure brand loyalty and is present in almost every brand loyalty research study (Martenson, 2007: 547).

### **Switching costs**

In many markets, consumers face non-negligible costs of switching between different brands of products or services. As classified by Klemperer (1987: 376), there are at least three types of switching costs: transaction costs, learning costs, and artificial or contractual costs. Transaction costs are costs that occurred to start a new relationship with a provider and sometimes also include the costs necessary to terminate an existing relationship. Learning costs represents the effort required by the customer to reach the same level of comfort or facility with a new product as they had for an old product. Artificial switching costs are costs created by deliberate actions of firms and are very common in the marketplace: frequent flyer programs, repeat-purchase discounts, and "clickthrough" rewards are all examples (Aydin, Ozer & Arasil, 2005: 27).

### **Brand trust**

Trust exists "when one party has confidence in an exchange partner's reliability and integrity" (Morgan & Hunt, 1994: 27). It is suggested that trust positively affects commitment (Dwyer, 1987: 15; Morgan & Hunt, 1994: 28; Odekerken-Schröder, 1999: 79; Schijns, 1999: 303), and is the basis for loyalty. Research by Garbarino and Johnson (1999: 76) found a strong relationship between loyalty and brand trust. Their research suggested that there is a distinct need of trust in developing positive and favourable attitudes towards brands. According to Hess (1995: 21), brand trust is the central construct for any long-term relationship and is an important contributor in attaching a kind of emotional commitment that leads to long-term loyalty. The research results of Garbarino and Johnson (1999: 77) and Hess (1995: 21) suggest that it is reasonable to expect that the higher the feeling of trust in a brand, the more the consumers are loyal to it and a higher level of brand trust leads to a higher level of brand loyalty.

### **Relationship proneness**

Relationship proneness is an individual characteristic of the buyer, and is defined as "a buyer's relatively stable and conscious tendency to engage in relationships with sellers of a particular product category" (Odekerken-Schröder 1999: 44; Storbacka et al. 1994: 266). Similarly, Bloemer and Odekerken-Schroder (2002: 69) describes relationship proneness as the stable tendency of a consumer to engage in relationships with retailers and can therefore be considered as a part of a consumer's personality.

### **Brand involvement**

Gordon, McKeage and Fox (1998: 44) claim that product involvement involves an ongoing commitment on the part of the consumer with regard to thoughts, feelings and behavioural response to a product category. Miller and Marks (1996: 123) state that involvement is an unobservable state of motivation, arousal or interest toward a product. Park (1996: 244) confirms

that his research provided additional evidence that involvement is closely related to intentions and behaviours, corroborating evidence from numerous studies. Studies by Jacoby and Chestnut (1978); Park (1996) and Traylor (1981) that examined the relationship between product involvement and loyalty indicate a definite correlation.

### **Perceived value**

•Punniyamoorthy and Raj (2007: 233) describe perceived value as the consumer's overall assessment of the utility of a product based on perceptions of what is received and what is given. Voss et al. (2005: 32) are of the opinion that perceived value is made up of several of the following components:

- Functional value
- Emotional value
- Price-worthiness factor
- Social value

### **Commitment**

According to Kim et al. (2007: 112), brand commitment occurs when consumers pledge or bind themselves to purchase the brand. Customer commitment is a central construct in the development and maintenance of marketing relationships because it is a key psychological force that links the consumer to the selling organisation (Bansal et al., 2004: 238). The nature of commitment, according to Fullerton (2005: 101), is that it is an attitudinal construct representing customer feelings about the act of maintaining a relationship with a commercial partner. Delgado et al. (2003: 51) argue that commitment explains the process by which it is presumed that a customer is loyal because he/she has a favourable attitude toward the brand and is also a frequent buyer of that brand. This process is a feature of brand communities in which consumers share identification with a brand they consume as individuals and as part of the community (McAlexander et al., 2002: 44).

### **Repeated purchase behaviour**

The consistent repeat purchase is one kind of "Loyalty-Prone" behaviour (Cunningham, 1956: 119) which forms the base for brand loyalty. Repeated purchase behaviour is an axiomatic term that simply refers to the extent to which consumers re-purchase the same brand in any equal-length period of time (Ehrenberg, 1988: 176). The strength of behavioural brand loyalty is, therefore, directly a function of the repetitive occurrence of purchase or consumption behaviour. Saaty (1994: 20) asserts that the consumer establishes a systematic biased response or habit simply due to the frequency of encounters.

### **Brand affect**

Brand affect is defined as the potential in a brand to elicit a positive emotional response in the average consumer as a result of its usage (Chaudhuri & Holbrook, 2001: 145; Morgan & Hunt 1994). In another study, brand affect is defined as a brand's potential to elicit a positive emotional response in the average consumer as a result of its usage (Moorman et al., 1992: 34). Most commonly, affect is characterised in terms of two independent dimensions: positive and negative. Several authors suggest that people strive to experience positive affect and avoid negative effect. Furthermore, Ladhari (2007: 1088) finds a positive relationship between positive affect experienced in a retail context and willingness to buy. Moreover, they report that the positive affect may mediate the effects of store image on loyalty. In line with De Ruyter and Bloemer (1999: 325) positive affect is defined as the extent to which an individual affirms a zest for life.

## Brand relevance

With the geometric proliferation of increasingly meaningless brands in the marketplace, consumers are now seeking brands that establish relevance (Moore, 2003: 331). A brand, according to Tucker (2005: 1), needs to stand for something that actually matters in a world of too many brands for human cognition. Brands that are relevant (it has freshness about them and portray positive significance) are a key component in ensuring brand loyalty (Kea, 2008: 2). As businesses, non-profits, and governmental entities alike are embracing branding and spending more money on marketing, their brand messages need to become more complex and orchestrated to carry more meaning and to establish effective brand relevance. The traditional strategies of repetition are inadequate of themselves to create either the “authentic newness” or the “individual.

## Brand performance

Perceived performance is the customer's evaluation of product or service performance following the consumption experience. Brand performance as stated by Musa (2005: 47) is the subjective evaluation of the core product (that is, attributes of the focal product), comprising both intrinsic (effectiveness) and extrinsic (packaging) characteristics. Direct seller performance refers to performance-delivery elements including the direct salesperson's characteristics and services offered (Endut, 1999: 79; Raymond & Tanner, 1994: 340).

## Culture

Kotler and Keller (2006: 177) regard family as the most important consumer buying organisation in society. Sahay and Sharma (2010: 16) confirm that young individuals remain loyal to family brands until other factors take over. Lamb et al. (2008: 267) maintains that family and culture play an integral role in purchasing behaviour and brand loyalty. Bravo, Fraj and Martinez (2007: 58) add that family introduces a psychological dimension to brand loyalty in that it indirectly assures security and trust through generations of use. Bravo et al. (2007: 58) also maintain that nostalgia is a related factor that keeps individuals loyal to classical brands.

The brand loyalty influences and the researchers who that identified these influences are shown in Table 1.

TABLE 1: COMMON BRAND LOYALTY INFLUENCES

	Influence	Researchers
1	Customer Satisfaction	Punniyamoorthy and Raj (2007), Engels (2005), Musa (2005), Schijins (2003), Delgado <i>et al.</i> (2003), Dick and Basu (1994), Jacoby and Chestnut (1978).
2	Switching Costs	Kim, Morris and Swait (2008), Maritz (2007), Schijins (2003), Morgan and Hunt (1994), Dick and Basu (1994), Jacoby and Chestnut (1978).
3	Brand Trust	Punniyamoorthy and Raj (2007), Musa (2005), Schijins (2003), Chaudhuri and Holbrook (2001), Garbarino and Johnson (1999), Dick and Basu (1994), Jacoby and Chestnut (1978).
4	Relationship Proneness	Kim, Morris and Swait (2008), Schijins (2003), Chaudhuri and Holbrook (2001), Odekerken-Schroder (1999), Dick and Basu (1994), Jacoby and Chestnut (1978).
5	Brand Involvement	Kim, Morris and Swait (2008), Punniyamoorthy and Raj (2007), Musa (2005), Giddens (2001), Park (1996), Dick and Basu (1994), Jacoby and Chestnut (1978).
6	Perceived Value	Kim, Morris and Swait (2008), Punniyamoorthy and Raj (2007), Musa (2005), Schijins (2003), Giddens (2001), Garbarino and Johnson (1999), Dick and Basu (1994), Jacoby and Chestnut (1978).
7	Commitment	Kim, Morris and Swait (2008), Punniyamoorthy and Raj (2007), Musa (2005), Schijins (2003), Chaudhuri and Holbrook (2001), Garbarino and Johnson (1999), Dick and Basu (1994), Jacoby and Chestnut (1978).

8	<b>Repeat Purchase</b>	Kim, Morris and Swait (2008), Punniyamoorthy and Raj (2007), Musa (2005), Schijins (2003), Chaudhuri and Holbrook (2001), Garbarino and Johnson (1999), Dick and Basu (1994), Jacoby and Chestnut (1978).
9	<b>Brand Affect</b>	Musa (2005), Schijins (2003), Chaudhuri and Holbrook (2001), Moorman, Zaltman and Deshpande (1992), Dick and Basu (1994), Jacoby and Chestnut (1978).
10	<b>Brand Relevance</b>	Kim, Morris and Swait (2008), Tucker (2005), Musa (2005), Schijins (2003), Chaudhuri and Holbrook (2001), Giddens (2001), Dick and Basu (1994), Jacoby and Chestnut (1978).
11	<b>Brand Performance</b>	Musa (2005), Schijins (2003), Chaudhuri and Holbrook (2001), Endut (1999), Dick and Basu (1994), Jacoby and Chestnut (1978).
12	<b>Culture</b>	Punniyamoorthy and Raj (2007), Mann (2007), Musa (2005), Schijins (2003), Chaudhuri and Holbrook (2001), Dick and Basu (1994), Jacoby and Chestnut (1978).

(Source: Moolla & Bisschoff (2012: 77))

## BRAND LOYALTY AND FAST MOVING CONSUMER GOODS (FMCG)

The term fast moving consumer goods (FMCG) refers to goods of daily use bought by retail consumers, like toothpaste, soaps and detergents, deodorants, and more. These are usually purchased as an outcome of small-scale consumer decisions so FMCGs are usually supported (advertising, promotion) by the manufacturers. FMCG are called so because the basic unit of sale is a FMCG that needs to be made available at point of sale, and replenished (Seyama, 2006: 19).

In the past, marketing and branding activities were mainly directed towards high cost goods and consumables. Very little attention was given to FMCG as the common belief was that the margins were too low for the investment and effort required (Dacko, 2006: 283). Success in the Indian market, however, soon made marketers pay attention to the potential of this industry. The Indian FMCG sector is now the fourth largest sector in India's economy with a total market size in excess of US\$ 13.1 billion. The FMCG market is set to treble from US\$ 11.6 billion in 2003 to US\$ 33.4 billion in 2015 (Khanna, 2006: 22). Since 2005 countries from around the world began branding efforts in the FMCG sector. A Data Monitor (2010) tracking study indicates growth in the South African FMCG sector has been good with an annual growth rate (CAGR) of 6.5% for the period spanning 2005-2009 (Data Monitor: 2010). The success of FMCG companies can also be noticed on the annual Interbrand global brands survey, where for the first time in 2009, two FMCG companies (Lacome and Campbell's) entered the top 100 list in positions 91 and 100 respectively (Interbrand, 2009).

## RESEARCH METHODOLOGY

### Data collection

A sample of 550 post graduate management students in full time employment was randomly selected for the study. The sample size conforms and exceeds the recommendation by Hair et al. (1998: 124) in that the number of respondents should be a ratio of 14 observations to each variable in order to perform factor analysis. When the 36 variables identified in 12 categories are multiplied by the suggested 14 observations, a sample of 504 is recommended. This sample was drawn from four South African business schools namely: Management College of Southern Africa (MANCOSA), Regent Business School, University of KwaZulu-Natal and North-West University. This also meant that the survey was conducted in major South African cities that primarily make up the South African business segment. The cities in which the survey was conducted were Durban, Johannesburg, Cape Town, Port Elizabeth, East London, Bloemfontein, Polokwane and Potchefstroom. The sample consisted of middle and top managers with a minimum of three years' work experience. From the population a sample was drawn to include managers currently studying towards a Post Graduate Diploma in Management or a Masters of Business Administration Degree. The rationale for selecting a sample with such characteristics is that the sample:

- sets a minimum educational level for entry into the research;
- represents a segment that is more informed about contemporary business practices;
- represents a community that is more likely to analyse their own purchasing behaviour;
- represents middle to higher income earners that have a wider choice of brands to consider in their purchasing decision;
- represents a segment of middle to higher income earners whose brand choices are shielded the economic downturn;
- represents a segment that falls between LSM 6 to LSM 10 category which according to Martins (2007: 168) is responsible for 64.1% of the food expenditure in South Africa; and
- would be able to understand the terminology and nomenclature specified in the questionnaire.

The validated questionnaire developed by Moolla (2010) was used to measure the brand loyalty using the 12 influences in of brand loyalty. For the present study, the technique comprised a process where respondents had to evaluate the importance of each of the influences relative to the remainder of the influences using a 7-point Likert scale (Syque, 2010: 1).

A direct approach was used to distribute the questionnaires to respondents. This method was regarded as appropriate since respondents that satisfied the demographic profile of the study were available at lectures at the several venues in South Africa and at the same time. This questionnaire was accompanied by a covering letter that provided the reasons for the study. Respondents were encouraged to participate in the study. Volunteering respondents were given 30 minutes to complete the questionnaire. It was possible to distribute and collect the questionnaires within 30 minutes as groups of respondents were at the same place at the same time. It was also possible to achieve a highly favourable questionnaire return rate of 98% (541 out of 550) using the direct approach.

### Data analysis

The Statistical Package for the Social Sciences Incorporated (SPSS Inc) was used to statistically analyse the data collected in the survey. Descriptive statistics (means and standard deviations) were used to analyse the data. Construct validity of the questionnaire was assessed by means of an exploratory factor analysis. Cronbach alpha coefficients were used to assess the reliability of the measuring instrument ( $\alpha \geq 0.70$ ) (Field, 2007: 666). The Bartlett test of sphericity was used to examine whether a variance-covariance matrix was proportional to an identity matrix and to examine the appropriateness of factor analysis in this research study ( $\leq 0.005$ ). The Kaiser-Meyer-Olkin (KMO) measure of sampling adequacy was utilized ( $\geq 0.70$ ).

In order to compare two factor structures that have been extracted by factor analysis, the normal visual comparison (or so-called eyeball test) is employed to determine if the same statements loaded onto each of the factors. Although it may reveal interesting comparisons on the common statements and their factor loadings, this comparison is neither scientific nor accurate (Wuensch, 2009: 11). Another acceptable method of factor comparison is to make use of correlation coefficients between the factors (Wuensch, 2009: 13). If strong correlations exist between the factors and its statement that loads onto the factor, it is plausible to perform comparative analysis between the factors (such as the analysis of service gaps and the calculation of the effect size (Cohen, 1988: 231). The factor congruent correlation coefficient is usually calculated to serve this purpose, but a factorial Pearson coefficient is also regarded as a satisfactory correlation measure

(Wuensch, 2009: 13-14). The method of choice in this study is the Pearson correlation coefficient because of its ability to not only determine the differences in the two factors' pattern of loadings, but also the differences (or similarities) in the magnitude of these loadings, even if dissimilarities exist in the factor loadings (Du Plessis, 2010: 121).

## RESULTS

The demographic profile of respondents is provided followed by quantitative analysis of data.

### Demographic profile

The demographic profile of the respondents is shown in Figures 2 to 6. The respondents were classified according to their gender, income levels, geographic location, race and industry they are working in.

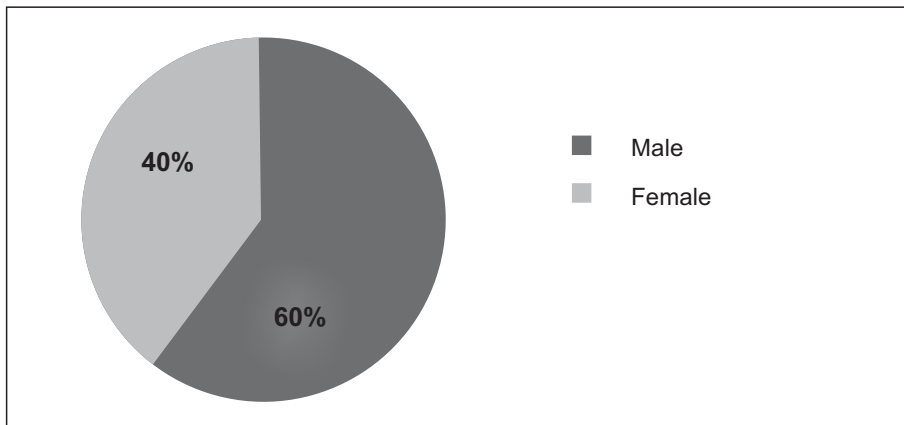


FIGURE 2: GENDER PROFILE

Figure 2 simply depicts a split of 60/40 between male and female respondents. This indicated good representativity from both gender groups in South Africa and thus generated a more representative respondent profile in keeping with the South African gender demographic profile of 1.02 male per 1 female (StatsSA, 2010: 1).

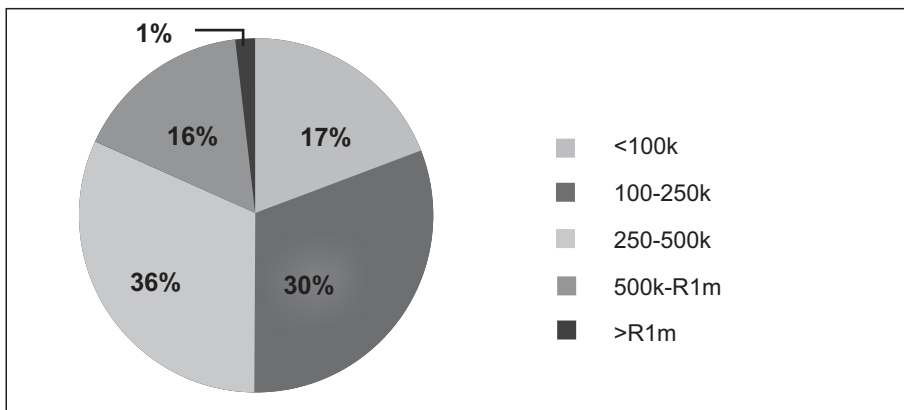


FIGURE 3: INCOME PER ANNUM

Figure 3 shows that just 17% of the respondents earned below R100 000 per annum. The remaining 83% earned from R100 000 to amounts exceeding R1 000 000. This indicated that respondents



were financially secured. The profile is also useful in that high earners are minimally effected by economic fluctuations, could access a wide variety of consumer brands and are not usually price sensitive (Kim, Ko & Yang, 2005: 295).

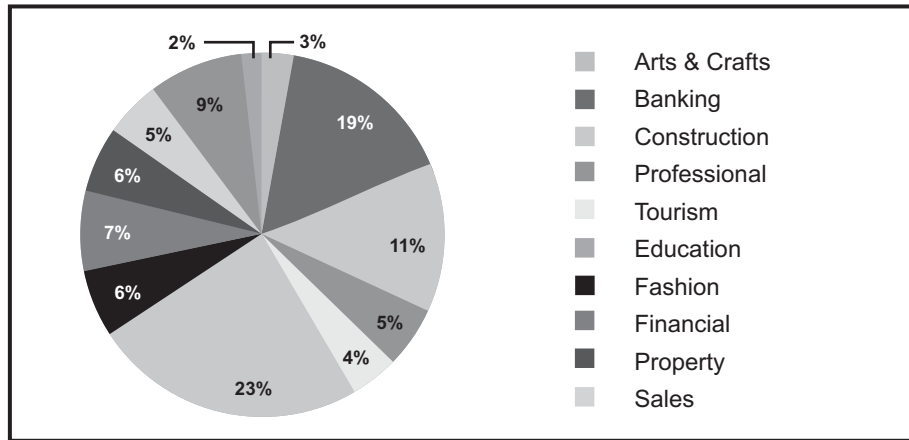


FIGURE 4: INDUSTRY OF EMPLOYMENT

The respondents (as shown in Figure 4) emanated from a wide variety of economic industries. This was useful in that it demonstrated representation from the professional, skilled and semi-skilled workforce, all of whom display dissimilar buying behavioural patterns towards consumer goods and brands. It also takes into account the research results of Evanschitzky and Wunderlich (2006: 341) in that occupation is positively related to the antecedents of product choice.

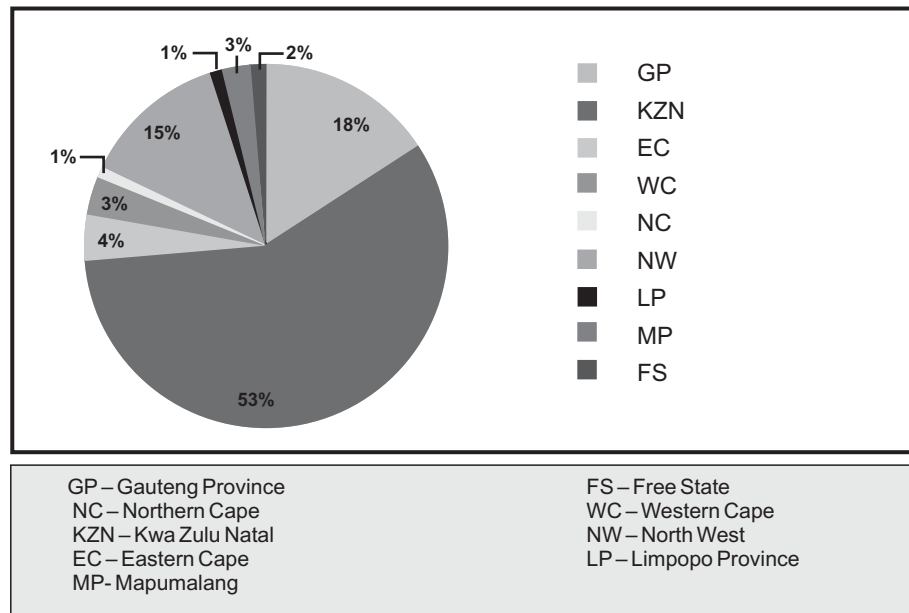
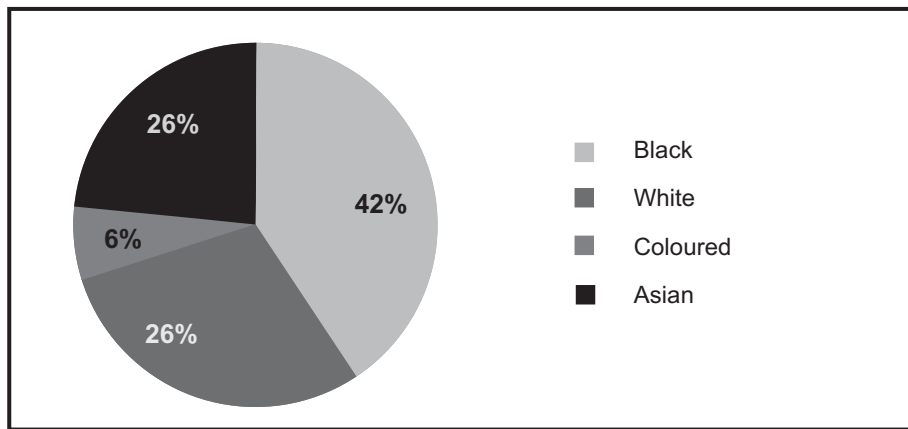


FIGURE 5: GEOGRAPHIC DISTRIBUTION OF RESPONDENTS

Figure 5 indicates good geographic coverage for this research study considering consumers in all nine provinces of South Africa. This consideration added value to the study in that it took into account cultural and cross cultural differences as far as buying behaviour is concerned bearing in mind the diverse cultures that exist in South Africa. Lam (2007: 16) confirms that culture has a direct bearing on brand loyalty and the need to consider cultural differences across various regions is an important consideration for a holistic portrayal of brand loyalty.



**FIGURE 6: RACE PROFILE**

The race profile of the respondents in this study is in keeping with the overall race demographics of South Africa. Ensuring an equitable representation of all race groups once again certified that the effects of culture in brand loyalty were considered in keeping with the research results by Ha, Janda and Park (2009: 211) and Lam (2007: 16) that confirm that culture and sub culture have a definite bearing on brand choice.

### Quantitative analysis

Each of the 12 influences was analysed by means of factor analyses to determine if the three different consumer products (toothpaste, coffee and bread) do yield a similar factor or factors. This comparison was conducted to determine whether all three products could be treated and analysed as a single entity. Comparisons per response are represented in Tables 2 to 13. A three-point test was conducted to determine the similarities between influences. The three-point test examined for similarities in the statistics loaded on the component matrix, the variance explained and the correlation coefficients.

Each table provides a component matrix representing values for each product in each question and explains the percentage variance for each product factor per product category. Each product is then compared with the other by means of Pearson correlation coefficient to determine the similarity between them.

The Kaiser-Meyer-Olkin (KMO) measure is utilized to examine the appropriateness of factor analysis in this study. Judgements are based on the recommendations by Hutcheson and Sofroniou (2009: 233) who indicate that a value close to 1 indicates that patterns of correlations are relatively compact and so factor analysis should yield distinct and reliable factors. Values between 0.5 and 0.7 are mediocre and values between 0.7 and 0.8 are good, values between 0.8 and 0.9 are great and values above 0.9 are superb (Field, 2007: 66). The Bartlett test of sphericity is used to determine if each set correlates perfectly with itself ( $r = 1$ ) or has no correlation with the other variables ( $r = 0$ ). Finally, Cronbach alpha is used to test the reliability of data for subsequent analytical scrutiny where the recommendations of Field (2007: 668) is used in that an alpha coefficient of 0.7 is sufficient subsequent analytical scrutiny even though Moss et al. (1998: 180) suggest that an alpha score of 0.6 is generally acceptable.

Tables 2 to 13 reveal the component matrix for each FMCG product based on the factors from the questionnaire. The correlation coefficient is also indicated which reveals the nature of similarity between the products. Finally, the tables provide results for adequacy and reliability.

**TABLE 2: FACTORANALYSIS AND CORRELATIONAL ANALYSIS FOR CUSTOMER SATISFACTION**

Influence 1 Customer Satisfaction (CUS)			
Question	Component Matrix		
	Toothpaste	Coffee	Bread
CUS01	.748	.753	.649
CUS02	.769	.818	.821
CUS03	.598	.751	.699
CUS04	.406	.454	.417
CUS05	.761	.754	.688
Variance Explained	45%	51%	45%
Pearson Correlation Coefficients			
Adequacy: Kaiser-Meyer-Olkin	.692	.769	.627
Sphericity: Bartlett's Test	.000	.000	.000
Reliability: Cronbach Alpha	.681	.751	.675

For Customer Satisfaction, one factor was extracted in each consumer product. Values on the component matrix per question related to each product yielded similar results. The analyses of the Pearson correlation coefficients show that a very high correlation exists (>0.91) between all three the influences identified. All three factors declared almost the same % variance and this suggests that there is no difference between toothpaste, coffee and bread as consumer products with regard to customer satisfaction in brand loyalty. The three products can thus be treated as a single entity.

The Kaiser-Meyer-Olkin (KMO) measure yielded factors from .62 to .75. which falls in the mediocre to good range signifying that factor analysis should yield distinct and reliable factors while the Bartlett test of sphericity indicates that each set correlates perfectly with itself ( $r = 1$ ) but has no correlation with the other variables ( $r = 0$ ). The Cronbach alpha coefficient for all three data sets exceeds .670 and is thus sufficient for analytical scrutiny.

**TABLE 3: FACTORANALYSIS AND CORRELATIONAL ANALYSIS FOR SWITCHING COSTS**

Influence 2 Switching Costs (SCR)						
Question	Component Matrix					
	Toothpaste		Coffee		Bread	
	Factor 1	Factor 2	Factor 1	Factor 2	Factor 1	Factor 2
SCR01						
SCR02						
SCR03		.384		.443		.289
SCR04	-.156		-.198		-.122	
SCR05	-.377		.364		.499	
Variance Explained	44%	25%	43%	24%	45%	23%
Pearson Correlation Coefficients						
Adequacy: Kaiser-Meyer-Olkin	.662		.656		.671	
Sphericity: Bartlett's Test	.000		.000		.000	
Reliability: Cronbach Alpha	.675		.651		.630	

In influence 2 (Switching Costs) two factors were extracted in each consumer product. This signifies that switching costs consists of two sub factors rather than one factor. It is a good fit since the same statements (SCR01, SCR02 and SCR03) load onto factor 1 in the case of toothpaste, coffee and bread while the remaining 2 statements loaded to factor 2 in each product.

The Pearson correlation coefficients show that a very high correlation exist (>0.990) between all three the influences identified. The Bartlett test of sphericity indicates that each set correlates

perfectly with itself ( $r = 1$ ) but has no correlation with the other variables ( $r = 0$ ). The Cronbach alpha coefficient for all three data sets exceeds .620 and is thus sufficient for subsequent analytical scrutiny.

**TABLE 4: FACTORANALYSIS AND CORRELATIONAL ANALYSIS FOR BRAND TRUST**

Influence 3 Brand Trust (BTS)			
Question	Component Matrix		
	Toothpaste	Coffee	Bread
BTS01	.845	.862	.850
BTS02	.855	.891	.877
BTS03	.752	.808	.783
BTS04	.582	.590	.625
Variance Explained	59%	63%	62%
Pearson Correlation Coefficients			
Adequacy: Kaiser-Meyer-Olkin	.709	.734	.706
Sphericity: Bartlett's Test	.000	.000	.000
Reliability: Cronbach Alpha	.742	.785	.783

In influence 3 (Brand Trust), one factor was extracted in each consumer product. Values on the component matrix per question related to each product yielded similar results. The Pearson correlation coefficients show that a very high correlation exists ( $>0.990$ ) between all three the influences identified. All three factors declared a similar % variance and this suggests that there is no difference between toothpaste, coffee and bread as consumer products with regard to brand trust in brand loyalty. The three products can thus be treated as a single entity.

The KMO measure yielded factors above .70 falling in the good range signifying that factor analysis should yield distinct and reliable factors. The Bartlett test of sphericity indicates that each set correlates perfectly with itself ( $r = 1$ ) but has no correlation with the other variables ( $r = 0$ ). The Cronbach alpha coefficient for all three data sets exceeds .740 and is thus good for subsequent analytical scrutiny.

**TABLE 5: FACTORANALYSIS AND CORRELATIONAL ANALYSIS FOR RELATIONSHIP PRONENESS**

Influence 4 Relationship Proneness (RPR)			
Question	Component Matrix		
	Toothpaste	Coffee	Bread
RPR01	.728	.739	.732
RPR02	.846	.837	.845
RPR03	.741	.764	.773
RPR04	.795	.768	.800
Variance Explained	61%	61%	62%
Pearson Correlation Coefficients			
Adequacy: Kaiser-Meyer-Olkin	.769	.772	.776
Sphericity: Bartlett's Test	.000	.000	.000
Reliability: Cronbach Alpha	.782	.780	.796

In influence 4 (Relationship Proneness), one factor was extracted in each consumer product. Values on the component matrix per question related to each product yielded similar results. The Pearson correlation coefficients show that a very high correlation exists ( $>0.920$ ) between all three the influences identified. The coefficients are almost identical for toothpaste, coffee and bread as consumer products with regards to relationship proneness. The three products can certainly be treated as a single entity.

The KMO measure yielded factors above .700 falling in the good range signifying that factor analysis should yield distinct and reliable factors. The Bartlett test of sphericity indicates that each set correlates perfectly with itself ( $r = 1$ ) but has no correlation with the other variables ( $r = 0$ ). The Cronbach alpha coefficient for all three data sets equals and exceeds .780 and is thus good for subsequent analytical scrutiny.

**TABLE 6: FACTOR ANALYSIS AND CORRELATIONAL ANALYSIS FOR INVOLVEMENT**

<b>Influence 5 Involvement (INV)</b>			
<b>Question</b>	<b>Component Matrix</b>		
	<b>Toothpaste</b>	<b>Coffee</b>	<b>Bread</b>
INV01	.830	.818	.822
INV02	.851	.840	.852
INV03	.703	.695	.698
INV04	.498	.540	.533
Variance Explained	54%	54%	54%
Pearson Correlation Coefficients			
Adequacy: Kaiser-Meyer-Olkin	.670	.675	.667
Sphericity: Bartlett's Test	.000	.000	.000
Reliability: Cronbach Alpha	.696	.700	.706

In influence 5 (Involvement), one factor was extracted in each consumer product. Values on the component matrix per question related to each product yielded similar results. The Pearson correlation coefficients show that a very high correlation exists ( $>0.990$ ) between all three the influences identified. The coefficients for toothpaste, coffee and bread as consumer products are identical with regard to involvement. The three products can certainly be treated as a single entity.

The KMO measure yielded factors above .66 falling in the good range signifying that factor analysis should yield distinct and reliable factors. The Bartlett test of sphericity indicates that each set correlates perfectly with itself ( $r = 1$ ) but has no correlation with the other variables ( $r = 0$ ). The Cronbach alpha coefficient for all three data sets equals and exceeds .690 and is thus sufficient for subsequent analytical scrutiny.

**TABLE 7: FACTOR ANALYSIS AND CORRELATIONAL ANALYSIS FOR PERCEIVED VALUE**

<b>Influence 6 Perceived Value (PVL)</b>						
<b>Question</b>	<b>Component Matrix</b>					
	<b>Toothpaste</b>		<b>Coffee</b>		<b>Bread</b>	
	Factor 1	Factor 2	Factor 1	Factor 2	Factor 1	Factor 2
PVL01	xxx		xxx		xxx	
PVL02		xxx		xxx		.100
PVL03	xxx		xxx		.200	
PVL04		xxx		.106		xxx
Variance Explained	40%	27%	41%	26%	43%	26%
Pearson Correlation Coefficients						
Adequacy: Kaiser-Meyer-Olkin	.510		.524		.546	
Sphericity: Bartlett's Test	.000		.000		.000	
Reliability: Cronbach Alpha	.451		.492		.543	

In influence 6 (Perceived Value) two factors were extracted in each consumer product. The Pearson correlation coefficients show that a very high correlation exists (>0.980) between all three the influences identified. There is a good fit since PLV01 and PVL03 loads onto factor 2 and PVL02 and PVL04 loads onto factor 1 in toothpaste, coffee and bread. The three products can certainly be treated as a single entity.

The KMO measure yielded factors above .510 falling in the mediocre range signifying that factor analysis should yield distinct and reliable factors. The Bartlett test of sphericity indicates that each set correlates perfectly with itself ( $r = 1$ ) but has no correlation with the other variables ( $r = 0$ ). The Cronbach alpha coefficient for all three data sets is below the recommended 0.7 signifying that the data may be unsuitable for subsequent analytical scrutiny.

**TABLE 8: FACTOR ANALYSIS AND CORRELATIONAL ANALYSIS FOR COMMITMENT**

Influence 7 Commitment (COM)			
Question	Component Matrix		
	Toothpaste	Coffee	Bread
COM01	.813	.815	.828
COM02	.672	.643	.683
COM03	.807	.801	.804
COM04	.786	.794	.808
COM05	.743	.747	.728
Variance Explained	59%	58%	60%
Pearson Correlation Coefficients			
Adequacy: Kaiser-Meyer-Olkin	.808	.808	.822
Sphericity: Bartlett's Test	.000	.000	.000
Reliability: Cronbach Alpha	.819	.815	.826

In influence 7 (Commitment), one factor was extracted in each consumer product. Values on the component matrix per question related to each product yielded similar results. The Pearson correlation coefficients show that a very high correlation exists (>0.950) between all three the influences identified. The variance explained is 59%, 58% and 60% for toothpaste, coffee and bread and this signifies strong similarities between the consumer products with regard to commitment. The three products can certainly be treated as a single entity.

The KMO measure yielded factors above .80 falling in the great range signifying that factor analysis should yield distinct and reliable factors. The Bartlett test of sphericity indicates that each set correlates perfectly with itself ( $r = 1$ ) but has no correlation with the other variables ( $r = 0$ ). The Cronbach alpha coefficient for all three data sets equals and exceeds .810 and is thus good for subsequent analytical scrutiny.

**TABLE 9: FACTOR ANALYSIS AND CORRELATIONAL ANALYSIS FOR REPEAT PURCHASE**

Influence 8 Repeat Purchase (RPS)						
Question	Component Matrix					
	Toothpaste		Coffee		Bread	
RPS01	.129		.104			xxx
RPS02		-.207		-.193	-.126	
RPS03		.225		.195	.220	
RPS04	-.130		xxx			-.113
RPS05	.516			.506		.439
Variance Explained	36%	24%	37%	24%	37%	24%
Pearson Correlation Coefficients						
Adequacy: Kaiser-Meyer-Olkin	.606		.617		.625	
Sphericity: Bartlett's Test	.000		.000		.000	
Reliability: Cronbach Alpha	.532		.555		.562	



In influence 8 (Repeat Purchase), two factors were extracted in each consumer product. There is a good fit since RPS01 and RPS03 loads onto factor 1 and RPS02 and RPS04 loads onto factor 1 in toothpaste, coffee and bread. RPS05 strongly dually loads onto both factors. In the case of toothpaste, it loads onto factor 2 while with coffee and bread it loads onto factor 1.

The Pearson correlation coefficients show that a very high correlation exists (>0.990) between all three the influences identified. The three products can certainly be treated as a single entity.

The KMO measure yielded factors above .600 falling in the mediocre range signifying that factor analysis should yield distinct and reliable factors. The Bartlett's test of sphericity indicates that each set correlates perfectly with itself ( $r = 1$ ) but has no correlation with the other variables ( $r = 0$ ). The Cronbach alpha coefficient for all three data sets is below the recommended 0.7 signifying that the data may not be suitable for subsequent analytical scrutiny.

**TABLE 10: FACTOR ANALYSIS AND CORRELATIONAL ANALYSIS FOR BRAND AFFECT**

Influence 9 Brand Affect (BAF)			
Question	Component Matrix		
	Toothpaste	Coffee	Bread
BAF01	.834	.826	.828
BAF02	.883	.878	.882
BAF03	.835	.827	.841
Variance Explained	72%	71%	72%
Pearson Correlation Coefficients			
Adequacy: Kaiser-Meyer-Olkin	.700	.695	.699
Sphericity: Bartlett's Test	.000	.000	.000
Reliability: Cronbach Alpha	.808	.796	.808

In influence 9 (Brand Affect), one factor was extracted in each consumer product. Values on the component matrix per question related to each product yielded similar results. The Pearson correlation coefficients show that a very high correlation exists (>0.970) between all three the influences identified. The variance explained for all three products are almost identical. The three products can certainly be treated as a single entity.

The KMO measure yielded factors above 0.790 falling in the good range signifying that factor analysis should yield distinct and reliable factors. The Bartlett test of sphericity indicates that each set correlates perfectly with itself ( $r = 1$ ) but has no correlation with the other variables ( $r = 0$ ). The Cronbach alpha coefficient for all three data sets equals and exceeds 0.790 and is thus sufficient for subsequent analytical scrutiny.

**TABLE 11: FACTOR ANALYSIS AND CORRELATIONAL ANALYSIS FOR BRAND RELEVANCE**

Influence 10 Brand Relevance (BRV)			
Question	Component Matrix		
	Toothpaste	Coffee	Bread
BRV01	.790	.767	.777
BRV02	.829	.821	.840
BRV03	.843	.845	.837
BRV04	.663	.684	.717
Variance Explained	62%	61%	63%
Pearson Correlation Coefficients			
Adequacy: Kaiser-Meyer-Olkin	.775	.773	.790
Sphericity: Bartlett's Test	.000	.000	.000
Reliability: Cronbach Alpha	.788	.785	.802

In influence 10 (Brand Relevance), one factor was extracted in each consumer product. Values on the component matrix per question related to each product yielded similar results. The Pearson correlation coefficients show that a very high correlation exists (>0.960) between all three the influences identified. The variance explained for all three products amount to 62%, 61% and 63% respectively and this confirms that all three products can be treated as a single entity.

The KMO measure yielded factors above .770 falling in the good range signifying that factor analysis should yield distinct and reliable factors. The Bartlett test of sphericity indicates that each set correlates perfectly with itself ( $r = 1$ ) but has no correlation with the other variables ( $r = 0$ ). The Cronbach alpha coefficient for all three data sets equals and exceeds .780 and is thus good for subsequent analytical scrutiny.

**TABLE 12: FACTOR ANALYSIS AND CORRELATIONAL ANALYSIS FOR BRAND PERFORMANCE**

Influence 11 Brand Performance (BPF)			
Question	Component Matrix		
	Toothpaste	Coffee	Bread
BPF01	.728	.740	.740
BPF02	.703	.716	.734
BPF03	.798	.791	.792
Variance Explained	55%	56%	57%
Pearson Correlation Coefficients			
Adequacy: Kaiser-Meyer-Olkin	.618	.631	.639
Sphericity: Bartlett's Test	.000	.000	.000
Reliability: Cronbach Alpha	.595	.608	.623

In influence 11 (Brand Performance), one factor was extracted in each consumer product. Values on the component matrix per question related to each product yielded similar results. The Pearson correlation coefficients show that a very high correlation exists (>0.970) between all three the influences identified. The variance explained for all three products amount to 55%, 56% and 57% respectively and this confirms that all three products can be treated as a single entity.

The KMO measure yielded factors above .610 falling in the mediocre range signifying that factor analysis should yield distinct and reliable factors. The Bartlett test of sphericity indicates that each set correlates perfectly with itself ( $r = 1$ ) but has no correlation with the other variables ( $r = 0$ ).

The Cronbach alpha coefficient for all three data sets exceeds .595 and is thus in the mediocre range for subsequent analytical scrutiny.

**TABLE 13: FACTOR ANALYSIS AND CORRELATIONAL ANALYSIS FOR CULTURE**

Influence 12 Culture (CUL)			
Question	Component Matrix		
	Toothpaste	Coffee	Bread
CUL01	.746	.748	.766
CUL02	.814	.805	.807
CUL03	.710	.709	.724
CUL04	.722	.712	.709
Variance Explained	56%	55%	57%
Pearson Correlation Coefficients			
Adequacy: Kaiser-Meyer-Olkin	.696	.699	.703
Sphericity: Bartlett's Test	.000	.000	.000
Reliability: Cronbach Alpha	.733	.727	.740

In influence 12 (Culture), one factor was extracted in each consumer product. Values on the component matrix per question related to each product yielded similar results. The Pearson correlation coefficients show that a very high correlation exists (>0.960) between all three the influences identified. The variance explained for all three products amount to 56%, 55% and 57% respectively and this confirms that all three products can be treated as a single entity with regard to culture.

The KMO measure yielded factors above .690 falling in the mediocre range signifying that factor analysis should yield distinct and reliable factors. The Bartlett test of sphericity indicates that each set correlates perfectly with itself ( $r = 1$ ) but has no correlation with the other variables ( $r = 0$ ). The Cronbach alpha coefficient for all three data sets equals and exceeds .725 and is thus good for subsequent analytical scrutiny.

#### Summary of similarities between consumer products

The three-point test used to determine the similarity between the consumer products with regard to each influence revealed strong similarities in each category. In 9 out of the 12 cases the influences loaded onto the component matrix extracted one factor. In the three cases that two factors were extracted there was still a good fit between values loading on factor one and factor two. The values loaded for all products in all categories were primarily consistent and similar. There was also a strong correlation between all three products in all categories items as confirmed in Table 14. The correlation coefficients also yielded similar values and is also shown in Table 14 All three results of the three-point test suggested strong resemblance between consumer products related to influences selected. This suggests all three products used in this study can from this point forward be treated as a single entity.

**TABLE 14: SUMMARY OF CORRELATION BETWEEN FMCG PRODUCTS**

Influence	Correlation			Variance		
	Tooth-paste and Coffee	Coffee and Bread	Tooth-paste and Bread	Tooth-paste	Coffee	Bread
Customer Satisfaction	0.92	0.97	0.93	45%	51%	45%
Switching Cost	0.99	0.99	0.99	44% 25%	43% 24%	45% 23%
Brand Trust	0.99	0.99	0.99	59%	63%	62%
Relationship Proneness	0.93	0.97	0.94	61%	61%	62%
Involvement	0.99	0.99	0.99	54%	54%	54%
Perceived Value	0.99	0.99	0.99	40% 27%	41% 26%	43% 26%
Commitment	0.99	0.98	0.96	59%	58%	60%
Repeat Purchase	0.99	0.99	0.99	36% 24%	37% 24%	37% 24%
Brand Affect	0.99	0.98	0.98	72%	71%	72%
Brand Relevance	0.98	0.99	0.97	62%	61%	63%
Brand Performance	0.99	0.98	0.99	55%	56%	57%
Culture	0.99	0.97	0.98	56%	55%	57%
<b>Mean Coefficient</b>	<b>0.98</b>	<b>0.98</b>	<b>0.98</b>			

Comparative analysis by means of the Pearson correlation coefficient revealed an extremely strong relationship between all three FMCG per influence. In all cases, the coefficient exceeded or equalled 0.92 and the three products generated a mean coefficient of 0.98. It can be concluded that for the three products used in this study, it is possible to treat them as a single entity. This signifies that one common marketing, promotions and branding strategy could be adopted for the three products.

## **CONTRIBUTION OF THE STUDY**

The major contribution of the study is that consumer brand behaviour of FMCG products is measured and compared. This means that if random FMCG products show similar behaviour towards brand behaviour, that marketers have an indication that they could employ brand building actions communally in household FMCG products, and that each product does not require individual brand building actions. This is especially of value to organisations that possesses a number of FMCG products because a communal brand building approach is less expensive than individual actions. In addition, it also postulates that inherent brand qualities could be transferred between the different FMCG products. Further research could substantiate if such relationships actually do exist and also how strong these relationships are if they do exist.

## **CONCLUSIONS**

In the previous section, it was established that all three products can be treated as a single entity due to the strong similarities between them. This means that it is confirmed that the three consumer products (toothpaste, coffee and bread) yield the same results on brand loyalty. As a result it is postulated that, regarding FMCG's, the combined data could be used to measure brand loyalty communally. In practice this means that marketers can, based on the findings of this study, integrate their brand loyalty management strategies of FMCG's in their competitive strive.



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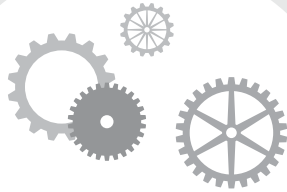
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# EIGHT INTERNAL MARKETING ELEMENTS AND THEIR INFLUENCE ON BRAND AWARENESS IN THE CAR RENTAL INDUSTRY

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## ABSTRACT

Car rental companies like many other services organisations, are operating in a complex and extremely competitive environment. Employees of car rental companies are their most important asset. They require special attention to ensure their loyalty and commitment to deliver service excellence to customers. The brand's image depends on the role employees play in delivering the service (Wilson, Zeithaml, Bitner & Gremler, 2012: 249). This research aimed to provide guidance to South African car rental companies to improve their respective brand awareness, enabling them to expand customer bases whilst retaining existing customers. The influence of the eight internal marketing mix elements (product, price, place, promotion, people, process, physical evidence and performance) on South African car rental customers' perception of brand awareness (brand recognition, trustworthiness, overall evaluation and loyalty) was investigated using structural equation modelling. Recommendations emanating from the findings include continuous training of employees; ensuring processes are effective; and constantly improving performance of employees and the car rental company in its totality.

## KEYWORDS

Services organisations; Internal marketing mix elements; Brand awareness; Structural equation modelling

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## INTRODUCTION

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Since the implementation of the concept of car rental, the industry has faced various challenges. In 1969, the concept was virtually unknown in South Africa, it was imperative to change travel habits, and lifestyles to create a market need for car rental. Getting a foothold at airport terminals took years of lobbying and negotiation. Furthermore, prior to 1994, due to the instability of the political status, potential for regional travel was a challenge. It was only after the normalisation of the political situation that car rental companies could expand into neighbouring countries (Superbrands, 2010). Due to the competitiveness of the industry, car rental companies in South Africa had no choice, but to grow through delivering service excellence. Today still, in order to remain competitive, it is critical for the car rental companies to differentiate their brands in service delivery.

It is also imperative that they have to provide excellent services to retain existing customers. In service organisations of which car rental companies are a typical example, the employees are their most important asset and therefore special attention is required to ensure loyalty and commitment from employees to deliver service excellence. Irrespective of the fact that the service organisation may have developed a well-conceived positioning for its brand, the brand's successful positioning and awareness depend on the role the employees play in delivering the service (Wilson, Zeithaml, Bitner & Gremler, 2012: 249).

### PROBLEM INVESTIGATED AND RESEARCH OBJECTIVE

Most car rental companies in South Africa indicate on their websites that they take care of employees as a critical asset. Some companies provide information on internal programmes, such as loyalty and other incentive programmes they have to motivate employees, but the success of these programmes has been neither researched nor linked to the internal marketing elements applicable to this study. This information was extracted from the different websites of the three companies involved in the study. Furthermore, the researcher could not find any direct studies related to the influence of internal marketing elements on brand awareness in the car rental industry in South Africa. In fact, despite a strong interest in the subject amongst marketing researchers, little research has been conducted related to brand awareness in service brands (Song, Hur & Kim, 2012: 331; O'Cass & Grace, 2003: 453). This is relevant, because if all elements do not contribute positively to the overall brand awareness of car rental companies in South Africa, it could receive reduced attention, which could damage the overall image of the brand of the car rental company. Additionally if certain activities demonstrate ineffectiveness, they could be altered and improved, thereby creating more competitiveness for car rental companies. Customers in a services environment become aware of the brand through their experience during consumption of the service, which is created by employees of the organisation. This raises the question of whether the eight internal marketing elements (internal product, price, promotion, place, people, processes, physical evidence and performance) presented to employees have a positive influence on brand awareness (brand recognition, trustworthiness, overall evaluation and loyalty) as perceived by the external customers of car rental companies.

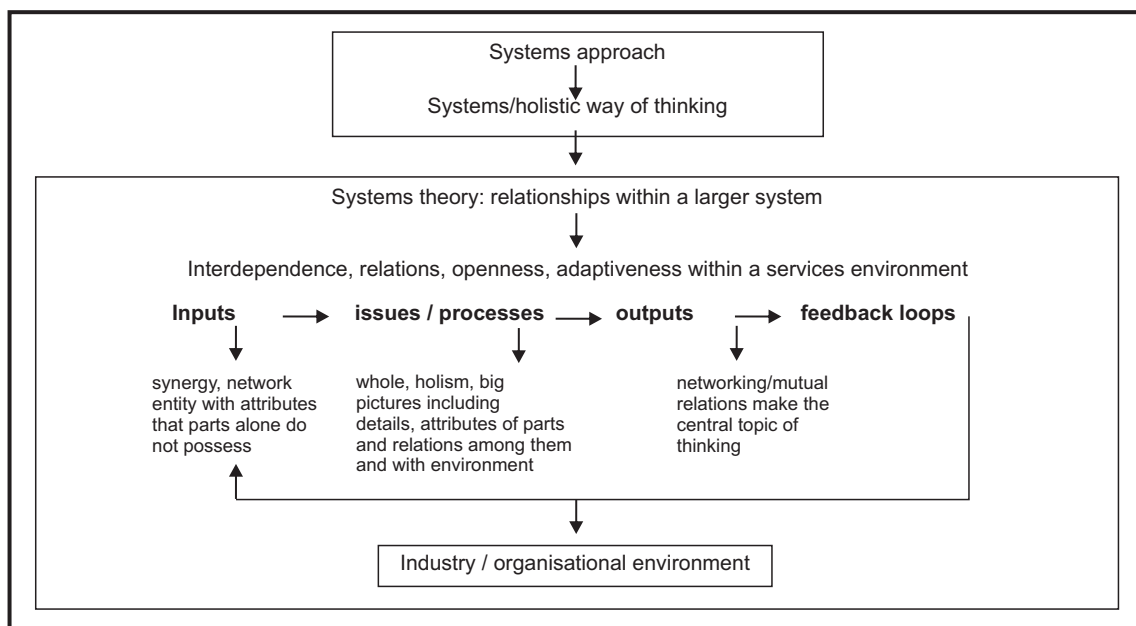
In line with the problem statement above the primary objective of this paper is to determine the perceived influence of the eight different elements of internal marketing on the brand awareness of selected car rental companies in South Africa.

## LITERATURE REVIEW

The nature of the research problem and objectives necessitate a brief explanation of the approach and theories applicable to the study.

The systems approach was applied, because as an abstract perceptual framework it is an exceptionally good aid to understanding and practising internal marketing. The approach identifies the principles common to all systems, the most important of which are wholeness, hierarchy, self-regulation, openness and adaptability (Oxenham, 2010: 232).

Researchers have realised that no system is analysed in isolation, but in terms of its relationship with others within a larger system. These systems of inter-influential happenings indicate that the whole is larger than the sum of its parts (Gummesson, Lusch & Vargo, 2010: 13). In a service dominant environment, customers take own initiatives and are active in creating for themselves and co-creating with others. In a viable system approach, network and systems complexity is recognised (Gummesson et al., 2010: 13). The concept of the systems thinking and approach is summarised in Figure 1.



**FIGURE 1: SYSTEMS THINKING AND APPROACH**

(Source: Adapted from Rosi and Mulej (2006: 1172))

As depicted in Figure 1 the inputs represent synergy and a network entity with attributes that parts alone do not possess, the issues and processes refer to the organisational processes, which include details, attributes of parts of the process and relations among them, as well as relations with the environment. The use of internal marketing whereby brand awareness should be enhanced is part of the process, while the outputs refer to mutual relations that form a central topic of the thinking of the organisation. The feedback loops are required to amend inputs and subsequently improve outputs.

Since the systems theory is such a complex system referring to several parts that form part of the holistic view, it can also be applied to the car rental industry, where the internal marketing elements need to have a relationship with brand awareness dimensions resulting in satisfied and loyal customers.

## Environment of the study

The homogeneity and heightened competition in the car rental industry are forcing car rental companies to consider the connection between internal marketing and brand awareness to achieve competitive differentiation. Due to increased globalisation most car rental companies in South Africa have to compete on a local and international level. Company A, company B and company C are international car rental companies in South Africa that were willing to participate in the research. Due to the number of employees, the number of branches and the sizes of their fleets, Company A (large), Company B (medium) and Company C (small) could be seen as a representative sample of the total population of car rental companies.

Car rental companies that realise the importance of brand awareness need to improve the awareness of their brand amongst external customers. They need to implement internal marketing programmes that include at least some of the internal marketing mix elements to ensure employees deliver service excellence to customers, thereby improving brand awareness. Customers who are aware of the brand of car rental companies and who receive excellent services should become committed to the company will most likely remain a long-term and loyal customer of the specific car rental company (Boshoff & Du Plessis, 2009: 15). Since employees of car rental companies create the customer's perceptions and awareness of the brand during the service encounter, it is important that they are exposed to internal marketing programmes. If the programmes are implemented effectively, customers have a satisfactory experience and positive brand awareness is created.

## Eight internal marketing mix elements

Internal marketing is defined as 'a planned effort using a marketing-like approach directed at motivating employees, for implementing and integrating organisational strategies towards customer orientation' (Ahmed & Rafiq, 2002: 11). Internal marketing, also known as internal branding or employee branding, is viewed as equally important to external brand building or the brand management of customers (O'Callaghan, 2009: 4; Witt & Rode, 2005: 278). In referring to the systems approach, the internal marketing mix elements are deployed to instil in customers the need for interdisciplinary creative cooperation as a tool towards holism, to enable and to motivate them to develop and use their capacity to meet this need (Rosi & Mulej, 2006: 1171). This is a precondition for a more sustained mastering of the modern turbulent business conditions, as described in the servuction system model where the services delivery process is broken down in a visible and invisible part. The invisible part refers to the process element from the extended internal marketing mix consisting of system, backroom procedures and the technology or equipment needed to produce the service. The visible part consists of the inanimate environment and the employees who interact with internal and external customers during the service experience. The inanimate environment contains the physical design elements that the internal and external customer comes into contact with (Wilson et al., 2012: 23). The servuction system model is also applicable in the case of car rental companies.

The traditional marketing mix elements consist of product, price, place and promotion, which are recognised, in the product environment. The human element present in a services environment is a key factor distinguishing the services marketing from the marketing of physical products.

Originally, the distinctive characteristics of services require the addition of three more Ps to overcome the limitations of the traditional marketing mix (Wilson et al., 2012: 23; Mudie & Pirrie, 2006: 6). The elements of the three additional Ps of the marketing mix include:

- People – the appearance and behaviour of service employees;



- Process – how the service is delivered, the actual procedures and flow of activities; and
- Physical evidence – everything from the appearance, design, layout of the service setting, to brochures, signage and equipment.

The additional elements of the service mix, namely people, process and physical evidence, provide customers with evidence of the service in each of their interactions with the organisation and allow them to form their own judgement (Chen, Chen & Huang, 2012: 107). The additional components of the marketing mix focused on the services sector can be fully controlled by the service organisation and can play a vital role in ensuring that marketing is customer focused, not product focused.

Considering the above the following hypothesis are formulated:

**H1A:** The influence of the traditional internal marketing elements on brand awareness of selected car rental companies in South Africa is negative.

**H2A:** The influence of the services internal marketing elements on brand awareness of selected car rental companies in South Africa is negative.

Gummesson et al. (2010: 13) argued that as suggested by the systems theory, the behaviour of each element has an effect on the behaviour of the whole, therefore the marketing mix can be broken down into parts and elements to include people or employees which are critical for internal marketing to succeed, and process, which includes organisational process during the service offering. Some of the shortcomings of the traditional 4Ps marketing framework have led several authors to suggest that the marketing mix framework should not be considered as the foundation of customer marketing management any longer and alternative methodologies and marketing conceptual frameworks for services marketing have been proposed ever since (Constantinides, 2006: 421). Grove, Fisk and John (2000: 74) added performance of employees, since employees are a powerful element tool of customer persuasion and a major parameter affecting the customer's perception on the delivered service quality (Constantinides, 2006: 421). Performance of employees forms a critical part of the service offering by employees and is therefore regarded as an internal marketing mix element on its own for the purpose of this study.

The theory described above resulted in the third hypothesis stated as follows:

**H3A:** The influence of a recently added internal marketing element on brand awareness of selected car rental companies in South Africa is negative.

Simister (2009: 3) who claims that up to 22 additional Ps were recently introduced in the marketing environment supports the arguments that the original services internal marketing mix elements could be expanded. Therefore, eight elements were selected as theoretical foundation for this study. These eight elements are products, price, place (distribution), promotion, people, process, physical evidence and performance.

<b>Brand awareness</b>	
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Customers are seldom loyal to a brand; instead, they possess a consideration set of brands when making a purchase (Keller, 2009: 76). The brand awareness of a brand can affect customers' decisions about that brand in their consideration set of brands. Customers attempt to save time and cognitive effort by selecting a brand they know (Macdonald & Sharp, 2003: 33). Brand awareness also acts as a strong predictor of customer behaviour in three ways (Brewer & Zhao, 2010: 36):

- A service or product with higher brand awareness has a higher likelihood to be chosen by a customer, regardless of quality and price.

- Brand awareness assists customers to decide and speed up the decision process during the purchase stage.
- Brand awareness strongly influences the choice of the customer in repeat purchase behaviour.

Brand awareness is created by increasing the familiarity of the brand through repeated exposure and strong associations with the relevant cues enabling the customer to recall the brand effectively (Chen et al., 2012: 106; Aaker, 2004: 10). According to the Selective Activation, Reconstruction, and Anchoring (SARA) model, customers utilise brand associations of a constituent brand to retrieve information in their memory. There are two factors that determine which information in the customer's mind becomes the anchor, namely retrieval and organisation. Retrieval cues stem from internal or external sources. Internal images consist of images available in the memory. An image is most likely to be retrieved if its overall activation is relatively high. External information refers to the task itself, while organisation refers to how well images are connected to each other (Esch, Schmitt, Redler & Langner, 2009: 385).

Brand associations are divided into three major categories, these being attributes, benefits and attitudes (Keller, 2009: 139). Brand associations are categorised into attributes, which for the purpose of this study, refer to the trustworthiness of the vehicles, benefits and perceived quality, translating into the overall evaluation of the service customers receive, and the attitude, which refers to the customer's loyalty towards the brand (Kapferer, 2005: 149).

Theories of marketing and branding support the idea that there is a functional connection between the marketing of services and the awareness of the brand (Kotler & Keller, 2009: 288; Papasolomou & Vrontis, 2006: 39). Internal marketing, also known as internal branding or employee branding, is viewed as equally important to external brand building or the brand management of customers (O'Callaghan, 2009: 4; Witt & Rode, 2005: 278). Another factor playing a role in business success is the establishment of favourable brand awareness (Park, Cho & Kandampully, 2009: 134).

In order to enhance the brand awareness of a service organisation, the organisation has to adapt its marketing activities to mix and match the internal marketing mix elements that will reinforce the brand awareness (Song et al., 2012: 332). Although most South African car rental companies' brands are well-known, formal research is required as it is not evident that internal marketing programmes are implemented in these companies. Furthermore, it is also not clear what the influence of internal marketing is on the brand awareness of car rental customers in South Africa.

## CONCEPTS AND CONSTRUCTS

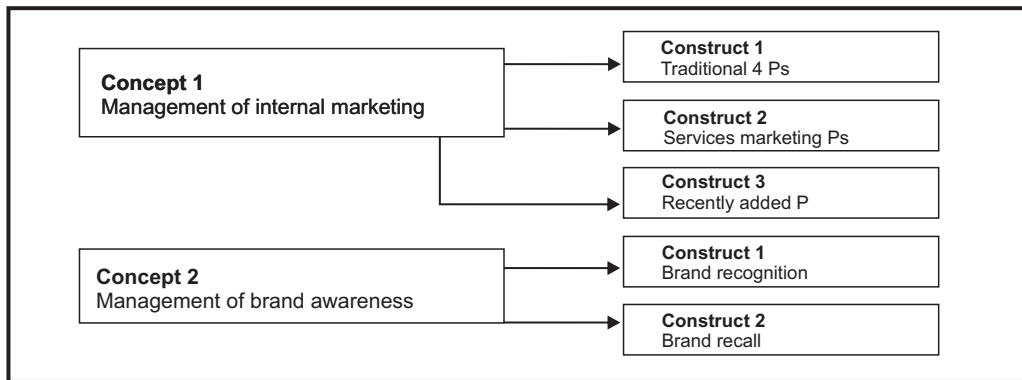
In this study the constructs derived from the concepts contribute to the empirical investigation of the research objectives. Two concepts with their constructs are identified. The constructs were divided in tactical and strategic constructs. The tactical level refers to selling the organisation's services and to support the services. The objective of the strategic level is to create an internal environment that supports sales-mindedness.

Hair, Bush & Ortinau (2009: 233) describe research constructs as unobservable abstract concepts that are measured indirectly by a group of related variables. Variables are described as latent variables (independent or exogenous) and observable variables (dependent or endogenous) which are measurable elements of an object and are measured directly. In practice, the term latent variable is used as a synonym for constructs or the property being studied. In this context, a variable is a symbol to which numerals or values are assigned (Cooper & Schindler, 2007: 44). Therefore, the latent variables that will be measured in this study are the eight internal marketing elements: tactical namely, product, price, place, promotion, people, process, physical evidence and

performance. These elements are the independent (exogenous) variables or constructs, since they predict or explain the outcome variable of interest (Hair et al., 2009: 234).

Brand awareness can be measured as recognition of the brand and recall of the brand (Aaker, 2004: 12). Brand recall represents brand associations, namely attributes, benefits and attitude towards the brand. For the purpose of this study, the dimensions of brand recall are trustworthiness of the vehicles (attribute), overall evaluation (benefit) and loyalty (attitude) of the brand. The brand recognition and brand recall are the dependent or endogenous variables or constructs as they are the variables the researcher is seeking to explain (Hair et al., 2009: 234).

For easy reference, these concepts and constructs are represented in graphic format in Figure 2. Emphasis is placed on the internal marketing mix elements, since they are the core elements to influence brand awareness.



**FIGURE 2: CONCEPTUAL FRAMEWORK UNDERLYING THIS STUDY**  
(Source: Author's own construct)

### The relationship between constructs

As described by the systems theory and in the formulated hypotheses, this study aims to indicate that there is a relationship between the constructs that are being tested due to the influence of the constructs on one another. The relationship can be either positive or negative. A positive relationship between two constructs indicates that the two constructs increase or decrease together, compared to a negative relationship that suggests that as one construct increases, the other one decreases, or vice versa (Hair et al., 2009: 234).

Should there be no relationship between the eight internal marketing elements and the brand awareness of selected car rental companies in South Africa, the null hypothesis will be relevant. If the null hypothesis is accepted, it comprises that the constructs are not related in a meaningful way (Hair et al., 2009: 235). If, on the other hand, the null hypothesis is rejected, the alternative hypothesis indicates that the two constructs are related in a way that may prove useful for the car rental companies.

## RESEARCH METHODOLOGY

Empirical research was used to test the objectives of the research. A quantitative process was used to seek data that could be expressed in numbers and statistically analysed (Zikmund & Babin 2010: 92). The research format was described as descriptive research since it included a descriptive survey design to gather the necessary data from a large sample size (Solomon, Marshall & Stuart,

2006: 113). The target population was the three largest car rental companies in South Africa with a combined market share of 55%. These companies will be referred as Company A, Company B and Company C in this article. Company A is a large company, B medium size and C small in terms of their fleet size and the number of customers during the period of the study. The sampling elements included customers of Company A, Company B and Company C over a period of three months.

Probability sampling in the form of directly proportional stratified sampling was used in terms of selecting only customers of the three car rental companies, not including employees, as the goal was to draw a probabilistic sample from a population to describe the population's characteristics or parameters, based on statistics calculated from the sample. A stratified sample divides the population into subgroups according to characteristics (Aaker, Kumar, Day & Leone, 2011: 345). In this study, the subgroups were the customers of Company A, company B and company C. The 80-20 rule was applied, where 20% of the customers' account for 80% of the purchase. This is very relevant in the case of car rental, because regular customers use the company a number of times during the time of observation (Russell & Purcell, 2009: 175). The goal was to draw a probabilistic sample from a population to describe the population's characteristics, or parameters, based on statistics calculated from the sample, therefore directly proportionate stratified sampling was used in the study (Iacobucci & Churchill, 2010: 303). In Table 1, the drawn sample is displayed.

**TABLE 1: DIRECT PROPORTIONATE STRATIFIED SAMPLE**

<b>Car rental company</b>	<b>Number of customers over 3 months</b>	<b>20% of customers over 3-months</b>
Company A	18 000	3 600
Company B	9 500	1 500
Company C	2 500	500
<b>Total</b>	<b>30 000</b>	<b>5 600</b>

The sample size was 5 600 customers from the three companies above who were sent the questionnaire. The required sampling size to perform structural equation modelling was 375-750 respondents and the actual sample size was 581 respondents.

The data collection was conducted by means of an online survey. A questionnaire was designed for the sample frame. The questionnaire included a demographic section to classify respondents, being customers. In the second section of the questionnaire, the eight internal marketing mix elements were tested and the third section focused on brand awareness, namely recognition of the brand and brand recall. A five-point Likert scale, ranging from 'strongly disagree' to 'strongly agree', was used for all questions within the questionnaire (Vagias, 2006: 1). Respondents had to indicate the current situation as well as how they would perceive an ideal situation.

## **STRUCTURAL EQUATION MODELLING**

Structural equation modelling (SEM) was the statistical technique used for the study's empirical investigation because SEMs are well recognised as the most important statistical method to evaluate a series of simultaneous hypotheses about the impacts of latent variables and manifest variables on other variables, and take the measurement errors into account (Lee, 2007: 1). Hair, Black, Babin and Anderson (2010: 634) describe SEM as a multivariate statistical technique for building and testing statistical models, sometimes called causal models. It is a hybrid technique that encompasses aspects of confirmatory factor analysis (CFA), path analysis and multiple regression to estimate a series of interrelated dependence relationships simultaneously (Hair et al., 2010: 634). SEM has the ability to assess relationships comprehensively and therefore it is suited for

theory testing which focuses more on a systematic and holistic view of research problems than on theory development (Hair et al., 2010: 635). As stated by Hair, Anderson, Tatham and Black (2006: 705), SEM allows multiple and interrelated dependence relationships to be estimated simultaneously and it is particularly useful when one dependent variable becomes an independent variable in subsequent dependence relationships. Furthermore, SEMs are suitable to incorporate latent variables into the analysis, and to account for measurement error in the estimation process (Cooper & Schindler, 2007: 583; Lee, 2007: 2).

The data was analysed by following various procedures. The data analysis consisted of conducting descriptive statistics, such as the frequency distributions and means in order to summarise the sample data. SEM was conducted to determine the model fitness. Goodness-of-fit tests determine if the structural framework being tested should be accepted or rejected. It is imperative to examine several fit indices when evaluating a framework, and never to rely solely on a single index (Lee, 2007: 14). Goodness-of-fit information included, for example, the Chi-square test, the Root Mean Square Error of Approximation (RMSEA), the Chi-square test of model fit (CFI/TLI) and Standardised Root Mean Square Residual (SRMR). The validity of the questionnaire (measuring instrument) was considered by evaluating the validity of its constructs. Construct validity was verified by means of considering the factor loadings in the CFA. This is part of the SEM procedure using a comparison of the variance figures. SEM also has a built-in testing of reliability, but in addition, the Cronbach alpha ( $\alpha$ ) coefficients were computed to assess the internal consistency reliability of the measuring instrument and items that were used in the study. The hypothesised relationships were tested by evaluating the point and interval estimates of the parameters provided during the SEM procedure. This allows the researcher to reject or accept hypotheses based on the results. Therefore, SEM as used to examine a series of interrelated dependence relationships simultaneously was applied to test and estimate relationships between the independent (exogenous) and dependent (endogenous) variables.

## RESULTS AND FINDINGS

Descriptive statistics, namely frequency and percentage provide information on the demographics of respondents.

The majority of respondents were in the age category 56 years or older (22%;  $n = 122$ ), followed by respondents between the ages 36 and 40 years (15.9%,  $n = 88$ ). Only 11 (2.0%) of the respondents were between 18 and 25 years old. The majority of respondents were male (69.4%,  $n = 385$ ), with the rest being female ((30.6%,  $n=170$ ). The highest number of respondents were white (66.7%,  $n = 370$ ), followed by blacks (24.3%,  $n = 130$ ). The lowest number of respondents, 4 (0.7%) were "other", who referred to Middle Eastern, next were coloureds with 16 (2.9%) respondents.

The majority of respondents hired vehicles most often from Company A with 225 (40.5%) respondents and Company B with 207 (37.3%) respondents. Most respondents use car rental for business travel as indicated by 343 (61.8%) respondents, while 212 (38.2%) respondents indicated that they use car rental for leisure purposes. The survey was done covering both business months and the December holiday season, but still the majority of customers 316 (56.9%) travelled for business purposes.

It was assumed that business customers did not have a choice in car rental, since the company they work for normally has an agreement with a particular car rental company. Therefore, respondents were requested to indicate that if they had a choice, would they choose the same company to which the majority of respondents (80.5%,  $n = 447$ ) answered positively. Only 38 (6.9%) respondents indicated that the question was not applicable.

The demographics, namely age, gender and race of respondents were cross-tabled with the internal marketing elements and the brand awareness constructs. The statistical significant results, following a Chi Square test of significance, indicated the following:

- The age of respondents had a significant influence on internal promotion, with the majority of respondents experiencing there was a lack of internal promotion ( $\chi^2(182) = 216.950, p < 0.05$ ).
- The gender of respondents had a significant influence on internal price, with a slight majority of respondents feeling that employees paid a high price by being an employee of the car rental company ( $\chi^2(27) = 43.704, p < 0.05$ ).
- The gender of respondents had a significant influence on internal promotion, with a slight majority of respondents feeling that the car rental company they were using had done internal promotion ( $\chi^2(26) = 41.165, p < 0.05$ ).
- The race of respondents had a significant influence on the traditional internal marketing element product, with respondents feeling that employees were friendly and knowledgeable ( $\chi^2(88) = 132.265, p < 0.05$ ).
- The race of respondents had a significant influence on the traditional internal marketing element price, agreeing that employees kept their promises and were accountable ( $\chi^2(104) = 105.651, p < 0.05$ ).
- The race of respondents had a significant influence on the services internal marketing element physical evidence, agreeing that the car rental company's offices and employees conduct were professional ( $\chi^2(88) = 126.771, p < 0.05$ ).
- The race of respondents had a significant influence on the recent internal marketing element performance, agreeing that the car rental company's performance was efficient ( $\chi^2(116) = 176.488, p < 0.05$ ).

### Structural equation modelling results

Hair et al. (2010: 672) indicated that for a sample size larger than 250, as in the case of this study, the  $\chi^2$  normally resulted in insignificant p-values, even with a good fit. Therefore, more emphasis was placed on the other goodness-of-fit indices. Generally accepted values are as follows: Normed Chi-square ( $\chi^2/df$ ):  $< 3$ ; RMSEA: between 0.05 and 0.08; CFI:  $> 0.9$ ; TLI:  $> 0.9$ ; and SRMR:  $< 0.05$ .

Hair et al. (2010:672) indicated that for a sample size larger than 250, as in the case of this study, the  $\chi^2$  normally resulted in insignificant p-values, even with a good fit. Therefore, more emphasis was placed on the other goodness-of-fit indices. The exogenous variables had a goodness-of-fit, because three of the values, namely CFI, TLI and SRMR for all constructs were within the stipulated norms. The estimated values, which were also within the norms, provided further evidence of well-constructed items, indicating valid construct validity.

**TABLE 2: GOODNESS-OF-FIT INDICES FOR ENDOGENOUS LATENT VARIABLES**

Variables	$\chi^2/df$	RMSEA	CFI	TLI	SRMR
<i>Recognition</i>	6.830*	0.110*	0.860*	0.791*	0.131*
<i>Trustworthiness</i>	11.903*	0.150*	0.860*	0.790*	0.186*
<i>Overall evaluation</i>	5.240*	0.102*	0.975	0.924	0.022
<i>Loyalty</i>	7.838*	0.129*	0.967	0.902	0.035



The endogenous constructs indicated a moderate goodness-of-fit. Recognition and trustworthiness especially did not provide a good fit, but since the TLI value for both was close to 0.9, it was still acceptable to maintain the constructs for further analysis. In order to improve the goodness-of-fit of the final structural model, the researcher also examined the paths between the constructs. The paths with factors significant at the 0.05 level or less were trustworthiness on process (0.009); trustworthiness on performance (0.001); and loyalty on performance (0.006).

**TABLE 3: PATHS BETWEEN CONSTRUCTS**

<b>CONSTRUCT</b>	<b>P-value</b>	<b>CONSTRUCT</b>	<b>P-value</b>
<b>Brand recognition on</b>		<b>Overall evaluation on</b>	
<i>Product</i>	0.646	<i>Product</i>	0.203
<i>Price</i>	0.219	<i>Price</i>	0.361
<i>Promotion</i>	0.343	<i>Promotion</i>	0.251
<i>People</i>	0.282	<i>People</i>	0.858
<i>Process</i>	0.069	<i>Process</i>	0.275
<i>Physical Evidence</i>	0.942	<i>Physical Evidence</i>	0.848
<i>Performance</i>	0.438	<i>Performance</i>	0.059
<b>Trustworthiness on</b>		<b>Loyalty on</b>	
<i>Product</i>	0.672	<i>Product</i>	0.482
<i>Price</i>	0.901	<i>Price</i>	0.437
<i>Promotion</i>	0.260	<i>Promotion</i>	0.104
<i>People</i>	0.848	<i>People</i>	0.556
<i>Process</i>	<b>0.009*</b>	<i>Process</i>	0.428
<i>Physical evidence</i>	0.184	<i>Physical evidence</i>	0.579
<i>Performance</i>	<b>0.001*</b>	<i>Performance</i>	<b>0.006*</b>

The traditional marketing mix elements had no significant paths with any of the endogenous constructs. Interestingly, no paths were found between the endogenous constructs and place. One possible reason could be that the four traditional Ps, namely product, price, promotion and place are more important in a product market environment, while marketing mix elements, such as process, have a more important role to play in a services environment, like the car rental industry.

To improve the fitness of the model, the traditional marketing mix elements, namely product, price, promotion and place, which seemed to be insignificant, were omitted for further analysis. One possible reason could be that the four traditional Ps (product, price, promotion and place) are more important in a product market environment, while the services marketing mix elements (specifically processes, above people and physical evidence) has a more important role to play in a services environment (the car South African rental industry in this case), as also confirmed in a different context by Wang, Wei and Yu (2008: 314). After omission of the traditional four marketing mix elements, the goodness-of-fit of the exogenous latent variables had clearly improved. According to the criteria stated by Hair et al. (2010: 672), the RMSEA (0.056) in the refined data was still within the parameter of the recommended < 0.07 value. The CFI and TLI improved to be closer to the recommended 0.9 level (0.096 and 0.896 respectively), and the SRMR value of 0.056 was very close to the recommended 0.05 value. The results can be seen from the comparative indices in Table 4.

**TABLE 4: COMPARISON OF GOODNESS-OF-FIT INDICES FOR EXOGENOUS LATENT VARIABLES**

Index	Results for exogenous latent variables	Refined results for exogenous latent variables
RMSEA	0.048	0.056
CFI	0.897*	0.906
TLI	0.888*	0.896*
SRMR	0.057	0.056

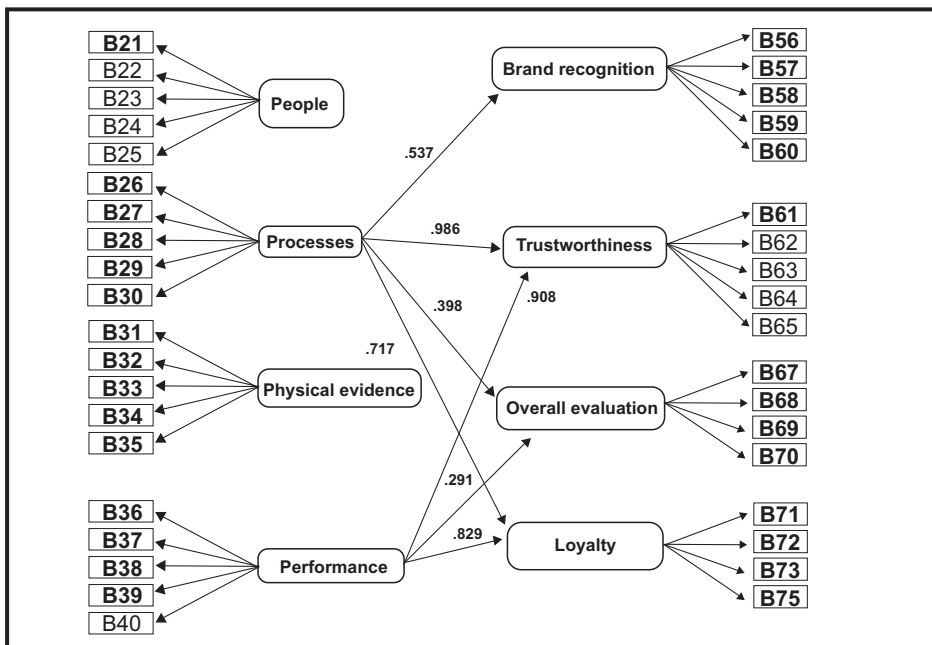
\* Values not meeting the required minimum levels

The SEM results indicated a standard scaled Chi-square measure of 2877.632. The normed Chi-square ( $\chi^2/df$ ) for the hypothesised SEM model was 2.359. Since the normed Chi-square was within the recommended value of 3 or less as recommended by Hair et al. (2010:672), it can be concluded that the data had a reasonable fit with the model. As can be seen from the results above, the RMSEA equalling 0.055 indicated a good fit for the model as it was well within the recommended value of less than 0.07. The CFI (0.865) and TLI (0.860) were very close to the recommended 0.9 level and were regarded as indications of a satisfactory model fit. Although the SRMR was slightly above the 0.05 recommended value at 0.086, the goodness-of-fit of the model still proved to be satisfactory.

**Hypotheses results**

The estimated parameters of hypothesised relationships were not all positive and therefore indicated that not all independent variables had a positive influence on and a positive relationship with the dependent variables. The positive estimated parameters indicated that the customers of car rental companies regarded these factors as satisfactory when they were utilising the services of the car rental company. Since the traditional marketing mix elements, namely product, price, promotion and place did not have any significant relationships with and influence on brand awareness constructs, the null hypothesis is accepted, while the alternative hypothesis is accepted for the services marketing mix elements, namely people, processes and physical evidence, as well as for the recently added marketing mix element, performance. Figure 3 displays the final SEM model.

**FIGURE 3: FINAL SEM MODEL**



(Source: Author's own construct)

The results of the cross-tabulations indicated that internal product, price, promotion and place in some way or another did have a relationship with the age, gender or race of respondents. However, during the structural equation modelling (SEM) process it became evident that the traditional 4 Ps, namely internal product, price, promotion and place did not have a strong relationship with brand recognition, trustworthiness, overall evaluation and loyalty. The traditional 4 Ps have always played a significant role in a product environment.

A possible reason why these 4 Ps were insignificant might be that some car rental customers evaluate the 4 Ps based on external experiences and found it difficult to link the 4 Ps to the internal application thereof. Another reason might be that some customers perceived the questionnaire items of the 4 Ps to contain elements of people and process, for example, an employee who is friendly should be well trained to deliver service excellence, and employees who are confident should know the process and procedures that have to be followed, resulting in a perception that the 4 Ps were contained in other Ps. The high correlations among the Ps might be a further reason why the relationships seem to be insignificant.

For the above reasons, the SEM indicated that internal product, price, promotion and place could not be regarded as constructs having a relationship with brand recognition, trustworthiness, overall evaluation and loyalty of car rental customers. The services Ps results indicated that the services Ps did have a relationship with brand recognition, trustworthiness, overall evaluation and loyalty. In the services Ps, process proved to have the strongest relationship with the elements of brand awareness. The recently added P, performance, also had a strong relationship with the elements of brand awareness.

## **MANAGERIAL IMPLICATIONS FOR CAR RENTAL COMPANIES**

The findings of the study indicated some areas where car rental companies could improve their internal marketing efforts to enhance the overall brand awareness of the company as experienced by customers. Although internal product, price, promotion and place were eliminated from further analysis during the SEM process, car rental companies should include these 4 Ps in training and marketing programmes for employees.

The fact that there was a weak positive relationship between physical evidence and brand recognition displays that customers are relatively satisfied with the offices of the car rental companies. They are also reasonably satisfied with the offices in their overall evaluation of car rental companies. The level of influence is a further indication that physical evidence does not play a major role when car rental customers make use of car rental services. Physical evidence represented the physical dimensions, including ambient condition, space, signs, symbols and artefacts, as well as servicescape, namely personal experience and spatial context. People displayed negative or weak positive relationships with brand recognition, trustworthiness, overall evaluation and loyalty. Therefore, people require special attention by car rental companies to improve the relationships and influence of its constructs on the brand recognition, trustworthiness, overall evaluation and loyalty perceived by customers.

Process, on the other hand, was ranked as one of the most important aspects to create brand recognition, instil trust, have a positive overall evaluation and establish customer loyalty. Car rental companies should therefore ensure that their processes are of high standard to retain existing customers and to build their reputation to attract new customers. Car rental companies provide accessibility through numerous branches nationally and some internationally and thereby increase the accessibility of their services and products to customers. However, all branches have to ensure that their processes are well planned, consistently implemented and coordinated throughout the

organisation. The internal process has to be reliable and must have integrity to provide a satisfying experience to the external customer in delivering the service or product. Car rental companies should review their internal process from time to time and make improvements where required. Feedback from customers is also very valuable to assess if existing internal processes have a positive effect on the service delivery to customers. If car rental companies ensure that processes are functioning optimally, customers regard them as trustworthy.

Customers of car rental companies regarded performance of the company as very important. This implies that if car rental companies improve their performance and ensure that such performance is of a high standard, customers will trust the car rental company. Customers that trust their car rental company results in loyalty towards the car rental company.

Employees of car rental companies play a significant role in the performance of the organisation, and car rental companies will only be able to perform well if their internal performance is managed effectively. Employees should have the same values as the company and should be able to adopt the culture of the car rental company. Performance cannot be sustained if there is no measurement in place. Therefore, car rental companies have to measure employee performance, as well as the overall performance of the organisation.

Constructive feedback from employees should be encouraged and management and employees should be committed to each other. They should also have fun together, be helpful and compassionate about one another. Employees who are satisfied tend to put more effort in to ensure that the organisation performs better, and therefore continuous training and performance measurement are imperative to increase the car rental company's overall performance. Furthermore, satisfied employees who are motivated to perform well, create satisfied and loyal customers who have trust in the organisation.

## **CONCLUSION**

Car rental companies function in a very competitive industry and therefore they should recognise the importance of the brand awareness they are creating with customers. They should be aware of the fact that the organisations' efforts to attract and retain customers are influenced by their internal marketing programmes. Furthermore, they have to realise that the eight marketing mix elements have an influence on the perceptions of the brand awareness of their customers. Successful implementation of internal marketing programmes further ensures positive relationships being built with customers, resulting in trust being established between the car rental company and its customers. A relationship of trust ultimately creates loyalty towards the car rental company, which leads to positive brand recognition and recall. Car rental companies that succeed in sustaining positive and strong brand awareness will experience economic growth and competitiveness.



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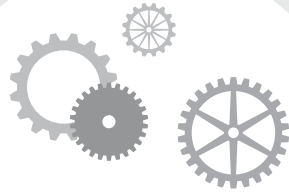
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# A CONTENT ANALYSIS OF WEBSITES OF MEMBERS OF THE NATIONAL FUNERAL DIRECTORS ASSOCIATION OF SOUTH AFRICA: AN EASE OF USE PERSPECTIVE

25



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## ABSTRACT

The marketing of intangible services, and particularly unsought services such as the funeral industry, poses inherently unique challenges to marketers. Due to the unsought nature of funeral services, consumers generally avoid the industry primarily because the services the funeral industry offers are associated with death and grief. This paper reports selected findings on an evaluation of the effectiveness of funeral home websites of members of the National Funeral Directors Association of South Africa (NFDA). The focus of this paper is on the ease of use of the websites under study. The elements that were used as a basis to determine ease of use of the websites in the study included accessibility and visibility (which relates to “searchability”); navigability and “contact ability”. A quantitative content analysis of the websites was conducted to collect the relevant data for this study. The findings indicate that the majority of the websites can be considered satisfactory in term of overall ease of use. Recommendations for improvements to the websites, as well as suggestions for future research are provided.

## KEYWORDS

Websites; Digital marketing; Funeral industry

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## INTRODUCTION

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How does one promote the funeral industry? This is most probably one of the most difficult industries to promote, mainly due to its “unsought” services nature. Considering the components of an Integrated Marketing Communications (IMC) program, such as advertising or sale promotions, which of the components can be used to promote the industry? It is not as simple as putting up a billboard that states: “Speed kills – contact our toll free number for a free quotation”.

This example may be considered humorous; however, it illustrates the complexities of using IMC to promote a service that consumers generally do not find enjoyable to search for. Death is universal and funerals are one of the earliest known concrete symbols of human social rituals. In fact, funeral insurance is one of the earliest documented forms of insurance (Berg, 2011: 1). Regardless of its origins, where there is death, there will be a funeral of some sort. Due to the unsought or otherwise expressed “unwanted” nature of funeral services, consumers generally avoid the industry and are unlikely to acquire the service of a funeral home through the exposure to, for instance, an advertisement, primarily because the services the funeral industry offers are associated with death and grief (Theron, 2011: 2).

The funeral industry has, from its beginnings, had a problem with its image (Armour & Williams, 1981: 705-706). The industry has taken great pains to change how consumers view funerals and those who provide the funeral services. Aspects such as the provision of services to the client, the growth of their businesses, and client expectations and demands, pose fundamental problems to the funeral industry in general, and those that attempt to market it. How do funeral homes then convince clients to invest in their services when the client is firstly making a decision in a moment of immediate need, and secondly, has to make that decision towards a service that is best described by Sanders (2009: 47) as a “dismal trade”?

According to Armour and Williams (1981: 702), most funeral homes are reluctant to advertise their services, as they believe that the public will be offended if the advertisements are too disturbing. Funeral homes rather seek out alternative means of presenting their business to the general public, such as websites. Websites are generally considered the first port of call for an organisation's digital marketing mix. Almost all digital marketing is designed to lead users to a website where they convert into customers (Stokes, 2011: 107). An effective website is therefore at the centre of all the organisation's online marketing activities.

Although the importance of effective websites for marketing purposes have been researched across a range of industries (Gupta & Rathore, 2012; Nepomuceno, Laroche, Richard & Eggert, 2012; Burt and Dunham, 2009; Yoo, 2009), an extensive search of various research databases have yielded no such research in the context of the funeral industry.

### PROBLEM INVESTIGATED

The marketing of intangible services, and particularly unsought services such as the funeral industry, poses inherently unique challenges to marketers. The challenge for the marketer of funeral services is not only to educate their clients regarding the services delivered by the funeral industry, but also to do so at the time when the client is in a state of bereavement. According to Grönroos (1994: 6), any marketing paradigm should be well set to fulfil the marketing concept: the firm has to design and direct its activities according to the needs and desires of its clients.

Nowhere is this more apparent than in the funeral industry where the needs and desires of the client should take unprecedented priority in the short span of interaction between the service provider and

the client. Particularly considering the opportunities other businesses have in building client relations over a longer period of time. A funeral service is not something which forms part of the client's regular consumption patterns; in fact, clients only acquire the services of a funeral home once a loved one has passed away. The funeral director therefore literally has only a few days to complete the entire transaction – from first contact with the clients until completion of the funeral activities.

It is within this short span of time where the funeral director has to deliver services aimed at high impact on the desires and needs of a client who is in a delicate emotional state – a factor which further complicates the process for both parties. The first contact is the most important step in the process as this is where the consumer decision making process initiates. Thus, from a digital perspective, it is important for the funeral home to create the correct first impression on the prospective consumer via the website.

This paper reports selected findings on an evaluation of the effectiveness of funeral home websites of South African members of the National Funeral Directors Association of South Africa (NFDA). As mentioned in the introduction, no such research has been conducted in this context. The purpose of the research was thus to investigate the effectiveness of funeral home websites based on the accessibility and usability of websites (Odom & Habermann, 2013: 212, Chaffey & Ellis-Chadwick, 2012: 386-389; Ryan & Jones, 2012: 40-41; Stokes, 2011: 88), which is discussed under “literature review”.

## **RESEARCH OBJECTIVES**

The primary objective of the study was to determine the effectiveness of websites of members of the NFDA. This study followed one of the most widely used models used in research to understand user acceptance of technologies, namely the Technology Acceptance Model. The core premise of the Technology Acceptance Model is based on the perceived usefulness and the perceived effort required from the user when using technology. Perceived usefulness is defined as the user's subjective probability of using a specific application system (for instance a website). Ease of use, in turn, is defined as the degree to which a prospective user expects a lack of effort when using technology. The perceived ease of use and perceived usefulness significantly affect the user's attitude and behavioural intention towards the use of websites. The Technology Acceptance Model also includes the assumption that the user's behaviour is voluntary or occurs at the user's discretion, which excludes both the subjective norm and behavioural constructs in the research model (Davis, 1989: 319-321; He & Wang, 2012: 528; Islam, Low & Hasan, 2013: 827; Varma & Marler, 2013: 1477).

Based on the core premise of the Technology Acceptance Model, the focus for the purpose of the paper is on aspects that relate to ease of use. Secondary objectives included inter alia:

- Determining the accessibility and visibility of the websites
- Determining the navigability of the websites
- Determining the “contact ability” of the websites

## **LITERATURE REVIEW**

The funeral industry promotes a social product that has masked its constructed nature to the extent that it is taken for granted by the consumer (Sanders, 2009: 2). Therefore, developing a promotional strategy for the funeral industry involves the same processes as for any other industry,

namely defining potential customers, determining what their expectations are, and creating a compatible strategy between the consumer's expectations and the funeral home's ability to deliver that service. Without a promotional strategy, a funeral home cannot be managed in a way that will assure quality service to its consumers (Wolfelt, 2007).

For marketers, the evolution of the marketplace as a result of the digital revolution, and the shift in consumer mindsets, herald a plethora of new challenges. As consumers increasingly embrace new ways of communicating, take greater ownership of information availability, and aggregate in increasingly specialised niche online communities, marketers must shift their approach if they want to remain connected to their consumers (Ryan & Jones, 2012: 15). Although the marketing mix still provides a simple, strategic framework for marketers to present the different elements of an organisation's offerings, digital media provide many new opportunities for the marketer to transform the marketing mix.

The Internet, and especially the development of Web 2.0, has led to dynamic and revolutionary changes in marketing. The interactive nature of the Internet allows for interactive media, which in turn allow for a two way flow of information where consumers can participate in the dissemination of information in real time. This capability enables marketers to gather valuable information from consumers and adjust their offers accordingly (Belch & Belch, 2012: 18-26; Moriarty, Mitchell & Wells, 2012: 484-603; Arens, Weigold & Arens, 2011: 219-223; Keller, 2008: 235-271).

From a marketing perspective, Internet based marketing is referred to as digital marketing (Chaffey & Ellis-Chadwick, 2013; Swanepoel & Bothma, 2013; Stokes, 2011). Digital marketing can be broadly defined as "the application of marketing principles using electronic means" (Swanepoel & Bothma, 2013: 20). Digital marketing affects all aspects of the traditional and services marketing mix. From a promotional perspective, the focus of the marketer has shifted from monologue to dialogue. The dialogue between the consumer and the organisation is therefore based on the interactivity made possible by digital communication (Chaffey & Ellis-Chadwick, 2012: 258-259,433).

Websites are the first things consumers think of when they think of the "Internet". Website owners want their website to be talked about, and linked to, for the right reasons. Successful website development and design is all about foundations, and the resulting website usually forms the foundation of any digital marketing to follow. The purpose of a website is a dual, but parallel process (Vu, Zhu & Proctor, 2011: 440). A website's purpose firstly reflects the needs of an organisation and secondly, the specific tasks that the users of the website need to accomplish. Explained from the business' perspective, the website may be designed to promote the sales of the company's offerings. From the user's perspective, the website must be able to provide the user with the necessary information regarding the company's offerings, and/or to assist the user to find and purchase the offerings.

In relation to the funeral industry, the website of the funeral home should provide the user with the contact information, the types of ceremonial services the funeral home offer, information about caskets, flower arrangements, and all other possible goods and services the funeral home conducts on behalf of the bereaved. If all of these elements are present, the website should therefore fulfil its goals. Odom and Habermann (2013: 16,190) state that the Internet is now the new telephone book. The ultimate goal for any marketer that uses websites for marketing purposes is to increase Internet traffic to the business' website. In order to maximise traffic to the website, the first step is to create an effective website.

Stokes (2011: 88) list four core considerations for the design of an effective website, namely:

- Accessibility, which refers to barriers which might prevent users from accessing your website,

- Usability, which refers to how usable your website is to your users,
- Searchability, which refers to how your website ensures that it can be found via search engines,
- Discoverability, which refers to how your website capitalises on social media to make it more shareable and discoverable.

For the purpose of this paper, the objectives of the study relate to accessibility, usability and searchability. The fact that the potential user is searching for the services of a funeral home in a state of bereavement, heightens the value of these components for both the user and the funeral home. Therefore, if a funeral home website is designed based on these components, it should be effective in reaching its goals.

There is no consensus in the literature consulted for this study regarding website design and the evaluation standards of an effective website (Kulkarni, Rajeshwarkar & Dixit, 2012; Shelly & Campbell, 2012, and Sterin, 2012; Simmons, Armstrong & Durkin, 2011; Vu, Zu & Proctor, 2011; Landa, 2010; Udo, Bagchi & Kirs, 2010; Persuad, Madill & Rubaj, 2009; Keller, 2008). This posed difficulties for finding an established instrument suitable to measure website effectiveness. Selim (2011: 5) states that the lack of website evaluation criteria can be ascribed to the fact that evaluation criteria are either developed for a specific industry, or that the researchers developed their own criteria for evaluation. A comprehensive, generic set of criteria was developed by Selim which can be applied to the evaluation of websites. The evaluation criteria for this study pertaining to accessibility, usability and searchability, was extracted from Selim's proposed set of website evaluation criteria.

The focus of this paper is on the ease of use of the websites under study. The elements that were used as a basis to determine ease of use of the websites in the study included accessibility and visibility (which relates to “searchability”); navigability and “contact ability”.

### **Accessibility and visibility**

Searchability is defined as the art of designing Web sites that can be accessible to internet users, regardless of the internet browser that they are using (Selim, 2011: 12). According to Stokes (2011: 88-89,91) search engine traffic is vital to a website. Without it, chances are the site will never fulfil its marketing functions. Searchability therefore relates to barriers which might prevent users from accessing an organisation's website. From the perspective of the user, the Search Engine Results Page (SERP) is the first connection with the organisation's website after a key word search has been conducted.

### **Navigability**

Navigability only required to variables to be assessed: whether the websites contained navigation links, and if the links are active, thus indicating that the user will be able to navigate his or her way around the website with ease.

Stokes (2011: 99) proposes four basic evaluation questions for the design of effective navigation on a website. If these questions can be answered successfully by the user, the website was successful in its navigation:

- Where am I? Here, the logo should tell the user what site they are on. Menu changes and page titles tell a user where they are on the site.

- How did I get here? Navigation often indicates the general path a user may have taken. In the case of site search, the keyword used should be indicated on the SERP.
- Where can I go next? Navigation clues let a user know where to go to next. It may be an action on an e-commerce site like “add to cart”, or it might be a contextual link indicating “click here to read more”. The key element here is to make the options clear to the user.
- How do I get home? It’s become standard that the logo of the website takes the user back to the home page, but many users still look in the main menu for the word “home” to go back to the front page of the website.

When a user accesses the website of the funeral home, it should be easy for the user to move around on the website to find information. Information required by the user might include selection of coffins, floral arrangements, different types of religious services, and the printing of memorial letters.

### “Contact ability”

“Contact ability” is the degree to which the contact information of the funeral home is presented on the website. By ensuring the consumer that the organisation will respond to any enquiries received via the Website, the user is reassured that the website owner consider the web to be equally as important as the phone, fax or the name of a contact person (Swanepoel & Bothma, 2013: 32). Prospective consumers should be allowed to choose their mode of response to any enquiry, whether it is via phone, email or fax. It is crucial for a funeral home to have detailed contact information on the website. For instance, in a scenario where a loved one has just passed away, it is always the relative's first response to find someone to remove the remains of the deceased. This aspect does not depend on office hours: the funeral home therefore has to a contact point(s) that is available 24 hours per day.

## RESEARCH METHODOLOGY

A quantitative content analysis of the websites of all members of the NFDA of South Africa was conducted to collect the relevant data for this study. The NFDA was selected on the basis that its members represent all of South Africa, and not only a component of the country's population. The aim was therefore to mirror the population of interest in summary form. Based on the complete member list of the NFDA, members with dedicated websites were identified. The selection can be argued from a population census and a sampling frame perspective. Only certain members of the NFDA have dedicated websites. Thus, from both the population and sampling frame perspectives, the units of analysis for this study constitute a census (Iacobucci & Churchill, 2010: 282).

Several Internet searches were conducted using Google Chrome to search for members of the association that has dedicated websites. For instance, sources such as Sitesearch.co.za were consulted in addition to word searches on Google Chrome. However, if the funeral home is not registered on a website such as Sitesearch.co.za, it will not reflect when a word search is conducted on the website. A more dedicated approach was taken to ensure that every member of the NFDA was evaluated to determine if the funeral home own a dedicated website or not.

A Google Chrome word search was therefore conducted by entering the name of each of the funeral homes as it is listed on the member directory. Only 20 members out of the 191 (10.47%) members listed on the NFDA in South Africa have dedicated websites. Taking into account that this is a small group in relation to the population, the members with websites were flagged, and each of the funeral



homes with dedicated websites were used to collect the data for the purpose of this study, thus conducting a census of all of the NFDA members that fulfil the requirements of the study, namely that they must have dedicated websites.

## Coding

In quantitative content analysis, the coding process is determined a priori, indicating that it is done before coding begins. The coding process involves converting the content that is researched into a format that is suitable for analysis. The recording of data takes place when observers, readers or analysts interpret what is seen, read or found, and then relates their experiences in terms of an analysis (Krippendorff, 2013: 127-128; Holtzhausen, 2010: 175; White & Marsh, 2006: 31). The observers, also known as coders, code the content based on a codebook and an associated coding sheet.

The codebook serves as a record of the practical implementation of the study (Holtzhausen, 2010: 177), and should be drafted in such a way that it enables other researchers to duplicate the research. An efficient codebook should contain clear, distinct descriptions of all the variables under consideration so that the coders will code consistently. When the categories for the content analysis study are designed, the analyst must ensure that the categories are exhaustive, mutually exclusive, and at an appropriate level of measurement (Neuendorf, 2002: 118). The importance of mutually exclusive categories for reliability purposes of a content analysis study is emphasised by White and Marsh (2006: 32): if all the relevant aspects of the construct are represented, are mutually exclusive, measured at the highest possible scale, have clear definitions, easy to follow instructions, and contains unambiguous examples, it is very likely that all coders will code the same item in the same way at different points in time.

The codebook corresponds to the coding form, which provides spaces for recording the codes for all variables measured (Neuendorf, 2002: 132). Together, the codebook and the coding form stand alone as a protocol for the content analysed. This study used human coders to record the variables as established in a codebook onto a corresponding coding form. Human coding involves the use of people as coders, each using a standard coding codebook and corresponding coding form to read, view, or otherwise analyse the content. The human coder then records his/her objective observations according to the list of predetermined variables (Neuendorf, 2002: 52). This study utilised three independent coders to code the websites in order to establish reliability.

## Reliability and analysis

The data collected for this study was analysed quantitatively using the Statistical Analysis System (SAS), and included the use of a Krippendorff's Alpha (KALPHA) analysis to measure the reliability. There are several known measurements of data in content analysis such as Cohen's Kappa (K) and Fleiss's Kappa (K), both of which are variations on Scott's pi ( $\pi$ ). Other measurements include (but is not limited to) Cronbach's Alpha ( $\alpha_C$ ), Spearman's ( $\rho$ ), Pearson's correlation coefficient ( $r$ ), and the percentage agreement, which is the most basic assessment of content data analysis. KALPHA satisfies all known measurements' formulation criteria in one formula. It accomplishes this by calculating disagreements instead of correcting percent-agreements, consequently eliminating the limitations of the other measurements (Hayes & Krippendorff: 2007: 80-81; Macnamara: 2005: 11). It is therefore considered the most reliable and applicable method of data analysis for the study. KALPHA is calculated per variable, and it provides information on the reliability of variables, not of coders (Krippendorff, 2013: 309; De Swert, 2012: 2). The ultimate aim of testing reliability is to ensure that "unreliabilities" are insignificant. A coefficient level exceeding 80% can be accepted as reliable (Neuendorf, 2002: 143; De Swert, 2012: 5; Krippendorff, 2012: 324-325).

The data of this study were analysed using a nominal level of measurement as it measured the data in terms of “designations of discrete units” (variables). The variables were grouped under each objective. The coders had to assess if the variable was present on the website or not, indicating the presence of the variable with a “1” (Yes), or the absence of the variable with “0” (No) (refer to Table 1). It was required from each coder to evaluate the entire population. The coding results were recorded on a MS Excel spreadsheet and analysed using the SAS system.

TABLE 1: VARIABLES

Objective	Criteria	Yes (1)	No (0)
<b>Accessibility and Visibility</b>	V1. Is the <u>existence of the website</u> made known through the Google Chrome <u>search engine</u> ?		
	V2. Is the <u>web address (URL)</u> of the funeral <u>home displayed below the name of the funeral home</u> on the search result page of Google Chrome?		
	V3. Can the web site be <u>accessed publicly without any obstacles</u> ?		
	V4. Are any <u>fees, registration or application forms required to enter</u> the website?		
	V5. Does the website <u>need plug ins for full functionality</u> ?		
<b>Navigability</b>	V6. Does the website <u>contain navigation links</u> ?		
	V7. Are <u>navigation links</u> provided <u>to and from all pages on the website</u> ?		
<b>“Contact ability”</b>	V8. Does the website provide a <u>telephone number</u> where the funeral home can be contacted?		
	V9. Does the website provide a <u>physical street address</u> of the funeral home?		
	V10. Does the website provide <u>GPS co-ordinates</u> to the physical location of the funeral home?		
	V11. Does the website provide written <u>directions to the physical location</u> of the funeral home?		
	V12. Does the website provide an <u>interactive map</u> to the physical location of the funeral home?		
	V13. Does the website provide a <u>name and/or surname of a contact person</u> at the funeral home?		
	V14. Does the website provide an <u>e-mail address</u> where the funeral home can be contacted?		
V15. Does the website provide a <u>contact form</u> through which the user can submit a written enquiry to the funeral home?			

## RESULTS

Prior to the data collection for the study, a pilot study was conducted using three coders. The data from the pilot study was captured on an MS Excel 2007 spreadsheet and presented to a statistician, who in turn completed a statistical analysis using Krippendorff’s alpha ( $\alpha$ ). A 100% reliability of the measuring instrument was confirmed ( $\alpha=1.0$ ). Taking into account that a census was conducted, the true population values are reflected in the discussion of the data. Typically, descriptive statistics are used to summarise and describe data obtained (Shiu, Hair, Bush & Ortinau, 2009: 513) (refer to Figure 1). The one way tabulation method was applied to summarise the percentages of the data collected. Bar charts are used to summarise the total percentages of the grouped data.

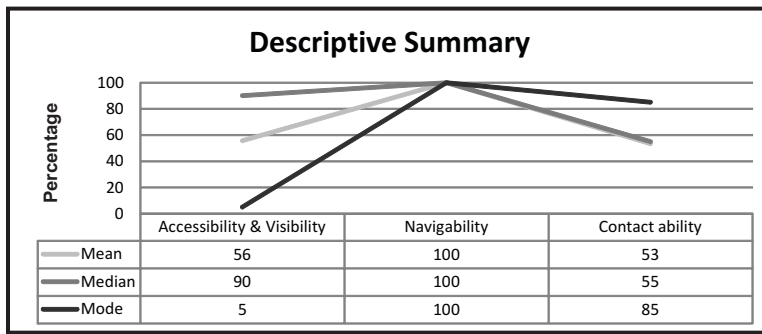


FIGURE 1: DESCRIPTIVE SUMMARY OF THE DATA OBTAINED

### Accessibility & visibility (Searchability)

The websites were evaluated in terms of the ease of access and how visible they were. The results are presented in Figure 2.

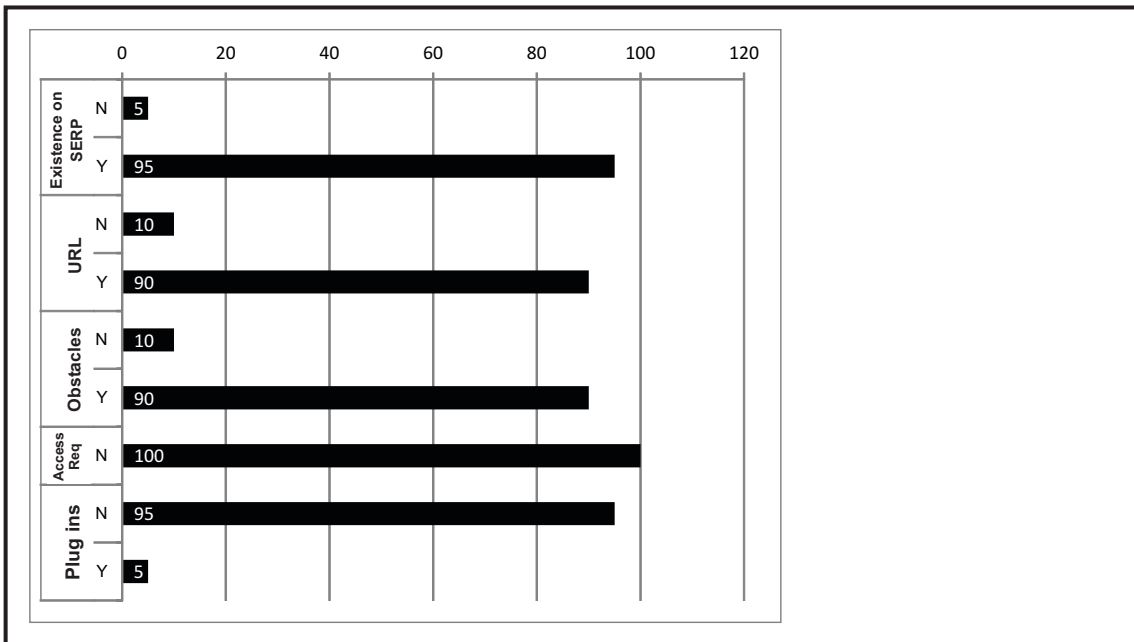


FIGURE 2: ACCESSIBILITY AND VISIBILITY

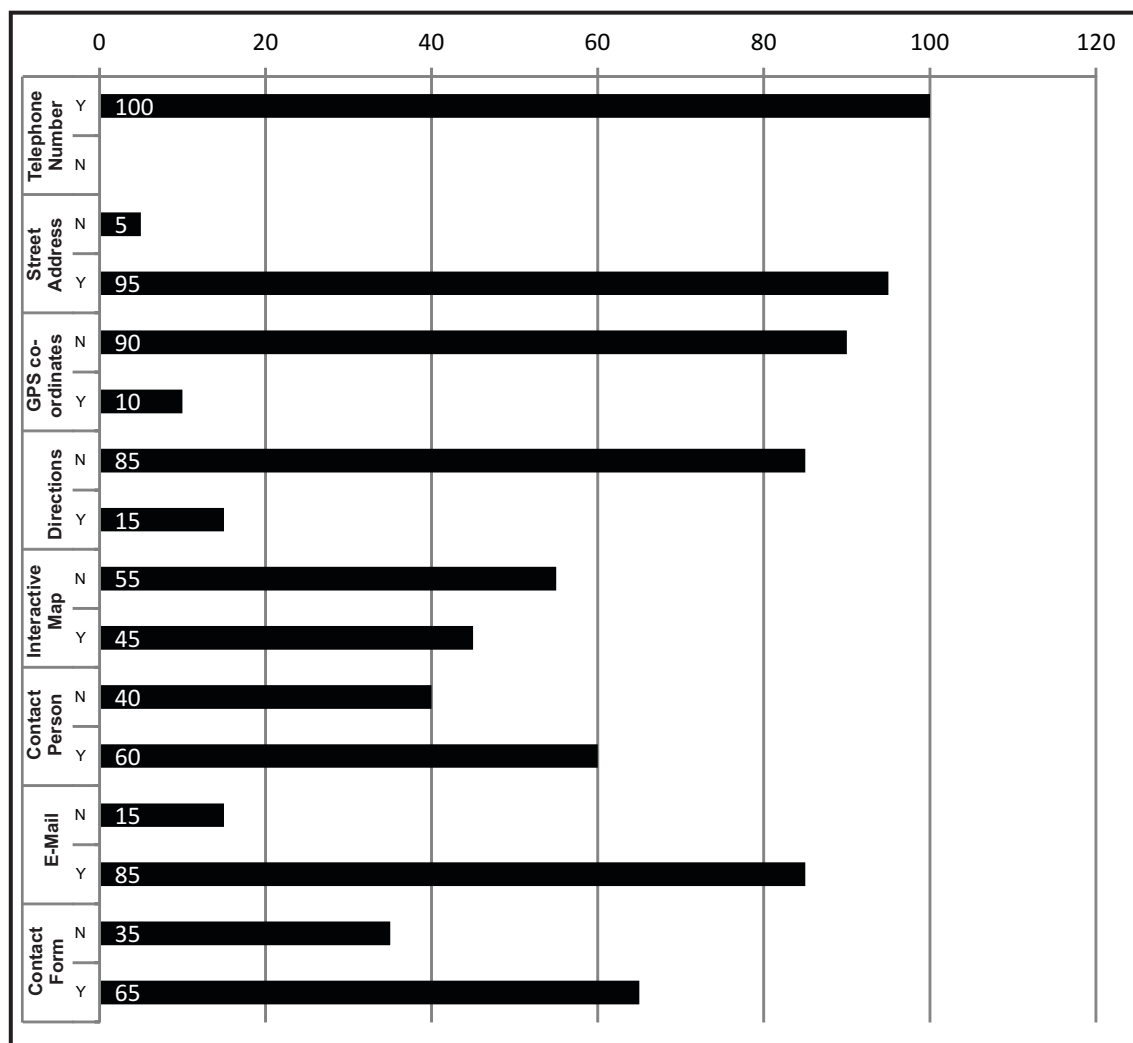
Figure 2 shows that 95% of the websites reflected at the top of the list on the Google Chrome SERP when the name of the funeral home was typed in the search bar (V1). Ninety per cent of the funeral homes' URL's were displayed below the name of the funeral home on the SERP (V2). In terms of whether the sites could be accessed publicly without any obstacles, 90% of the websites could be accessed directly from the search engine (V3). None of the funeral home websites required any fees, form of registration or any applications to be completed in order for a user to gain access (V4), and only 5% of the websites needed an additional plug-in in order for it to function optimally (V5).

### Navigability

The results for the presence of navigation links indicated that all of the websites (100%) contained navigation links. Additionally, all of the sites contained navigation links to and from different pages within the web site. The navigation links were all fully functional and the coders were able to easily navigate their way around the website.

**“Contact ability”:**

Figure 3 presents the results for the evaluation of the “Contact ability” of the websites.



**FIGURE 3: “CONTACTABILITY”**

From Figure 3 it is clear that all (100%) of the websites provided telephone numbers where the funeral home could be contacted (V8). It should be noted that most of the websites indicated that the numbers provided are available 24 hours a day.

In terms of the physical addresses of the funeral homes (V9), 95% of the websites contained a physical street address on the website. Additionally, 90% of the websites provided GPS co-ordinates to the physical location of the funeral home (V10). Contrarily, only 15% of the funeral homes provided written directions to the physical location of the funeral home (V11). To assist

website users that will or cannot use GPS coordinates, 45% of the funeral homes provided a link to an interactive map such as Google maps to indicate the physical location of the funeral home (V12).

In terms of other contact details, 60% of the funeral homes provided the name and surname of a contact person at the funeral home (V13). A further 85% of the sites provided an e-mail address where the funeral home can be contacted should the user require any additional information (V14). 65% of the websites that were analysed provided a contact form which the user could complete with his/her details to facilitate an enquiry from the website (V15).

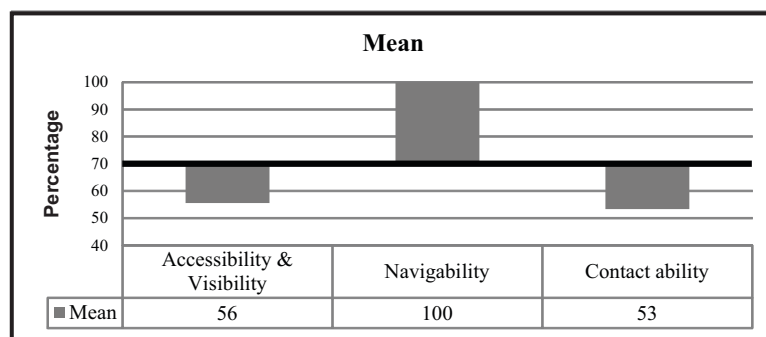
The arithmetic mean of the total data set of this study is calculated to an average of 70%

$$(\bar{x} = \frac{N}{\sum x_{1,2,3}} \text{ (refer to Table 2). This calculation was done in order to establish a reference point}$$

against which to evaluate the overall performance of the websites. The overall results on ease of use of the websites are summarised in Figure 4.

**TABLE 2: CALCULATION OF THE OVERALL AVERAGE**

	Accessibility & Visibility	Navigability	Contact ability	Mean
$(\bar{x})$	$\bar{x}_1$	$\bar{x}_2$	$\bar{x}_3$	$\bar{x} = \frac{N}{\sum x_{1,2,3}}$
<b>Mean</b>	56%	100%	53%	<b>70%</b>



**FIGURE 4: MEAN**

Figure 4 shows that in terms of navigability, the websites of the NFDA funeral homes scored 100% - indicating excellent navigability. The 53% for “contact ability” and 56% for accessibility and visibility is comparatively low when considering the average mean of 70%.

## CONCLUSIONS AND RECOMMENDATIONS

The websites that were analysed performed well in terms of accessibility and visibility, which indicates that the website owners (and/or their web designers) are conscious of the importance of visibility through the Google Chrome SERP. This therefore translates to high levels of searchability, which is crucial in terms of exposure of the funeral homes' website and the information it contains. It should translate to a “good” first contact for the potential client. The only elements that may need some improvement are the display of the funeral home's name above the URL; and the accessibility directly from the SERP. Funeral home website owners may consider ensuring that these elements are in place to optimise search engine efficacy.

The fact that none of the funeral home websites required payment of fees, registration or applications to be completed in order to gain access can be considered reflective of high user-friendliness. Furthermore, only a few of the websites required additional plug-ins in order to function optimally. Therefore users should be able to use all functionalities of the majority of the websites without having to download any additional plug-ins, which may have been inconvenient. The navigability of the NFDA websites was also excellent. This can be interpreted as exceptional ease of use on this aspect, and should be maintained.

In terms of “Contact ability”, the results were not overall as favourable as the previous elements. A closer inspection of the websites revealed that the types of numbers presented on the websites differed. Some of the websites provided toll-free numbers, whilst others provided cell phone and/or landline numbers where the funeral home can be contacted. This aspect, as well as the presence of addresses, and of GPS coordinates and e-mail addresses were evaluated quite highly (85%-100%), and are thus considered of good quality. However, the “Contact ability” elements of written directions, interactive maps, name of an actual person and contact forms were not rated very highly (between 15% and 65%). The lowest score was for written directions to the funeral home (15%). This also links to the relatively low presence of interactive maps.

Although 60% of the sites did indicate a name and surname of a person on the site, this can also be improved upon. Detailed information can assist the website user in making decisions. Additionally, providing a contact form that allows the user to add their details in order for the funeral home to contact them could also increase the ease-of-use for the consumer.

## **MANAGERIAL IMPLICATIONS AND FUTURE RESEARCH**

The study evaluated all the websites of members of the NFDA that have dedicated websites. The research indicates that overall, the funeral homes seem to have designed them to include the elements that are considered to facilitate ease-of-use. Funeral home owners should however, attempt to improve aspects such as ensuring that the websites' URL is clearly displayed under the name, although these aspects were not scored low and should therefore not be cause for concern.

The area that reflected the highest need for improvement to increase ease-of-use is “Contact ability”. The lowest scoring element relates to the lack of written directions to the funeral home. Funeral home owners should take into consideration that many people in South Africa do not own GPS devices and will probably find written directions very helpful. This is also true of interactive maps, which can also be very helpful for the consumer looking for easy ways to find the premises of the funeral home. Such maps were also not prevalent on the websites that were analysed. It is also advisable for funeral homes to include the name and surname of a person on the website. The selection of a funeral service is at best a delicate and sensitive issue and providing some form of personal information (a name as opposed to just a number) might make some strides towards making a rather impersonal medium (Internet) seem more “human”.

This study is the first of its kind in this industry as far as could be established. As such, it is somewhat exploratory in terms of consumer behaviour: the websites of the funeral homes were evaluated based on certain ease-of-use aspects, but its scope did not extend to establishing or exploring the perceptions, motivations or experiences of website users. Moreover, there are a few limitations to this study. Only the “how” of the websites of the funeral homes have been analysed, and not the “why”. For instance, it was only established if the websites contained the necessary contact details, but why some websites have interactive maps and others haven't, was not established. This allows room for future research into this area.





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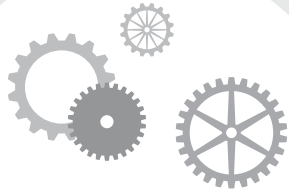
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## SOCIAL NETWORKING: A PROFILE OF UNDERGRADUATE STUDENTS IN TSHWANE

26



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### ABSTRACT

Social networking is a growing global phenomenon. The largest age group on Social Networking Site (SNS) in South Africa consists of young adults (18-25 year olds). The aim of the research was to develop a behavioural profile of young adult SNS consumers. To this end, an online survey was conducted amongst undergraduate students in Tshwane. The research provides a snapshot of a student user: the main findings indicate that students' preferred SNS is Facebook, and they primarily use their cell phones to access SNS. Most of the respondents access SNS between one and two hours daily and their main reason for doing so is chatting with friends. Demographic differences emerged from the data. The research contributes to the body of knowledge on social media, specifically expanding the research on SNS use in South Africa in the context of young adult users, who constitute a large segment of the consumer market.

### KEYWORDS

Social media, Students, Consumer behaviour, Social networking sites

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## INTRODUCTION

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Social media: avenue to new expression of the self; highway to new manners of interacting and empowerment. This is a world of almost limitless possibilities, and it is growing. According to Nielsen's Social Media Report (Nielsen, 2012: 2), social media is a true global phenomenon – something that has become integrated into our lives. The importance of social media is not only underscored by the growth in the market, but also in terms of the roles that are played by consumers via social media. Consumers are not merely passive users – they are active participants in that they can create and disseminate information, often to large groups of people in one instance (Heinonen, 2011: 356).

This offers a level of empowerment that the consumer did not have before the advent of social media around two decades ago. The digital interactivity of social media platforms has implications for many aspects that relate to the field of marketing – particularly in the area of marketing communications. It transcends the company's use of social media as part of the marketing communication mix (the promotional element of the marketing mix) and extends its reach into personal communications between consumers. An obvious example is opinion leadership and word-of-mouth (WOM), which when practiced online, is referred to as e-WOM. E-WOM has the added advantage of being readily accessible to a wide group of consumers (Zhang, Ma & Cartwright, 2013).

Kietzmann, Hermkens, McCarthy and Silvestre (2011: 250) assert that social media changes the communications between companies, communities and individuals. This means that companies cannot expect their consumers to be mere recipients of information – they want to be engaged. Research opportunities arise from this as companies need to understand the social media user in order to be able to interact with and to properly engage their consumers via such platforms.

Social media platforms take many forms, and one of the most prominent is Social Networking Sites (SNS), for example Facebook and Mxit. In South Africa, these two SNS were identified as the most popular SNS in 2012 (World Wide Worx, 2012: 1). The largest active age group on Mxit is the 18-25 years old group (Mxit, 2012: 10), and this is also the case for Facebook (Social Bakers, 2013).

Many researchers have conducted social media research in a variety of contexts internationally (Bailey, Steeves, Burkell & Regan, 2013; Hudson & Thal, 2013; Landoll, La Greca & Lai, 2013; Laroche, Habibi & Richard, 2013; Clipson, Wilson & DuFrene, 2012; Haferkamp, 2012; Kim & Ko, 2012; Muscanell & Guadagno, 2012; Lin & Lu, 2011; Kaplan & Haenlein, 2010; Barker, 2009; Booth, 2009). Research on social media in the South African context is comparatively less expansive and much of it is exploratory or focused on a broader topic or comparison of media (Unicef, 2012; World Wide Worx, 2012; Jere & Davis, 2011; Mohamed, 2011; Bosch, 2009).

### PROBLEM INVESTIGATED

As mentioned previously, social media is a growing phenomenon and its applications for marketing present great opportunities for creative communication. According to Nielsen (2012: 2), social media impacts on marketing through e-WOM, influencing consumer decision-making as well as providing ample opportunity for consumer engagement. SNS additionally allow for the gathering of rich consumer information as the sites are member-driven and content is created and distributed by users (user generated content). Understanding the SNS users and developing consumer profiles that explain patterns of use will assist in the development of suitable marketing communication strategies aimed at SNS consumers; it also provides scope for refining segmentation.

This paper reports the findings of a study on SNS behavioural patterns of a group of undergraduate students from the Tshwane University of Technology. A quantitative online survey was conducted in 2012 and investigated inter alia the SNS that the students subscribe to, the technology or technologies that they commonly use to access SNS, the amount of time they spend on SNS, reasons for SNS use as well as their most preferred SNS. This paper will provide a profile of the undergraduate SNS user based on the aforementioned aspects.

The current study attempts to shed light on the social networking behaviour of undergraduate students, as they are part of the prominent age groups on popular SNS in South Africa. It aims to add to the existing body of knowledge on SNS use in South Africa by examining the behavioural patterns of young SNS users.

## RESEARCH OBJECTIVES AND HYPOTHESES

### Research objectives

The study's primary aim was to develop a profile of selected undergraduate student SNS users. Secondary objectives included:

- To identify all the SNS that the students subscribe to.
- To investigate the technology that students use to access SNS.
- To determine the amount of time spent on SNS.
- To examine the reasons for SNS use.
- To determine the most preferred SNS.
- To establish if there are selected demographic differences in terms of:
  - time spent on SNS (gender, age and income);
  - reasons for SNS use (gender); and
  - preferred SNS (gender, age and income).

### Hypotheses

In order to reach the objective of establishing demographic differences, the following hypotheses were set (also refer to the literature review):

- **H1:** Demographic differences will exist in terms of the amount of time spent on SNS based on i) gender, ii) age, and iii) income.
- **H2:** Males and females will differ in terms of the reasons for SNS use.
- **H3:** The most preferred SNS will differ for i) gender, ii) age, and iii) income groups.

## LITERATURE REVIEW

Marketing communications (MC) encompass various types of channels or media that are utilised to communicate with the target consumer. With the advent of the Internet and Web technologies, MC

expanded from traditional media such as print and broadcast, to the online realm. Online media is also referred to as new media and according to Bernhardt, Mays and Hall (2012: 133), allow consumers to actively share and create content, which translates to high consumer engagement. This is particularly true of social media.

Social media consist of various web-based platforms that enable the users to interact online. Kietzmann et al. (2011: 241) state that social media utilise web-based as well as mobile technologies that allow the users to “share, co-create, discuss, and modify user-generated content” by means of various interactive platforms. Social media interaction is enabled through Web 2.0 technological foundations, and includes a variety of content such as text, pictures, videos and also social networks (Berthon, Pitt, Plangger & Shapiro, 2012: 263). Social media include a wide range of channels such as blogs, media sharing sites, review sites, wikis and SNS, to name a few (Powell, Groves & Dimos, 2011: 16-20; Ryan, 2009: 169). The focus of the paper is SNS, and therefore the discussion will elaborate on SNS as social media channels.

SNS are defined as online services which enable members to create profiles (public or semi-private), populate a list of contacts with whom they connect, and also to navigate their list of contacts as well as those of their connections within the network (Boyd & Ellison, 2007). There are literally thousands of SNS; the purpose of the study dictates an exposition of only the most prominent four within the South African context, namely Mxit, Facebook, Twitter and LinkedIn. The South African user figures of these four are as follows: Mxit 9.35 million active users (Mxit, 2012: 8); Facebook 5.8 million members (Social Bakers, 2013); Twitter 2.43 million users; and LinkedIn 1.93 million subscribers (World Wide Worx, 2012: 1).

A closer look at each of these SNS is warranted. Mxit made a breakthrough in 2003 when they launched a low-cost mobile instant messaging (IM) system. Today it offers its users free IM, applications for SNS, games, music downloads and more (Unicef, 2012: 17). Facebook is an online platform that states its mission as “to give people the power to share and to make the world more open and connected” (Facebook, 2013). It originated as a university-only (Harvard) exclusive network, and grew its user pool to include high schools and corporate networks and eventually to the open site that it is today (Boyd & Ellison, 2007: 218).

**Twitter is an SNS micro-blogging platform** – users can “tweet” their thoughts in 140 characters and share with their “followers”, the people who connect to them. According to Lunden (2012) Twitter was created in 2006 and allows communications between a wide audience of users including “world leaders, major athletes, star performers, news organisations and entertainment outlets”. Twitter’s website positions it as a “real-time information network” (Twitter, 2013).

The SNS that focuses on professional people is LinkedIn. The aim of this SNS is to enable its users to connect with other professionals, potential employers and to gain access to news and insights that help members to grow professionally (LinkedIn Corporation, 2012). Due to the varying purposes of different SNS, the assumption was made that different SNS may appeal to various groups in terms of certain demographic factors. Based on this H3 (The most preferred SNS will differ for i) gender, ii) age, and iii) income groups) was set.

All of these SNS are available through various technologies, not only via personal computers (PC) or laptops. Smartphones, for example, also provide access to SNS through applications (“apps”). SNS “apps” are also available on tablets (for example, iPads). Previous research has examined the technologies that SNS members use to access the sites. Nielsen (2012: 21) reports that in Middle-east and Africa, social media consumers primarily use computers to access SNS (91%); forty-eight per cent use their mobile phones, and only ten per cent make use of tablets. This, however, was not the case in the study conducted by Unicef (2012: 3), as it is stated that South Africans were found to have the highest levels of social networking use via mobile technology in Africa. Mohamed (2011:



105) in a study that focused on students from the Nelson Mandela Metropolitan University, reports that the connection mode (i.e. technology) of choice among his sample was mobile phones (55.3%), followed by iPads (22.7%).

The amount of time that people spend on SNS is also telling of their behavioural patterns. Kittenger, Correia and Irons (2012), in a study on possible Internet addiction, investigated the usage patterns of college Facebook users. The study reported that both male and female users spent at least half an hour per day on Facebook. The results further found that the genders showed significant differences: women spend more time on the SNS than men. Mohamed (2011:91) reports that the majority of the respondents in his study access SNS more than five times a day. In a United Kingdom based study amongst first year students, Jones, Ramanau, Cross and Healing (2010: 728) also found gender differences (although not significant): females were more likely to spend more time in SNS. These findings prompted the setting of H1 (Demographic differences will exist in terms of the amount of time spent on SNS based on i) gender, ii) age, and iii) income).

People are motivated to engage in consumption activities (such as seeking information from media channels) for various reasons. The most obvious overarching reason is to satisfy an unmet need. In fact, the consumer decision-making process starts with the recognition of a need (Solomon, Marshall & Stuart, 2009:158). To satisfy such needs, the consumer engages in particular actions. The driving force that impels the consumer into action is referred to, in the context of consumer behaviour, as motivation (Pincus, 2004: 377). Motivation thus encompasses the reasons why people engage in some or other consumption activity. In the same way, people use various types of media in order to satisfy needs or to gain some sort of gratification.

One of the theories used to explain and predict media usage, is the uses and gratifications theory (UGT) (Larose, Mastro & Eastin, 2001). It is using the UGT premise that Yuan (2011) investigated the social media use of students in China. The gratifications that were used in that study were social (such as staying in touch with people) and non-social (such as keeping track of news) motivations. Various other researchers have also identified gratifications (motivations) for using online media. Examples include Stafford, Stafford and Schkade (2004) in Heinonen (2011: 57), who identified information, entertainment and social motivations. Park, Kee and Valenzuela (2009: 732) identified socialising, entertainment, self-status seeking and information needs.

The purpose of this paper is not to provide an in-depth investigation into gratifications. However, the research examined the reasons that respondents use SNS, and the reported reasons can be theoretically linked to motivations in the framework of UGT, as will be outlined later. Several previous studies indicated that gender differences exist in terms of the reasons for SNS use (Muscanell & Guadagno, 2012; Yuan, 2011; Barker, 2009). For example, females tend to report communication with friends as a more important reason for SNS use than do males (Barker, 2009: 212). H2 (Males and females will differ in terms of the reasons for SNS use) was set based on such findings.

## **RESEARCH METHODOLOGY**

A quantitative Internet survey was conducted using Survey Monkey technology. Online survey technology has also been utilised by other researchers studying social media (Ruleman, 2012; Schlenkrich & Sewry, 2012; Jere & Davis, 2011; Mohamed, 2011). The research instrument was a structured questionnaire that was formatted for online distribution. It should be noted that a standardised measuring instrument suitable to the purpose of this study could not be found; therefore the questionnaire was developed using information from previous studies (Muscanell & Guadagno, 2012; Saw, Abbott, Donaghey & McDonald, 2012; Kim, Sohn & Choi, 2011; Yuan, 2011; Park et al., 2009) and adapted as seemed appropriate to the particular context.

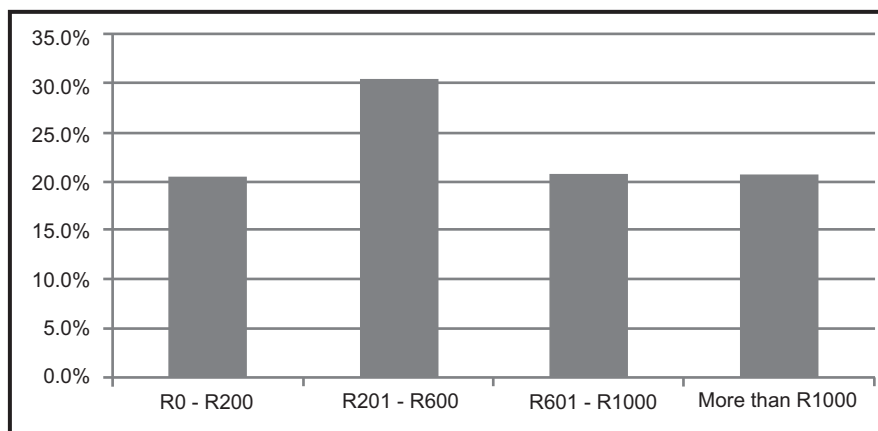
Non-probability convenience sampling was used to draw the respondents for the survey. The survey link was distributed amongst undergraduate students registered at the Tshwane University of Technology in 2012. A screening question was included in order to ensure only respondents who were current users of SNS were included in the sample. The survey yielded 651 responses. Descriptive statistics and statistical tests were performed to examine variations and significant differences. Hypothesis testing was conducted where appropriate to identify significant differences between demographic groups.

The questionnaire was evaluated by other researchers and pilot testing conducted to ensure face validity. The split-half method was used to test internal consistency reliability. The results thereof indicated no significant differences; indicating that the instrument may be regarded as reliable.

## RESULTS

### Demographics

The gender distribution of the sample was 55.5% males and 44.5% females. The majority of the respondents were 20 to 21 years of age. Figure 1 represents the grouped average monthly spending money of the students.



**FIGURE 1:** GROUPED AVERAGE MONTHLY SPENDING MONEY

Figure 1 shows that more than half of the respondents have R600 or less average spending money per month. These results indicate that the respondents generally have limited spending money, which could possibly impact on the money they have available to purchase data for Internet and inter alia SNS use.

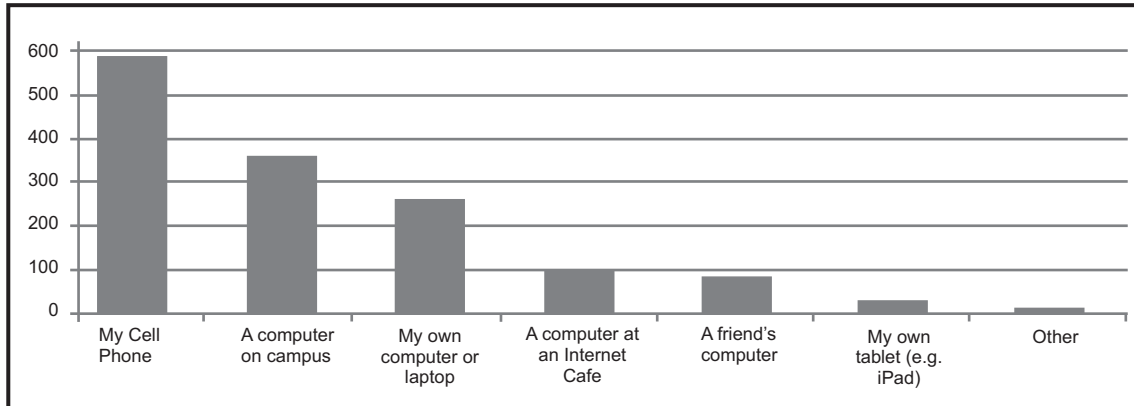
### Subscriptions to SNS

The respondents were asked to indicate all of the SNS that they subscribe to – they could select more than one option. Four options (Facebook, Mxit, Twitter and LinkedIn) were provided (based on literature suggesting most popular SNS), and the option of “other” was also provided to the respondents. The majority (95.8%) of respondents are subscribed to Facebook; 62.4% are members of Mxit; Twitter subscriptions were reported as 47.7%; and 10.9% of the respondents are LinkedIn members. Other SNS that were reported by the respondents included My Space,

Friendura, Twoo, Tumblr and Google+, although the incidences were low (less than 10). Interestingly, many (more than 200) students listed the message applications BlackBerry Messenger (BBM) and WhatsApp as other subscribed SNS. Although this was not explored further in the study, it seems that students consider these messaging platforms as part of their social networking arenas.

### Technology used to access SNS

The respondents were required to indicate which technologies they utilise regularly to access SNS. Figure 2 presents the technologies the respondents use to access SNS.



**FIGURE 2:** TECHNOLOGIES USED TO ACCESS SNS

The vast majority of the respondents access SNS through their own cell phones. The second highest means of access was a computer on campus, which was used by more than half of the respondents. From Figure 2 it can also be seen that their own computer/laptop, computers at Internet Cafés, a friend's computer and their own Tablet are technologies that were less commonly used. These results seem to suggest that relatively few of these students own a PC, laptop or Tablet – electronics that are quite expensive. However, most of the respondents own a smartphone with all of the functionalities it provides.

### Time spent on SNS

In terms of time spent using SNS on a daily basis, the answer options ranged between “Less than an hour” to “more than 4 hours”. Table 1 presents the results.

**TABLE 1:** DAILY TIME SPENT ON SNS

	%	n
Less than an hour	25.6%	159
1 to 2 hours	37.5%	233
3 to 4 hours	16.1%	100
More than 4 hours	20.9%	130

The majority of the respondents (37.5%) indicated that they spend between one to two hours accessing SNS per day. Around a quarter (25.6%) of the respondents spend less than an hour daily using SNS, 20.9% do so for more than four hours, and 16% report using SNS three to four hours per day.

## Reasons for SNS use

The students in the survey were asked to indicate the most important reasons for their use of SNS using a rank-order scale (1=most important, 6=least important). The means and the associated ranks are presented in Table 2; a low mean therefore signifies a higher importance rating.

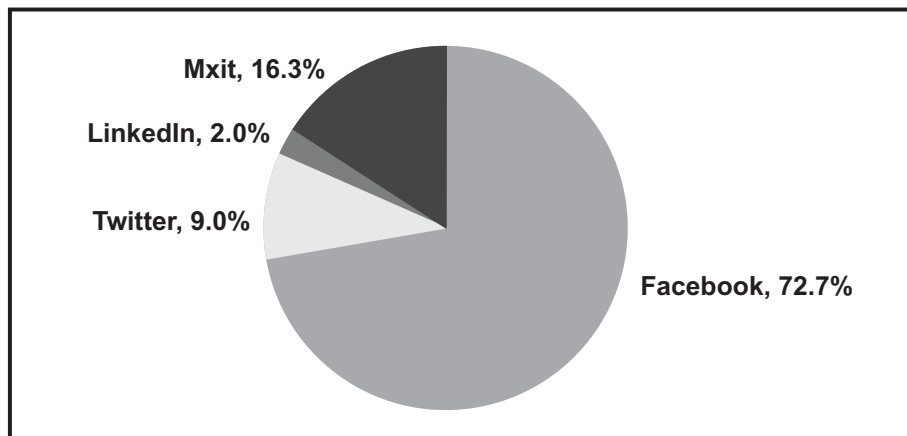
**TABLE 2: MOST IMPORTANT REASONS FOR USING SNS**

Reasons	Mean	Rank
To chat with my friends	2.8	1
To meet new people	3.2	2
To share photos	3.3	3
To keep up with my friends' activities	3.7	4
To stay in touch with my family	3.9	5
For entertainment value, e.g. movies, video clips	4.0	6

From Table 2 it is clear that the respondents' most important reasons to use SNS are to chat with friends, to meet new people and also to share photos. The entertainment value of the SNS was deemed least important.

## Preferred SNS

The respondents were required to indicate their most preferred SNS – the results are depicted in Figure 3.



**FIGURE 3: MOST PREFERRED SNS**

From Figure 3 it is clear that Facebook was the respondents' most preferred SNS, as the majority (72.7%) of the students selected it as their favourite. The second most favoured SNS was Mxit (16.3%), third was Twitter (9%) and the least preferred was LinkedIn (2%).

In order to test the hypotheses, the data collected was further analysed to determine if selected demographic differences existed. The following section discusses the testing of H1 to H3 and the results are reported next.

## Demographic analysis

The research set out three hypotheses regarding selected demographic differences in the use of SNS. The Chi-square test of independence and the Mann-Whitney U test was performed to test the various hypotheses. According to , a Chi-square test is considered suitable for the purpose of identifying significant differences in proportional distributions of categorical dependent and independent variables, while the Mann-Whitney U test considers if two sampled populations are equivalent in location.

## Time spent on SNS:

H1 stated that “Demographic differences will exist in terms of the amount of time spent on SNS based on i) gender, ii) age, and iii) income.”

i) The results indicate that males and females differed significantly in terms of the amount of time spent accessing SNS daily ( $p=0.000$ ). H1 (i) can therefore be accepted. Figure 4 depicts the gender differences in terms of the time spent on SNS.

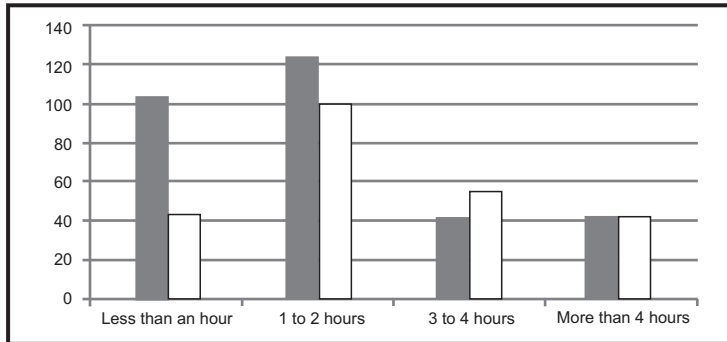


FIGURE 4: GENDER DIFFERENCES IN TERMS OF TIME SPENT ON SNS

Figure 4 shows that females are more likely than males to spend three or more hours using SNS daily; thus females tend to spend more time on SNS than males.

- ii) No significant statistical differences ( $p=0.443$ ) were found in terms of age and time spent on SNS. The results mean that H1 (ii) cannot be accepted.
- iii) The data suggests that the more spending money the students has, the more likely he/she is to spend more time on SNS – this was statistically significant ( $p=0.000$ ). Therefore, H1 (iii) can be accepted.

## Reasons for SNS use:

H2 asserted that “Males and females will differ in terms of the reasons for SNS use.”

Male and female students in the study differed slightly in terms of the reasons that they use SNS. However, on only one reason, “to keep up with friends”, the difference was statistically significant ( $p=0.046$ ). H2 is thus partially supported.

## Most preferred SNS:

H3 stated that “The most preferred SNS will differ for i) gender, ii) age, and iii) income groups.”

- i) An analysis of the data on face value indicated that females were more inclined to favour Facebook, Twitter and LinkedIn than their male counterparts. However, a Chi-square analysis ( $p=0.067$ ) indicated that the difference was not statistically significant, therefore H3 (i) cannot be accepted.

- ii) Statistically significant differences could be found between the age groups and the preferred SNS ( $p=0.006$ ) – thus H3 (ii) can be accepted. There seems to be a trend in terms of age and LinkedIn as preferred SNS – the older the respondent, the more likely they are to prefer LinkedIn.
- iii) No statistically significant differences could be found between the average spending money and the preferred SNS ( $p=0.0574$ ), which means that H3 (iii) cannot be accepted.

## DISCUSSION AND CONCLUSIONS

The results of the survey allowed the development of a profile of the undergraduate student SNS user; it also provided a starting point for further research into the student SNS consumer market. The majority of students are members of Facebook and Mxit – this is in line with findings from other studies – WorldWideWorx (2012: 1) indicated that these two SNS are the most accessed nationally. These two SNS were also the students' most preferred sites. Mohamed (2011: 90), in his South African study, also found that Facebook was the most popular SNS among the majority of his student respondents; Mxit and Twitter also were relatively popular (11% for both).

The lowest subscription in this study was for LinkedIn – it is also comparatively low in the broader South African market, as findings by World Wide Worx (2012) indicated lower member numbers for LinkedIn if considering Mxit and Facebook. Similarly, Mohamed (2011: 89) also found LinkedIn membership to be low in his study amongst students. This survey focused on undergraduate students, of which the majority was between the ages of 20-21 years old. It is possible that the students, still in the process of obtaining a qualification, are not yet at a point where the functionalities of LinkedIn are truly suitable to their immediate needs.

A proportion of the sample cited their use of messaging applications (BBM and WhatsApp) as subscribed SNS; this may indicate that the students view such applications as an important part of their online social lives. These findings are in contrast to the findings of Mohamed (2011: 89), who reported low incidences of the use of BBM and WhatsApp. As these messaging platforms were quite prominently featured in this study, an argument can be made for the importance of chat and messaging functionalities via SNS.

An overwhelmingly large proportion of the students indicated that they regularly use their cell phones to access SNS – it is therefore their primary choice of technology for this purpose. The high ownership of cell phones is consistent with findings by Unicef where it is stated that the youth comprise a large proportion (72%) of cell phone users in South Africa (Unicef, 2012: 6). Nielsen's research on global social media users found that the majority (91%) of SNS users in the Middle-East and Africa access SNS using computers, as opposed to 48% that use cell phones (Nielsen, 2012: 22). The results of the survey are therefore not consistent with Nielsen's research on this. The findings however do show similarity to the findings of Mohamed (2011) as the majority of the respondents in his survey also indicated that they connect to SNS via their cell phones. This could be due to the similarity of the samples - Mohamed (2011) also examined a student sample.

The survey results further show that few of the respondents access SNS through their own PC or laptop, therefore it is highly likely that they do not actually own computers – possibly due to the fact that most of the students in the survey indicated that they have relatively little spending money. Similarly, very few indicated that they use their own tablet for SNS access. This is consistent with low use of tablets to access SNS as found by Nielsen (2012: 22); but tablets were often used for SNS purposes by almost a quarter of the students in the survey by Mohamed (2011: 90). It is possible that the students in his study had higher average spending money to their disposal; this, however, was not reported.



Kittenger et al. (2012: 326) as well as Ruleman (2012: 323) found that students in their study reported relatively frequent use of Facebook. The results of this survey showed that most of the students spent one to two hours per day using SNS – findings that indicate moderate daily use of SNS. Demographically speaking, significant differences exist between males and females in terms of their frequency of SNS use. The women in the survey spent more time using SNS than the men. These findings are consistent with other research on gender differences in SNS use; several previous studies found similar results (Haferkamp, 2012; Kittenger et al., 2012; Barker, 2009). This study therefore supports the current body of research on gender differences in SNS use.

Other demographic statistics of significance also arose from the study. The research found that there was a significant positive association between the income (spending money) of the students and their reported time spent using SNS. As the income of the students increased, so did their use of SNS. Accessing SNS requires use of the Internet and implies associated data costs – it is therefore not surprising that more spending money means that the students could spend more time using SNS.

Motivations (reasons) for use of SNS can be explained using UGT, as mentioned in the literature review. The survey results indicated that the most important reasons for the use of SNS were socially-driven (for example, to chat with friends and to meet new people). Therefore, UGT suggests that the students' primary motivations can be considered to be socially integrative. Similar findings were reported in previous research (Yuan, 2011; Park et al., 2009; Raacke & Bonds-Raacke, 2008). Mohamed (2011: 93), however, found that a small majority of his sample cited "entertainment" as primary reason for SNS use, followed closely by "social involvement" and "meeting new friends", both of which could be considered social-driven motives. Interestingly, for the current study, entertainment was the reason that was reported to be the least important, in contrast with Mohamed's findings.

As for gender differences, only one reason "To keep up with friends" was statistically significant – women tended to see it as more important than men. This is similar to findings by Barker (2009: 212), as females in her study showed greater interest in communication with their peers using SNS. It therefore seems that female students value sustaining friendship more than males.

## **MANAGERIAL IMPLICATIONS AND RECOMMENDATIONS FOR FUTURE RESEARCH**

The study provided a snapshot of young adult SNS consumers. Their preferences in terms of SNS as well as consumption patterns such as time spent on SNS and reasons for use of SNS were examined. These results provide a good basis to expand the knowledge of SNS use among the age group that are the most prominent on large SNS such as Facebook (Social Bakers, 2013). Additionally, the 20-24 year-old age group is one of the largest age groups in South Africa (representing ten per cent of the population) (StatsSA, 2012: 10) therefore a viable market segment, particularly for companies that are interested in targeting the youth.

The findings on most preferred SNS (Facebook and Mxit) for these respondents correspond to the results of previous research. Marketers of less preferred SNS should consider enhancing the capabilities of their SNS in order to compete with the more popular ones. Adding or improving the functionalities of chatting, for example, may attract more users as this is was found to be an important motivator for using SNS. Similarly, linking the SNS to photo-sharing services (such as Instagram) may also enhance its competitiveness.

The results of this study have implications for segmentation strategies, as marketing communication via social media can be targeted more specifically to the segments that are members of SNS. Opportunities for wide exposure to this market via a medium that offers

possibilities for interactive engagement exist. When targeting through SNS, the functionalities of technologies are important – as the majority of students access SNS through their cell phones, the companies need to ensure that their advertising will translate well onto a mobile platform and not just the Web. The importance that students seem to attach to messaging platforms could be explored – companies may consider developing free or low-cost messaging platforms related to their brand in order to attract young consumers. Creating branded “apps” that facilitate social interaction suitable for use via smartphones is also advisable.

Companies that sell data could consider lower-cost data bundles for students to increase data use – the students in the survey tended to access SNS (and thus use data) more as their spending money increased. This may create favourable attitudes towards the data company brand; this could also be tied in with a brand promotion offer. SNS could also consider cooperating with data companies in order to facilitate favourable rates for young adults and thus enhancing the opportunity for increased use of their SNS.

The correlation between age and LinkedIn seems to indicate that as students approach the job market, they tend to seek out the SNS that allows them to position themselves as professionals (or potential professionals). Should LinkedIn wish to broaden their member base, they should consider adding functionalities that are specifically geared towards the student market and their specific needs. As students are the future professionals of the country, they warrant further research into their specific needs.

Females in the study tended to spend more time in SNS than men, which was also the case in other research. Marketers of female-targeted brands should take heed of this and maximise the exposure of their brands to females via SNS. Developing brand-related apps that facilitate peer interaction is worth considering, particularly as women seem to place high value on maintaining friendships, and providing them with an easy way to do so, could create positive brand associations.

Messaging platforms such as BBM were named as subscribed SNS by the respondents in this study, possibly pointing to the importance of such applications to the target group. This however, was not investigated in the study and could be included in a follow-up study. The motivations for use of SNS were not the primary focus of the survey and were therefore not explored in depth. Further research into motivations is proposed, particularly a specific investigation of all motivations for SNS use in the broader context of UGT. Further research into gender differences in terms of motivations for use of SNS is also warranted considering the differences between males and females in the survey, as well as in other research.

It is important to also expand this type of survey to broader age groups: research by World Wide Worx (2012: 1) indicate that there is growth in SNS use amongst older age groups. Considering South Africa’s ethnic diversity, future research should consider examining ethnic and cultural differences; several studies report findings that suggest differences between various ethnic and cultural groups (Junco, Merson & Salter, 2010; Raacke & Bonds-Raacke, 2008). Comparisons between countries can also be done.

Research into the actual activities of social media consumers is needed – little South African research exists that examine social media users’ activities that they participate in on SNS. This type of research is important, particularly considering brand communities and the impact of e-WOM on individual consumers. The interactions and influence of online brand communities that operate via social media should be studied.



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# THE INFLUENCE OF GENDER ON THE EXPECTATIONS OF BLACK GENERATION Y CLIENTS TOWARDS THEIR BANKS' CRM EFFORTS

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## ABSTRACT

Customer relationship management has become recognised as the next wave of marketing since its introduction in the 1900s (Payne, 2005: 13). Different studies have been conducted on customer relationship management and generation Y since its inception, but few have focused on black generation Y individuals and their expectations of CRM within the banking industry. A descriptive study was conducted to determine whether gender differences exist among black generation Y individuals pertaining to the customer relationship management (CRM) efforts offered by their banks focusing on the dimensions of service quality, customisation, two-way communication, the use of technology, commitment and convenience. Data was obtained from 588 respondents in the Gauteng area through quota sampling. The findings suggest that black females have higher expectations for service quality, the use of technology and convenience than their male counterparts. This study is of value as it will enable banks to focus their marketing strategies to improve the relationships they have with their black Generation Y customers.

## KEYWORDS

CRM; Gender; Black generation Y; Expectations; CRM dimensions



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## INTRODUCTION

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As competition increases throughout the global environment, organisations realise that only acquiring customers will not be profitable in the foreseeable future. Organisations have realised that to remain profitable they have to focus on customer relationship management (CRM). To date, CRM has evolved significantly and can be considered as a critical element for organisations to create customer satisfaction and customer loyalty (Wang & Feng, 2012: 120; Öztaysi, Sezgin & Özok, 2011: 944 & Ndubisi, Wah & Ndubisi, 2007: 224). The paper will include a literature review on the CRM dimensions (service quality, customisation, two-way communication, the use of technology, commitment and convenience) to be used for the purposes of the study, a discussion on expectations, and lastly black generation Y individuals. The literature review will be followed by the problem investigated as well as the objectives and hypotheses formulated for the study. The research design and methodology will be discussed together with the results and findings. The study will then be concluded with the managerial implications.

### LITERATURE REVIEW

The literature is based on the research for the study and includes discussions on the CRM dimensions used for the purpose of this study, expectations and black generation Y South Africans.

<b>Customer relationship management and its dimensions</b>	
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Customer relationship management or CRM as it is known originates from a broader concept of Relationship Marketing (Kumar, Sunder & Ramaseshan, 2011: 23). Grönroos (1994: 9) states that in some of the earliest definitions, relationship marketing is defined as a type of marketing that seeks to establish, maintain and enhance relationships with all stakeholders at a profit level where the objectives of all parties involved are met. Payne, Ballantyne and Christopher (2005: 858) suggest that these stakeholders as referred to by Grönroos (1994: 9) include internal markets, referral markets, influencer markets, recruitment markets, supplier markets and lastly, customer markets. From these customer markets the roots of CRM originated. Customer relationship management can be defined as the business approach an organisation implements with the aim of understanding and influencing customer behaviours through meaningful communication in order to develop, maintain and enhance relationships with customers at a desired level of profitability (Cant, Strydom, Jooste & Du Plessis, 2006: 211; Payne, 2008). From the definition, it is clear that the focus of CRM is an organisation's customers.

In order to develop a clear CRM strategy, an organisation should be aware of the CRM dimensions that customers expect in order to form a relationship, although there are no set criteria or lists of what constitutes CRM dimensions. From previous studies the following dimensions came to the fore: trust, commitment, loyalty, attitude of employees, employee knowledgeability, e-CRM, convenience, service quality, technology (use of), customisation and two-way communication with the most prominent dimensions being service quality, customisation, two-way communication, the use of technology, commitment and convenience (Bick, Abratt & Moller; 2010: 20-23; Richard, Thirkell & Huff, 2007: 935; Rootman, 2006: 77-78; Sin, Tse & Yim, 2004: 1266; Abratt & Russell, 1999: 15). All the dimensions considered for this study were thus based on previous literature and studies conducted. A brief discussion on these dimensions follows:

- Service quality: Service quality can be seen as a perception of how well the service received from the organisation matches the customer's expectations and includes elements such as

reliability (the consistency in which the organisation performs the service it promised), empathy (the caring attention a customer receives), tangible aspects (the physical appearance of the organisation and the servicescape), responsiveness (the willingness and timeliness of the organisation to respond to customer needs) and assurance (the competence required to help customers in a professional manner) (Haghtalab, Ahrari & Amirusefi, 2011: 439; Bick et al., 2010; Zeithaml, Bitner & Gremler, 2009: 103).

- **Customisation:** Customisation is the ability of an organisation to use its current resources to produce personalised services to its customers (Abdullateef, Mokhtar & Yusooof, 2011: 22; Sigala, 2006: 397). Customisation in terms of the banking industry would include customers and the organisation being able to customise offerings according to their needs and specifications whilst still keeping the best interest of both parties at heart.
- **Two-way communication:** Two-way communication is the manner in which organisational employees and customers communicate to one another in order to obtain instantaneous or required feedback (Choi, Hise, Bagozzi & Fadil, 2010: 13; Rootman, Tait & Bosch, 2008). This includes all forms of communication, from email, to telephone calls to face-to-face encounters.
- **The use of technology:** This dimension includes the availability of organisational technology and the intention of customers to use those technologies if the benefits of using them outweigh the costs (Sangle & Awasthi, 2011: 911; Sin et al., 2004: 1266). These technologies include bank ATMs, online banking, telephone banking, mobile banking and self-service kiosks.
- **Commitment:** Commitment is the process of developing and maintaining a relationship with the aim of ensuring the longevity of that relationship (Al-Hawari, 2011: 350; Richard et al., 2007: 935). Commitment includes the willingness of both customers and the organisation to form a relationship and the intention to keep both parties' best interests at heart.
- **Convenience:** Convenience is the value (time and effort) a customer receives when using an organisation's services (Thuy, 2011: 475; Foscht, Schloffer, Maloles & Chia, 2009: 230). Convenience includes all the processes, physical facilities and technological platforms in place to ensure that customers are helped in a timely manner.

## Expectations

Organisations need to understand that in order to gain market share they have to meet and exceed customers' individual expectations. Zeithaml et al. (2009: 76) define customer expectations as the standards customers use as reference points to evaluate the attractiveness of the service experience and outcome. From these evaluations, customers will either be satisfied, neutral or dissatisfied, depending on whether the organisation failed, met or exceeded customer expectations. Zeithaml et al. (2009: 76) suggest that customers will be satisfied when organisational performance exceeds or is equal to customer expectations, and customers will be dissatisfied when organisational performance does not meet customer expectations (Johnston & Marshall, 2010: 235). Zengh (2011: 233-234) states that when these expectations are met and customers are satisfied they spread positive word-of-mouth which can lead to increased sales.

## Generation Y

Generational theory states that different age groups (generations) will exhibit different characteristics and traits (Lamb, Hair, McDaniel, Boshoff, Terblanche, Elliott & Klopper, 2010: 48). For the purposes of this paper, the following age classifications were used: veterans - born between

1922 and 1945, baby boomers - born between 1946 and 1964, Generation X - born between 1965 and 1976, Generation Y -born between 1977 and 2000 and the millennials – born after 2000 till date (Haynes, 2011: 99; Lamb et al., 2010: 48-49).

Generation Y individuals (the focus of the study) are also known as the dot.com generation, millennials, generation next, echo boomers and nexters and can be characterised as being highly motivated, educated and hardworking (Luscombe, Lewis & Biggs, 2013: 272). They exhibit independence, self-confidence and are very optimistic about the future and what it holds (Jorgensen, 2003: 43). Since they grew up with the Internet, they are also referred to as the digital natives and marketers can reach them through social media such as Facebook, Twitter and LinkedIn (Lamb et al., 2010: 49). The majority of this generation is entering the workforce, making it a very profitable segment for marketers to target (Luscombe et al., 2013: 275).

### **Problem investigated**

The study was undertaken as three main problems could be identified. Firstly, the South African banking sector is mainly dominated by services, and as a result customer relationship management is needed in order to establish, maintain and enhance relationships with customers (Ganguli & Roy, 2010: 183). The financial crisis of 2008 placed major constraints on the banking industry and all the more banks realised their dependency on retaining customers. For banks to retain customers, they cannot solely rely on price alone, but have to engage in long term-relationships and therefore the need for CRM exists (National Treasury, 2011: 11).

Secondly, although black generation Y South Africans have been entering the mainstream economy and their income has increased year-on-year, they are still underestimated by marketers (Da Silva, 2011). This is due to the fact that they are a very complex group as their cultural roots and traditions are often misinterpreted (Sibiya, 2007). As marketers fear the complexity of this group, only a few studies have been done on them. No other studies could be found on black Generation Y customers and their expectations pertaining to the CRM strategies employed within the South African banking industry.

Thirdly, from previous studies it showed that consumers are ever-changing and marketing strategies need to be adapted to attract and satisfy changing consumers. A study conducted by Abratt and Russell (1999: 15) on CRM within the South African banking industry proved that respondents had the highest expectations for the following dimensions: service quality and trust. A later study conducted by Rootman (2006) proved that respondents had the highest expectations for employee attitudes and knowledgeability. More recent studies such as those by Luchs and Mooradian (2012: 138-139), Bruwer, Saliba and Miller (2011), Siddiqui (2011: 482) and Mostafa (2007: 220) in various industries also proved that differences exist among gender and consumers' needs and ever evolving expectations.

There has been a significant rise in spending power of black South Africans. Comins (2005) states that from 1999 till 2005 black households earning more than R150 000 a year have grown by more than 368%. This makes black South Africans a very lucrative market for marketers to target. Smith (2011) states that these black South Africans are entrepreneurial, diverse, independent, hardworking and self-confident, which correlates with other generation Y characteristics.

It is for these reasons that research needs to be conducted on black generation Y South Africans and their expectations of the CRM dimensions offered by their banks, as well as to determine whether their gender influences their expectations.

## RESEARCH OBJECTIVES AND HYPOTHESES

### Primary objective

**The primary objective** of the study is to determine whether gender influences the expectations of black generation Y South Africans pertaining to the CRM dimensions their banks offer.

### Secondary objectives

- To determine the overall expectations of black generation Y clients towards the CRM dimensions (service quality, customisation, two-way communication, technology, commitment and convenience) offered by their banks.
- To conduct an empirical investigation to determine whether gender influences the expectations of black generation Y clients towards the CRM dimensions (service quality, customisation, two-way communication, technology, commitment and convenience) offered by their banks.

### Hypotheses

From these objectives the following hypotheses were formulated:

- H1:** There is a significant difference between the means of black generation Y males and females expectations of the service quality CRM dimension offered by their banks.
- H2:** There is a significant difference between the means of black generation Y males and females expectations of the customisation CRM dimension offered by their banks.
- H3:** There is a significant difference between the means of black generation Y males and females expectations of the two-way communication CRM dimension offered by their banks.
- H4:** There is a significant difference between the means of black generation Y males and females expectations of the technology CRM dimension offered by their banks.
- H5:** There is a significant difference between the means of black generation Y males and females expectations of the commitment CRM dimension offered by their banks.
- H6:** There is a significant difference between the means of black generation Y males and females expectations of the convenience CRM dimension offered by their banks.

### Research methodology

The research design consisted of a descriptive, quantitative research design as formal questions with predetermined responses were given to respondents. Quantitative research was used to assist the researcher in addressing the research problem through empirical assessments that allowed the researcher to use numerical approaches and statistical analysis (Zikmund, Babin, Carr & Griffin, 2010: 134). As a clear understanding of the research problem existed the researcher made use of descriptive research to further describe the characteristics of the research problem (Iacobucci & Churchill, 2010: 84).

The sample included 600 black generation Y adults (between the ages of 21 and 34), South Africans who have banked with one of the four major banks in South Africa (ABSA, FNB, Nedbank and Standard Bank) for a period of three years or longer as this entails enough time to form a relationship (De Meyer & Petzer, 2012: 29). These banks were selected since they represent almost 84% of the market in South Africa (The Banking Association South Africa, 2010: 3). Respondents were then selected based on non-probability, quota sampling. Quotas were obtained based on the market share each of the four major banks hold in the current South African banking industry as indicated in Table 1. Based on the 83.7% market share held by the four major banks, the following quotas were developed for each of the four banks.

**TABLE 1: MARKET SHARE AND NUMBER OF QUESTIONNAIRES FIELDDED**

<b>Bank</b>	<b>Market share of the four major banks</b>	<b>Number of Questionnaires to be fielded</b>
ABSA	21.6%	155
FNB	18.8%	135
Nedbank	17.8%	127
Standard Bank	25.5%	183
<b>Total</b>	<b>83.7%</b>	<b>600</b>

(Source: Adapted from The Banking Association South Africa (2010: 3)).

A screening question in the questionnaire helped the researcher to gain the correct amount of questionnaires to be fielded for each bank. The screening question requested that the respondent select the bank he/she banks with most frequently from a list of four possible banks.

The primary measurement instrument was a questionnaire which was developed to answer the research objectives and hypotheses. The measuring items used in the questionnaire were adapted from previous literature, namely Bick et al. (2010); Richard et al. (2007: 935), Rootman (2006), Sin et al. (2004: 1266) and Abratt and Russell (1999: 15) and included three sections. Section A of the questionnaire included three screening questions to determine whether a respondent has a bank account with one of the four major banks (ABSA, FNB, Nedbank or Standard Bank), whether the respondent has been with the bank for three years or longer, and whether the respondent is between the ages of 21-34. Section B of the questionnaire included 35 closed-ended questions measuring the expectations of the proposed CRM dimensions (7-point Likert scale where 1 is strongly disagree and 7 is strongly agree), and lastly section C asked questions about the respondent's demographic profile.

Questionnaires were distributed in shopping centres in the Gauteng region through mall intercepts. The shopping centres included: Kollonade, Brooklyn, Menlyn, Irene Lifestyle Village and Woodlands Mall in the Pretoria area, and The Glen, Rosebank Mall, Sandton Square, South Gate, Cresta, Maponya Mall and East Rand Mall in the Johannesburg area to gain a fair distribution within the Gauteng region. The Gauteng region was selected as it represents the economic hub of South Africa and thus ensures a representative sample (Okeahalam, 2007: 934). Data was gathered during weekends as well as during the week in order to have a fair representation of the population for the analysis. A three-week time frame was allocated to avoid any major changes within the banking industry that could have an impact on the results. As the main focus of the study was to determine whether gender differences existed, an even spread between male and females was considered.

## RESULTS

Of the 600 questionnaires distributed, 588 were retained for data analysis. All the data was analysed through the SPSS 20 statistical programme. Before data analysis could be conducted the researcher had to consider validity in order not to make faulty conclusions. Zikmund and Babin (2010: 250) define validity as the precision of a measure to which a score truthfully represents a concept and consists of content, criterion and construct validity. As the measuring instrument consisted of items from previous studies which were found to be valid, content and construct validity was ensured. As part of the data analysis, a confirmatory factor analysis was conducted in order to confirm the CRM dimensions as identified from previous studies. In order to conduct a confirmatory factor analysis the data needs to be assessed for suitability (Pallant, 2007: 179). In testing whether the data is suitable Bartlett's test of sphericity ( $p < 0.05$ ) and the KMO measure of sampling adequacy (greater than 0.6) were used (Pallant, 2007: 181). As the data obtained conformed to the requirements, the data was suitable for factor analysis. The maximum likelihood method with an orthogonal rotation was used for the confirmatory factor analysis as suggested by Pallant (2007: 186). Table 2 presents the results for Bartlett's test of sphericity as well as the KMO measure of sampling adequacy for each CRM dimension measured.

**TABLE 2: BARTLETT'S TEST OF SPHERICITY AND KMO RESULTS**

<b>Dimension</b>	<b>KMO</b>	<b>Test of Sphericity Sig.</b>	<b>Cumulative %</b>
Service quality (9 items)	0.902	.000	45.67
Customisation (4 items)	0.761	.000	59.75
Two-way communication (4 items)	0.755	.000	58.45
Use of technology (3 items)	0.700	.000	72.99
Commitment (5 items)	0.777	.000	54.84
Convenience (4 items)	0.757	.000	63.42

From Table 2 it can be noted that with the service quality dimension, 9 items explained 45.67% of the variance. Of the customisation dimension, 4 items explained 59.75% of the variance. With the two-way communication dimension, 4 items explained 58.45% of the variance. With the use of technology dimension, 3 items explained 72.99% of the variance. The commitment dimension had 5 items explaining 54.84% of the variance and lastly, of the convenience dimension 4 items explained 63.42% of the variance.

Reliability also needs to be determined when conducting research. In measuring whether the dimensions used for the study proved to be reliable, a Cronbach Alpha test was conducted. The dimensions will prove reliable when they fall within the parameter of reliability which is higher than 0.7 (Malhotra, 2007: 285). Table 3 indicates that all dimensions fell within the parameters of reliability.



**TABLE 3: CRONBACHALPHA FOR EACH INDIVIDUAL CRM DIMENSION**

Dimension/Construct	Cronbach Alpha
Service quality	0.860
Customisation	0.771
Two-way communication	0.751
Technology	0.815
Commitment	0.778
Convenience	0.801

As the factor analysis proved the scales reliable, the researcher could continue with the data analysis. To measure whether significant differences among means existed, the researcher made use of independent sample t-tests. Zikmund and Babin (2007: 351) state that an independent samples t-test is used to compare means for a single variable grouped into two categories. In measuring whether significant differences exist, the researcher measured statistical as well as practical significance. Results will have a statistical significance when the p value is  $\leq 0.05$ . For practical significance Cohen (1988: 20-27) suggests the following effect sizes:

- d = 0.2 small effect with no or real significance;
- d = 0.5 medium effect with significance;
- d = 0.8 large effect indicating practical significance.

The following sections will include the results pertaining to the study. The section will include the demographic profile as well as the statistical analysis in testing the hypotheses.

## Demographics

The demographic profile of respondents serves as the basis that can provide some insights into the type of respondent participating in the study. Table 4 indicates the demographic profile as captured in the data editing phase.

**TABLE 4: DEMOGRAPHIC PROFILE OF RESPONDENTS**

Demographic variables		Frequency	%
Gender	Male	282	48.6
	Female	298	51.4
Highest level of education	Primary school completed	9	1.5
	Matric/Grade 12	222	38.3
	Diploma/Certificate	124	21.3
	Bachelor's degree	165	28.4
	Postgraduate degree/Qualification	61	10.5
Marital status	Single	424	73.1
	Married	91	15.7
	Divorced	5	0.9
	Widowed	2	0.3
	Living together	54	9.3
	Separated	4	0.7

Personal monthly individual income level after tax	R0 – R10 000	355	68.2
	R10 001 – R30 000	137	26.4
	R30 001 – R50 000	25	4.8
	R50 001 and more	3	0.6
Banking duration	3 years or more, but less than 5 years	268	46.1
	5 years or more, but less than 7 years	192	33.0
	7 years or more, but less than 9 years	78	13.4
	More than 9 years	43	7.5

From Table 4 it can be observed that the majority of respondents were female (51.4%) who hold a matric certificate (38.3%) as their highest level of education. Of these females the majority indicated that they are single (73.1%), earn under R10 000 per month after tax (68.2%) and have been banking with their respective banks for a period of three years or more, but less than 5 years (46.1%).

### Overall expectations

It is important to also determine the overall means of expectations respondents have for the different CRM dimensions. Table 5 indicates the mean scores for each dimension based on a seven-point Likert scale where 1 is strongly disagree and 7 is strongly agree.

**TABLE 5: OVERALL MEAN SCORE FOR EACH INDIVIDUAL CRM DIMENSION (HIGHEST TO LOWEST)**

CRM Dimension	Mean	Standard Deviation
Convenience	6.46	0.713
Use of technology	6.42	0.779
Service quality	6.36	0.642
Two-way communication	6.26	0.772
Commitment	6.00	0.863
Customisation	5.88	0.939

Table 5 indicates that respondents had the highest expectations for convenience (mean score = 6.46) and the use of technology (mean score = 6.42). Table 5 also indicates that respondents had the lowest expectations for commitment (mean score = 6.00) and customisation (mean score = 5.88).

### Hypotheses testing

In testing whether any significant differences exist among gender and the expectations that black generation Y South Africans hold of the CRM dimensions (service quality, customisation, two-way communication, the use of technology, commitment and convenience) offered by their banks, an independent sample t-test was conducted for each CRM dimension. Table 6 indicates the results pertaining to the independent samples t-test where the p-value indicates statistical significance and the d-value indicates the practical significance.

**TABLE 6: INDEPENDENT SAMPLE T-TEST FOR THE CRM DIMENSIONS AND GENDER**

CRM dimension	Demographic Variable		N	Mean	Std. Dev.	p-value	d-value
Service quality	Gender	Male	272	6.25	0.677	<b>0.000</b>	<b>0.29</b>
		Female	287	6.45	0.592		
Customisation	Gender	Male	274	5.86	0.950	0.621	0.03
		Female	291	5.89	0.929		
Two – way communication	Gender	Male	274	6.24	0.787	0.558	0.05
		Female	288	6.28	0.758		
Technology	Gender	Male	278	6.31	0.842	<b>0.019</b>	<b>0.23</b>
		Female	292	6.51	0.701		
Commitment	Gender	Male	276	6.00	0.823	0.955	0.01
		Female	298	6.01	0.900		
Convenience	Gender	Male	278	6.39	0.774	<b>0.027</b>	<b>0.16</b>
		Female	297	6.52	0.646		

Table 6 indicates the mean scores for each CRM dimension compared with gender. From Table 6 it is evident that no significant or practical differences exist between the means of customisation, two-way communication and commitment between males and females. Table 6 does however indicate significant differences between the means of service quality, the use of technology and convenience and gender.

### Service quality

From Table 6 it is evident that a significant difference exists between the means of black generation Y South Africans' expectations of the service quality offered by their banks and gender ( $p = 0.000$ ), where female (mean score = 6.45) respondents have higher expectations of the service quality dimension than male (mean score = 6.25) respondents. A small practical significance also exists with a d-value of 0.29.

### The use of technology

From Table 6 it is evident that a significant difference exists between the means of black generation Y South Africans' expectations of the technology offered by their banks and gender ( $p = 0.019$ ), where female (mean score = 6.51) respondents have higher expectations of the use of technology dimension than male (mean score = 6.31) respondents. A small practical significance also exists with a d-value of 0.23.

## Convenience

Lastly, Table 6 indicates a significant difference between the means of black generation Y South Africans' expectations of the convenience offered by their banks and gender ( $p = 0.027$ ), where female (mean score = 6.52) respondents have higher expectations of the convenience dimension than male (mean score = 6.39) respondents. A small practical significance also exists with a value of 0.16.

Table 7 includes a summary of the hypotheses tested and whether the hypotheses have been accepted or rejected based on the results in Table 6.

**TABLE 7: SUMMARY OF THE HYPOTHESES**

Hypothesis	Accept/Reject
H1: There is a significant difference between the means of black generation Y males and females expectations of the service quality CRM dimension offered by their banks	Accept
H2: There is a significant difference between the means of black generation Y males and females expectations of the customisation CRM dimension offered by their banks.	Reject
H3: There is a significant difference between the means of black generation Y males and females expectations of the two-way communication CRM dimension offered by their banks.	Reject
H4: There is a significant difference between the means of black generation Y males and females expectations of the technology CRM dimension offered by their banks.	Accept
H5: There is a significant difference between the means of black generation Y males and females expectations of the commitment CRM dimension offered by their banks.	Reject
H6: There is a significant difference between the means of black generation Y males and females expectations of the convenience CRM dimension offered by their banks.	Accept

## CONCLUSION AND RECOMMENDATIONS

The main objective of the study was to determine whether differences exist between males and females pertaining to the expectations they have of the CRM dimensions offered by their banks in order to determine whether marketing strategies should be differentiated based on gender. The study indicated that females have higher expectations for the CRM dimensions of service quality and the use of technology and convenience than their male counterparts. For the remainder of the CRM dimensions (customisation, two-way communication and commitment), no significant differences exist between as male and female respondents.

In terms of looking at the expectations respondents have towards the CRM dimensions offered by their banks, it will be beneficial for marketers of banks to consider which dimensions respondents have the highest expectations for and focus on them. From the results it was observed that respondents indicated having the highest expectations for service quality and the use of technology. Marketers of banks should therefore emphasise these aspects as part of their corporate strategy and advertising campaigns and ensure that they deliver on the high expectations of these dimensions. It is recommended that banks should emphasize service quality by sending employees on training, assisting employees with guidance and providing employees with decision-making authority. This would reflect on the overall service quality delivered by the organisation. Marketers of banks should then focus their campaigns on superior service offerings as to ensure

continuity across corporate strategy and implementation. In meeting the use of technology dimension banks should implement and include new technologies. This could include banking applications, new forms of mobile banking and changing their online banking to enhance customer convenience and the overall customer experience.

As the study also shows that differences do exist between males and females and the expectations they have of the CRM dimensions offered by their banks, it needs to be determined whether marketers have to change their strategy to accommodate these differences. The research indicates that a significant difference could only be detected for the service quality, the use of technology and convenience dimensions. In all these cases, it was observed that females have higher levels of expectations for these CRM dimensions than males. Marketers of banks should therefore focus on setting their service standards according to what female respondents expect. When implementing this strategy, banks will automatically meet the expectations of male respondents, as they have lower expectations of their banks' CRM efforts than their female counterparts do. By determining what females desire from the service encounter would be the first step in implementing this strategy. Marketers would then have to align their current strategies in order to meet these newly identified expectations and maintain a standard of meeting them by improving on their service quality and introducing new technologies as well as new ways of banking.

## **LIMITATIONS AND RECOMMENDATIONS FOR FUTURE RESEARCH**

### **In conducting the research, the following limitations came forth:**

- Very few studies have been conducted on black generation Y South Africans especially pertaining to generation Y adults.
- The study did not include Capitec Bank as one of the major new role players.
- The study did not focus on those respondents making use of cell phone or online banking, but rather on the general public using a variety of different banking options.
- The length of the questionnaire discouraged some respondents from completing the survey.

### **Based on the limitations above the following recommendations for future research can be suggested:**

- Conduct a similar study including Capitec Bank.
- Future studies should be targeted at respondents preferring online channels as well.
- The study could be replicated in other geographical areas and amongst other age groups (generations).



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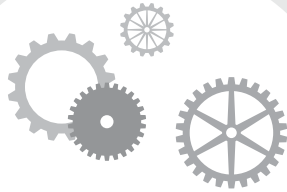
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# MARKETING ACTIVITIES AND CUSTOMER RELATIONSHIP MANAGEMENT DURING DIFFERENT PHASES OF THE BUSINESS CYCLE IN SOUTH AFRICA: THE CASE OF INVESTMENT MANAGERS

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## ABSTRACT

The 2008 financial crisis had a phenomenal impact on the global economy and more notably on the individuals directly involved in the financial sectors. This study was geared towards discovering how those directly involved, more specifically asset managers, went about communicating the effects that the economic decline had on their clients' investment portfolios and which methods of handling client expectations during different economic phases were effective, in the South African context. The study was qualitative in nature and targeted South African asset managers and asset management businesses, as well as the marketing personnel in these businesses who are involved in client interactions. An online questionnaire was used to gather data in order to examine the different procedures and approaches that are implemented in different firms. Data was processed using a tally base system. On average 78% of asset management businesses investigated have either decreased or held their marketing budgets constant over the last 5 years. Therefore it can be concluded that in a South African context, the majority of asset management businesses did not expand their marketing efforts over the last 5 years, from a financial perspective, in order to contain costs.

## KEYWORDS

Customer Relationship Management; Marketing; Clients; Investments

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## INTRODUCTION

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The primary motivation for conducting a study on the different marketing activities and Customer Relationship Management (CRM) during the different phases of the business cycles in South Africa was to add depth and insight with regards to how most asset managers in South Africa perform this activity and which method appeared to be most effective in a South African perspective. The researchers attempted to identify if there was sufficient evidence to suggest a shift in marketing activities, as well as investing strategies during the different phases of the investment business cycle. If the trend suggested that asset managers or marketing personnel changed the tactics during these periods of economic change, then to what extent was there evidence that these changes had either a positive or negative effect on the business' customer loyalty. The reason the researchers strived to identify if there is a more effective strategy to deal with clients in the investment industry, is because customer life time value in the investment industry is significantly higher than in most other industries and the researchers believed that proactively managing customer satisfaction could translate into potentially large future income and business success.

The research was intended to seek information from investment/asset managers in South African based firms. Any individuals who invest funds on behalf of clients, ranging from private consultants to hedge fund managers in large investment firms were treated as asset managers. The research also attempted to seek information from marketing individuals who are directly involved in the investment industry, as in the case of larger firms, these individuals were potentially the link between the asset manager and customer, which was an essential part of the communication process that the researchers strived to investigate.

By investigating this process the researchers would be fulfilling a gap and adding value to asset managers as the topic of client relationships has not been the focus of many studies, more specifically in a South African context. The research also identifies the change in marketing expenditure that firms employ to cope with the boom and declining periods in the business cycle. The research aims to conclude how asset managers have successfully reformed their portfolios, if at all, in order to cope with the negative effects that recessions have on many tradable assets.

### PROBLEM INVESTIGATED

The study examined the general response that asset managers had to their marketing management as a result of changes in the business cycle. The focus was additionally centred around how asset managers managed the client relationships in order to best inform and brace clients about the expected performance of their investments, in a South African context.

### RESEARCH OBJECTIVES

The researchers' aim is to determine how asset managers deal with the impact of cyclical changes in the business cycle on marketing and CRM activities of investment management companies in actively managing client expectations.

To achieve this aim, the objectives of this paper are:

- To understand the impact of cyclical economic changes on marketing activities, including marketing expenditure;
- To examine how the asset management company use CRM to deal with difficulties caused by cyclical changes in the business cycle and the contingencies in place;

- To determine how the asset managers manages client expectations and the extent to which they educate clients; and
- To examine who is responsible for communicating any changes to the clients.

## LITERATURE REVIEW

### Marketing

When one thinks of marketing there needs to be an integrated approach, were the branding aspect is first identified and known by the organisation, and then a clear understanding of consumers as well as the consumer decision making process is also understood, followed by the segmentation, targeting and positioning process, with particular emphasis to positioning of the brand in the identified target market. This will then be followed by integrated marketing communications and lastly an entrepreneurial marketing approach (Lamb, Hair, McDaniel, Boshoff, Terblanche, Elliot & Klopper, 2010: 7). The marketing concept is based on satisfying the needs of customers (Pride & Ferrell, 2012: 22). In doing so, it is important that managers of investment businesses understand the circumstances under which customers make purchasing decisions. This understanding could assist management in formulating marketing policies that could influence the firm's ability to generate profits (Tsai, 2009: 1194).

### Services Marketing

In terms of the South African context, it is vital that there is better quality service at lower affordable prices as majority of the population are in the lower social classes. The concept of service is defined by Kotler and Keller (2006: 433) as follows "... services are intangible, inseparable, variable and perishable. As a result they require more quality control, supplier credibility and adaptability".

As more and more of the country's population migrate from rural communities into urban developed areas they gain access into the formal economy. This migration has resulted in improved standards of living and increase in the demand for services, mostly financial services. Focus should be on both internal and external marketing and brand management (Kotler & Keller, 2006: 488).

Relationship management between the brand and its end user is in the context of service brand marketing, while the premise of a relational exchange rather than transactional exchange exists and is an essential element in fostering strong and durable brand loyalty of target customers (Tsai, 2009: 1196).

### Financial Services marketing

The marketing of financial services is a unique and highly specialised form of marketing for organisations. Advertising, promoting, and selling financial products and services is far more multifaceted than the selling of consumer packaged goods or other forms of goods or services (Benn, 1986: 69). The environment in which financial services are marketed is becoming increasingly competitive, making the task of marketing financial services more challenging and specialised. Marketing in the financial services sector is seen as a cost rather than a value or revenue creator. There is a need for marketers to become more accountable for their efforts as well

as the importance of marketing and brand management to the success of financial services. The traditional boundaries of financial services marketing are being challenged by the emergence of new competitors from both within and outside of the financial services sector (Lau, Chow & Lui, 2004: 217).

It is evident that technology has played a significant role in the emergence of new entrants in the market place. For example, it is common that companies are moving towards setting up online trading portals for their clients. Companies such as PSG and FNB have online trading accounts where clients with the requisite knowledge could do online trading themselves. Most major banks in South Africa have introduced investment accounts which allow clients to manage their own stocks and portfolio.

### **Managing Customer Expectations**

Customer expectations are important in the consumer decision-making process. Expectations influence consumers' choice of a product/service as well as brand in the pre-purchase stage (Tam, 2007: 281). Customer expectations then serve as a standard against which the quality of a service is evaluated and thus influence the customers post purchase behaviour as well. Management of customer expectations is therefore vital in the long term success of asset management companies in South Africa (Walker & Baker, 2000: 414). In terms of financial services, a pension scheme as well as a unit trust for example, will be inherently difficult for customers to evaluate because of their intangibility and their credibility. This is because there is no short term perceivable benefit of these services and customers often find it difficult to anticipate what they will receive from a particular provider and ultimately resulting in a heightened pre-purchase uncertainty and perceived risks (Zeithaml & Bitner, 2003: 78).

Customers who have vague initial expectations of financial services often devote greater effort and time into pre purchase activities and rely on other informative credible sources and cues (Tam, 2007: 282). At this stage if their expectations continue to be imprecise customers can develop an avoidance strategy and defer the purchase decision until they feel there is a strong need for the service. In an attempt to influence customer purchase decisions, financial services providers, particularly asset managers, in this case, need to understand and effectively manage their customers' expectations (Tam, 2007: 282). As customers mature their expectations also change, making it important that asset managers regularly review customers' financial situation, and understand their expectations while putting into consideration the cyclical nature of changes in the economy in order to come up with advice and management that meets their customer needs while also planning contingencies to educate their clients on any changes (Tam, 2007: 289).

In addition to the already mentioned characteristics of financial services, namely, intangibility, heterogeneity and perishability, Walker and Baker (2000: 425) suggest two more characteristics which are fiduciary responsibility and two-way communication. Fiduciary responsibility refers to the implicit responsibility for providers, i.e. asset managers to manage customers' funds and portfolios as well as manage the advice given to these customers. Two-way communication refers to regular communication between the asset managers and the customers over an extended period of time, some form of customer relationship management (Walker & Baker, 2000: 425).

### **Different phases of the business cycle**

The business cycle can be said to be a transition between four cycles. According to Lounsbury (2009: 1) the expansionary stage occurs when investor confidence is high and large levels of growth are seen across industries. This level usually peaks and is followed by a recession, which is



witnessed in a slowdown of the economy and decline in demand for goods, services and securities. This is often the point at which the stock market bubble bursts and share prices plummet, leading to low or negative yields on many financial assets.

#### Impact of cyclical changes on Asset managers marketing activities

There appears to be limited research with regards to the effects of fluctuating cyclical conditions on marketing conditions in a South African context. Research conducted on North American economies suggests that marketing is proportionally linked to the expected future earnings of a firm. During a recession the trend is for expected future earnings to decline and with it the expenditure on marketing activities across the firm would be reduced in an attempt to cut operating costs (Graham & Frankenberger, 2011: 5). Work conducted in a study that surveyed 154 senior marketing executives found contradictory results that suggested that under certain economic conditions (recession) in which a firm had underutilised resources, it pays to market proactively regardless of whether the products or services being sold are inferior goods or luxury products (Lilien, Rangaswamy & Srinivasana, 2005: 110).

Further information from a study which examines over ten thousand firm years of American based companies suggests that between the periods 1969 to 2008, in a recession, 98% of firms tended to underspend on their business to consumer marketing (Lilien, Srinivasana & Sridher, 2011: 50). Asset managers in South Africa tend to spend their CRM on individuals and this falls under the business to consumers sector. This would likely project that asset managers in South Africa are under investing resources into marketing and CRM related activities. The researchers believe that even if the predications based on the previous three studies are accurate, they are potentially unlikely in the South African context given the unique cultural and investment climate South Africa operates in, in comparison to that of the United States.

### **Customer Relationship Management (CRM)**

The paradigm shift of how business viewed customers included the realisation that many of the traditional models focus on attracting customers however neglected to realise the importance of investing time and effort into retaining the attractive, and profitable customers. As there has been a significant interest in the academic study of CRM over the last decade, substantial amounts of definitions have emerged. One of the most enriched definitions of CRM the researchers came across is, "CRM is a comprehensive strategy and process of acquiring, retaining and partnering with selective customers to create superior value for the company and the customer. It involves the integration of marketing, sales, customer service, and the supply chain functions of the organisation to achieve greater efficiencies and effectiveness in delivering customer value" (Sheth & Parvatiyar, 2001: 5).

Through CRM customer loyalty is attained. Oliver (1999: 33-44) explains customer loyalty as the on-going commitment to continually repurchase a preferred product and or service in the future from the same organisation, despite having the opportunity to purchase a similar product or service from a similar organisation. Customer loyalty is earned through continually creating customer satisfaction. It is important to note that customer satisfaction arises before customer loyalty and happens instantly at the point of sale or when the service is received. Only once a firm is able to continually deliver a promised product (or service) to the customer, will customer loyalty begin to set in (Roberts-Lombard & Strachan, 2011: 209). It is imperative for firms to strive to leverage their resources in order to satisfy customers at all times as best they can because on average, a satisfied customer will tell three people about their positive experience, while an unsatisfied customer will on average inform eleven people about his or her poor service (Kotler & Keller, 2006: 419-420; Ndubisi & Wah, 2005: 550; Roberts-Lombard, 2011: 3489).

Oliver (1999: 33-44) then goes on to explain that dissatisfaction will lead to customers switching suppliers, however, as the customer loyalty increases over time, customer satisfaction begins to become less significant as other vices such as, “personal determination and social bonding” begin to deliver a strong loyalty. The researchers disagree with what Oliver’s statement insinuates as in many contexts in the financial world if a customer is not satisfied with his service, or products quality, then the customer will not hesitate to change suppliers who will ensure customer satisfaction on every interaction. Although the researchers acknowledge that the personal relationships may add some weighting to loyalty, in general scenarios they believe it to be highly unlikely that large organisations working in industries with small margins will be willing to forgo instant service, and thus satisfaction, due to social bonding. In the context of asset managers, it is the opinion of the researchers that if an individual client experiences relatively bad returns over consecutive quarters, compared to the industry average with a similar risk profile, then the client will be more likely to switch asset managers or investment firms as the degree of customer loyalty will be easily offset by large financial losses or opportunity costs.

Empirical evidence suggests that it costs five times as much to attract a new customer in the service industry than it does to maintain a current customer (Ryals & Payne, 2010: 7). The value of a customer to a firm is exponentially increased if the firm can ensure the customer is loyal throughout the customer’s lifetime, which translates into high customer equity. Customer equity is the total of all the customers discounted lifetime values to the company (Kotler & Keller, 2006: 62). This notion can be complimented by Levit (1983: 87-91) who explained that the real value of a customer begins not at the point of sale but after the first sale has occurred. Furthermore research conducted by Reichheld and Sasser (1990: 36) found that, “a 5% increase in customer retention resulted in an increase in average customer lifetime value of between 35 and 95%, leading to significant improvements in company profitability”.

### Capability of CRM

One of the key catalysts of CRM has been the availability of modern information technology to capture and distribute the specifics that enable mass customisation, and often in real time (Hagel & Sacconaghi, 1996: 56-57). The linking role that information systems play in the process today can largely be attributed to companies operating new purchasing systems. The change applied pressure on many vendors to develop and implement key account management programs (Sheth & Parvatiyar, 2001: 7-8). As a result of this automated system an intimacy began to develop between producers and their customers, to the extent that the valued relationship that went along with the product was becoming more important than the products. This was not because substitute products were available but the customisation and networking were what attracted the firms (Hollensen, 2003: 627).

As a result large amounts of emphasis and capital are being invested into updating firms’ technological capabilities. Many of the large scale firms implementing CRM make use of data warehousing to access and efficiently extract the relevant data needed to tailor these products.

In contrast to Brink and Berndt (2004) view, Peppers and Rogers (2012) state that, “the market place of the future is undergoing a technology-driven metamorphosis”. They seem to be convinced that if a firm is to succeed it wholly depends on them being up to date with the latest levels of technology. The researchers agree with the view of Roberts-Lombard that no matter how many resources are devoted to technological software and improvements, the actual implementation of these systems can only be advantageous to a firm if properly executed by trained staff. However in the modern service industry a firm will not be able to effectively implement CRM on a sizeable scale

if they do not invest in a reasonable amount of technological hardware and software relative to the industry.

### **CRM in South Africa**

South Africa is a developing country with 66.8% of its GDP generated through contributions from the services sector (Statistics South Africa, 2012: 1). A study conducted by Oracle (2002: 7) suggests that firms in the service sector and more specifically firms involved in the banking sector are able to capture far more from successful CRM. An important consideration when transferring theories developed by companies such as Oracle to developing countries and their service industries is that customers and the services they receive in these economies are often very different (Berndt, Herbst & Roux, 2005: 81).

When a firm is considering introducing CRM systems in South Africa, after taking the usual constraints into account such as Customer Lifetime Value (CLV is the net present value of the profit an organisation expects to realise from a customer for the duration of their relationship) and information availability, South African firms have to consider other factors that challenge emerging economies. The low literacy levels and degree to which many customers are disconnected from the internet have an effect on CRM implementation (Berndt, Herbst & Roux, 2005: 82). The degree to which an organisation can source sufficient levels of skilled staff in countries that often experience high levels of skill shortages may also hamper the benefits of CRM in a South African perspective.

There are also advantages of pioneering and embracing CRM in developing economies. Competing firms implementing CRM are exposed to the same challenges, and thus are levelling the playing field; this creates the opportunity for firms who are quick to adopt CRM to achieve a head start and potentially generate a competitive advantage.

### **CRM in the Financial Sector**

Generally the financial sectors of all economies have already, if not, begun to integrate CRM into their marketing structure to a certain degree. Apart from achieving the standard advantages of such systems these firms have been forced to implement the CRM initiative in order to keep up with the competition and remain competitive. A report compiled by Oracle (2002: 5) identified the internet, decreasing regulation and an explosion in competition as key causes for increased customer power. What this transfer of power to the consumer's means is those banks' customers can rapidly change to other banks without any real financial cost. As a result banks had to become as satisfying as their local competitors. Today banks need to be as good as national competitors and other financial institutions that are emerging daily. This is illustrated by an example Oracle (2002: 4) provides, "in 1985 a North American small town typically had three banks. In 2006 that small town may have as many as 5 000 banking options due to new online channels and global competition". The increased competition from almost every angle in the financial sector has stimulated the need to maximise the benefits of CRM.

### **CRM of Asset managers**

Investment firms in South Africa have demonstrated two main ways of managing their client relationships. All investment management firms use information technology software and advanced and integrated access systems to build up a store of valuable customer information. The responsibility of using this information to initially segment different customers (based on profitability

and CLV) and manage constrictive relationships with these customers in order to achieve customer satisfaction and loyalty fall onto either a specific department, or the asset manager dealing with the clients investments.

## Types of Clients

Apart from investing on the behalf of private investors an asset manager also reports to other clients whose portfolios are significantly large. These clients may take the form of a mutual fund or a unit trust fund. Other large portfolio holders are insurance companies, pension funds and other establishments with large amounts of liquid wealth who wish to invest funds.

## RESEARCH METHODOLOGY

### Research Paradigm

The research paradigm used is phenomenological, which is qualitative in nature. This was the most appropriate research methodology to implement for this study, as it allowed the researchers the opportunity to explore the views of the respondents. The study also allowed for the examination of the asset managers subjective positions as well as their experiences within their roles in the asset management businesses (Bryman, 1988: 13-15).

Qualitative research design involves gathering information that is not in numeric form and is mainly expressed as the respondents' perspective (Zikmund, 2003: 111). Furthermore, a qualitative research methodology is conducted in the natural setting and there is an emphasis on the process of data collection and the primary objective is to obtain in-depth descriptions and understanding of actions and events contextually.

### Data collection method

The research instrument was an online questionnaire and electronic surveying was used as the primary data collection method. Researchers developed a general questionnaire which was designed to analyse marketing and CRM as well as asset management executives of participating firms. To maintain credibility the researchers did not impose pre-conceived expectations onto participants, or ask leading questions however, where applicable, open ended questions were used.

### Data analysis method

Once the questionnaires were completed by the respondents the results were analysed to determine if any trends appear. Since the questionnaire was conducted on an online platform, information was processed using a tally base system to derive appropriate conclusions (Kring, 2009: 274). Researchers used an online questionnaire because there were a potentially large number of respondents (asset managers) across a large geographical scale. An overarching advantage was that respondents are more likely to feel a sense of anonymity and hence are more likely to answer questions honestly and openly. As the format is standard for all respondents the method of gathering data is not dependent on the mood of the interviewer and thus maintains accuracy.

The purposes for using an inductive approach in qualitative data analysis are to, condense extensive and varied raw data into a brief summary format; to establish clear links between research objectives and the summary findings derived from the raw data and; to develop a model or theory about the underlying structure of experiences or processes which are evident in the raw data

(Thomas, 2003: 6). The inductive approach reflects frequently reports pattern used in qualitative data analysis and provides a convenient and efficient way of analysing qualitative data for many research purposes (Thomas, 2003: 6). Inductive content analysis is used in cases where there are no previous studies dealing with the phenomenon or when it is fragmented. In analysing the data, responses from questionnaires were grouped by respondents, i.e. respondent A, B, C etc. and their responses to each question were analysed. A general pattern was established and trends were analysed.

## RESULTS/FINDINGS

A summary of respondents in tabular form are found in Appendix 1, which consists of a simplified version of the thirty survey questions that respondents were presented with.

### Marketing and CRM approaches

All of the respondents unanimously agreed that their respective firms undertook marketing activities as they catered to the public. The majority of respondents (78%) rated the alignment between customer experience and brand promise as 'very important' while the remaining respondents viewed this as an 'important' alignment. This would suggest that the pool of respondents acknowledged the importance of marketing in their firms activities.

Sixty seven percent of respondents agreed that marketing and CRM activities change during the business cycle within their firms, furthermore respondent A stated that "Strategy involves being close to clients' needs and objectives, understanding risk profiles and assessments which will invariably change as part of the cycle".

Respondent C stated that "More focus is given to the 'Sales' function during the expansionary phase whilst attention is focused on 'Client retention and awareness' during the recessionary phase." The other respondents who selected yes reinforced these views and stated that in general the need to market did in fact change throughout the business cycle.

These opinions were then compared to responses to question 29 which presented the view that only 22% of the firms have increased their expenditure over the last 5 years, which has been a recessionary period, whilst the 22% have held a consistent marketing budget and 56% of firms actually reduced their marketing budget to a certain extent. This would reinforce the finding that marketing activities changes throughout the business cycle, more specifically from a financial stand point.

This is consistent with previous marketing theory that suggests fewer resources are dedicated to marketing activities during period of economic decline (Roberts, 2003: 32). However, more modern theory as proposed by Lilien, Srinivasana and Sridher (2011: 50) as well as Lake (2012: 1) suggests that in a recession it may become more important to engage in marketing activities as the firms that have the ability to keep their clients and market share during difficult economic phases will have a higher chance of surviving the economic crisis. This theory then elaborates to explain that forms of marketing, such as CRM may become more critical during periods of economic decline.

When asked if the recent financial crisis had increased the importance of CRM in a firm, only one third of respondents acknowledged that they had begun to see CRM as a more important function of the firm, due to the most recent economic recession. All the respondents in large firms said the recession made no change in the way they viewed CRM, 66% of medium firms said the recession



made no change to their CRM expectations, however 50% of small firms said that the recession had caused them to become more aware of the importance that CRM plays in the operation of the firm.

This trend could be explained by the fact that the medium (20-49 asset managers) and larger firms (50+ asset managers) generally have dedicated client service individuals who understand the importance of effective CRM as it is their primary focus. The asset managers from smaller firms tended to have a larger role in the CRM process and this is potentially why 50% of firms in the small category became more aware of the need to provide effective CRM in the last five years, whilst the medium to larger firms (who have likely been around longer) have already conceptualised the importance of CRM prior to the 2007 recession.

### **Client segmentation**

Respondents were asked how their firms generally segment clients (in order to allocate different amounts of resources to satisfying the clients). The respondents were allowed to choose more than one option and the results indicated that 78% of firms segment clients in some form that involves a profitability measure, while 11% only segment clients on the size of the portfolio and only 11% of respondents believe their firms categorise clients based on expected future profitability. Interestingly enough, the asset manager with experience abroad then elaborated on this and stated that, "In the Middle East it tends to also involve whether the client is a 'PIP' (Politically Important Person) or not. Individuals are sometimes bigger than Institutions!"

With the exception of the politically important segmentation, these findings correlate with empirical evidence that banks in the United States tend to focus more time and effort on satisfying their top 10% of profitable customers (Stone, McFarlane, Visram & Kimmerl, 1998: 303-331).

Roberts-Lombard and Strachan (2011: 207) are of the opinion that firms are more likely to experience positive results when they are able to identify and segment their most profitable customers, which the majority of asset management firms in south Africa appear to be doing. Oracle (2002: 5) then takes this approach one step further and states the importance of identifying the potentially profitable customer's. The reason for this is because these, typically younger clients, often have a far higher customer lifetime value to offer the firm. This view does not seem to have permeated the South African asset management industry. This is inferred by the fact that only 11% of respondents used potential profitability as one of their tools to segment clientele.

### **Returns versus Client Service**

When asked if a customer was more interested in receiving higher levels of customer satisfaction, or higher returns, 78% of respondents say their clients are more concerned with higher returns whilst the remaining respondents believe their customers are more interested in receiving good levels of customer service. Respondent A stated that, "Returns always Precede Service!". Whilst Respondent E stated that clients are more interested in "Higher than market average returns". The researchers expected that more than 80% of clients would be more concerned with higher returns than levels or service, the results are similar to expectations and this is supported by the fact that the average amount of respondents whose clients are interested in past returns when considering asset managers is approximately 81.3%. The researchers consider that the 22% who chose service over returns, might have considered that good service levels are only possible if accompanied by reasonable returns, as the service they are paying the asset managers to perform is essentially to generate returns.



### **Preferred strategy to recover losses**

When asked to comment on a preferred strategy to recover losses when a portfolio underperforms, the pattern that surfaced was the imperative need to avoid panicking and evaluate whether or not the assets were either undervalued or overvalued, or would continue to decrease in value. If the assets were expected to continue to lose value then selling was an option, but a large component of this strategy was based on the firm's initial investment strategy. A desire to not sell at an asset price below intrinsic market value seemed to be a common trend amongst the various investment strategies.

### **Satisfying Client Expectations**

As clients become accustomed to receiving consistently attractive returns over several consecutive years their expectations that this trend may continue to thrive may emerge. Eventually the stock markets tend to contract and poor to negative returns become more likely. When this scenario occurs asset managers need to communicate to customers to ensure that they are prepared for the potential outcome. This research has demonstrated that both asset managers and relationship managers in South African firms begin to communicate with their clients on a more regular basis, with the general trend being a basic strategic outline of how the fund manager is planning on weathering the storm. In the case of firms that are running more discretionary accounts, the fund managers still communicate with their clients when the portfolio composition has changed with an aim to recoup poor performance but the specifics of which are not necessarily discussed. During the more positive phases of the business cycle and regardless of the type of account managed, most firms appear to contact clients at least on a quarterly basis, however all firms investigated contacted their clients more often during periods of economic decline. The trend that prompted the more consistent communications was transparency, which has emerged as a vital pattern, considered by the respondents in order to maintain trust and loyalty.

The most favoured method chosen when aiming to keep customers loyal was to regularly communicate with them and to provide better returns than rival asset management companies. In contrast to this view, around 90% of respondents said that customers feeling of anxiety did not affect their investment strategy and investment decisions. The seemingly conflicting information led the researchers to consider that the initial strategy is to ignore clients' emotions and make investment decisions based on a more concrete investment philosophy that is more likely to succeed, and subsequently focus their attention to reassuring clients that the investment decisions are sound.

Meeting clients' expectations appears to be a vital function of the holistic client satisfaction process, and client satisfaction leads to increased funds for the firm to invest and generate profits. When asked if asset managers were rewarded purely on financial grounds, or on a combination of financial grounds and their ability to attract and maintain clients, 67% of respondents agreed that client satisfaction and retention formed part of their bonus consideration. Respondent A, then elaborated by stating that, "Their reward would also be linked to performance by having 'skin in the game', i.e. investment into the underlying funds or stocks". This view also reinforces the concept of looking after more profitable clients, as well as those with larger portfolios, as the loss of these clients would affect asset managers reward structures.

All respondents agreed that educating clients was an important procedure in the management of clients' expectations. 67% of respondents believe that their firms educate their clients. The respondents who were not of the impression that their firms were proactively educating their clients also believed that they ran more discretionary investments. The researchers were of the understanding that these firms were less likely to educate their clients because they did not want to surrender their competitive investment strategies to competitors. Another reason might have been that they were dealing with well-informed clients such as pension fund investors who did not need further knowledge.

The majority of firms agreed that training or information packages were available upon request from the clients, of how certain scenarios and occurrences may affect the industry and returns as a whole. When a client initially invests with a firm, the asset managers or marketing personnel do inform the investors what type of assets they are investing their funds into, and many clients choose what type of investments they want their money being exposed to.

## CONCLUSION AND RECOMMENDATIONS

On average 78% of asset management firms investigated have either decreased or held their marketing budgets constant over the last five years. 33% of respondents believe that their firms have taken a more stern approach to CRM over the same 5 year period. All respondents believe there has been no observable relationship between the economic decline and clients withdrawing funds as a result. The majority of respondents have also acknowledged that they or their relationship marketing department have spent more time in the last 5 years communicating with clients on a regular basis than was previously undertaken.

As a result the researchers are of the opinion that in a South African context, the majority of asset management firms did not expand their marketing efforts over the last 5 years, from a financial perspective, in order to contain costs. However the majority of firms also dedicated more time and effort in satisfying existing clients in order to sustain customer loyalty. It appears most of the firms have always understood the importance of effective CRM but almost all of the firms realised that they needed to perform more relationship management tactics under a harsh economic climate. The firms appear to be behaving in an appropriate manner due to there being no observed relationship between the recent recession and client withdrawals. This may be subject to survivorship bias, as the firms who failed to increase their CRM activities may have disappeared over the last 5 years and only the firms who acted correctly were around to participate in, or chose to participate in the survey. Additionally there being no observed relationship, between the recent recession and withdrawals, could be explained by theory which suggests that most clients choose their asset managers because they share similar belief systems and biases. This theory estimates that the clients will believe in similar investment and recovery strategies and this is why they will be confident to leave their money with their asset managers (Rumbelow, 2012).

The researchers were not able to obtain exact relationships of financial performance in response to marketing approaches, however the general reduction in financial resources on marketing does not take into account the increased personalised e-mails and correspondence that occurs simultaneously. In conclusion, stating that the selected firms reduced their marketing emphasis in a recession is not a true reflection. Rather from this sample of participants, it appears that fewer funds are spent on general marketing and more time and attention was placed on personal client communication during a recessionary period, which the researches consider to be an effective approach based on the findings that no observed relationship of clients withdrawing investments has emerged.

The researchers believe that in terms of asset management firms, when a recession is certain, marketing expenditure should not be abridged at the expense of losing key personnel who are in charge of maintaining client relations. Instead the marketing budget should be held constant with a departmental shift from attracting new clients through expensive advertisement campaigns, to a more personalised approach of reinforcing the existing, and more specifically the existing profitable and large customers' loyalty, through improved communication processes, where the aim is to reduce customer anxiety and improve levels of loyalty. The lack of panic through investors reduced anxiety will potentially avoid large portfolio outflows, which in the medium term could potentially allow earnings to be recouped sooner, which will once again improve client satisfaction and make the firm more attractive than rivals through the ability to expedite positive results. The researchers' view is substantiated by Oracle's (2002: 14) view that CRM departments could alleviate some of the asset manager work load by fulfilling some of these customer communication roles. However research also indicates that customer satisfaction is most often heightened when the specific fund manager takes time to make unsolicited calls to the clients and manage clients' expectations with regard to the current economic conditions in a more personal manner. According to Oracle (2002: 14) customers begin to feel anxious when they are treated like a number and not kept up to date, especially during volatile economic times.

Respondents that were examined seemed to be meeting their clients' expectations, however managing clients expectations beyond financial returns has emerged as an important consideration for asset managers especially during periods of negative economic performance. The researchers believe that the firms that are better able to adapt and achieve this are less likely to lose clients during recessions. These recommendations to not increase marketing expenditure may not be relevant to other financial institutions such as retail banks, but more specifically asset manager who deal with a select few amount of clients that have high switching costs.

Further research could have a similar approach based on developed countries such as North America and Europe, where a relationship between recession and large withdrawals was observed during the last recession, in order to consider whether or not improved CRM capabilities could have enhanced client loyalty and reduced such large investor outflows that were experienced in economies that were hit harder by the recession.



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## APPENDIX 1:

### SUMMARY OF RESPONDENTS

The below table consists of a simplified version of the thirty survey questions that respondents were presented with. The table then summarizes the responses of the nine individuals who answered the questionnaire. Although only nine out of the 28 surveys that were sent out were completed, the researchers believe that the data collected was sufficiently rich to be used for qualitative analysis purposes, in which a more in-depth understanding of how the relevant respondents view has been developed due to their exposure as asset managers in the South African investment environment.

<p><b>1. What is the size of the organisation that you are currently employed in?</b></p>	<p>The survey was completed by 9 individuals, of whom 2 were from Large firms, 3 were from medium firms and 4 were from small firms. For the context of this research large is considered 50+ asset managers, while Medium is 20-49 asset managers and small is 1-19 asset managers.</p>
<p><b>2. What is your level of experience in your field?</b></p>	<p>78% of Respondents claimed to have between 6 and 14 years of Experience in their field and the remaining 22% had in excess of 15 years' experience. One individual additionally stated to have more than 30 years of experience in the Asset management field.</p>
<p><b>3. Which functions apply to your role in the firm?</b></p> <ul style="list-style-type: none"> <li>▪ Asset management</li> <li>▪ Customer Relationship Management</li> <li>▪ Marketing management</li> </ul>	<p>22% of respondents considered themselves as only Customer Relationship Managers, whilst the remaining 88% considered themselves to be Asset managers or Asset managers in conjunction with another function in the company. 75% of respondents from smaller firms considered themselves as playing a role in all three functions. This was expected as the small firms are less likely to have dedicated CRM and Marketing personal.</p>
<p><b>4. Does your firm undertake any marketing activities?</b></p>	<p>100% of respondents acknowledged that their firm did in fact undertake marketing activities</p>
<p><b>5. Overall, how effective do you think your firms marketing activities are?</b></p> <ul style="list-style-type: none"> <li>▪ Extremely effective</li> <li>▪ Effective</li> <li>▪ Somewhat effective</li> <li>▪ Limited</li> <li>▪ Not effective at all</li> </ul>	<p>Only 12% of respondents considered their marketing activities to be extremely effective, the majority 66% of respondents believed their marketing activities to be effective, 12% considered the marketing to be somewhat effective and the remaining 12% considered the marketing to be of limited effectiveness.</p>
<p><b>6. Overall, how effective do you think your firms Customer Relationship Management (CRM) capabilities are?</b></p> <ul style="list-style-type: none"> <li>▪ Extremely effective</li> <li>▪ Effective</li> <li>▪ Somewhat effective</li> <li>▪ Limited</li> <li>▪ Not effective at all</li> </ul>	<p>78% of respondents considered the CRM capabilities are effective and the remaining 22% considered CRM capabilities of their firms as somewhat effective. Interestingly the respondent who considered the overall marketing effectiveness to be limited considered the CRM capabilities to be effective.</p>
<p><b>7. How important is the alignment between customer experience and brand promise?</b></p> <ul style="list-style-type: none"> <li>▪ Very important</li> <li>▪ Important</li> <li>▪ Neutral</li> <li>▪ Not important at all</li> </ul>	<p>78% of respondents found the alignment between customer experience and brand promise to be very important and the remaining 22% found it to be Important. This would suggest that all respondents valued brand promise as a key success factor in terms of customer experience.</p>





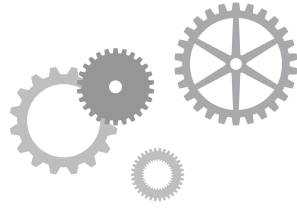
<p><b>8. Do marketing and CRM activities change during cyclical changes of the business cycle?</b></p>	<p>67% agreed that marketing and CRM activities do change during the business cycle.</p> <p>Furthermore respondents A stated that "Strategy involves being close to Client needs and objectives, understanding risk profiles and assessments which will invariably change as part of the cycle" and respondent C stated that "More focus is given to the 'Sales' function during the expansionary phase whilst attention is focused on 'Client retainment and awareness' during the recessionary phase." The other respondents who selected yes reinforced these views and stated that in general the need to market did change throughout the business cycle.</p>
<p><b>9. Are there any client education activities taken by the firm?</b></p>	<p>67% of respondents believe their firms offer client education activities.</p>
<p><b>If YES, please state the activities.</b></p>	<p><b>Respondent A</b> stated, "These are a <i>sina que non</i> for RMs to market and sell product and educate Clients at the same time".</p> <p><b>Respondent D</b> said, "Yes, especially if requested, we like to inform them of how long to expect to wait and what shares we invest in (on their behalf) and what company's they have a stake in".</p> <p>And <b>Respondent G</b> elaborated by stating, "Provide training to institutional clients, and pamphlets and newsletter to individual clients."</p>
<p><b>10. Does your firm have a dedicated client service position, or is it the responsibility of the asset manager to handle the individual communication regarding clients' specific accounts?</b></p> <ul style="list-style-type: none"> <li>▪ Dedicated client services individual</li> <li>▪ Asset manager is responsible for individual client relations</li> <li>▪ Other, please specify...</li> </ul>	<p>78% of individuals stated that the firm had a dedicated client services individual, however only 2 respondents acknowledged that there was a dedicated individual and did not mention that the CRM role was to a large extent the task of the specific asset manager. 22% of all respondents replied that there was no dedicated client services individual, these individuals were from the small firms.</p>
<p><b>11. How do you categorize your clients? Do you categorize clients in terms of the size of their portfolios? Or do you categorize clients in terms of their profitability? Or do you categorize them in terms of potential profitability?</b></p> <p><b>If another method is used please specify.</b></p>	<p>Size of portfolio =11%          Profitability=11%          Potential profitability=0%          Profit and potential profit=11%          Size and Profit=33%          Size and profit and potential profit=22%          Other=11%</p> <p>As can be seen form the above results, there does not seem to be one agreed method on how to categorize clients, however 33% of clients selected the size as well as the profit response options.</p> <p>The individual who selected Other stated from his work experience abroad (Middle East) that, "In the Middle East it tends to also involve whether the Client is a 'PIP' (Politically Important Person' or not. Individuals are sometimes bigger than Institutions!"</p>
<p><b>12. Are more profitable or potentially more profitable customers allocated more attention and resources than other clients to ensure the more valuable clients are satisfied?</b></p>	<p>100% of respondents agreed that more profitable customers are indeed allocated more attention and resources to ensure higher levels of satisfaction, this is later demonstrated (question 17, respondent B) by the respondents acknowledgement that the higher-tier customers receive more personalized methods of communication such as telephone calls which the mid-tier customers do not receive.</p>
<p><b>13. Are psychological considerations, such as feelings of anxiety and the irrational urge to sell by the client taken into account when investing/sending out news?</b></p>	<p>89% of respondents stated no to this question, this would imply that the investment decisions are made regardless of the clients' emotions.</p>



<p><b>14. Do you have a basic questionnaire to aid in understanding each client's risk appetite?</b></p>	<p>67% of respondents acknowledge that they do have a basic risk assessment questionnaire for clients to complete in order to understand the clients risk appetite.</p>
<p><b>15. Would you say clients are more concerned with making high returns or receiving good levels of customer service from the firm?</b></p>	<p>78% of clients say their clients are more concerned with higher returns whilst the remaining respondents believe their customers are more interested in receiving good levels of customer service.</p> <p><b>Respondent A</b> stated that, "Returns always Precedes Service!"</p> <p>Whilst <b>Respondent E</b> stated that clients are more interested in "Higher than market average".</p>
<p><b>16. What is a preferred strategy to recover losses when a portfolio under performs?</b></p>	<p><b>Respondent A</b>, "Don't panic! Concentrate on fundamental analysis of underlying portfolio"</p> <p><b>Respondent B</b>, "It depends on the initial strategy. If it is one based on value then it does not alter unless it is deemed the market as a whole has further to fall".</p> <p><b>Respondent C</b>, "Stick to Knitting".</p> <p><b>Respondent D</b>, "Keep emotions out of investment decisions, if the market drops don't react to quickly to sell, as you must buy low sell high".</p> <p><b>Respondent E</b>, "If you think the share price will continue to fall a significant amount, then you could sell and buy stocks back after you think they have bottomed out and won't get worse, this is highly tricky to judge and takes a lot into consideration".</p> <p><b>Respondent F</b>, "If some stocks do well and some do poorly, and you think the poorly performing stock will improve as it is undervalued and the stock that did well is overvalued then you could sell the high and buy more of the low to benefit from the upswing. This is very stock specific and not be a general strategy".</p> <p><b>Respondent G</b>, "If there is suspicion that things will get worse going forward, then you could sell immediately, but generally avoid selling when markets are low".</p> <p><b>Respondent H</b>, "Stick to the firm's values and investment strategy".</p> <p><b>Respondent I</b>, "Use the same initial investment strategy which the organisation has in place".</p>
<p><b>17. How is this above strategy communicated to the clients and by whom?</b></p>	<p><b>Respondent A</b>, "During under performance, this is communicated by the RM as often as is relevant, daily or bi-weekly"</p> <p><b>Respondent B</b>, "We run discretionary accounts so limited strategy communications but we do discuss in general by telephone to our larger clients and by e mail to our mid-tier clients."</p> <p>The rest of the responses were similar in nature and discussed how this is a part of the firm's philosophy and may be communicated through an e-mail or phone call.</p>
<p><b>18. When the markets appear to be edging towards a bearish trend, is this information passed onto customers so that they can begin to anticipate lesser returns?</b></p>	<p>67% of respondents say that this expectation is passed on to clients, with 22% saying that it is sometimes passed on and 11% say this is not communicated to the clients.</p>
<p><b>19. Are asset managers encouraged to contact their clientele in order to update them with portfolio changes?</b></p>	<p>56% of Asset managers are encouraged to contact their clientele in order to update them with portfolio changes, the remaining 44% say they are not encouraged to do so. The preferred method of communicating this change in portfolio composition is via e-mails and phone calls.</p>
<p><b>20. How often are asset managers/client service representatives encouraged to contact their investors with regard to specific changes to their portfolios?</b></p> <ul style="list-style-type: none"> <li>▪ Weekly</li> <li>▪ Monthly</li> <li>▪ Quarterly</li> <li>▪ Twice a Year</li> <li>▪ Yearly</li> <li>▪ Never</li> </ul>	<p>Weekly basis: 22%</p> <p>Monthly basis: 22%</p> <p>Quarterly: 56%</p>



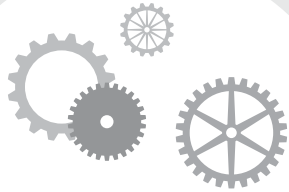
<p><b>21. Are asset managers rewarded not only on financial considerations but also on the ability of the asset manager to satisfy (and retain) clients?</b></p>	<p>67% of asset managers appear to be rewarded on more than just financial considerations, whilst 33% believe their rewards are on a purely financial basis. Respondent A then elaborated by stating that, "Their reward would also be linked to performance by having 'skin in the game', i.e. investment into the underlying funds or stocks".</p>
<p><b>22. What method of identifying client satisfaction is utilised</b></p>	<p>The most commonly identified methods of feedback consisted of executive contact, questionnaires, follow up phone calls, meetings, e-mails and general feedback received at regular meetings.</p>
<p><b>23. Do you find that in a recession clients tend to withdraw their securities/investments from the market?</b></p>	<p>100% of respondents chose between "No" and "No Observed Relationship". 88% of which said No.</p>
<p><b>24. How does your fund maintain sufficient liquidity to meet allowed withdrawals, especially during a recession?</b></p>	<p><b>Respondent A stated that</b>, "Minimum cash reserves as part of fund allocation, however very seldom this liquidity may not be enough if there is a 'run on the fund' (i.e. exceptional, unanticipated withdrawals)</p> <p><b>Respondent B stated that</b>, "Cash allocation plus we only deal in large cap and stocks with good liquidity".</p> <p><b>Respondent C</b> stated, "Cash holdings".</p> <p><b>Respondent D</b> discussed the fund having an emergency secured over draft facility.</p> <p><b>Respondent E</b> discussed the use of liquid stocks in the portfolio that minimizes the chances of this occurrence.</p> <p><b>Respondent F</b> mentioned their cash reserve requirements as well as liquid stocks that are held in the portfolio.</p> <p><b>Respondent G, H and I</b> reinforced these methods of having sufficient cash by mentioning that in the case of large outflows, there are cash requirements to make accommodate this as well as some of the portfolio being in liquid assets.</p>
<p><b>25. Which of the following best describes your strategy in terms of avoiding the loss of existing clientele?</b></p>	<p>78% of respondents discussed the importance of Rather focus time and effort on generating better returns than other investment advisory firms and the remaining responders agreed there was also a need to regularly communicate with and keep clientele informed. The key issue that emerged was the need to be transparent, because trust and loyalty are very important.</p>
<p><b>26. When new investors sign on, roughly what percentages of them are interested in the firms' historical returns?</b></p>	<p>56% of respondents estimated that between 81-100% of customers are interested in the firm's historical returns, while the other 44% of respondents stated that only between 61-80% of respondents seemed to be interested with historical returns.</p>
<p><b>27. How much disclosure and reporting do you believe clients expect?</b></p>	<p>Phone calls, personalised e-mails and news bulletin were the average expected amount of reporting that the respondents believed that investors in a hedge fund would expect.</p>
<p><b>28. If you are a hedge fund manager, how much transparency should any hedge fund investor expect?</b></p>	<p>The most experienced hedge fund manager out of the survey, respondent A, stated that limited amounts of disclosure due to sensitive information compromising investment competitive advantages were expected but a brief strategic outline was still necessary.</p>
<p><b>29. Which of the following trends best describes how your firm went about allocating funds for marketing activities over the last five years?</b></p> <ul style="list-style-type: none"> <li>▪ Constant amount</li> <li>▪ Slight decrease</li> <li>▪ Slight increase</li> <li>▪ Large decrease</li> <li>▪ Large increase</li> </ul>	<p>Large decrease: 11%</p> <p>Constant amount : 22%</p> <p>Slight decrease: 45%</p> <p>Slight increase: 22%</p> <p>As can be see, only 22% of the firms have increased their expenditure over the last five years, which has been a recessionary period. Whilst the 22% have held a consistent marketing budget and 56% of firms actually reduced their marketing budget to a certain extent.</p>
<p><b>30. Has the recent financial crisis made customer relationship management a more important aspect for the firm to consider?</b></p>	<p>67% of respondents said no, the CRM process is just as important as was historically realised and 33% have acknowledged the increased importance the recession had on their CRM aspect.</p>



### **Section 3: Human Resource Management Resilience**

## DEMANDS, EXHAUSTION AND ABSENTEEISM: COMPARING MANAGEMENT, PROFESSIONALS AND ADMINISTRATIVE OCCUPATIONS

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### ABSTRACT

**Introduction:** Knowledge regarding job demands and job resources, and their relation to exhaustion and absenteeism is limited; specifically for occupational groups across sectors. It is therefore important to see how these work characteristics may relate to outcomes in various occupational groups in order to manage employee productivity. Objectives of the study: The first aim of was to investigate the effects of emotional load and pace of work on exhaustion in three occupational groups. Secondly, this study investigated if participation in decision making, as an eminent job resource, reduces exhaustion. Lastly, an outcome for exhaustion was considered, namely absenteeism. Research methodology: A survey designed was used. The total sample consisted of respondents from three occupational groups (N=1076). A multi-group analysis was implemented with structural equation modelling methods. Results: Emotional load was the only driver of exhaustion in the administrative occupational group. However, both emotional load and workload were significant drivers of exhaustion in the management and professional occupation groups.

**Conclusion:** Exhaustion was associated with absenteeism in the administrative and professional occupations, but not in the managerial occupational group.

### KEYWORDS

Exhaustion, Job demands, Absenteeism, Multi-group analysis

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## INTRODUCTION

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Organisations have become more aware of the important role that work-related well-being of employees play in eventual organisational profits, success and reaching strategic objectives. Most work-related well-being studies have been conducted within specific sectors and organisations in South Africa (De Beer, Rothmann Jr. & Pienaar, 2012). However, little work has been done concerning the situation for specific occupational groups that span many organisations in South Africa, for example administrative staff or professionals. To meet the demands of work employees need to expend personal energy that is not in infinite supply; if too much energy is expended, exhaustion typically results. The question thus beckons: Could the drivers of employee exhaustion differ according to the occupational group; or would the same variables be important in all occupational contexts? Additionally, could a participative management style reduce employee exhaustion? Finally, employee absenteeism has been shown to result from employee exhaustion, and contributes to organisational ineffectiveness. It is therefore also necessary to investigate if the association between employee exhaustion and absenteeism holds across occupational groups. .

### PROBLEM INVESTIGATED

The purpose of this study was to investigate the job demands of emotional load and workload as drivers of employee exhaustion, in three different occupational groups in South Africa, i.e. (1) administrative and secretarial occupations; (2) management, directors and senior officials; and (3) professional occupations. Participation in decision making was added as a job resource to test whether it can offset exhaustion due to giving employees a sense of control in their work environment. Finally, the relationship from exhaustion to absenteeism was modelled as an outcome of exhaustion for all of the occupational groups, due to its pernicious consequences for organisational performance and profit.

### RESEARCH OBJECTIVES

The objectives of this study were to establish:

- 1) How emotional load and workload predict exhaustion across the three occupational groups.
- 2) If participation at work acts to reduce exhaustion across the three occupational groups.
- 3) How exhaustion is related to absenteeism across the three occupational groups.

### LITERATURE STUDY

<b>Job demands and exhaustion</b>	
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Job demands are intrinsic to any occupation. It represents those aspects of the job that are “physical, psychological, social, or organisational that require sustained physical and psychological effort and are therefore associated with certain physiological and psychological costs” (Schaufeli & Bakker, 2004: 296; Demerouti et al., 2001: 501). However, when these demands start to exceed the employee's resources, an imbalance occurs and distress is the result. This work distress, if left unchecked, results in a critical loss of energy into a state of exhaustion, due to the demands placed on the employee. Research has concluded that distress, without sufficient coping mechanisms or buffers, leads to eventual burnout (De Beer et al., 2012; Alsoofi, Al-Heeti & Alwashli, 2000).



Burnout is the state of physical, mental and emotional exhaustion (Maslach, 1982), and comprises two main components at its core: Exhaustion and cynicism (Schaufeli & Taris, 2005; Schaufeli, 2003). Exhaustion can be characterized by a lack of energy, and therefore inability. Exhaustion is an energy depleting process (Moore, 2000a, 2000b), and manifests when employees do not have the resources necessary to cope with their demands. The experience of exhaustion is associated with low energy, feelings of restlessness and difficulty to concentrate (Weiss, 1983) and absenteeism (Bakker, Demerouti & Schaufeli, 2003; Saxton, Philips & Blakeney, 1991). The second core component of burnout, cynicism; is characterised by a lack of motivation, unwillingness and mental distancing. Cynicism is explained as the displaying of a distant or an indifferent attitude towards work (Maslach et al., 1996). It has been established that exhaustion is the precursor for cynicism (Van den Broeck, Vansteenkiste, De Witte and Lens, 2008; Leiter, 1993), and therefore, this study will only investigate exhaustion as standalone variable in order to isolate its dynamics.

In initial burnout research it was argued that its emotional load component was unique to human services professions, where people would have to interact with other people due to the nature of the work, e.g. healthcare, teaching, and social work. Over time, research has however shown burnout to be present across occupations (cf. Demerouti et al., 2001). This emotional load has long been found to be one of the main drivers of exhaustion and burnout (Demerouti et al., 2001). Furthermore, workload has also been investigated and found to be a driver of exhaustion, and eventual burnout within South African context (De Beer et al., 2012). Workload is present in all occupations, but when employees can no longer cope with their demands, they become overloaded. The two demands of emotional and workload were included in the study as they are deemed to be generic in all three the occupational groups that will be investigated.

### **Job resources and participation in decision making**

Job resources are defined as “those physical, psychological, social, or organisational aspects of the work context that (1) can reduce the health-impairment effect of job demands, (2) are functional in achieving work goals, and (3) stimulate personal growth, development and learning” (Schaufeli & Bakker, 2004: 296). Moreover, job resources can be allocated into two categories: internal (cognitive in nature) and external (organisational and social). Due to the difficulty in isolating the cognitive type, researchers usually focus on external resources that are more generalizable (Demerouti et al., 2001). Moreover, a lack of job resources is predictive of burnout (Bakker, Demerouti, Taris, Schaufeli & Schreurs, 2003). Therefore, job resources acts as protective factors in employee stress and the energy depletion process at work.

Evidence has shown that influence and control are important when facing demands and that at a psychological level, personal control reduces feelings of threat (cf. Jackson, 1983). Research has also found that a participative management style improves employees' productivity and job satisfaction (Kim, 2002; Chung & Guinan, 1994). This study therefore adds participation in decision making as a resource, in order to investigate the effects of a participative management style on exhaustion, and eventual absenteeism.

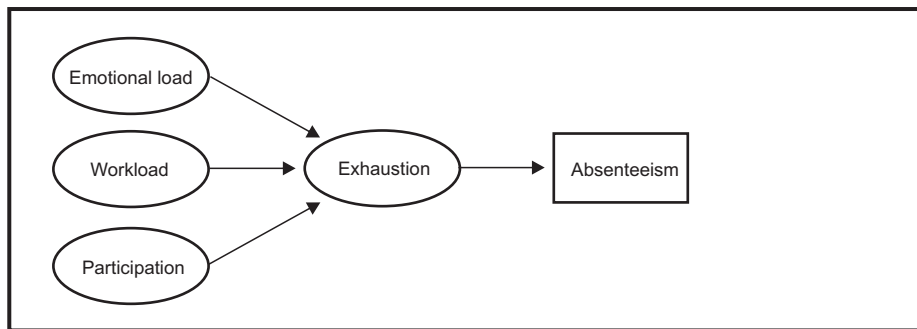
### **Absenteeism**

Absenteeism occurs “when employees who were scheduled for work do not attend, in terms of hours or days rather than minutes” (Lambert, Edwards, Camp & Saylor, 2005: 166). The consequence of absenteeism is disruption in the normally accepted day-to-day operations of organisations, which decreases productivity and/or production and results in direct and indirect costs to the organisation. Cartwright and Boyes (2000) found that in the United Kingdom, over 60

percent of all organisational absences were due to stress, and although it is difficult to estimate the annual cost of occupational stress, estimates range from \$30 billion dollars in Australia (Safe Work Australia, 2008), \$300 million in the United States (Barroux, 2011), and up to R3 billion in South Africa (The People Element, 2012).

It is clearly important to curb unnecessary absenteeism. However, to address absenteeism, the drivers of absenteeism should be understood. The first explanation may be that the employees 'punish' the organisation for what is seen as escaping, compensation for, or protest against, averse working situations; and the second, and more relevant for the context of this study, is that absenteeism is a reaction to work stress, i.e. that employees are trying to escape (withdrawing from) the failure to meet demands of work by avoiding it entirely in taking a day (or more) off from work in order to cope (cf. Bakker, Demerouti, De Boer & Schaufeli, 2003). Ironically, when the employee returns to work, their demands might have increased even more due to their absence. The first explanation may be understood within the framework of the psychological contract theory of Rousseau (2004), which outlines the 'unspoken' agreement between employer and employee that comes into being through perceptions, obligations and beliefs. The classic strategy in the conservation of resources (COR) theory indicates that employees will strive to retain, build and protect their resources (Hobfoll & Shirom, 2001; Hobfoll, 1989), and provides a framework for the second explanation: Employees who are experiencing exhaustion could seek to protect their resources by withdrawing from work, in order to reduce exposure to the energy depleting process, this may include absence from work. However, even given the body of literature on absenteeism's causes, past results have also shown that subjective work ratings could show no relationship with either tardiness or sick days (Dwyer and Ganster, 1991). This study will investigate if emotional load and workload drives exhaustion in three occupational groups, and in turn if that exhaustion has a significant relationship to absenteeism.

Figure 1 below represents the research model of the present study.



**FIGURE 1:** THE RESEARCH MODEL INVESTIGATED IN THE MULTI-GROUP ANALYSIS.

## RESEARCH METHODOLOGY

### Participants

This study followed a cross-sectional design; an aggregated sample of individuals (n=1076) of all ages and backgrounds was collected at random during various consultation projects in different organisations during 2012. Anonymity and confidentiality of the participants were assured.

Table 1 below presents a breakdown of the biographical information of the participants in the study.

**TABLE 1: CHARACTERISTICS OF THE PARTICIPANTS FROM THE TOTAL SAMPLE (N = 1076)**

Item	Category	Frequency	%
Gender	Male	498	46.28
	Female	578	53.72
Age	18-29	184	17.10
	30-39	356	33.09
	40-49	294	27.32
	50-59	209	19.42
	60-65	33	3.07
Race	Black people	142	13.20
	Coloured* people	49	4.55
	Indian people	55	5.11
	White people	475	44.14
	Missing	355	32.99
Language	Afrikaans	737	68.49
	English	198	18.40
	Sepedi	18	1.67
	Sesotho	15	1.39
	Setswana	34	3.16
	Siswati	4	0.37
	Tshivenda	3	0.28
	isiZulu	32	2.97
	isiNdebele	3	0.28
	isiXhosa	13	1.21
	Xitsonga	4	0.37
	Other	5	0.46
	Missing	10	0.93
Occupational group	Administrative	387	35.97
	Management	331	30.76
	Professionals	358	33.27

Notes: \* This is an official term in South Africa, designating citizens of mixed ethnic origin.

The majority of the sample was female, 578 (53.7%), while 498 (46.3%) were male. The number of participants from the 30-39 year age group was in the majority (33.1%). The most prevalent home languages were Afrikaans, with 737 (68.5%), followed by English (n=198; 18.4%). Concerning the occupational groups, the administrative group had the most participants (n=387; 36.0%), and the management group had the least (n=331; 30.8%).

## Procedure

The survey implementation was web-based and the anonymity of participants was assured. Informed consent was obtained from all participants and relevant organisational authorities to use the data for research. All the participants throughout various organisations received a link to the internet-based survey via e-mail. The system and connection were secured with the American Encryption Standard (AES) so that data could not be compromised even if illegally intercepted whilst transmitted. Participants completed the survey online and as part of the biographical section

indicated their occupation, which could be linked to a standard occupational classification list. No individual identifying information was released to any individuals or organisations during or after the research.

## Measures

The South African Employee Health and Wellness Survey (SAEHWS, Rothmann and Rothmann, 2007) is applied as a self-administered survey in organisational climate diagnoses projects. The SAEHWS comprises different sections which collect work and health information from the respondents. The internal consistency of all the subscales of the SAEHWS is satisfactory, compared to generally accepted guidelines (i.e.  $\alpha \geq 0.70$ ; Nunnally & Bernstein, 1994). The SAEHWS has also been successfully applied in other studies in South Africa (e.g. De Beer, Pienaar & Rothmann Jr., 2013; De Beer, Rothmann Jr. & Pienaar, 2012).

The following subscales were used in this study: Emotional load was measured by a three items, e.g. 'Does your work put you in emotionally upsetting situations?'; Workload by three items, e.g. 'Do you have too much work to do?'; Participation by three items, e.g. 'Can you participate in decisions about the nature of your work?'; Exhaustion by five items, e.g. 'I feel drained from my work'; Absenteeism (Frequency) by one indicator, i.e. 'Over the last 3 months, how many working days in total have you been off work due to illness or injury?'. The job demands and job resource items are measured on Likert scales ranging from 1 to 4 (Never to Always). Exhaustion is measured on a seven point Likert scale (0 to 6) ranging from Never to Always. Absenteeism is a continuous indicator and is measured by the self-reported answer.

The biographical data was captured in the first section of the survey, which included age, gender, race, language and occupational group. The three occupational groups extracted for this study were: (1) Administrative and secretarial occupations; which included occupations such as: Clerks, bookkeepers, credit controllers, human resource administrators, sales administrators, legal secretaries, personal assistants, receptionists, typists and other administrative occupations; (2) Managers, directors and senior officials; which included occupations such as: CEO's, financial managers/directors, human resource managers/directors, production managers/directors, sales managers/directors; and (3) Professional occupations; which included business and financial project management professionals, management consultants, psychologists, information technology professionals, legal professionals, natural and social science professionals, chartered and other certified accountants, and engineers.

## Statistical analyses

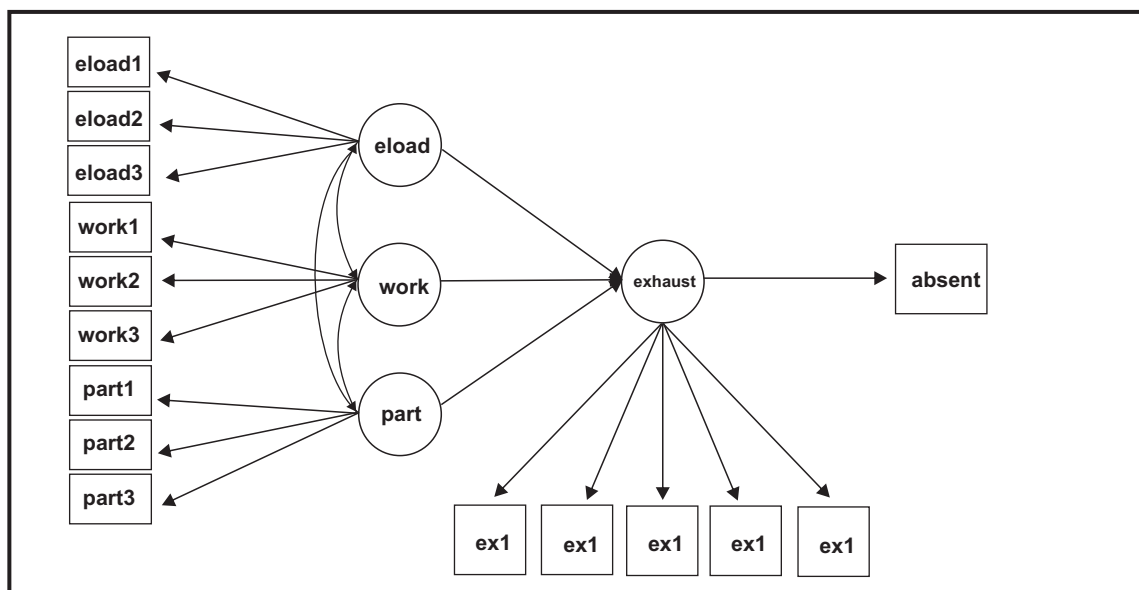
Structural equation modelling methods were used with Mplus 7.0 (Muthén & Muthén, 2012), as it allows for latent variable modelling with categorical and continuous indicators. A categorical data analysis approach was taken as opposed to a continuous data analysis approach, as the items were measured on categorical scales and some items had less than five categories. The estimator used, due to the categorical nature of the data, was from the weighted least squares (WLS) approach: WLSMV (mean and variance adjusted weighted least squares) which is robust against non-normality. A multi-group analysis was employed to investigate the variables' associations with exhaustion and eventual absenteeism as outcome in each of the three occupational groups. The research model was specified (see Figure 1) and then this same model was specified for each of the three groups in one multi-group analysis input file. The input was the covariance matrix. The latent variables were created by using each of the items as observed indicators. It should be kept in mind that the more complex the model specified, the more likely that the model could inflate certain fit statistics. Thus, more basic models are actually ideal, but not always possible. Importantly, item parcelling methods were not used in this study (Bandalos & Finney, 2001).

The following fit-statistics will be considered to ascertain model fit: The comparative fit index (CFI), the Tucker-Lewis index (TLI), and the root mean square error of approximation (RMSEA). These three indicators of model fit were reported as they are the default that Mplus generates; one fit-statistic from different families of fit-statistics as opposed to many from one family.

Mplus generates a polychoric correlation matrix in the presence of categorical data and this correlation matrix will also be interpreted to assist in making meaningful conclusions. Statistical significance is set at  $p \leq 0.05$  and a cut-off point of 0.30 (medium effect) and 0.50 (large effect) is set for the practical significance of correlation coefficients (Steyn, 1999).

## RESULTS

The measurement and structural model was specified in Mplus and all the necessary variables as categorical, i.e. all variables except absenteeism (see Figure 2).



**FIGURE 2:** THE MEASUREMENT AND STRUCTURAL MODEL AS SPECIFIED IN THE ANALYSES.

Results of the SEM analyses showed that the CFI (0.95) and TLI (0.96) equalled and surpassed the recent suggestion of 0.95 (cf. Hooper, Coughlan & Mullen, 2008) for an indication of good model fit. Furthermore, the RMSEA value of 0.07 is below the guideline of 0.08, which should be considered acceptable model fit (Browne & Cudeck, 1993).

Table 2 below shows the polychoric correlation statistics of the variables from the analysis for each of the occupational groups. All correlations were statistically significant, and the practical significance of the correlations are indicated in the table.

**TABLE 2: POLYCHORIC CORRELATION MATRIX FOR THE LATENT VARIABLES (N = 1076)**

Group	Variable	Emotional load	Workload	Exhaustion	Participation	Absenteeism
Administrative	Emotional load	-				
	Workload	0.71**	-			
	Exhaustion	0.69**	0.55**	-		
	Participation	-0.42 <sup>+</sup>	-0.12	-0.40 <sup>+</sup>	-	
	Absenteeism	0.20	0.16	0.29	-0.12	-
Management	Emotional load	-				
	Workload	0.71**	-			
	Exhaustion	0.67**	0.60**	-		
	Participation	-0.37 <sup>+</sup>	-0.23	-0.53**	-	
	Absenteeism	0.08	0.07	0.12	-0.07	-
Professionals	Emotional load	-				
	Workload	0.61**	-			
	Exhaustion	0.53**	0.48 <sup>+</sup>	-		
	Participation	-0.33 <sup>+</sup>	-0.02	-0.28	-	
	Absenteeism	0.06	0.05	0.10	-0.03	-

Notes: p < 0.01 for all values; <sup>+</sup> = Medium practical significance; \*\* = Large practical significance

The correlation table shows that exhaustion is correlated with large practical significance with emotional load and workload in all three of the occupational groups. Importantly, participation was negatively correlated to emotional load in all three groups, with a medium practical effect. Emotional load and workload were correlated with each other with large practical significance in all groups. Absenteeism was only statistically significantly, but not practically significantly, related to exhaustion in all of the groups.

Table 3 below shows the standardised beta coefficients from the multi-group analysis.

**TABLE 3: STANDARDISED COEFFICIENTS FROM THE MULTI-GROUP ANALYSIS FOR EACH OCCUPATIONAL GROUP**

Specified path	Admin	Managers	Professionals
Emotional load ? Exhaustion	0.48 <sup>+</sup>	0.36 <sup>+</sup>	0.28 <sup>+</sup>
Workload ? Exhaustion	0.19	0.26 <sup>+</sup>	0.31 <sup>+</sup>
Participation ? Exhaustion	-0.18 <sup>+</sup>	-0.34 <sup>+</sup>	-0.18 <sup>+</sup>
Exhaustion ? Absenteeism	0.29 <sup>+</sup>	0.12	0.10 <sup>+</sup>

Notes: + = Statistically significant (p < 0.01)

The results of the research model revealed that emotional load is a significant driver of exhaustion in all three occupational groups. However, workload was only a driver of exhaustion in the management and professional groups, but not in the admin group. Furthermore, participation had a negative relationship with exhaustion in all three groups, with the biggest effect-size in the management group. Lastly, absenteeism was significantly related to exhaustion in the admin and professional groups, but only approaching significance in the management group.



## DISCUSSION

The aims of this study were to investigate job demands' (emotional load and workload) and a job resource's (participation in decision making) relationship to employees' exhaustion, across three occupational groups. Finally, to also test the effect that exhaustion could have on self-reported absenteeism as an outcome.

Emotional load was related to exhaustion in all of the occupational groups. This is a reiteration of the results found that burnout's main component is present in various occupational groups (cf. Demerouti et al., 2001). However, it could be argued that all of the occupational groups have human service work elements, even if not fitting the traditional definition of human service work.

In addition to emotional load, workload was a significant driver for exhaustion in only the management and professional occupation groups. However, workload was not a significant driver in the administrative occupational group. This may be due to administrative work having standard operating procedures and policies, and perhaps due to a lower level of complexity required in maintaining and executing routine tasks. The results in fact suggest that the emotional component that is present in these type of jobs is more of an issue than is the workload of the job. There could be various reasons postulated for this: administrative occupations are usually confronted with unhappy and/or impatient individuals, have low decisional-latitude in the organisation, and are frequently approached for information that a manager or stakeholder, or even upset clients, might require from them post-haste.

An interesting result was that exhaustion was not significantly associated with absenteeism in the management occupations group (although approaching significance), but only in the administrative and professional occupation groups. This may be due to managers having to "push through" the tiredness in the performance of their duties; of course this should not be construed that other occupations are not willing to do this, but that managers have to ensure the optimal function of their responsible sections/teams/departments within the organisation, in terms of reaching strategic goals and outcomes, adds an extra burden of responsibility on them. Indeed, it has for example been found that managers report job pressures more frequently, when compared to professionals (Turnage & Spielberger, 1991). Moreover, there could also be an over-commitment propensity in managers due to these responsibilities, so whether exhausted or not, the manager will still come to work. This inevitably will lead to the downward spiral into burnout and eventual ill-health as depicted in the health impairment process of the job demands-resources (JD-R) model (Bakker & Demerouti, 2007; Demerouti et al., 2001). It is important to note that the path from exhaustion to absenteeism in the management group was approaching significance. Therefore, this is a borderline case and it could still be that exhaustion could have an effect on absenteeism.

Concerning the one job resource investigated in this study, participation in decision making, it was found to have a significant negative relationship to exhaustion in all of the groups. The strongest relationship was evidenced in the management group, but a similar relationship exists in both professionals and the administrative group. Research in another context has previously suggested participation in decision making as a way to reduce absence frequency (Bakker et al., 2003).

Participation in decision making was negatively related to emotional load. It may be that employees who feel that they do not have opportunity to participate in decisions in what happens in their work environments are affected emotionally/personally as employees want to have some control in what happens in their jobs, i.e. what their fate is and will be at work. The other side of the correlational relationship could indicate that where there is high emotional load, there is low decision-making motivation, i.e. that these employees do not bother to be involved in decision-making processes due to the emotional load experienced.

## CONCLUSIONS, MANAGERIAL IMPLICATIONS AND LIMITATIONS

The results of the study indicate that managers should consider and reflect on their own management styles. Since the results above show that participation in decisions does affect exhaustion of occupations, managers should ask themselves if they allow for employee participation in decision-making. If not, how could they create an environment that is more conducive to this, and what barriers may be preventing them from creating a more participative environment? It may be difficult to reduce the workloads of all employees instantaneously, but allowing for more participation in decision making is a practical and pragmatic solution.

It is important for managers to realise and acknowledge the effects that demands can have on their subordinates. Research has found that organisations should endeavour to design job demands in such a fashion that people can meet them without impairing their health; and if impractical, or due to the nature of the job, to achieve this then job resources should be provided (Bakker, Demerouti & Euwema, 2005). This would then have the effect of lessening exhaustion and thereby reversing the role it plays in absenteeism in organisations, which in turn raises productivity, but also preserves employee well-being.

Regarding a potential leadership style that managers could consider adopting is the transformational leadership style. It has been found that when employees perceive that a manager uses a transformational leadership style that it can mitigate perceived work stress which reduces the impact on burnout (Gill, Flaschner & Shachar, 2006). Moreover, research has found that transformational leadership is negatively related to emotional exhaustion (Zopiatis & Constanti, 2010). This leadership styles could therefore act to reduce exhaustion, which has been shown to a driver of absenteeism in the professional and administrative groups, and bordering on statistical significance in the management group. Another type leadership that is gaining ground and should be brought to management attention is from the positive psychology literature, coined: Authentic leadership. Authentic leadership encompasses self-awareness, internalised moral perspective, balanced processing and relational transparency; basically the premise is to be authentic and create authentic relationships at work in order to understand each other and be successful (cf. Walumbwa et al. 2008).

This research was cross-sectional, therefore causality should generally not be inferred. Furthermore, this research did not include all available occupational groups and future studies should venture to study others. Additionally, even though this study provides valuable information there are additional resources and factors that may need investigation in the specific and other occupational groups, i.e. other job resources, cynicism, work engagement, productivity ratings, and also commitment to the organisation. For example, the role that social support (colleague and supervisor support), growth opportunities, and remuneration might play in these groups could be of interest.



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## ASSESSING READINESS FOR CHANGE: ANALYSING THE SEQUENTIAL NATURE OF CHANGE MODELS IN RELATION TO CHANGE READINESS

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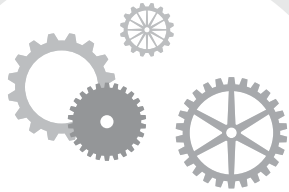
### ABSTRACT

In leading organisational change, an important success factor for change agents to take into account is the level of readiness for change of the organisation's members. A number of theories of behavioural change recognise a series of stages that individuals work through in processing and responding to change demands. Consequently, organisational change theory proposes a strategic and sequential approach to change management, creating a state of change readiness prior to change implementation. Assessing the extent of change readiness prior to implementing organisational change interventions therefore mitigates the potential waste of significant resources that could arise due to failure of the change later on. The notion of sequential change acceptance, presupposes that when measuring stages related to change or change readiness, researchers will find a trend of declining scores for each subsequent stage of the change. This paper investigated whether responses to a questionnaire based on the ADKAR model followed the pattern of change as a sequentially phased change process. A survey questionnaire was administered in an organisation which was poised for significant change and which uses the ADKAR (Hiatt, 2006) model of change as its preferred model. A total of 126 employees spread nationally over seven different geographical locations, responded to the questionnaire. The results of the research did not show a declining pattern for subsequent factors, as would be expected from a sequentially phased change process. Furthermore, there were no significant differences in the factor scores (i.e. Awareness, Desire, Knowledge, Ability and Reinforcement) and the factors were highly correlated. Consequently, factor analysis was conducted to explore the factor structure of the questionnaire. The factor analysis identified three significant factors and not five, with most items loading on the first factor. These three factors were named Readiness, Opportunity Realisation and Uncertainty, and showed significant differences in mean scores. The fact that most of the items were loaded on the Readiness factor provides additional support for the rejection of a sequential model. Readiness and Opportunity Realisation were highly positively correlated, while the Uncertainty factor displayed modest negative correlations with the other two factors.



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These results further suggest that concerns about the personal potential value or impact of the change are a separate consideration to an individual's overall assessment of change readiness. It also suggests that even if there is a high level of readiness, an element of uncertainty remains. While acknowledging the limitations of the study, the results start to call into question the validity of the step-wise conceptualisation of personal change models like ADKAR. Further research investigating the personal change process associated with organisational change is recommended.

**KEYWORDS**

Organisational change, Change readiness.

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## INTRODUCTION

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It is well known that many organisational change initiatives fail (Kotter, 2007). Even when the change is seen to achieve its objectives, there are often questions about the costs of the change versus the benefits realised. This is reflected in the well-known formula of change of  $C=[ABD]>X$ , where C=change, A=level of dissatisfaction with the status quo, B=desirability of the proposed change or end state, D=practicality of the change (i.e. minimal risk or disruption), and X="cost of changing" (i.e. the financial, time and other resources that need to be invested in the change) (Beckhard & Harris, 1987). As a result, it is important for researchers and practitioners to identify the ingredients for successful change. Some of these elements are reflected in various planned change models (Armenakis & Harris, 2009; Hiatt, 2006; Levesque, Driskell, Prochaska, 2008; Lewin, 1951). One of the elements reflected in several of these models, is that when leading planned organisational change, an important success factor for change agents to take into account is the level of readiness for change of the organisation's members (Susanto, 2008). Assessing the extent of change readiness prior to implementing organisational change interventions mitigates the potential waste of significant resources that could arise due to failure of the change later on. Organisational change theory proposes a strategic and sequential approach to change, thereby creating a state of change readiness (Kotter, 2007). This requires change agents to examine the change from the perspective of the change recipients (Prosci Research, 2004).

### HYPOTHESIS

Much of the literature on change suggests that successful change is a sequential process that is chronological by nature and must follow a set pattern (Hiatt, 2006; Kotter, 2007; Levesque et al, 2008). The notion of sequential change acceptance therefore presupposes that when measuring change or change readiness, researchers will find a trend of declining scores. This paper investigated whether responses to a questionnaire based on a sequential change model followed the sequential pattern as proposed in the literature (i.e. a decreasing score per stage of change was therefore to be expected ( $\mu$  Stage 1 Awareness  $\leq$   $\mu$  Stage 2 Desire  $\leq$   $\mu$  Stage 3 Knowledge  $\leq$   $\mu$  Stage 4 Ability  $\leq$   $\mu$  Stage 5 Reinforcement)).

#### Hypotheses are therefore:

- i) Scores for assessing stage two [i.e. desire] of change readiness will show significantly lower scores than readiness levels for stage one [i.e. awareness] of the change readiness process.

**H<sub>o1</sub>:**  $\mu$  Stage1  $\leq$   $\mu$  Stage2

**H<sub>a1</sub>:**  $\mu$  Stage1  $>$   $\mu$  Stage2

- ii) Scores for assessing stage three [i.e. knowledge] of change readiness will show significantly lower scores than readiness levels for stage two [i.e. desire] of the change readiness process.

**H<sub>o2</sub>:**  $\mu$  Stage2  $\leq$   $\mu$  Stage3

**H<sub>a2</sub>:**  $\mu$  Stage2  $>$   $\mu$  Stage3

- iii) Scores for assessing stage four [i.e. ability] of change readiness will show significantly lower scores than readiness levels for stage three [i.e. knowledge] of the change readiness process.

**H<sub>o3</sub>:**  $\mu$  Stage3  $\leq$   $\mu$  Stage4

**H<sub>a3</sub>:**  $\mu$  Stage3  $>$   $\mu$  Stage4

- iv) Scores for assessing stage five [i.e. reinforcement] of change readiness will show significantly lower scores than readiness levels for stage four [i.e. ability] of the change readiness process.

H<sub>04</sub>:  $\mu$  Stage4  $\leq$   $\mu$  Stage5

H<sub>a4</sub>:  $\mu$  Stage4  $>$   $\mu$  Stage5

The implications of the utilisation, the understanding and the interpretation of results of questionnaires of sequentially based change models is important to the management discipline; and the consequences of misrepresenting change results could have negative implications to change initiatives. The research therefore intends to contribute to the field of change management and to an understanding of the change readiness process in particular.

## **AN EMPLOYEE PERSPECTIVE OF ORGANISATIONAL CHANGE**

Mento, Jones and Dirndorfer (2002) argue that different organisations make use of a multitude of different process change models, as illustrated within the literature, to help guide them through the change process. A number of theories of behavioural change recognise a series of stages that individuals work through in processing and responding to change demands (Levesque et al., 2008). The stage based theories of change have led to a number of stage based change models, many of which are widely documented in much of the literature on change management.

In one of the earliest stage-based models, Lewin (1951) introduced the idea of successful change being manifested through a three stage process. The first stage was to Unfreeze: According to Lewin (1951), the identification of the desire for change is witnessed, either a natural process or through purposeful design manipulations, "or force". The forces that are the cause and effect of resistance and inertia are dealt with so that old habits are left behind. The second stage is Change: The changes proposed are made in the unfrozen state due to the change participants dissatisfaction with the current state. The change itself needs to be clearly identified and known to the change participants in order for them to understand the current gap that exists and make the changes a reality (Schein, 1996). The third stage is Re-freeze: This is to ensure the change is sustainable through enhancement of skills/culture/operations in order to ensure that the organisation does not slip back into its pre-change ways (Schein, 1996). Prosci Research (2004) refers to these three phases of organisational change as preparing for the change, managing the change and reinforcing the change.

Another well-known organisational change model is Kotter's (2007) eight step model. The first step of Kotter's (2007) model involves increasing the urgency for change. This is accomplished by highlighting the current performance gaps and then constantly emphasising to the employees how future opportunities and rewards may be obtained by closing the gaps. Secondly, building the guiding team is accomplished by finding the right people and clarifying the programme goals and critical success factors. This is followed by ensuring that the correct vision is in place, as this paints a clear picture of the future proposed state (Kotter, 2007). The first three steps can be argued as creating a climate for change (Kotter, 2007).

The following three steps exhibit behaviours of engaging and enabling the whole organisation. This is accomplished by the use of effective communication. Employee buy-in of the strategic direction is critical. Kotter (2007) suggests that organisations should use metaphors and analogies to describe the intended proposed strategic direction. The leadership of the organisation must then ensure that employees are empowered to produce the action needed and in the sixth step, Kotter (2007) advises that the organisation needs to create quick and easily demonstrable wins to celebrate these actions.

The last two steps (seven and eight) consist of methods to sustain the change. That is, not letting up through continuous leadership involvement and Making it stick by tying results to new behaviours (Kotter, 2007).

While Lewin (1951) and Kotter (2007) offer the organisation a framework for managing change, it is the individual phases of the change however, that is of significance to this paper; and an understanding of what is happening at the individual level. The factors of the Kotter (2007) and Lewin (1951), models are notably organisationally focussed.

An example of an individual based model, focussing more on psychological nature of the change at the individual level, is the Transtheoretical model (TTM) (Levesque et al., 2008). The TTM's central construct argues that there are five sequential stages that an individual will go through in the change process. The TTM stages begin with a precontemplation stage, in this stage the individual is not aware of the change, the second stage constitutes an awareness and serious thought about the change, by the individual (Levesque et al., 2008). The third stage of the TTM is constitutes a preparation stage, which is followed by an action stage (Levesque et al., 2008). The fifth and final TTM stage involves individual change until the desired state is accomplished (Levesque et al., 2008).

Elizabeth Kubler-Ross's (1969) model for change is also focused on the individual element of change and was initially designed to address the personal grieving process of people in relation to terminal illness and death. The phases include: Denial "This can't be happening", then Anger: "I have had enough of this", then Bargaining: "I will do a certain thing for something in exchange", then Depression: "I cannot cope", and finally Acceptance: "I can make this part of my daily life" (Kubler-Ross, 1969).

Another perspective is offered by Bridges (2003) who argues that the individual psychological process people go through to come to terms with a new situation or change is transitional by nature. The first phase of Bridges (2003) model argues that the initial transitional process is a "letting go" phase, which suggests that new beginnings cannot start without ending of the past. Thereafter, the transition to the "neutral zone" encompasses a state where neither the change nor the past is thought to work or make sense to the individual (Bridges, 2003). The individual makes the final transition through an emotional commitment, this phase being called the "new beginning" (Bridges, 2003).

In context of the above mentioned change models, this paper's primary focus however is on the initial stages of change related to individual readiness for change. In Lewin's (1951) terms, this is the unfreezing stage while for Bridges (2003) it is about letting go. It corresponds to the intention behind Kotter's (2007) first three change management steps of creating a climate for change, namely of creating a sense of urgency, building a coalition for change and creating a vision of change.

According to Armenakis and Harris (2009: 681), change readiness is defined as "the cognitive precursor of the behaviours of resistance to or support for organizational change" or as it is later described by the same authors as a transformation of individual cognitions (Armenakis, Harris & Mossholder, 1993).

The readiness framework conceptualised by Armenakis et al. (1993) is a very popular framework for examining the constituents of readiness and identifies five components, namely Discrepancy, Efficacy, Appropriateness, Principal Support and Personal Valence. In the Discrepancy component the question that is addressed is: "Is the change really necessary?, Once answered, Efficacy becomes the focus. That is: "Does the organisation have the capability to effect the change successfully?". Appropriateness follows: "Is this particular change really needed?". If the change is

seen to be appropriate then Principal Support is of concern: "Will leaders be committed to the change?". Finally, from the perspective Personal Valence, the individual asks the question: "How can I benefit from the change?".

While the framework proposed by Armenakis et al. (1993) could have been appropriate for this study, it must be noted that all change initiatives within the particular organisation where this research was carried out are managed as a rule, according to the ADKAR (Hiatt, 2006) processes, methodologies and instruments and therefore the researcher was obliged to use this change model.

Like the Armenakis et al. (1993) model, the ADKAR model is a sequentially based model and is an acronym for the five sequential steps that an individual needs to go through in order for any change to be successful (Hiatt, 2006); these steps are Awareness, Desire, Knowledge, Ability and Reinforcement. The ADKAR model is designed to assess where employees may be stuck in the change process, or are having trouble with the change, and then to manage the process from there (Hiatt, 2006). It also stipulates that change will not be successful unless all of the factors within the ADKAR process have been successfully completed. The ADKAR change steps are as follows:

- A-** Awareness of the need for change: The ADKAR model proposes that understanding why change is necessary is the first key aspect of successful change. Hiatt (2006) argues that this step in the ADKAR change model explains the reasoning and thought processes that underlies a required change. The awareness stage incorporates the understanding of both macro and micro, external and internal organisational change push factors that have created the need for change. These change push factors have been well enough articulated to ensure that the change participants are therefore thoroughly aware of the need for change.
- D-** Desire to participate in and support the change: The desire to change concerns an understanding on the part of the change participant on how the proposed change is going to impact him/her (Hiatt, 2006). After he/she is aware for the need for change, and the understanding of the impact of the change a desire to support the change is developed.
- K-** Knowledge on how to change: The third element of the change readiness assessment model relates to the change participants knowledge about the change. More specifically, it is the understanding by the change participant as to what knowledge is required by him/her due to the change. This knowledge is broken up into two subcategories namely, how to change (i.e. what is required during the transition) and how to perform once the change is implemented (Hiatt, 2006). The change participant moves from a state of awareness of the change to the desire to change and now feels knowledgeable enough to make or deal with the change.
- A-** Ability to perform during and after the change: Hiatt (2006) argues that it is not just the theoretical knowledge of the change that needs to be assessed but the ability of the change participant to perform the change. The change participant may have an understanding of the knowledge required but he/she will need to also have the skill and aptitude to operate in the change environment.
- R-** Reinforcement to sustain the change: The final stage of the change readiness assessment is an understanding by the change participants as to whether the change proposed is sustainable (Hiatt, 2006). The change participant needs to be assured that appropriate changes that are proposed, such as changes to the processes, resources, procedure and technology of the organisation, are adequate to keep the organisation in the new changed state for the foreseeable future.

The notion of a sequential process of change acceptance, presupposes that when measuring change readiness, researchers will find a trend of declining scores for each subsequent stage of the change. In the ADKAR model Hiatt (2006) suggests that not only is there sequential change acceptance, but the process is cumulative (i.e. Desire cannot be attained before Awareness). Therefore, if one stage is a pre-condition for the next one, then it can be assumed that the preceding score should set a ceiling for the subsequent score. This paper investigated whether responses to a questionnaire based on the ADKAR model followed the pattern of change as a sequentially phased change process.

## RESEARCH METHODOLOGY

The research was conducted in an organisation which was poised for significant change and which uses the ADKAR (Hiatt, 2006) model of change as its preferred model. A total of 126 employees spread nationally over seven different geographical locations, responded to the questionnaire. The instrument used was a modified version of a 20-item change readiness questionnaire derived from the ADKAR model (Hiatt, 2006), utilising a five-point Likert scale, with responses ranging from "Strongly Disagree" to "Strongly Agree". The ADKAR change readiness questions instructed the respondent to select 1 if they strongly disagreed with the statement; 2 if they disagreed; 3 if they somewhat agreed; 4 if they agreed and 5 if they strongly agreed with the statement. There was no neutral mid-point and the scale was weighted toward the agreement side. Respondents were therefore forced to make a choice between agree or disagree. The change readiness questions were preceded by six biographic questions. There were four questions for each of the ADKAR change readiness factors.

The organisation has utilised the ADKAR instrument for empirical research before, albeit to examine the readiness of change agents in relation to readiness of general employees (Van der Linde-De Klerk, 2009). Van der Linde-De Klerk's (2009) empirical study showed the ADKAR questionnaire to be relevant for the organisational environment and results produced Cronbach Alpha reliability coefficient results of: Awareness = 0.91, Desire = 0.88, Knowledge = 0.47, Ability = 0.78, and Reinforcement = 0.812, with a coefficient of 0.77 for the total data set. These results were deemed to be acceptable, given the sample size.

The total population for this study consisted of 407 Contact Centre employees situated at seven Contact Centre sites. All of the Contact Centre employees were invited to take part in the survey and included from the lowest level employees to supervisory levels within the Contact Centre. A total of 126 usable questionnaires were returned, representing a 31% response rate. The response rates per Contact Centre are reflected in Table 1 and seem to suggest that there is no pattern evident in terms of which Centres responded and which did not. The information gathered was stored in a data base repository (Turban, King, Viehland & Lee, 2006) which was then extracted and analysed in MS Excel (version 2010) and Statistica (V10).

All of the employees in the sample group had a minimum educational background of at least grade 12, with the vast majority having a tertiary qualification and all employees in the sample could read, speak and write English fluently. Other biographic characteristics of the sample are reflected in Table 2.



**TABLE 1: RESPONSE RATE BY CONTACT CENTRE**

Site	Questionnaires Sent	Percentage of Total	Responses	Percentage of Total	Response Rate
Belville	43	10.6%	15	11.9%	34.9%
East London	60	14.7%	37	29.4%	61.7%
Braamfontein	72	17.7%	13	10.3%	18.1%
Polokwane	49	12.0%	10	7.9%	20.4%
Witbank	65	16.0%	13	10.3%	20.0%
Bloemfontein	49	12.0%	14	11.1%	28.6%
Durban	69	17.0%	24	19.0%	34.8%
<b>Total</b>	<b>407</b>	<b>100.0%</b>	<b>126</b>	<b>100.0%</b>	<b>31.0%</b>

**TABLE 2: BIOGRAPHICAL RESULTS**

Age Profile	Responses	Percentage of Total	Race Profile	Responses	Percentage of Total
20 – 29	22	17.5%	White	21	16.7%
30 – 39	61	48.4%	African	68	54.0%
40 – 49	26	20.6%	Coloured	22	17.5%
Over 50	17	13.5%	Indian	15	11.9%
<b>Total</b>	<b>126</b>	<b>100.0%</b>	<b>Total</b>	<b>126</b>	<b>100.0%</b>
Years' Experience	Responses	Percentage of Total	Gender Profile	Responses	Percentage of Total
< 2 Years	8	6.3%	Male	42	33.3%
2 - 5 Years	39	31.0%	Female	84	66.7%
6 - 10 Years	33	26.2%	Total	<b>126</b>	<b>100.0%</b>
> 10 Years	46	36.5%			
<b>Total</b>	<b>126</b>	<b>100.0%</b>			

## RESULTS

### Instrument Reliability

The Cronbach's Alpha coefficients were calculated to determine the reliability of the results and are tabled in Table 3. George and Mallery (2003) argue that any Cronbach's Alpha score that is under 0.7 is questionable and below score under 0.5 are poor, while scores above 0.9 are described as excellent. All scores were above the 0.7 threshold and Awareness and Ability can be described as excellent reliability results. The very high overall Cronbach's Alpha score of 0.94 is however a concern. The high score may suggest that there may be concerns about the construct validity of the factors (Babbie, 2011).

**TABLE 3: CRONBACH'S ALPHARELIABILITY RESULTS**

ADKAR Element	Cronbach Alpha Scores
Awareness	0.9591
Desire	0.8930
Knowledge	0.7737
Ability	0.9375
Reinforcement	0.7940
<b>All</b>	<b>0.9398</b>

(Source: ADKAR assessment, calculator: University of Connecticut (2012))

## Hypothesis Testing

The hypotheses proposing a sequentially phased change process were tested. The results are displayed in Table 4 and did not show factor scores to be significantly lower than the preceding factor, tested at a confidence level of 0.05. The test showed that  $\mu_{\text{Awareness}} < \mu_{\text{Desire}}$  ( $t=0.13$ ,  $df=250$ ,  $p=0.446$ );  $\mu_{\text{Desire}} < \mu_{\text{Knowledge}}$  ( $t=1.54$ ,  $df=250$ ,  $p=0.062$ );  $\mu_{\text{Knowledge}} < \mu_{\text{Ability}}$  ( $t=-2.36$ ,  $df=250$ ,  $p=0.009$ );  $\mu_{\text{Ability}} < \mu_{\text{Reinforcement}}$  ( $t=1.15$ ,  $df=250$ ,  $p=0.126$ ). Consequently, all the results, fail to reject the null hypothesis concluding that all the ADKAR factor scores are not equal or less than their preceding factor scores. The results of the hypothesis  $\mu_{\text{Knowledge}} < \mu_{\text{Ability}}$  needs particular mention. Although the difference in scores was significant, the mean score for Knowledge was not less than or equal to that for Ability. Therefore, given the one-tailed nature of the test the null hypothesis could not be rejected.

**TABLE 4: RESULTS OF T-TEST: TWO-SAMPLE ASSUMING EQUAL VARIANCES**

	A	D	K	A	R
Mean	3.678571	3.65873	3.456349	3.765873	3.613095
Median	4	3.75	3.5	3.75	3.75
Mode	5	5	4	5	3.75
Standard Deviation	1.241715	1.088854	0.992512	1.088001	1.021571
Sample Variance	1.541857	1.185603	0.985079	1.183746	1.043607
Kurtosis	-0.35514	-0.24772	-0.37771	-0.31955	-0.38699
Skewness	-0.87651	-0.73131	-0.45955	-0.76086	-0.60228
Range	4	4	4	4	4
Minimum	1	1	1	1	1
Maximum	5	5	5	5	5
Sum	463.5	461	435.5	474.5	455.25
Count	126	126	126	126	126

	A<D	D<K	K<A	A<R
Observations	126	126	126	126
Pooled Variance	1.36373	1.085341	1.084413	1.113677
Hypothesized Mean Difference	0	0	0	0
df	250	250	250	250
t Stat	0.134858	0.541902	-2.35921	1.149082
P(T<=t) one-tail	0.446416	0.062181	0.009542	0.12581
t Critical one-tail	1.650971	1.650971	1.650971	1.650971
P(T<=t) two-tail	0.892833	0.124362	0.019083	0.25162
t Critical two-tail	1.969498	1.969498	1.969498	1.969498

(Source: The Organisation's ADKAR assessment: Ms Excel (2010))

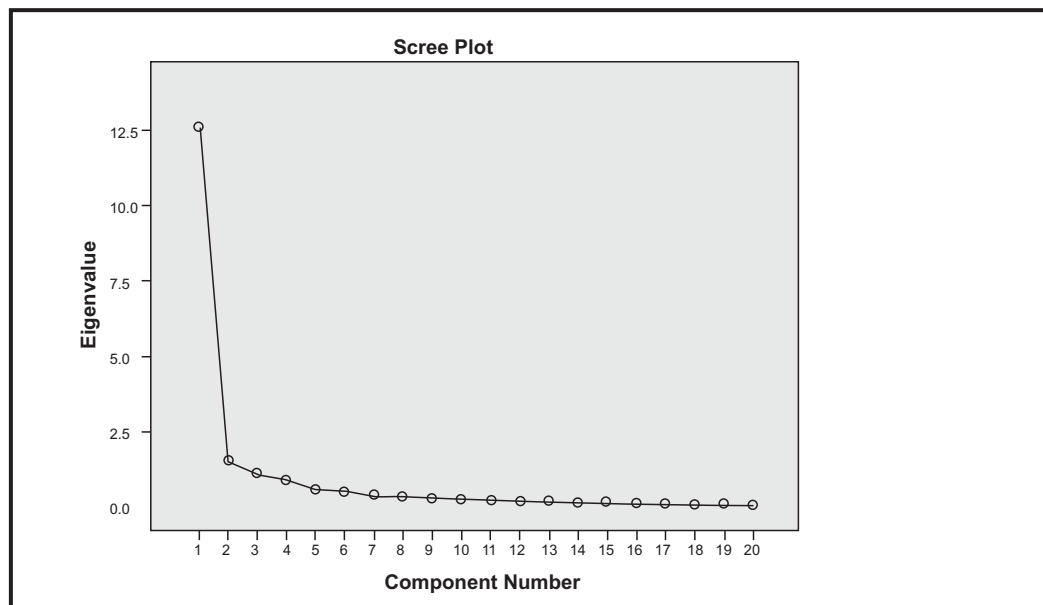
Not only did the factor scores (i.e. Awareness, Desire, Knowledge, Ability and Reinforcement) not get significantly smaller per factor, but as illustrated in Table 6, these factors were also highly correlated, which does suggests the possibility of insufficient discriminant validity. A correlation matrix is required in order analyse the discriminant validity of the five factors, to see if they are sufficiently independent from each other (Trochim, 2006). This is displayed in Table 6 and suggests a lack of discriminant validity.

**TABLE 5: CORRELATION OF ADKAR FACTORS**

	A	D	K	A	R
A	1.0000				
D	0.7625 P= 3.32E-25	1.0000			
K	0.7979 P= 4.8968E-29	0.7500 P= 5.2580E-24	1.0000		
A	0.7832 P= 2.3142E-27	0.7690 P= 7.4783E-26	0.8387 P= 1.5803E-34	1.0000	
R	0.7372 P= 7.4315E-23	0.7591 P= 7.0984E-25	0.6174 P= 1.3684E-14	0.8018 P= 1.663E-29	1.0000

(Source: ADKAR results, Excel (Version, 2010))

Consequently, factor analysis was conducted to explore the factor structure of the results, utilising the Varimax rotation method. As illustrated in the Scree Plot in Figure 1, the factor analysis identified three significant factors and not five. As illustrated in Table 7, most of the items loaded on the first factor. These three factors were named Readiness, Opportunity Realisation and Uncertainty.



**FIGURE 1: SCREE PLOT**

**TABLE 6: FACTOR ROTATION**

Rotated Component Matrix*			
	Component		
	1	2	3
A1	0.884	0.202	
A2	0.872	0.235	
A3	0.858	0.251	
A4	0.848	0.299	
D1	0.672	0.428	0.177
D2	0.216	0.88	
D3	0.732	0.527	0.104
D4	0.416	0.813	
K1	0.754	0.373	0.112
K2	0.798	0.433	
K3	0.214		-0.816
K4	0.778	0.385	
A_1	0.809	0.325	0.102
A_2	0.742	0.474	
A_3	0.663	0.468	0.248
A_4	0.756	0.372	0.214
R1	0.385	0.655	
R2	0.76	0.307	0.3
R3	0.375		0.764
R4	0.504	0.583	0.427

(Source: SSP Statistica)

The three factors showed significant differences in mean scores, Uncertainty ( $\mu=2.68$ ) Readiness ( $\mu=3.73$ ) and Opportunity Realisation ( $\mu=3.57$ ) ( $p = 9.33E-15$  at the 5% significance level). Readiness and Opportunity Realisation were highly positively correlated ( $r = 0.77$ ), while the Uncertainty factor displayed modest negative correlations with the other two factors (0.2, Readiness and 0.16, Opportunity Realisation).

## Discussion

The results of the research did not show a declining pattern for subsequent ADKAR factors, as would be expected from a sequentially phased change process. Furthermore, there were generally no significant differences in the ADKAR factor scores (i.e. Awareness, Desire, Knowledge, Ability and Reinforcement) and the factors were highly correlated. Consequently, factor analysis was conducted to explore the factor structure of the questionnaire. The factor analysis identified three significant factors and not five, with most items loading on the first factor. These three factors were named Readiness, Opportunity Realisation and Uncertainty, and showed significant differences in mean scores. The fact that most of the items were loaded on the Readiness factor provides further support for the rejection of a sequential model.

Readiness and Opportunity Realisation were highly positively correlated, while the Uncertainty factor displayed modest negative correlations with the other two factors. These results further suggest that concerns that individuals have about the personal potential value or impact of the change may be a separate consideration to an individual's overall assessment of change readiness. It also suggests that even if there is a high level of readiness, an element of uncertainty remains. It is further suggested that the element of uncertainty may act as a mediator within the amended change model, mediating the causal effect, either in an amplifying or reducing manner. The study therefore proposes that Readiness and Opportunity Realisation are causally linked, (i.e. Readiness leads to Opportunity Realisation), while it is speculated that the Uncertainty factor may act as the mediating variable.

Further research investigating the personal change process associated with organisational change is recommended. Moreover, it is suggested that sequentially staged change models, in particular, are tested for discriminant validity to ensure that sufficiently independent factors are present. While acknowledging the limitations of the study, the results of this paper do start to call into question the validity of the step-wise conceptualisation of personal change models like ADKAR. Further research is therefore needed into the general theory of sequentially designed change models that propose that antecedent factors are a prerequisite for the success of the following factor.

With regards to this particular research, which was focussed on the initial stage of the change, it is suggested that later stages of the change should also be researched in order to track whether similar findings are found.



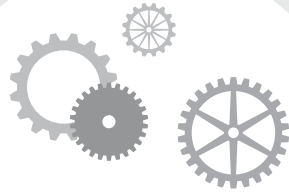
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# KEY SOFT SUCCESS FACTORS FOR CONTINUOUS IMPROVEMENT IMPLEMENTATION AND EMPLOYEE ATTITUDES IN A MANUFACTURING COMPANY

31



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## ABSTRACT

Continuous Improvement (CI) has been suggested as a tool to strive for excellence in organisations. The success rates of lean implementations are estimated at less than 10%. Many companies worldwide are implementing CI programs with very poor success rates. Companies focusing on both the soft-side of lean (the culture) and hard-side (tools and techniques) show greater success in overall lean transformations. The aim of this study was therefore to determine the relationship between (and the impact of) key soft success factors of CI implementation and (on) employee attitudes such as job satisfaction, employee commitment, subjective experiences of work success and intentions to quit. These factors have been identified by researchers as key variables in the success of continuous improvement programs. A quantitative approach using cross-sectional design was followed with a convenience sample (N=155) to reach the objectives of this study. The results indicated that key soft success factors for CI implementation were positively related to one another and to employee attitudes such as job satisfaction, employee commitment and subjective experiences of work success and negatively related to intentions to quit. The regression analysis revealed that key soft success factors for CI implementation explained 42%, 57%, 8% and 27% of job satisfaction, employee commitment, intentions to quit and work success respectively.

## KEYWORDS

Leadership, Job security, Training and development, Communication, Employee attitudes

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## INTRODUCTION

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Organisations need to change the manner in which they create and deliver value in their offerings, otherwise failure is inevitable. The business environment of today is exposed to dynamic continuous changes and greater than ever competition. In order for organisations to succeed it has become imperative for organisations to look for every opportunity to improve their business results. Progressive companies are constantly in search of business excellence. Shukla (1993: 80) describes excellence as a concept of surpassing the standard and directing a great deal of energy into achieving continuous improvement, and in doing so, achieve new heights on a continuous basis that form the basis for excellence. Continuous Improvement (CI) has been suggested as a tool to strive for excellence in organisations. CI has been defined as “a culture of sustained improvement targeting the elimination of waste in all systems and processes of an organisation” (Bhuiyan & Baghel, 2005: 761) and as “any methodology or program that continually strives to improve any and all processes through an increase in quality, delivery, productivity or customer satisfaction and a decrease in lead time, cycle time, cost or scrap” (Sim & Rogers, 2009: 38). CI can therefore be perceived as a methodology that identifies all kinds of wastes in an organisation and applies continuous improvement philosophy and principles to reduce and prevent such wastes.

The success rates of lean implementations are estimated at less than 10% (Bhasin, 2012: 403; Oakland & Tanner, 2007: 572). One of the key determinants of CI programs’ success is organisational culture (Detert, Schroeder & Mauriel, 2000; Kujala & Lilrank, 2004; Prajogo & McDermott, 2005). Companies focusing on both the soft-side of lean (the culture) and hard-side (tools and techniques) show greater success in overall lean transformations (Badurdeen, Wijekoon & Marksberry, 2011: 47). CI programs have too much focus on training people in tools and techniques but too little focus on understanding the human aspects like culture (Dahlggaard-Park & Dahlggaard, 2006: 263). Organisational culture is defined as “a general pattern of mindsets, beliefs and values that members of the organisation share in common, and which shape the behaviours, practices and artefacts of the organisation which are easily observable” (Prajogo & McDermott, 2005: 1101). Bhasin (2012) conducted research on 68 manufacturing companies in the United Kingdom and found that culture, employee attitude and resistance to change were the key obstacles to achieving successful CI implementation.

<b>Research objectives</b>	
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Many companies worldwide are implementing CI programs with very poor success rates. Therefore the aim of this study was to determine the relationship between (and the impact of) key soft success factors of CI implementation such as leadership, job security, training and development, and communication and (on) employee attitudes such as job satisfaction, employee commitment, subjective experiences of work success and intentions to quit in a manufacturing company in the Vanderbijlpark area. These factors have been identified by researchers as key variables in the success of continuous improvement programs.

## THEORETICAL FRAMEWORK

CI as a concept gained leverage as organisations recognised the need to improve on a larger scale. This need led to the development of a number of CI methodologies which were based on the basic concept of quality and continuous improvement to improve efficiencies, reduce waste, and improve

quality (Bhuiyan & Bhagel, 2005: 762). Lean Manufacturing (LM) and Six Sigma are amongst today's best known CI methodologies and modern CI programs originating from the Total Quality Management (TQM) movement (Bhuiyan & Bhagel, 2005). Ultimately, the objective of LM, TQM and Six Sigma are very similar; they all have the same origin, and aim at minimising waste through improvements whilst improving customer satisfaction and financial results (Anderson, Eriksson & Tortensson, 2006: 282). The critical link between these different quality management concepts is CI.

The popularity of these methodologies has been made famous by a few, very successful companies like Toyota, Xerox and Motorola. TQM, Six Sigma and LM programs (CI programs) have been widely adopted by firms in order to compete in a challenging global environment. There is little doubt that these programs have the potential to create a phenomenal success within a business. James Womack, Daniel Jones and Daniel Roos, the authors of "The machine that changed the world" are attributed to coining the term "Lean Manufacturing". Womack and Jones (1996: 10) describe Lean Manufacturing as the continuous application of five principles namely, define value as perceived by the customer, identify the value stream, make the value stream flow, flow at the pull of the customer and strive for perfection. Antony (2004: 303) describes Six Sigma as "the implementation of a measurement-based strategy that focuses on process improvement and variation reduction". Klefsjo, Bergquist and Garvare (2008: 121) define TQM as a "continuously evolving management system consisting of core values, methodologies and tools, the aim of which is to increase external and internal customer satisfaction with a reduced amount of resources".

Motwani (2001) found seven critical success factors for TQM implementation after examining six empirical studies. He recommended that attention should be given mostly to these five constructs: top management commitment, employee training and empowerment, quality measurement and benchmarking, process management, and customer involvement and satisfaction. According to Tsang and Antony (2001), 11 critical success factors for the successful implementation of TQM in the UK service sector are: customer focus, continuous improvement, teamwork and involvement, top management commitment and recognition, training and development, quality systems and policies, supervisory leadership, communication within the company, supplier relationship and supplier management, measurement and feedback, and cultural change in employees' behaviours and attitudes. The key soft success factors variables for CI implementation were identified by Sim and Rogers (2009) that should be considered when an organisation is pursuing a CI initiative, included leadership, business reasons for adopting CI, training, communication and job security.

Bhat and Rajashekhar (2009) identified the barriers to TQM implementation to help create awareness about the same among the managers of the Indian industries. The findings of this survey suggest that the most important TQM barriers in the Indian industry are no benchmarking of other companies' practices and employees are resistant to change. Factor analysis of the 21 potential barriers to TQM implementation revealed the following five underlying constructs: lack of customer orientation, lack of planning for quality, lack of total involvement, lack of management commitment, and lack of resources. Nassir Shaari (2010) investigated the barriers to implementing TQM the Japanese way. It was observed that lack of employees' understanding in the TQM concept is being reasoned out as the highest cause for the difficulties in implementing a TQM approach. Agus and Hassan (2011) examined the importance of incorporating TQM in the Malaysian manufacturing industry. The results indicate that retail manufacturing companies should pay greater attention to quality measurement aspects of TQM and a greater degree of management support for TQM initiatives to ensure strategic sustainable competitive advantage. We focus in this study on the success factors identified by Sim and Rogers (2009) and employee attitudes.

## OPERATIONALISATION OF VARIABLES

Figure 1 depicts the hypothesized model. It is hypothesized key soft success factors of CI implementation such as leadership, business reasons for implementation, training and development, communication and job security as independent variables have significant relationships with and impact on a latent variable called employee attitudes such as job satisfaction, employee commitment, subjective experiences of work success and intentions to quit as dependent variables. The inclusion of the selected independent variables is justified by theory (Sim & Rogers, 2009) in literature that will be the focus of this section.

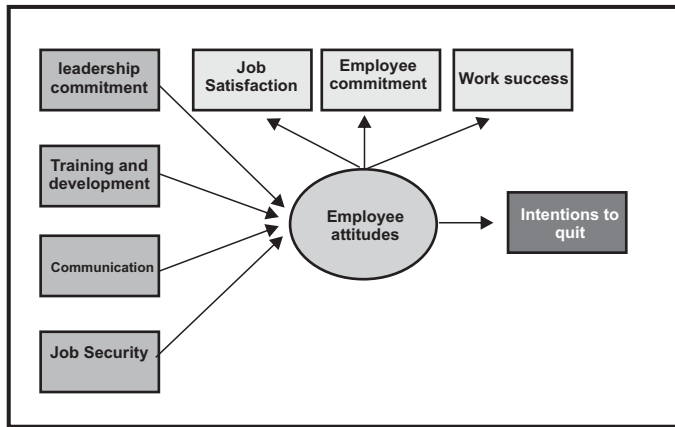


FIGURE 1: HYPOTHESIZED MODEL

### Dependent variable(s): Employee Attitude

“Manage the Culture Effectively and It will Manage Employee Behaviour and Attitudes” (Deming as cited by Gander, 2009: 108). Karia and Asaari (2003: 1) advocate that organisations that have adopted quality management practices have experienced an “overall improvement in organisation performance such as attitude, commitment, and effectiveness”. The importance of a quality culture is “enhanced through its impact on employee morale and work attitudes” (Boon, Bakar, Arumugam, Vellapan & Loke, 2007: 67). Given the findings of Boon et al. (2007) and Karia and Asaari (2003), we were interested in the role of key soft factors for CI implementation in employee attitudes such as job satisfaction, employee commitment, subjective experiences of work success and intentions to quit.

### Job satisfaction

Job satisfaction refers to a “positive emotional status” of an employee towards his or her job (Karia & Asaari, 2003: 3) while Locke (1976) defines it as “an emotional reaction that results from the perception that one's job fulfils or allows the fulfilment of one's important job values, provided that it is to the degree that those values are congruent with one's needs”. Job satisfaction is an emotion of how one feels towards one's job, and can be identified as a feeling of being satisfied or dissatisfied with one's job. Karia and Asaaria (2003) in their study on the impact of TQM practices on work related attitudes found that CI practices lead to positive impact on job satisfaction. Their criteria for CI variables that were in common with this study included leadership, training, customer focus and data and information. Boon et al. (2007: 62) found in their study on TQM and that teamwork,

organisational trust, organisational culture and customer focus were positively related to employee job satisfaction, where teamwork was a significant quality practice. Boeselie and Van der Wiele (2001) using a survey of 2300 records examined the perceptions of employees on CI policies against overall job satisfaction and found that there was a positive perception of employees on CI values that lead to high levels of job satisfaction. The common variables used in this research study compared to Boeselie and Van der Wiele (2001) were shared information (communication) and leadership. These studies showed that there is a relationship between key soft success factors of CI implementation that impact job satisfaction.

### **Employee commitment**

Employee commitment is defined as “an affective reaction of an individual to the whole organisation and the degree of attachment and loyalty towards the organisation” (Karia & Asaari, 2003: 3). Boon, Safa and Arumugam (2006: 38) concur with the definition when they state that “employee commitment is an emotional attachment to an organisation”. Employees who are committed to their organisations are prone to continue working for the organisation and are satisfied with their jobs. In addition these workers tend to exert more effort on behalf of the organisation, and work towards its success and are likely to be better performers than the uncommitted employees (Chughtai & Zafar, 2006: 46). Karia and Asaari (2006) found that in their study on quality practices and employee attitudes that training and education, empowerment and teamwork, continuous improvement and problem solving lead to a positive impact on employee commitment. The study of Boon et al. (2006) on TQM practices relating to people oriented aspects and employee commitment found that collaboration, communication, customer focus and employee involvement were found to be positively associated with employee commitment and concluded that collaboration, communication and employee involvement were decisive factors for employee commitment.

### **Subjective experiences of work success**

Judge, Cable, Boudreau and Bretz (1994: 3) define career success as “the positive psychological or work-related outcomes or achievements one has accumulated as a result of one's work experiences”. This opinion is confirmed by Thomas, Eby, Sorenson and Feldman (2005: 367) who argued that work success is the “accumulative positive work and psychological outcomes resulting from one's work experience”. Work success therefore represents “a feeling of pride and personal accomplishment that comes from knowing that one has done one's personal best” (Eby, Butts & Lockwood, 2003). The human capital theory suggests that individuals who invest the most in human capital attributes such as education, training, and experience are expected to show a higher level of work performance, and subsequently obtain higher organisational rewards (Ballout, 2007: 743). Thomas et al. (2005) found in their research a positive relationship between supervisor support, training and development and organisational resources with career success.

### **Intentions to quit**

Van den Berg and Nelson (1999: 1315) define intention to leave as an 'individual's own estimated probability (subjective) that they are permanently leaving the organisation at some point in the near future’. Ghapanchi and Aurum (2011) cite personal factors such as tenure, age, education and gender, organisational factors such as remuneration and benefit, human resource aspects like training and fair practices and organisational culture aspects of teamwork, job related factors such

as role conflict, role ambiguity and autonomy and psychological factors such as job satisfaction, organisational commitment and perceived job security as the most common factors that influence intentions to quit. Karia and Asaari (2003: 1) ascertain that quality practices can retain employees and gain their loyalty. In addition they affirm that the successful implementation of quality practices is likely to motivate employees to perform and remain within the organisation. Boselie and Van der Wiele (2001) found that a positive perception of employees on TQM concepts could lead to lower intention to leave. Yue, Boon and Keung (2011: 6632) found that CI soft practices such as customer focus, organisational trust, communication, employee involvement and empowerment played a significant role in positively improving employees' tendency to remain and are therefore negatively associated with turnover intentions. Based on the results of the mentioned studies, we hypothesized that there will be a significant relationship between key soft success factors of CI implementation and employees' attitudes such as intentions to leave the organisation.

### **Independent variable(s): Key soft success factors for CI implementation**

The key soft success factors variables for CI implementation were identified by Sim and Rogers (2009). These factors were confirmed as important soft organisational factors that should be considered when an organisation is pursuing a CI initiative, these include: leadership, training, communication and job security.

### **Leadership commitment**

Achanga, Shehab, Roy and Nelder (2006: 467) insist that strong leadership traits are required in order to permeate the vision and strategy across the organisational structure. Good leadership ultimately fosters effective skills and knowledge enhancement amongst its workforce. Change implementation must come from top management and spread to other levels. During implementation management is required to support and be involved in improvement initiatives and foster examples of teamwork and good communication (Nordin, Deros, & Wahab, 2008). Senior management plays an important and challenging role as a change agent during change implementation programs. Juran (as quoted by Kujalo, 2002: 95) cites, "It is now clear that upper managers have a vital role to play in the quality planning process. This role requires extensive personal participation. It cannot be delegated, since a major change in company culture is needed." Nordin et al. (2008) and Kujalo (2002: 94) both illuminate that successful lean manufacturing implementation has "a significant relationship with transformational and transactional leadership dimensions". Wöehl (2011: 58) concluded that both transformational leadership and transactional leadership style are needed to implement LM. Transformational leaders need to "foster a culture of creative change and growth" which is required to create a culture conducive to continuous improvement. Transactional leaders are needed to "stabilise and standardise the improvements" implemented by LM. Wöehl (2011) explains this leads to "a proposal of coexistence of both leadership styles, such that one leadership style depends on the other".

### **Training and development**

People have to possess the necessary skills and competence levels to identify problems and provide solutions. In addition employees have to be supported by means of tools and guidance to allow them to participate and achieve expectations (De Jager, Minnie, De Jager, Welgemoed,



Bessant & Francis, 2004: 317). Training and development have been recognised as essential to the implementation of a continuous improvement environment. TQM cultural values assume that employees are “self-motivated and therefore need to be challenged rather than controlled”. In the TQM discipline, employees are expected to express themselves through good work and have an internal motivation for personal improvement (Kujalo, 2002: 94). Hackman and Wageman (1995: 22) argue that even though the tendency to learn is internally built in, people also require tools and coaching if they are to express that inclination in their work behaviour. They identified that TQM practices create good learning environments both by “minimising fear in the organisational culture and by providing members with a rich and diverse set of learning tools”. In addition they acknowledge that the cultural value of using data decision-making encourages workers to use “scientific methods to analyse and improve those processes”.

### **Communication**

Boon et al. (2006: 39) define organisational communication as the “process of sharing information with other individuals” and this transacts into a process where individuals and groups “aim to carry out organisational goals”. They advocate that communication can affect empowerment of employees and in turn affect employee commitment. Boon et al. (2006: 50) in their study confirmed communication to be a dominant quality practice that had a strong association with employee commitment. In addition, an important barrier of lean manufacturing success is due to inconsistent and unclear communication. Nordin et al. (2008) point out that communication is regarded as a key issue in the successful implementation of change programs particularly for “announcing, explaining or preparing people for change and the effects of the impending change”. Addition, Nordin et al. (2008) mention that miscommunication may lead to “misunderstanding of lean philosophy and concept, misapplication of lean tools and techniques, and confusion regarding the employee's roles and responsibilities”. Nordin, Deros and Wahab (2010: 379) emphasise that appropriate communication and training on the principles of Lean Manufacturing is important for employees to achieve a “greater level of understanding about the system and encourage motivation and innovation in the work culture and employee attitudes”.

### **Job security**

The Lean overarching principle is waste identification which results in the elimination of non-value adding activities. Wong, Wong and Ali (2009: 529) advise that resistance from employees might be due to the “fear factor” that they would lose their jobs if they find out that their jobs do not add value. Sim and Rogers (2009: 38) identified that employment in manufacturing has decreased in the US since 1990; incidentally this had coincided with the introduction of many CI programs. Wong et al. (2009) advocate that it is crucial that top management gives ample support of job security to the employees in order to obtain their “buy-in” by emphasising the potential benefits of Lean Manufacturing. Whilst many other factors like acquisitions and joint ventures have contributed to the drop in employment, many employees believe CI initiatives threaten their job security.

### **Mediation effects**

In addition, we also propose and test a mediating model with key success factors for CI implementation serve as antecedents, individually, employee attitudes such as job satisfaction, employee commitment and experiences of work success serve as mediators, individually, and

intentions to quit serve as outcome in a manufacturing company in the Vanderbijlpark area. We were also interested in whether employee attitudes such as job satisfaction, employee commitment and subjective experiences of work success mediated the relationship between leadership commitment, training and development, communication and job security on the one hand and intentions to quit on the other hand in a manufacturing company in the Vanderbijlpark area.

## RESEARCH METHODOLOGY

### Research approach

This study used the quantitative research approach to reach its objectives. A survey design using a cross-sectional design was used to gather data for this study. The reasons for selecting the quantitative research method was that it suited the purpose of this study as the research intends to explain, predict and test theory (Leedy & Ormrod, 2010). Other reasons for the use of surveys include that it is capable of retrieving information from large samples of the population, it requires minimal investment to develop and administer and surveys can also extract information about attitudes that are difficult to establish using observation techniques (Glasow, 2005: 2). Given the nature of the study regarding employee attitudes the survey method was regarded as the most appropriate tool to conduct this research.

### Research Procedure

In order to undertake the research for the study, permission had to be obtained from the Continuous Improvement manager, human resource manager and the general manager of the manufacturing company in the Vanderbijlpark area where the study was conducted. An e-mail requesting for permission was addressed to these parties, explaining the objectives of the research. The questionnaire was presented to the Continuous Improvement manager prior to distribution to gauge his insight, understanding, opinions and recommendation prior to distributing the final questionnaire. After permission was granted, the questionnaire was distributed electronically to the employees of the company who had access to e-mail via personal computers. The introductory e-mail message containing the questionnaire assured employees that responses would be treated anonymously and that it was a voluntary request. This was done in order to obtain more truthful responses as posing questions on attitude can be regarded as sensitive information. In addition formal survey administration arrangements were made with supervisors in order to administer the survey to shop floor employees without access to computers. During these sessions, employees were advised that it was voluntary and that their anonymity would be guaranteed.

### Sampling and respondents

Researchers generally draw conclusions about large groups by taking a sample. A sample is a part of the population selected to represent the population as a whole. The population of 313 employees consists of 89% male and 11% female while the convenient sample (N=155) represents 88% male and 12% female. Eight percent represented the age group between 18-25 years old, 36% the age group between 18-25 years old, 28% the age group between 36-50 years old and 28% of the respondents represented the age group greater than 50 years old. 76% were from a general level in the company, 12% were from a supervisory level, 7% of the respondents were from a middle management level and 5% represented top management in the company. Four percent of respondents indicated a primary school education level, 67% a secondary school education level, 18% of respondents had obtained a diploma, while 4% a degree and 7% had obtained a post graduate degree.

## Measuring instrument

A questionnaire was utilized to operationalize the variable. The questionnaire was structured into two sections, namely Section One – Demographics (gender, age, job level and qualifications) and Section Two – Soft key success continuous improvement factors and employee attitude. Section Two uses a five-point Likert scale to assess perceived importance: strongly disagree (1), disagree (2), neutral (3), agree (4) and strongly agree (5). The questionnaire measured 43 items in total.

The key success factors variables for CI implementation were used from a survey developed by (Sim & Rogers, 2009) to establish soft barriers to Lean Implementation. The key soft success factors variables for CI implementation consisted of four of the five dimensions containing four items per dimension and included dimensions of leadership commitment, training, communication and job security.

- **Leadership commitment.** This instrument measures the participants' perception of leadership's role and commitment in CI initiatives. An example of one of the items on this scale included, "Management ensures that CI is used to increase our company performance" ( $\alpha=0.86$ ).
- **Training and development.** This instrument measures the participant's perception of whether the tools and training they receive for CI are adequate to use at work to make improvements. An example of one of the items on this scale included, "The Company provides me adequate training to be productive during improvement events" ( $\alpha=0.86$ ).
- **Communication.** This instrument measures the participant's perception of whether communication is effective during implementation and whether the promotion of CI work done by employees is conveyed adequately. An example of one of the items on this scale included, "Our Company works hard at sharing best practices throughout all its divisions on CI" ( $\alpha=0.84$ ).
- **Job security.** This instrument measures the participant's perception of whether the company values employees and whether they believe that CI brings job security. An example of one of the items on this scale included, "CI has increased our job security" ( $\alpha=0.86$ ).

Employee attitude measures were developed specifically for this study to measure employee attitudes. This part included four dimensions containing: Job satisfaction (7 items), Employee commitment (5 items), Intentions to quit (3 items) and Work success (8 items).

**Job satisfaction.** This instrument measures the participant's satisfaction and fulfillment they receive from their jobs. An example of one of the items on this scale included "In most ways my job is close to my ideal" ( $\alpha=0.67$ ).

**Employee commitment.** This instrument measures the participant's commitment and loyalty they feel towards the company. An example of one of the items on this scale included "I feel that it is worthwhile to work hard for this organisation" ( $\alpha=0.86$ ).

**Intentions to quit.** This instrument measure the participant's feelings towards intentions to leave the company. An example of one of the items on this scale included "I often consider quitting my job" ( $\alpha=0.87$ ).

**Work success.** This instrument measures the participant's perception of his or her work success and reputation at work. An example of one of the items on this scale included "I do my work well enough to be complimented for it by my superiors" ( $\alpha=0.84$ ).

## Statistical analysis

The statistical analysis was carried out by means of the SPSS program. Exploratory factor analyses (EFA) were conducted on the measure to examine the dimensionality of the sub-scales. Cronbach alpha coefficients were determined to assess the reliability of the measuring instruments. Pearson product-moment correlation was used to identify the relationships between the variables. A cut-off point of 0.30 (medium effect) was set for the practical significance of correlation coefficients (Cohen, 1988). A step-wise multiple regression analysis was conducted to determine the proportion of variance in the dependent variables of (job satisfaction, employee commitment, intentions to quit and work success) that is predicted by the independent variables of (cultural values of Continuous Improvement and other key success factors for CI implementation). The effect size in the case of multiple regressions is given by the formula:  $f^2 = R^2/1-R^2$  (Steyn, 1999). The following parameters were used: 0.01 (small effect), 0.1 (medium effect) and 0.35 (large effect) were set for practical significance of  $f^2$  (Steyn, 1999). Structural Equation Modelling was performed using the AMOS 18 program to testing for mediating effects of job satisfaction, employee commitment and subjective experiences of work success in relation between key soft success factors of CI implementation and intentions to quit.

## RESULTS

Results of the study are presented in three sections namely, exploratory factor analyses, descriptive statistics and correlational analyses of all the measures used in the study, the regression analyses and lastly testing for mediating effects of job satisfaction, employee commitment and subjective experiences of work success in relation to key soft success factors of CI implementation and intentions to quit.

### Exploratory factor analyses

Exploratory factor analyses (EFA) were conducted on the 16 items of the key soft success factor measure developed by Sim and Rogers (2009) to examine the dimensionality of the sub-scales. Items with factor loadings higher than .30 were considered as sufficient descriptors of the latent variable. The scree plot and Eigenvalues of a Varimax rotation suggested that three factors could be extracted that explained 67.75% of the variance. However, 51.40% of the variance was explained by the first factor. In addition, all items loaded on the intended factors except for two according to the Rotated Component Matrix. Item 4, (Management follows through with issues on improvement events until they are completed), a Leadership commitment item loaded on three separate factors namely Leadership commitment (.352), Training and development (.568) and Job security (.391). Item 8, a Training and development item (CI training is provided with practical examples on how to best use CI tools) also loaded on three separate factors namely, Leadership commitment (.316), Training and development (.427) and Communication (.576). Based on the difficulty in defining these factors and in keeping with the intended factors as defined by Sim and Rogers (2009) it was decided to do separate EFA for each of the sub scales. Scree plots and a sharp decline in the Eigenvalues after the first factor indicated that all the sub scales used in this study were unidimensional.

The unidimensional subscales were labelled Leadership commitment (Factor loading range: .75 - .90; 71.14% Variance explained; Eigenvalues of the first two factors: 2.85 and .55), Training and development (Factor loading range: .79 - .87; 70.14% Variance explained; Eigenvalues of the first two factors: 2.80 and .50), Communication (Factor loading range: .77 - .88; 68.10% Variance

explained; Eigenvalues of the first two factors: 2.72 and .56), Job security (Factor loading range: .80 - .90; 70.60% Variance explained; Eigenvalues of the first two factors: 2.82 and .51), Job satisfaction (Factor loading range: .34 - .85; 50.23% Variance explained; Eigenvalues of the first two factors: 3.52 and .94), Organisational Commitment (Factor loading range: .78 - .83; 65.01% Variance explained; Eigenvalues of the 1st two factors: 3.25 and .62), Subjective experiences of Work Success (Factor loading range: .82 - .94; 79.22% Variance explained; Eigenvalues of the first two factors: 2.38 and .46) and Intentions to Quit (Factor loading range: .41 - .82; 50.35% Variance explained; Eigenvalues of the first two factors: 4.03 and 1.09).

## Descriptive and Correlation Analysis

This section focuses on descriptive statistics of and the correlations between the variables covered in the study. The descriptive statistics of and the correlations between the variables covered in the study are presented in Table 1 below.

**TABLE 1: DESCRIPTIVE STATISTICS ALPHA COEFFICIENTS AND CORRELATIONS BETWEEN VARIABLES**

	$\alpha$	<i>M</i>	<i>SD</i>	1	2	3	4	5	6	7
1. Leadership commitment	.86	3.82	.75	1	-	-	-	-	-	-
2. Training	.86	3.87	.69	.69**	1	-	-	-	-	-
3. Communication	.84	3.8	.69	.64**	.75**	1	-	-	-	-
4. Job security	.86	3.79	.85	.64**	.55**	.61**	1	-	-	-
5. Job satisfaction	.67	3.46	.84	.53**	.50**	.58**	.56**	1	-	-
6. Employee commitment	.86	3.79	.80	.65**	.59**	.64**	.67**	.74**	1	-
7. Work success	.84	4.28	.57	.47**	.43**	.44**	.43**	.42**	.52**	1
8. Intentions to quit	.87	2.58	1.15	-.26**	-.19*	-.12	-.17*	-.32**	-.34**	.03

\*\* . Correlation is significant at the 0.01 level / \* . Correlation is significant at the 0.05 level

Inspection of Table 1 shows that the five key soft successes for CI implementation variables had a mean value of 3.8 indicating that employees agree with these statements. The four work related outcome variables show mean values above the midpoint of the scale indicating that employees agree on these statements. The standard deviations on all variables except intentions to quit were below 1, indicating that most values were close to the mean. Inspection of Table 1 shows that most of the Cronbach Alpha coefficients obtained were higher than the guideline of  $\alpha > 0.70$  (Nunnally & Bernstein, 1994). Table 1 also summarises the correlation coefficients between the constructs measured in this study. Leadership commitment has a practically significant correlation (large effect size) with training, communication, job security, job satisfaction and employee commitment. Leadership commitment also has a statistically and practically significant correlation (medium effect size) with work success. Leadership commitment is also negatively statistically significantly related with intentions to quit. Training has a practically significant correlation (large effect size) with communication, job security, job satisfaction and employee commitment. Training is also statistically and practically significantly related (medium effect size) with success. In addition,

training is also negatively statistically significantly related with intentions with quit. Communication has a practically significant correlation (large effect size) with job satisfaction, job satisfaction, and employee commitment. Communication is also statistically and practically significantly related (medium effect size) with work success. Communication is also negatively statistically significantly related with intentions with quit. Job security has a practically significantly relation (large effect size) with job satisfaction and employee commitment. Job security is also statistically and practically significantly related (medium effect size) with work success. Job security is also negatively statistically significant related with intentions with quit. Job satisfaction has a practically significantly relation (large effect size) with employee commitment. Job satisfaction is also negatively statistically and practically significantly related (medium effect size) to intentions to quit and work success. Employee commitment has a practically significantly relation (large effect size) with work success. Employee commitment is also negatively statistically and practically significantly related (medium effect size) with intentions to quit.

## Regression Analyses

Next we focus on the regression analyses. Regression analyses with key soft success factors for CI as predictors of work attitudes are presented in Table 2 below.

**TABLE 2: REGRESSION ANALYSES WITH THE KEY SOFT SUCCESS FACTORS AS PREDICTORS OF EMPLOYEE ATTITUDES**

	Work attitude outcomes							
	Job Satisfaction		Employee Commitment		Work success		Intentions to Quit	
	$\beta$	t-value	$\beta$	t-value	$\beta$	t-value	$\beta$	t-value
<b>Leadership commitment</b>	.15	1.48	.21**	2.82	.22*	1.98	-.26*	-2.11
<b>Training / development</b>	.02	.17	.05	.55	.09	.79	-.10	-.76
<b>Communication</b>	.30**	2.87	.25**	2.76	.14	1.22	.15	1.11
<b>Job security</b>	.28**	3.20	.34**	4.48	.15	1.57	-.04	-.35
<b>R</b>	.65		.75		.52		.28	
<b>R<sup>2</sup></b>	.42		.57		.27		.08	
<b>Effect size (<math>f^2</math>)</b>	.21 (Medium)		.48 (Large)		.08 (Small)		.01 (Small)	

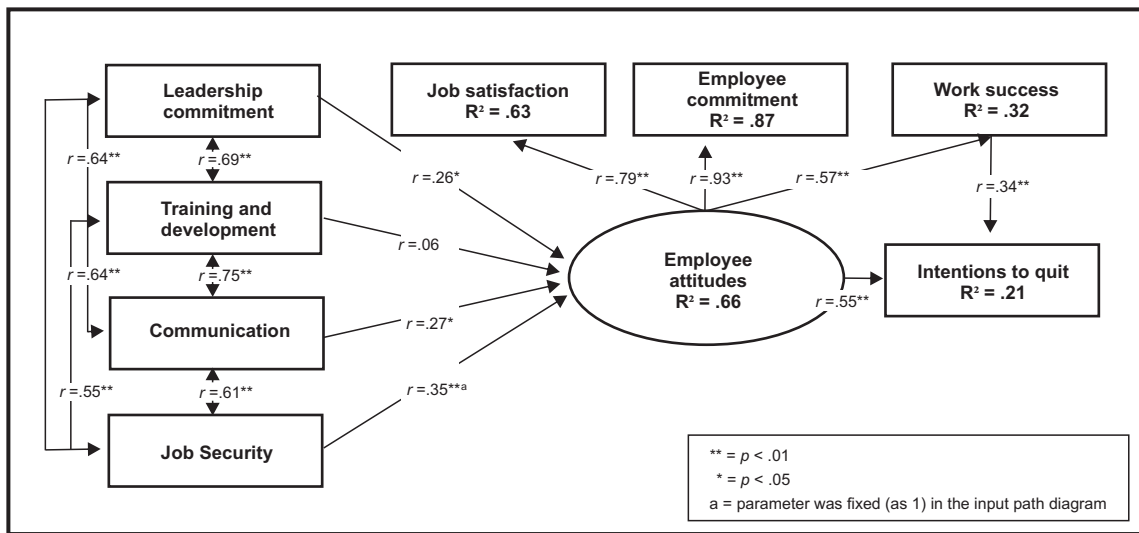
Table 2 summarises regression analyses with job satisfaction, employee commitment, work success and intentions with quit as outcomes with other key soft success factors for CI implementation variables as independent variables. Closer inspection of Table 2 revealed that other key soft success continuous improvement variables explained 42%, 57%, 27% and 8% of job satisfaction, employee commitment, work success and intentions to quit respectively. Job security ( $\beta=.28$ ;  $t=3.20$ ) and communication ( $\beta=.30$ ;  $t=2.87$ ) proved to be the only statistically significant predictors of job satisfaction. Leadership commitment ( $\beta=.21$ ;  $t=2.82$ ); Communication ( $\beta=.25$ ;  $t=2.76$ ) and Job security ( $\beta=.34$ ;  $t=4.48$ ) proved to be the only statistically significant predictors of



employee commitment. Leadership commitment ( $\beta=.22$ ;  $t=1.98$ ) proved to be the only statistically significant predictors of work success. Leadership commitment ( $\beta=-.26$ ;  $t=-2.11$ ) proved to be the only statistically significant predictor of intentions to quit. The effect sizes were calculated to determine how important the effect of the variable being measured is in reality, given that we have already found they are statistically significant. The effect sizes for job satisfaction ( $f^2 = 0.21$ ) indicated a medium effect, employee commitment ( $f^2 = 0.48$ ) indicated a large effect, work success ( $f^2 = 0.08$ ) indicated a medium effect and intentions to quit ( $f^2 = 0.01$ ) indicated a small effect size.

**The mediating effects of employee attitudes in the relation between key soft success factors and intentions to quit**

SEM was performed using AMOS (Arburkle18) to testing for mediating effects of job satisfaction, employee commitment and subjective experiences of work success in relation to key soft success factors of CI implementation and intentions to quit. The hypothesized model is a mediation model in which positive antecedent conditions and discrimination influence approach and avoidance coping styles, which in turn impact on work success and ill-health symptoms, respectively. We made a closer examination of the direct and indirect effects to evaluate their relative sizes. There is quite some literature on the testing of mediation effects (Baron & Kenny, 1986; Holmbeck, 1997; Hoyle & Kenny, 1999; Judd & Kenny, 1981; Kline, 1998; Preacher & Hayes, 2004). It has been found that the method proposed by Baron and Kenny (1986) can have a low statistical power and that joint significance tests involving the product of coefficients showed greater statistical power than other procedures, including the Baron and Kenny approach (MacKinnon, Lockwood, Hoffman, West & Sheets, 2002). The hypothesized mediation model is presented in Figure 2 and the results of the mediation analysis can be found in Table 3.



**FIGURE 2: THE RESULTS OF THE STRUCTURAL EQUATION MODEL ANALYSES**

We obtained a very good fit for our proposed hypothetical model (see Figure 2):  $\chi^2(13, N = 151) = 15.54$ ,  $p = 0.28$ ;  $\chi^2/df = 1.20$  (recommended  $\leq 3.00$ ), adjusted goodness of fit index (AGFI) = .93 (recommended  $\geq .90$ ), the Tucker Lewis index (TLI) = .99 (recommended  $\geq .90$ ), the comparative fit index (CFI) = 1.00 (recommended  $\geq .90$ ), and the root mean square error of approximation (RMSEA) was 0.04 (recommended  $\leq .05$ ).

**TABLE 3: DIRECT, INDIRECT AND TOTAL STANDARDIZED EFFECTS OF EMPLOYEE ATTITUDES**

Predictor	Job Satisfaction			Employee commitment			Work success		
	Direct	Indirect	Total	Direct	Indirect	Total	Direct	Indirect	Total
Leadership commitment	.00	-.05*	-.05*	.00	-.06*	-.06*	.00	-.04*	-.04*
Training / development	.00	-.28	-.28	.00	-.32	-.32	.00	-.20	-.20
Communication	.00	-.28*	-.28*	.00	-.25*	-.25*	.00	-.15*	-.15*
Job security	.00	-.21*	-.21*	.00	-.24*	-.24*	.00	-.15*	-.15*

\*p &lt; .05.

An inspection of Table 3 indicated that in line with observations from Figure 1, key soft success factors had total and indirect effects on intentions to quit. In addition, the significance of both the total and indirect effect (but not for training and development) suggests that the link with subjective work success is fully mediated by job satisfaction, employee commitment and subjective experiences of work success. Key soft success factors have, therefore, a salient influence on intentions to quit. Direct and indirect effects were all negative and reinforced each other to reduce experiences of intentions to quit. It can be concluded that job satisfaction, employee commitment and subjective experiences of work success fully mediates the path from leadership commitment, communication and job insecurity, on the one hand, to intentions to quit on the other hand. This means that job satisfaction, employee commitment and subjective experiences of work success are important for the reduction of experience of intentions to quit of this sample.

## DISCUSSION

The objective of the study was to determine the relationship between key soft success factors of CI and employee attitudes. Our research findings have found that an organisation that exhibits the key soft success factors for CI implementation such as leadership commitment will positively influence employee commitment and work success indicating that leadership that promote growth and foster commitment to a continuous improvement culture will experience employee commitment and employees who feel proud of their work achievements. In addition the research found that leadership commitment will negatively influence employees' intentions to leave, indicating that employees who perceive commitment from their leaders in growth and change initiatives are less likely to leave a company. The study found that communication positively influences both job satisfaction and employee commitment, indicating that organisations that engage in the process of sharing information, tools, techniques, training, and more create empowered employees who in turn exhibit job satisfaction and employee commitment. The study found that job security positively influences both job satisfaction and employee commitment, indicating that organisations who communicate that the intentions of continuous improvement initiatives are not to reduce workers but to promote the growth of the company using CI initiatives. Employees can then understand that growth means more stability and job security, which will result in job satisfaction and employee commitment.

Another objective of the study was to determine the impact of soft key success factors for CI implementation on work related attitudes such as job satisfaction, employee commitment, intentions to quit and work success. The regression analysis revealed that other key soft success continuous improvement variables explained 42%, 57%, 27% and 8% of job satisfaction, employee commitment, work success and intentions with quit respectively. Job security proved to be the only

statistical significant predictor of job satisfaction; leadership commitment, communication and job security were all statistical significant predictors of employee commitment, while leadership commitment was the only statistical significant predictor of intentions to quit and work success. The findings of this study concur with a number of other empirical studies in the field of Organisational Behaviour as well as the directions of the relations between key soft success factors for CI implementation and employee attitudes. Mobilising leader and stakeholder support and commitment is an important step in implementing a change intervention successfully according to the 10 Principles of change (Coetsee, 2002). The results of the regression analyses also confirms that leaders (both formal and informal) play a crucial role, not only in their support of and involvement in the change process, but eventually through their commitment to the achievement of the end result (Coetsee, 2002). Sim and Rogers (2009) found that communication and a “clear relationship to a company's mission and goals” plays an essential role in CI initiatives in their research on a manufacturing plant. A study (Boon et al. 2007) on TQM practices relating to people oriented aspects and employee commitment concluded that collaboration, communication and employee involvement were found to be positively associated with employee commitment, and stated that communication was a dominant effect on CI practices. Boon, Arumugam and Hwa's (2005) study on soft TQM practices that included leadership, education and training, found statistically significant relationships between these soft variables and job satisfaction and employee commitment. Karia, Abu and Asaari (2006) found that, training and education and continuous improvement had a significant positive effect on job satisfaction and employee commitment. Boeselie and Van der Wiele (2001) examined the perceptions of employees on TQM policies against overall intentions to leave and found that a positive perception of employees on TQM concepts that lead to less intentions to leave. Karia and Asaari (2003: 1) concluded that organisations who have adopted quality management practices have experienced an “overall improvement in organisation performance such as attitude, commitment, and effectiveness”. They found that continuous improvement and problem prevention was significantly related to job satisfaction and organisational commitment. Boon et al. (2005) confirmed this finding in their study, which found that employees with a positive perception of the soft TQM concepts “lead to a higher level of employees work related attitudes”.

The final objective of this study was to determine the mediating effects of job satisfaction, employee commitment and subjective experiences of work success in relation between key soft success factors of CI implementation and intentions to quit. Key soft success factors had total and indirect effects on intentions to quit. In addition, the significance of both the total and indirect effect (but not for training and development) suggests that the link with subjective work success is fully mediated by job satisfaction, employee commitment and subjective experiences of work success. Key soft success factors have a noticeable influence on intentions to quit. It can be concluded that job satisfaction, employee commitment and subjective experiences of work success fully mediates the path from leadership commitment, communication and job insecurity, on the one hand, to intentions to quit on the other hand. This means that job satisfaction, employee commitment and subjective experiences of work success are important for the reduction of experience of intentions to quit of this sample.

The results indicate for the other soft key success factors of CI implementation like leadership, training and job security have a strong impact on work related attitudes. Leadership, specifically, is a significant predictor of work related attitudes of employee commitment, intentions to quit and work success. The findings have a number of practical implications to consider in order to improve employee attitudes by manufacturing concerns undertaking continuous improvement implementation. Leadership should display a clear shared vision to enable a culture where employees can set goals that are aligned to the overall vision and strategy of the company. Leadership needs to communicate the objectives of undertaking a continuous improvement

program to employees in order to achieve “buy in” of the implementation process. This communication should incorporate the fact that CI can strengthen job security. This will eliminate a culture of insecurity and employees intending to quit. The organisation should view the CI process as a long-term process and aim at achieving incremental achievements with sustainment as a key objective. This will allow for a culture that understands the value of sacrificing short-term gains for long-term benefits. A formalised training and development plan that pertains to the specific CI program should be rolled out to all staff members. As in the case of Lean Manufacturing, a good understanding of the core principles of Lean, understanding of identifying and eliminating waste and tools and techniques of Lean Manufacturing should be a key basic requirement for all staff members.

**Limitation of the Study:** The research study was performed on a single manufacturing concern which is part of a multinational company. The study achieved responses for 48% of the total population of the company and based on these factors the study outcomes may not be applicable to other organisations. The survey questionnaire was only administered in English and not all respondents' first language was English which could have resulted in a risk for misinterpretation and misunderstanding. The study is dependent on the truthfulness of respondents' answers. The study assumes that only the soft factors of CI affect employee attitudes and have not included the hard factors (tools and techniques of CI implementation) impact on employee attitudes.

**Recommendation for future research in the area of CI:** Further studies should include a larger sample of the population in order to include better representation. This study includes one company that is part of a multinational company. Future studies should include the entire complement of companies to compare results and individual implementation success rates. Future studies should also establish the impact of the hard side continuous improvement (tools and techniques of CI) impact on employee attitudes. This will assist in looking holistically at the CI impact on employees' attitudes.



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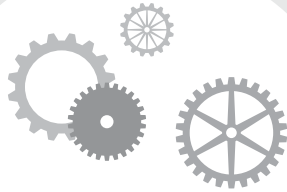




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# THE RELATIONSHIP BETWEEN LEADERSHIP AND EMPLOYEE ENGAGEMENT IN A SOUTH AFRICAN AUTOMOTIVE DEALERSHIP NETWORK

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## ABSTRACT

The primary aim of this study was to investigate the influence of different leadership behaviours based on the full range leadership model, on employee engagement. In order to achieve this aim, a survey was conducted within a motor vehicle dealership network in the Eastern Cape consisting of a population of seven dealerships. The research data was collected through the use of the Multifactor Leadership Questionnaire and the Utrecht Work Engagement Scale. The main findings of this study indicate that all the leadership behaviours, namely transformational, transactional and non-transactional were displayed. There was a trend towards transformational leadership being practised in the motor vehicle dealership network. Secondly employees at the motor vehicle dealership network experienced all three employee engagement dimensions, namely vigour, dedication and absorption with absorption scoring the lowest. Lastly it was found that there is a significant linear relationship between transformational leadership and employee engagement; and between transactional leadership and employee engagement.

## KEYWORDS

Leadership, Employee engagement, South Africa

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## INTRODUCTION

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Given the need for organisations in the South African motor vehicle industry to be increasingly effective, as well as competitive in delivering the highest levels of performance to customers, the importance of leadership in this industry comes to the fore. Leaders have to get more from their employees, not only in a cost-effective way, but also in a way that does not reduce employee motivation and well-being (Alimo-Metcalfe & Alban-Metcalfe, 2008:3, 5). Accordingly, organisations in this industry need to focus on their employees, as this is where much of the potential lies to aid the motor vehicle industry in stepping back into its increasingly important role in the South Africa economy (Mostert & Rathbone, 2007: 36). However, in order to do this, leadership in this industry cannot restrict its focus to traditional aspects such as organisational productivity, capturing market share and financial profit; what is needed is leadership that realises the value of employees and the critical business issue that lies in getting employees to contribute (Mostert & Rathbone, 2007: 48; Heskett, Jones, Loveman, Sasser & Schlesinger, 2008: 118, 121).

The source of an organisation's true value has broadened beyond measures, such as profit and fixed assets, because organisations have become increasingly aware that a great deal of their value "lies between the ears of its employees" (Buckingham & Coffman, 1999: 23). As a result, contemporary organisations, given the pace of change, have started to view their employees as one of their most valuable commodities (Buckingham & Coffman, 1999: 38), seeing them as business assets rather than business costs (Barber, Hayday & Bevan, 1999: 30). An organisation's human performance and the opportunity to raise human performance is one of the most powerful factors in determining an organisation's success (Zaffron & Logan, 2007: 5). However, despite the influence human performance has on organisations, little is understood about the source of human performance and therefore how to improve it (Zaffron & Logan, 2007: 2, 5, 6). As a result many organisations waste large amounts of time and money trying to improve their human performance in the wrong way, adjusting things like the systems in which employees operate, instead of focusing on employees directly (Zaffron & Logan, 2007: 2).

By shifting their focus towards employees, organisations universally are realising the large amounts of unused potential that lie dormant within their workforces (Hall & Maritz, 1997: 28). Employees are achieving lower productivity and weaker performances than desired (Hall & Maritz, 1997: 28) as employees' "unexpressed potential looks very much the same as incompetence" (Hall & Maritz, 1997:28, 31). Unused potential exists because superior performance is potentially in all employees, but this does not mean all employees will deliver superior performance (Hall & Maritz, 1997: 27). Employees choose the varying degree of themselves to give physically, cognitively and emotionally in the roles that they perform, and in the process determine how much of their potential to use. The more an employee chooses to draw on them to perform their role, the more of their potential they use, and the greater their performance (Khan, 1990:692, cited in Macey & Schneider, 2008: 12). However, today superior performance seems to reside in only a few gifted individuals, when in actual fact it is widespread throughout an organisation, but is restricted among most employees (Alimo-Metcalfe & Alban-Metcalfe, 2008: 33).

Evidence of this unused potential is the significant number of employees who have revealed that they feel parts of them, such as their passion, creativity, and ingenuity, are unused by their organisations (Molinaro & Weiss, 2005: 1, Vaccaro, Jansen, Van Den Bosch and Volberda, 2012). Worsening this problem, is that not only do many employees have the potential to perform better, but also want to, yet do not (Molinaro & Weiss, 2005: 1; Alimo-Metcalfe & Alban-Metcalfe, 2008: 9, 20) as over and above these feelings of wanting to perform better there are feelings of being overworked and under job pressure, preventing them from even trying to do better, and hence suppressing their potential (Molinaro & Weiss, 2005: 1). In addition to the above, research (Towers

Perrin, 2003: 18) has further shown that a large number of employees wish to learn and grow, but organisations are failing to meet their development needs, thus leaving their potential dormant. Therefore, a great deal of potential lies unused within many employees, and organisations need to find a way to harness this mass of wasted potential (Alimo-Metcalfe & Alban-Metcalfe, 2008: 32).

The purpose of an organisation's leadership is to translate the potential of employees for superior performance into actual productivity (Hall & Maritz, 1997: 27), as not all employees are aware of their potential (Jackson, 2004, cited in Alimo-Metcalfe & Alban-Metcalfe, 2008: 32). Leaders are there to free, develop and focus employees' potential (Alimo-Metcalfe & Alban-Metcalfe, 2008: 32) and are responsible for helping employees realise their full potential and value, to optimise employee productivity and allow their organisation to fully utilise their employee resources (Rosas-Gaddi, 2004: 1; Bass & Avolio, 1994:8, 10). However, research (McKinsey, 2007, cited in Byham, Concelman, Cosentino & Wellins, 2008: 1) has shown that 54% of senior leaders do not spend adequate time on their employees' talent management issues, which is problematic in that leaders are responsible for nurturing, as well as encouraging employees to express more of their potential (Hall & Maritz, 1997: 27, 28).

Leaders, who put their energies into managing their organisations rather than focusing on their employees, are unaware of their disruptive leadership behaviour (Paese, 2003: 1). Virtually every organisation studied, where employee performance was less than desired, blamed this on the misapplied energies and misguided efforts of their leaders (Hall & Maritz, 1997: 28; Paese, 2003: 4), who spent their time on tangibles such as strategy, cost reduction, outsourcing, information technology, supply-chain management, the organisation of the business, debt and acquisitions (Zaffron & Logan, 2007: 4). The reason for this is that the past 50 years of leadership research have steered perceptions of effective leadership in the wrong direction (Higgs, 2003, cited in Van Staden, 2007: 2), mistakenly using short-term detriments such as market-share growth, financial improvement, decreased turnover, and reduced absenteeism to define leadership success, when in truth real leadership effectiveness is not measured by short-term determinants, but rather is determined by the degree to which a leader contributes to creating and building sustainable long-term assets – such as employee capability (Higgs, 2003, cited in Van Staden, 2007: 2).

Leadership in every form has an influence on organisations, whether it is positive or negative (Alimo-Metcalfe & Alban-Metcalfe, 2008: 2), as the consequences of a leader's actions have an impact that reaches far beyond themselves, affecting individual, team and organisational performance (Alimo-Metcalfe & Alban-Metcalfe, 2008: 2; Paese, 2003: 2). This is why it has been argued that above all, the quality and performance of those in leadership positions determines the success of an organisation, and indisputably its survival (Wasserman et al. 2001: 3), as leadership is the very means that determines the ends (Greenleaf, 1996, cited in Dannhauser, 2007: 18).

Research over the years has led to the development of leadership, starting with the trait theories, behavioural approaches, and situational/contingency approaches. These form what are known as the traditional leadership theories, each describing different dimensions of leadership, and with different effects on the relationship between leader and followers. However, these traditional approaches have been widely criticised and said to be too specific in defining leadership either in terms of traits, behaviours or situation, giving incomplete and inadequate explanations for leadership (Jago, 1982).

Subsequently, contemporary leadership theories have emerged, initially dominated by transactional leadership and later developing to transformational leadership. These leadership theories define leadership in terms of the relationship between the leader and followers, where transactional leaders direct and control employees (Bass, 1985: 13; Dannhauser, 2007: 95), focusing on task completion and short-term organisational goals (Sarros & Santora, 2001: 386);

transformational leaders develop and personally involve employees, motivating, enabling and cultivating employees (Ancona et al. 2008; Sarros & Santora, 2001: 383; Dannhauser, 2007: 95; Hamel, 2010; Davidson, 2010) for the long-term benefits of an organisation (Dannhauser, 2007: 1; Alimo-Metcalfe & Alban-Metcalfe, 2008:33). The effectiveness of different aspects of both these leadership styles has led to the development of Bass and Avolio's (1994) Full Range Leadership Development Model, suggesting effective leadership involves aspects of both transformational and transactional leadership, but with a focus on transformational behaviours.

The development of leadership over time represents a shift in leadership away from commanding and controlling behaviour, to leadership that is more collaborative, inclusive and involving of employees; in order for organisations to succeed in modern and future business environments (Paese, 2003: 2; Hall & Maritz, 1997: 28; Ancona et al. 2008). This has linked leadership and employee engagement, as engaging leadership moves away from controlling behaviour that may have been holding employees back, allowing them to discover the potential in themselves (Macey & Schneider, 2008: 15; Alimo-Metcalfe & Alban-Metcalfe, 2008: 33) and develop the necessary capabilities to fully contribute to their organisation (Lui et al. 2003: 142). Thus, engaging employees has become more of a priority for leaders in the modern business environment (Molinaro & Weiss, 2005: 1; Ambler, 2007a; Tims, Bakker & Xanthopoulou, 2011: 121) as it enables leaders to get employees to reach and maintain their peak performance (Tamkin, 2007: 2; Alimo-Metcalfe & Alban-Metcalfe, 2008), positively affecting business results like customer satisfaction (Barber et al. 1999: 30; Rucci et al. 1998: 89).

The Full Range Leadership Development Theory, developed by Bass and Avolio (1994), is the most researched and validated leadership model in use at present (Kirkbride, 2006: 61). This model states that the most effective form of leadership is a combination of both transformational and transactional leadership (Bass & Avolio, 1994). It draws on both the trait and behavioural leadership theories to explain the existence of transformational and transactional behaviours (Bass & Avolio, 1994; Sarros & Santora, 2001: 391), and in addition incorporates the situational/contingency theory as leaders adapt their leadership behaviours and style to suit the situation, the organisation, and their workforce (Sarros & Santora, 2001: 385; Lui et al. 2003: 128, 145; Cannell, 2008).

The Full Range Leadership Development Model recognises that leaders use a range of nine leadership behaviours, grouped on a continuum of three leadership styles, namely non-transactional, transactional and transformational leadership (Bass and Avolio, 1994; Avolio and Bass, 2002; Kirkbride, 2006: 24,29,31; Leong & Fischer, 2011) The model describes the extent to which each of these behaviours is active, passive, effective and ineffective, as well as the frequency with which it should be practised in an organisation (Bass & Avolio, 1994).

At the bottom of the Full Range Leadership Development Model is non-leadership behaviour, called *laissez-faire* leadership, representing the non-transactional leadership style (Bass and Avolio, 1994: 4). This is essentially the absence of leadership, characterised by the leader's intentional failure to take action (Bass, 1999: 11). *Laissez-faire* leaders avoid getting involved, making decisions, taking a stand on issues, clarifying expectations or addressing conflicts. In addition, they abdicate responsibility, keep personal interactions to a minimum, and generally show a lack of interest in what is going on (Bass & Avolio, 2002; Kirkbride, 2006: 25; Sarros & Santora, 2001: 389; Vrba, 2007: 26). This leadership is described by Bass and Avolio (1994: 4) as the most passive and ineffective leadership behaviour, which if dominant, leads to failure (Sarros and Santora, 2001: 389; Kirkbride, 2006: 25).

The Full Range Leadership Model then progresses to transactional leadership, made up of three leadership behaviours as discussed in Section 3.3.2.1, starting with management-by-exception (passive), moving towards management-by-exception (active), through to contingent rewarding (Bass, 1999: 11; Kirkbride, 2006: 25). Bass and Avolio (1994: 4) state that these transactional



leadership behaviours can be relatively successful and effective, but transformational leadership adds substantially to the impact these leadership behaviours have (Bass, 1999: 11). Lastly, the Model develops to transformational leadership, made up of five leadership behaviours. These include what have been called the “5 I’s”, namely idealised attributes, idealised behaviour, inspirational motivation, intellectual stimulation, and individualised consideration (Bass & Avolio, 1994: 3,28; Bass, 1999: 11; Kirkbride, 2006: 26; Dannhauser, 2007: 122; Vrba, 2007: 26). According to Bass and Avolio (1994: 3,28), these transformational leadership behaviours are the most active and effective leadership behaviours, resulting in high-performing teams (Bass, 1999: 11).

The understanding behind the Full Range Leadership Development Theory is that every leader displays some or all of these transformational, transactional, and non-transactional behaviours to some degree (Bass & Avolio, 1994: 5; Bass & Avolio, 2002; Kirkbride, 2006: 31; Michel, Lyons & Cho, 2011), as there is no one correct leadership style (Kirkbride, 2006: 27). What is important is the frequency with which leaders practise each of these behaviours (Kirkbride, 2006: 27). Studies have correlated transformational leadership behaviours with the highest leader performance and success, decreasing through the transactional behaviours, with laissez-faire leadership having the worst leader performance and least success (Kirkbride, 2006: 27; Bass & Avolio, 1994: 6; Bass, 1999: 11). Therefore, instead of insisting that leaders must lead using one particular approach, the Full Range Leadership Development Model suggests that leaders should rather change the balance of their leadership behaviours (Bass & Avolio, 2002; Kirkbride, 2006: 31), optimally practising transformational leadership behaviours the most, decreasing the use of transactional leadership behaviours, and using laissez-faire leadership the least (Bass & Avolio, 1994: 5; Bass & Avolio, 2002; Kirkbride, 2006: 27,31).

Leaders who spend their energy in the right places, accomplishing the right things (Paese, 2003: 5), creating opportunities for employees to use more of their potential (Towers Perrin, 2003), where they provide employees with career opportunities and challenging work, listen to them, and spend time with them (Towers Perrin 2003; Heskett et al. 2008: 123), enable their employees to become more engaged, and ultimately tap into more of their potential to contribute (Heskett et al. 2008: 123).

Employee engagement is a means of tapping into the unused potential within employees, and has been described as the key to utilising employees’ unused potential (Alimo-Metcalfe & Alban-Metcalfe, 2008: 33; Towers Perrin, 2008). At the heart of engagement is the idea that all employees are able to contribute more than what is simply required from them (Gatenby et al. 2008: 4). By giving employees opportunities, engagement opens the doors for them to use more of their potential (Alimo-Metcalfe & Alban-Metcalfe, 2008: 32), on top of which employees respond positively to opportunities for involvement and increased responsibility, all resulting in employees giving more of themselves to their organisation, thus using more of their potential (Gatenby et al., 2008: 4). In addition to this, employee engagement is a means to getting employees to contribute discretionary, as well as extra effort in their jobs and to their organisations (Molinaro & Weiss, 2005: 1; Towers Perrin 2003; Alimo-Metcalfe & Alban-Metcalfe, 2008: 9; Macey & Schneider, 2008: 16). This is because most employees are just doing the job, but not doing any more than they have to, which is why they have dormant potential (Towers Perrin, 2003). Employee engagement creates a heightened emotional connection that employees feel for their work and organisation (Ambler, 2007b), influencing employees’ willingness to give more effort towards their organisation, and thus use more of their potential (Towers Perrin, 2008: 2).

This is why employees who experience being engaged in their work and organisations draw more of themselves, perform more to their fullest ability (Kahn, 1992, cited in Macey & Schneider, 2008: 23), and thus use more of their dormant potential, enhancing their performance (Alimo-Metcalfe & Alban-Metcalfe, 2008: 32,33). Organisations that build sustainable employee engagement have as



a result developed a reputation for unleashing their employees' unused potential and in the process become known as some of the best performing organisations (Gallup Consulting, 2008).

Employee engagement is more about practising effective leadership than it is about employees (Ambler, 2007a; Rosas-Gaddi, 2004: 1) as employee engagement is dependent on an organisation's appointed leaders for its existence (Hall and Maritz, 1997: 28; Alimo-Metcalfe & Alban-Metcalfe, 2008: 2). It is a leader's duty to create the conditions and environment that drive employee engagement in the workplace, motivating and even demanding their employees to use more of their potential and give their absolute best to their organisations (Politis, 2002: 186). (Molinaro & Weiss, 2005: 2).

For the purpose of this research, employee engagement will be defined according to the Utrecht Work Engagement Scale (UWES) (Schaufeli & Bakker, 2003), as this is the research instrument used to measure employee engagement. Accordingly, employee engagement is defined as "a positive, fulfilling, work-related state of mind that is characterised by vigour, dedication, and absorption at work" (Schaufeli et al., 2002: 72). Vigour refers to high levels of energy and mental resilience while working, which is seen in a willingness to invest effort in one's work; as well as persistence, even when faced with difficulties (Schaufeli et al., 2006: 702). Dedication refers to being strongly involved in one's work; experiencing a sense of significance, enthusiasm, and pride at work (Salanova et al., 2005: 1218); as well as support for an organisation, its goals and its values (Towers Perrin, 2003). Lastly, absorption is being happy, fully concentrating and being deeply engrossed in one's work (Schaufeli et al., 2006: 702); as well as experiencing a sense of belonging and attachment to one's organisation (Towers Perrin, 2003). A person who is engaged will demonstrate all three characteristics (vigour, dedication and absorption) to some degree, since together these three dimensions constitute one factor, namely, employee engagement (Schaufeli et al., 2006: 703).

## **PROBLEM STATEMENT**

Consequently, the problem statement of this research can be stated as: determining what the impact of leadership is on employee engagement in a motor vehicle dealership network in the Eastern Cape, South Africa.

## **RESEARCH PURPOSE, OBJECTIVES AND HYPOTHESES**

The primary purpose of this research is to investigate the influence of different leadership behaviours based on the Full Range Leadership Development Model on employee engagement in a selected motor vehicle dealership network. It is postulated that different leadership behaviours will have a different influence on the level of engagement. To achieve the purpose of this research, the following objectives of this research are:

- To identify the leadership style in the selected dealerships;
- To determine the employee engagement level in the selected dealerships;
- To investigate the relationship between the leadership style and employee engagement levels in the selected motor vehicle dealership network.

To give effect to the research objectives, the following hypotheses were formulated:

### **Hypothesis One:**

**Ho1:** There is no significant linear relationship between transformational leadership and levels of employee engagement.

**Ha1:** There is a significant linear relationship between transformational leadership and levels of employee engagement.

**Hypothesis Two:**

**Ho2:** There is no significant linear relationship between transactional leadership and levels of employee engagement.

**Ha2:** There is a significant linear relationship between transactional leadership and levels of employee engagement

## **RESEARCH METHODOLOGY**

In order to determine whether leadership style and employee engagement have a significant relationship in the selected dealerships, a positivistic research paradigm was followed (Collis & Hussey, 2003: 55), owing to the quantitative nature of the research data (Remenyi, 1996: 11).

The population of this research included all the employees in the Eastern Cape dealerships of a particular motor vehicle manufacturer. The sample for this research included all employees involved in the sales of vehicles, new and used, namely the dealer principle, new and used sales managers, and new and used sales staff, bring the sample size to 83.

The research data was collected by means of survey research, through the use of the Multifactor Leadership Questionnaire and the Utrecht Work Engagement Scale. The Multifactor Leadership Questionnaire is a 45-item questionnaire measuring the nine leadership behaviours and the three leadership outcomes of the Full Range Leadership Development Theory developed by Bass and Avolio (1994). The nine leadership behaviours reflect the three leadership styles, namely transformational, transactional and non-transactional leadership. Respondents ranked the statements according to how often the behaviour described occurred (4 = always to 0 = never). Two versions of the questionnaire had to be completed, one by leaders (leader version) describing their leadership behaviour, and one by employees (rater version) describing their leader's behaviour. The reliability of the MLQ (Form 5X) has been proven on many occasions, as the instrument has been used extensively worldwide (Xirasagar, 2008: 602; Lee, 2006: 661). A number of studies have also been conducted providing evidence for the validity of the MLQ (Form 5x) (Antonakis et al., 2003: 264), finding support and confirming the 45 items of MLQ as the best indicators of their constructs (Antonakis et al., 2003: 264).

The Utrecht Work Engagement Scale (UWES) was the second questionnaire, pertaining to employee engagement. The questionnaire contains 17 statements reflecting the three constituting dimensions characterising employee engagement defined by Schaufeli and Bakker (2003), namely vigour, dedication and absorption. The 17 statements were all linked to a 7-point frequency rating scale to score how employees felt at work or about their job, as described in each statement. This is a self-report questionnaire, and thus only one version of the questionnaire was completed by each respondent. The UWES-17 has tested a reliable instrument, through the test-retest and internal consistency methods from an international database of 23 studies, conducted between 1999 and 2003 in nine countries (Schaufeli & Bakker, 2003: 24,25,26). In addition to this, the internal consistency of the three scales of UWES-17 has also proven to be good in a number of studies (Schaufeli & Bakker, 2003: 7), where all values of Cronbach's Alpha coefficient for the instrument exceeded the critical value of .60 (Schaufeli & Bakker, 2003: 7; Schaufeli et al. 2006: 703) which is recommended for newly developed measurement instruments (Nunnally & Bernstein, 1994, cited in Schaufeli & Bakker, 2003: 14).

The research was conducted on site, where the researcher travelled to each of the seven Eastern Cape dealerships to conduct and coordinate the research. At the on-site data collection sessions the researcher met, administered and collected all the surveys individually from each respondent, face-to-face. The researcher was present to ensure that every employee in the sample present at the collection sessions completed the questionnaires, to co-ordinate the data collection, answer any questions about the research, and ensure that all respondents understood what was expected of them in completing the questionnaires as accurately as possible.

In addition, the questionnaires were accompanied by a cover letter and a bulletin from the motor vehicle manufacturer. The cover letter introduced and explained the research and its purpose, which ensured that the respondents were knowledgeable of the purpose and the research. The bulletin from the motor vehicle manufacturer encouraged participation from respondents and notified them that the motor vehicle manufacturer was aware and supported this research. The researcher ensured anonymity and nondisclosure of the respondents' details and information, and no authentication was attached to the submitted questionnaires. The researcher also guaranteed that no respondents' answers would be made publically known, and the research data was only being used for research purposes.

The research data was analysed in three phases. Firstly, descriptive statistics were used to summarise the data, namely the means and standard deviation. Secondly, an assessment of the reliability (internal consistency) of the measuring instruments (the Multifactor Leadership Questionnaire and the Utrecht Work Engagement Scale) by means of a Cronbach's alpha reliability analysis. The final data analysis phase comprised measures of association, namely correlation analysis, which assessed the hypothesised relationships (Sekaran, 2000; Keller, 2009).

## FINDINGS AND DISCUSSION

### Response rate

The population included all the employees in the seven selected Eastern Cape dealerships of the motor vehicle manufacturer, a total population size of 393. The randomly selected sample comprised the Dealer Principle and all employees working in the New and Used Sales Departments at each of the selected dealerships, as these were the employees with the most customer contact, amounting to 82 employees. A total of 60 respondents (73%) from the population participated in the research, with only employees absent from work, away on training or recently dismissed not participating. The total response rate (number of responses / the sample size of the research) for this research amounted to 73% (Keller, 2009: 157; Densten, 2002: 41) which is considered more than sufficient for the purpose of this research, and is large enough for meaningful statistical analysis and interpretation (Bryman & Bell, 2007: 244).

### Leadership Behaviour

The first objective of this research was to identify the leadership styles (MLQ scales) in the selected dealerships and whether these were mostly transformational, transactional and/or non-transactional. From Table 1 it is evident that all the MLQ leadership behaviours (sub-scales) were displayed. Table 1 shows a trend towards transformational leadership in the leadership practised in the dealerships, as transformational leadership has the highest mean of 2.81 ( $\pm 0.79$ ), transactional leadership has the second highest mean of 2.41 ( $\pm 0.48$ ) and non-transactional leadership has the lowest mean of 2.39 ( $\pm 0.59$ ), on the possible scale of 0 to 4.

**TABLE 1: DESCRIPTIVE STATISTICS OF LEADERSHIP BEHAVIOUR (MLQ SCALES AND SUB-SCALES)**

MLQ Scales and Sub-scales	Valid N	Mean	SD
<b>Transformational Scales</b>			
<b>Transformational Leadership (TF)</b>	<b>60</b>	<b>2.81</b>	<b>0.79</b>
Idealised Attributes (IA)	60	2.88	0.88
Idealised Behaviours (IB)	60	2.89	0.94
Inspirational Motivation (IM)	60	3.08	0.85
Intellectual Stimulation (IS)	60	2.49	0.84
Individualised Consideration (IC)	60	2.59	0.96
<b>Transactional Scales</b>			
<b>Transactional Leadership (TA)</b>	<b>60</b>	<b>2.41</b>	<b>0.48</b>
Contingent Reward (CR)	60	3.09	0.82
Management-by-exception (Active) (MA)	60	2.70	0.84
Management-by-exception (Passive) (MP)	60	1.39	0.76
<b>Non-Transactional Scale</b>			
<b>Non-Transactional (NTA)</b>	<b>60</b>	<b>2.39</b>	<b>0.59</b>
Laissez- Faire (LF)	60	0.90	0.84

All figures rounded off to two decimal places. Valid N = valid number of observations in the sample considered to construct the relevant descriptive statistics

### Employee engagement

It is important to note that from Table 2, employee engagement (UWES dimensions) the number of cases considered in the analysis was 53, as seven respondents left 25% (12 questions) or more blank, and hence were removed from the analysis.

The second objective of this research was to determine the employee engagement levels in the selected dealerships. From Table 2 it is evident that employees experienced all three employee engagement dimensions (UWES dimensions). Vigour had a mean score of 5.01 ( $\pm 0.84$ ), dedication a mean of 5.36 ( $\pm 0.93$ ) and absorption a mean of 4.83 ( $\pm 0.96$ ) on the possible scale of 0 to 6.

**TABLE 2: DESCRIPTIVE STATISTICS OF EMPLOYEE ENGAGEMENT (UWES DIMENSIONS)**

UWES Dimensions	Valid N	Mean	SD
Vigour (VI)	53	5.01	0.84
Dedication (DE)	53	5.36	0.93
Absorption (AB)	53	4.83	0.96

All figures rounded off to two decimal places. Valid N = valid number of observations in the sample considered to construct the relevant descriptive statistics

### Cronbach's Alpha Coefficient Scores for Leadership Behaviour and Leadership Styles

The Cronbach's alpha coefficient scores were calculated for the leadership behaviour (MLQ sub-scales) and leadership styles (MLQ scales) of the dealerships. The Cronbach's alpha coefficient scores and the Cronbach's alpha rating as per Sekaran (2000: 312) for the 12 MLQ sub-scales,

namely the nine leadership behaviour sub-scales (IA, IB, IM, IS, IC, CR, MA, MP and LF) are shown in Table 3. Table 3 also shows the Cronbach's alpha coefficient scores and the Cronbach's alpha rating as per Sekaran (2000: 312) for the three MLQ scales, namely transformational leadership (TF), transactional leadership (TA) and non-transactional leadership (NTA). Sekaran (2000: 312) indicates that Cronbach's alpha coefficient values of less than 0.6 are considered poor, values between 0.6 - 0.7 are considered acceptable, and values over 0.8 are considered good.

**TABLE 3: CRONBACH'S ALPHA COEFFICIENT SCORES FOR LEADERSHIP STYLES (MLQ SCALES) AND BEHAVIOURS (MLQ SUB-SCALES)**

MLQ Sub-scales	Mean	Std. Dev	Cronbach's Alpha Coefficient	Cronbach's Alpha Rating based on Sekaran (2000)
<b>Transformational Scales</b>				
<b>Transformational Leadership (TF)</b>	<b>2.81</b>	<b>0.79</b>	<b>0.94</b>	<b>Good</b>
Idealised Attributes (IA)	2.88	0.88	0.78	Acceptable
Idealised Behaviours (IB)	2.89	0.94	0.82	Good
Inspirational Motivation (IM)	3.08	0.85	0.83	Good
Intellectual Stimulation (IS)	2.49	0.84	0.67	Acceptable
Individualised Consideration (IC)	2.59	0.96	0.76	Acceptable
<b>Transactional Scales</b>				
<b>Transactional Leadership (TA)</b>	<b>2.41</b>	<b>0.48</b>	<b>0.08</b>	<b>Poor</b>
Contingent Reward (CR)	3.09	0.82	0.75	Acceptable
Management-by-exception (Active) (MA)	2.70	0.84	0.72	Acceptable
Management-by-exception (Passive) (MP)	1.39	0.76	0.45	Poor
<b>Non-Transactional Scale</b>				
Non-Transactional Leadership (NTA)	2.39	0.59	0.46	Poor
Laissez- Faire (LF)	0.90	0.84	0.62	Acceptable

All figures rounded off to two decimal places

Table 3 illustrates that the Cronbach's alpha coefficients for the 12 MLQ sub-scales ranged from poor to good, with all the sub-scales' scores being acceptable or good, except for one, namely management-by-exception (passive). These results show that the 12 MLQ sub-scales generally yielded consistent results, and can be viewed as internally consistent and therefore reliable, with the exception of the transactional leadership sub-scale, management-by-exception (passive). Table 3 indicates that that the Cronbach's alpha coefficients for the three MLQ scales were either poor or good. The coefficient for transformational leadership was good, with a score of 0.94. This shows that the reliability for transformational leadership yielded consistent results and can therefore be repeated with the expectation of receiving the same results (Sekaran, 2000: 312). Conversely, the coefficients for transactional and non-transactional leadership were both poor, with scores of 0.08 and 0.46 respectively. These two leadership styles are assumed to produce inconsistent results, and therefore were not internally consistent in this research.

The reliability scores shown in Table 3 are, to some extent, inconsistent with the results found by other researchers (Bass & Avolio, 1997, Antonakis et al., 2003: 286; Vrba, 2007: 26, Xirasagar, 2008: 602; Lee 2005: 661). Bass and Avolio (1997) have tested and proved the MLQ reliably measures the behaviours (MLQ sub-scales) of transformational, transactional and non-transactional leadership (Bass & Avolio, 1995, 1997) using the test-retest reliability method, while

Lee (2005: 661) has tested the reliability of MLQ using Cronbach's alpha coefficient on the MLQ sub-scales, and found relatively high reliability results, with all the MLQ sub-scales producing scores between 0.72 and 0.93. This is in contrast with the results of this research, which show that the lowest score in the MLQ sub-scales is that of the transactional leadership sub-scale management-by-exception (passive), with a score of 0.45. However, both this research and Lee's (2005) research have found the Cronbach's alpha coefficient scores for the transformational leadership sub-scales to be reliable.

The poor Cronbach's alpha coefficient scores for transactional and non-transactional leadership in this study could possibly be due to the small sample size of this research. However, similar Cronbach's alpha coefficient results were found in research by Hayward (2005: 82), which also showed the reliability of the transformational leadership scale to be good, while the reliability of the transactional leadership scale proved poor. Both these results, from Hayward (2005) and the current research, producing poor reliabilities could be due to the South African context of these studies, as the reliability of the current version of the MLQ (Form 5X) has been proven many times to measure the components comprising the Full-Range Leadership Development Theory (FRLT) (Antonakis et al., 2003: 286; Vrba, 2007: 26), with the instrument having been used extensively (Xirasagar, 2008; 602; Lee 2005: 661). Therefore, for this research, the MLQ instrument is taken to be a reliable measure of transformational leadership, but a poor measure of transactional leadership and non-transactional leadership.

### Cronbach's Alpha Coefficient Scores for Employee Engagement

Cronbach's alpha coefficient was also calculated for employee engagement (UWES dimensions), based on the UWES findings, to estimate the reliability of this instrument and provide evidence that the UWES produced reliable data for this research (Sekaran, 2000: 308). Table 6 shows the Cronbach's alpha coefficient scores and the Cronbach's alpha rating as per Sekaran (2000: 312) for the three UWES dimensions, namely vigour (VI), dedication (DE) and absorption (AB).

**TABLE 4: CRONBACH'S ALPHA COEFFICIENT SCORES FOR EMPLOYEE ENGAGEMENT (UWES DIMENSIONS)**

UWES Dimensions	Mean	Std. Dev	Cronbach's Alpha Coefficient	Cronbach's Alpha Rating based on Sekaran (2000)
Vigour (VI)	4.46	1.76	0.85	Good
Dedication (DE)	4.78	1.90	0.92	Good
Absorption (AB)	4.27	1.76	0.78	Acceptable

All figures rounded off to two decimal places

Table 4 shows that the Cronbach's alpha coefficient scores for the three UWES dimensions were all acceptable or good. The coefficients for VI and DE were both good, with Cronbach's alpha scores of 0.85 and 0.92 respectively. The third dimension of the UWES, AB, had an acceptable reliability, with a Cronbach's alpha coefficient score of 0.78. From this table, it is evident that all the UWES dimensions yielded consistent results and therefore are reliable.

The reliability scores in Table 4 are consistent with the results found by Schaufeli and Bakker (2003). Schaufeli and Bakker (2003) tested the reliability of the UWES, using Cronbach's alpha coefficient, and found the three dimensions of the UWES to be reliable (Schaufeli & Bakker, 2003: 7). The results of this research support the findings of Schaufeli and Bakker (2003: 7), showing internal consistency and reliability for all three UWES dimensions. Therefore, for this research, the three dimensions of the UWES were a reliable measure of employee engagement.



## Correlations between MLQ Leadership Sub-Scales and Scales, and UWES Employee Engagement Dimensions

Table 5 shows the results of the correlation analysis, demonstrating the possible linear relationships, as well as the significance levels of the linear relationships between the various leadership sub-scales (leadership behaviours and leadership outcomes) and scales (leadership styles) as measured by the MLQ, as well as the dimensions of employee engagement (engagement levels) as measured by the UWES. Table 5 presents the correlation coefficient, r-values, scores, (top values), and the significance levels, p-values, of the correlations, (bottom values in brackets) between the MLQ leadership behaviour sub-scales (IA, IB, IM, IS, IC, CR, MA, MP, and LF), as well as the MLQ leadership scales (TF, TA, NTA); and the three UWES employee engagement dimensions (VI, DE, and AB).

Table 5 presents all the correlation coefficient, r, scores between the transformational leadership sub-scales, namely IA, IB, IM, IS, and IC (columns 1-5), and the employee engagement dimensions, namely VI, DE, and AB (rows 16-18). The correlations between IA and the employee engagement dimensions VI ( $r = 0.33$ ,  $p = 0.01$ ), DE ( $r = 0.33$ ,  $p = 0.01$ ), and AB ( $r = 0.22$ ,  $p = 0.08$ ), are all weak, positive correlations that are significant, except for the correlation between IA and AB ( $p\text{-value} < 0.05$ ). The correlations between IB and VI ( $r = 0.28$ ,  $p = 0.03$ ), DE ( $r = 0.33$ ,  $p = 0.01$ ), and AB ( $r = 0.23$ ,  $p = 0.07$ ), are all weak, positive correlations that are all significant, except for the correlation between IB and AB ( $p\text{-value} < 0.05$ ). The correlations between IM and VI ( $r = 0.4$ ,  $p \square 0$ ), DE ( $r = 0.51$ ,  $p \square 0$ ), and AB ( $r = 0.29$ ,  $p = 0.02$ ) are a range of weak to moderate, positive correlations all of which are significant. The correlations between IS and VI ( $r = 0.4$ ,  $p \square 0$ ), DE ( $r = 0.42$ ,  $p \square 0$ ), and AB ( $r = 0.39$ ,  $p \square 0$ ), are all weak, positive, significant correlations. The correlations between IC and VI ( $r = 0.38$ ,  $p \square 0$ ), DE ( $r = 0.42$ ,  $p \square 0$ ), and AB ( $r = 0.22$ ,  $p = 0.09$ ), are all weak, positive linear relationships, that are all significant, except for the correlation between IC and AB ( $p\text{-value} < 0.05$ ).

**TABLE 5: MATRIX OF PEARSON'S CORRELATION CO-EFFICIENTS AND ASSOCIATED P-VALUES BETWEEN THE MLQ LEADERSHIP SUB-SCALES AND SCALES, AND UWES EMPLOYEE ENGAGEMENT DIMENSIONS.**

Variable	IA (1)	IB (2)	IM (3)	IS (4)	IC (5)	CR (6)	MA (7)	MP (8)
Vigour (16)	.33 (.01**)	.28 (.03*)	.4 (0**)	.4 (0**)	.38 (0**)	.51 (0**)	.26 (.04*)	-.03 (.79)
Dedication (17)	.33 (.01**)	.33 (.01**)	.51 (0**)	.42 (0**)	.42 (0**)	.57 (0**)	.2 (.12)	-.12 (.36)
Absorption (18)	.22 (.08)	.23 (.07)	.29 (.02*)	.39 (0**)	.22 (.09)	.44 (0**)	.11 (.41)	.02 (.89)

Variable	LF (9)	EA (10)	EF (11)	SA (12)	TF (13)	TA (14)	NTA (15)
Vigour (16)	-.32 (.01**)	.4 (0**)	.49 (0**)	.45 (0**)	.4 (0**)	.43 (0**)	.45 (0**)
Dedication (17)	-.35 (.01)**	.44 (0**)	.57 (0**)	.49 (0**)	.45 (0**)	.39 (0**)	.51 (0**)
Absorption (18)	-.25 (.05*)	.32 (.01**)	.39 (0**)	.32 (.01**)	.3 (.02*)	.33 (.01**)	.34 (.01)**

\*Indicates that the correlation coefficient is significant at the 5% level of significance, \*\* that the correlation coefficient is significant at the 1% level of significance. All figures rounded off to two decimal places

Accordingly, the fact that all the correlations between the transformational scales and the engagement dimensions are positive, even though they are weak, means that any increase or decrease in the practice of the transformational leadership behaviours would be associated with similar directional changes in the different engagement dimensions. The linear relationships between transformational leadership and employee engagement found in this study are consistent with previous research (Macey & Schneider, 2008; Howard & Wellins, 2008: 36) that found that employees who work under more modern leadership approaches, like transformational leadership, are more likely to be engaged. Other researchers (Bass & Avolio, 2002; Dannhauser, 2007: 10) similarly claim that transformational leadership engages employees. Therefore, these findings regarding the linear relationship between transformation leadership and employee engagement are in line with previous research.

Table 5 also presents all the correlation coefficient scores between the transactional leadership sub-scales, namely CR, MA, MP (columns 6-8), and the employee engagement dimensions, VI, DE, and AB (rows 16-18). The correlations between CR and VI ( $r = 0.51, p = 0$ ), DE ( $r = 0.57, p = 0$ ), and AB ( $r = 0.44, p = 0$ ) are mostly moderate, positive and significant. The correlations between MA and VI ( $r = 0.26, p = 0.02$ ), DE ( $r = 0.2, p = 0.12$ ), and AB ( $r = 0.11, p = 0.41$ ) are all weak, positive non-significant correlations ( $p\text{-value} < 0.05$ ), except MA and VI shows a significant linear relationship ( $p < 0.05$ ). The correlations between MP and VI ( $r = -0.03, p = 0.79$ ), DE ( $r = -0.12, p = 0.36$ ), and AB ( $r = 0.02, p = 0.82$ ) are all weak, mostly negative, correlations, but lack significance ( $p\text{-value} < 0.05$ ). These results show that as the transactional leadership sub-scales become less transformational and more non-transactional, the linear relationships change from positive to negative and become weaker, and the correlations between the transactional sub-scales and employee engagement dimensions become less significant. The results of the linear relationships between transactional leadership and employee engagement in this research are consistent with a number of other research findings (Macey & Schneider, 2008; Dannhauser 2007; Politis 2002; Howard & Wellins, 2008), which suggest that more traditional forms of leadership, characterised by more job-orientated dictatorial behaviour, are less correlated to employee engagement; while more modern leadership approaches, like transformational leadership, are strongly correlated with engaging employees.

In addition Table 5 presents the correlation coefficient scores between the non-transactional leadership sub-scale, namely LF (column 9), and the employee engagement dimensions, VI, DE, and AB (rows 16-18). The correlations between LF and VI ( $r = -0.32, p = 0.01$ ), DE ( $r = -0.35, p = 0.01$ ), and AB ( $r = -0.25, p = 0.05$ ), are all weak, negative, significant correlations. This indicates that as the practice of laissez-faire leadership increases, the dimensions of employee engagement decrease. These findings for the linear relationships between non-transactional leadership and employee engagement also support existing research (Gatenby et al., 2008: 4; Politis, 2002: 186; Byham, et al., 2008: 2; Hamel, 2010) that states weak and poor leadership behaviours form barriers to employee engagement.

Examining the correlations of the individual MLQ leadership behaviours (sub-scales) of the different leadership styles (scales) in the Full Range Leadership Development Model, and employee engagement (UWES dimensions), a definite development is clear, and will be discussed in more detail below. Starting with the correlations between the transformational leadership behaviours and employee engagement, these all have weak to moderate, positive correlations, with most of these correlations being significant, as discussed earlier in this section. This indicates that generally, as any of the transformational leadership behaviours increase or decrease, so do the dimensions of employee engagement. Moving towards the correlations between transactional leadership behaviours and employee engagement, the linear relationships change. The transactional behaviour closest to transformational leadership, that is contingent reward, shows the strongest, positive and most significant correlations with employee engagement. However, as the transactional behaviours move away from transformational leadership, that is management-by-

exception (active), the correlations with employee engagement become weaker and less significant. As transactional behaviour reaches the last transactional leadership behaviour and the one closest to non-transactional leadership, namely management-by-exception (passive), the weaker and more negative the correlations with employee engagement become, and they lack all significance. This provides evidence that as transactional leadership behaviours become less transformational and more non-transactional, the correlations with employee engagement become weaker, more negative, and less significant. This development becomes even clearer by looking at the linear correlations between the non-transactional leadership behaviour, namely laissez-faire leadership, and employee engagement, which are all weak, negative, but significant. This indicates that as laissez-faire leadership increases, employee engagement decreases, which is the opposite effect to the transformational leadership behaviours. These results of the linear relationships between leadership behaviour and employee engagement, as discussed above, are consistent with previous research.

### The MLQ leadership scales and the UWES employee engagement dimensions

Table 5 presents the correlation coefficient scores for the leadership styles (MLQ scales), namely TF, TA, NTA (columns 13-15), and the employee engagement dimensions, namely VI, DE, and AB (rows 16-18). TF and VI have a weak, positive, significant correlation ( $r = 0.4, p < 0.05$ ). TF and DE have a weak, positive, significant correlation ( $r = 0.45, p < 0.05$ ). TF and AB have a weak, positive, significant correlation ( $r = 0.3, p < 0.02$ ). These results indicate, given all the correlations between transformational leadership and the employee engagement dimensions are positive and significant, that as transformational leadership increases or decreases, the employee engagement level should do the same. TA and VI have a weak, positive, significant correlation ( $r = 0.43, p < 0.05$ ). TA and DE similarly have a weak, positive, significant correlation ( $r = 0.39, p < 0.05$ ). TA and AB also have a weak, positive correlation ( $r = 0.33, p < 0.05$ ). Thus, all correlations between transactional leadership and the engagement dimensions are positive and significant, also indicating that as transactional leadership increases or decreases, the employee engagement level should do the same. The results of the correlation analysis between the leadership styles (MLQ scales) and employee engagement (UWES dimensions) provide evidence that both transformational and transactional leadership positively and significantly correlate to all three dimensions of employee engagement. This indicates that as the practice of both transformational and transactional leadership increases, the level of employee engagement will also increase. The positive and significant correlation this research found between transformational leadership and employee engagement, and transactional leadership and employee engagement are to an extent consistent with Bass and Avolio's (1994) Full Range Leadership Development Theory, stating that a combination of transformational and transactional leadership is the most effective leadership. These findings also support previous research by Kirkbride (2006), which states that the most effective form of leadership is a combination of both transformational and transactional leadership.

To summarise, all five of the transformational leadership sub-scales and the three employee engagement dimensions have weak to moderate, positive correlations with most of the correlations being significant. The correlations between the three transactional leadership sub-scales and the three employee engagement dimensions progress from weak, positive, significant correlations to weak, negative correlations lacking significance, as these scales move away from transformational leadership towards non-transactional leadership. The transformational leadership scale and the three employee engagement dimensions all have weak, positive correlations all of which are significant. The transactional leadership scale and the three employee engagement dimensions also all have weak, positive correlations all of which are significant. This provides evidence that there is a significant, positive linear relationship between both transformational and transactional leadership, and employee engagement.

The alternative hypothesis, Ha1 is therefore supported, indicating there is a significant linear relationship between transformational leadership and employee engagement. The support of this research hypothesis, as discussed earlier in this section, is consistent with the findings of Macey and Schneider (2008: 6,22), who suggest that the nature of leadership, especially transformational leadership, directly and indirectly affects employee engagement, where under transformational leadership, employees will engage in behaviours outside of their personal best interest. This finding is also consistent with Politis (2002: 186), who stated that transformational leadership draws extraordinary levels of motivation and performance from followers, beyond what is expected, as transformational leadership is positively related to behaviours that make up job performance. Therefore, this hypothesis finding supports a number of researchers (Macey & Schneider, 2008: 6,22; Politis, 2002: 186; Bass & Avolio, 2002; Dannhauser, 2007: 10) who claim that transformational leadership engages employees (Macey & Schneider, 2008: 6,22; Bass & Avolio, 2002; Dannhauser, 2007: 10).

The alternative hypothesis Ha2 is supported, indicating that there is a significant linear relationship between transactional leadership and employee engagement. The result of this research hypothesis both supports and disagrees with previous research. This result supports a number of other researchers (Bass, 1985: 12; Bass & Avolio, 1994: 4; Lui et al., 2003: 138) who state that transactional leadership is relatively successful in translating employees' expected effort into their expected performance. Conversely, this hypothesis result is inconsistent with Sarros and Santora (2001), who state that leadership that tries to control everything tends to stifle creativity and frustrate employees. This result is also contrary to other researchers' findings (Gatenby et al., 2008: 4; Politis, 2002: 186; Byham et al., 2008: 2; Hamel, 2010), stating that traditional leadership behaviours form barriers to employee engagement, as transactional leadership is described as a more traditional, bureaucratic authority (Kirkbride, 2006: 23; Alimo-Metcalfe & Alban-Metcalfe, 2008: 6; Tracey & Hinkin, 1998; cited in Dannhauser, 2007: 89).

The results of both alternate hypotheses, that is the positive correlations between both transformational leadership and employee engagement, and transactional leadership and employee engagement, were expected, given the amount of existing research indicating that effective leaders demonstrate varying amounts of both transformational and transactional leadership (Bass & Avolio, 1994, 5, Bass & Avolio, 2002, Avolio et al., 1999; Kirkbride, 2006; 31). The results of this research are consistent with findings of recent employee engagement research in a South African context, by Duma (2010: 51). Therefore, finding both transformational and transactional leadership to have significant, positive linear relationships with employee engagement is consistent with existing research, as well as supporting Bass and Avolio's (1994) Full Range Leadership Development Theory, which states that the most effective form of leadership is a combination of transformational and transactional leadership, as neither leadership style is totally correct (Kirkbride, 2006: 27).

## **SUMMARY AND CONCLUSION**

The first objective of this research was to identify the leadership styles (MLQ scales) in the selected dealerships – that is, to determine the leadership behaviours (MLQ sub-scales) used, and whether these were mostly transformational, transactional and/or non-transactional.

From the research it was evident that all the MLQ leadership behaviours (sub-scales) were displayed. However a trend towards transformational leadership in the leadership practised in the dealerships was evident. Transformational leadership was used the most in the dealerships, with a decreasing use of transactional leadership, and non-transactional leadership used the least. The results support Bass and Avolio's (1994) Full Range Leadership Development Model, as well as

other researchers (Bass & Avolio, 2002; and Kirkbride, 2006: 31), who suggest every leader displays transformational, transactional, and non-transactional leadership to some degree, as there is no one leadership style that is correct (Kirkbride, 2006: 27).

The second objective of this research was to determine the employee engagement levels in the selected dealerships – that is, to determine the amount of vigour, dedication and absorption (UWES dimensions) that employees experienced. From this research it was evident that employees experienced all three employee engagement dimensions. (UWES dimensions) Absorption scored the lowest although it was still above the average category of the norm scores for the UWES when considering the norms of this instrument (Schaufelli & Bakker, 2003; Duma, 2010: 50).

The conclusion (Ha1) in this research that there is a significant linear relationship between transformational leadership and the level of employee engagement consistent with the findings of Macey and Schneider (2008: 6,22), who suggest that the nature of leadership, especially transformational leadership, directly and indirectly affects employee engagement, where under transformational leadership, employees will engage in behaviours outside of their personal best interest.

The conclusion (Ha2) in this research that there is a significant linear relationship between transactional leadership and the level of employee engagement hypothesis both supports and disagrees with previous research. This result supports a number of researchers (Bass, 1985: 12; Bass & Avolio, 1994: 4; Lui et al., 2003: 138) who state that transactional leadership is relatively successful in translating employees' expected effort into their expected performance.

## **MANAGERIAL IMPLICATIONS AND FUTHER RESEARCH**

While leadership behaviour has been extensively researched, and in fact according to Dannhauser (2007: 158) is one of the most studied aspects of the social sciences, it is still nevertheless one of the least understood (Bennis, 1989, cited in Dannhauser, 2007: 158). Limited research exists that examines the effectiveness of different leadership styles at the employment group level of analysis is rare (Lui et al., 2003: 129). To effectively manage employees, it is important to investigate the varied effectiveness of different leadership styles across employment groups (Lui et al., 2003: 129).

In addition to this, because of the continuously changing environment that organisations have to operate in, it is clear that organisations, including the motor vehicle industry, need a workforce that is characterised by engaged employees (Mostert & Rathbone, 2007). According to CIPD (Gatenby et al., 2008: 2), little logical research has been done into the dimensions, background and outcomes of engagement in organisations.

As stated he findings of this research clearly indicate a strong relationship between transformational and transactional leadership and employee engagement.

It is therefore recommended that;

- Organisations make explicit the leadership behaviour required in the workplace and that this behaviour be used as the criteria to recruit, select, develop, reward and promote leaders
- Organisations design and implement a performance management system to measure leaders on the basis of the leadership behaviour required
- Organisations develop transformational and transactional leadership that will positively impact on employee engagement
- Clear and deliberate strategies be implemented to develop and maintain transformational leaders at the workplace

- Organisations identify and encourage transformational leadership at the workplace
- Reward and promotion strategies be closely coupled with transformational leadership
- Organisations identify the pertinent transformational leadership skills and traits and use them when identifying and selecting dealer principles.
- Organisations become aware of current levels of employee engagement through measuring employee engagement and implement strategies to inspire employees to be more engaged in their work and to make managers aware of the levels of engagement of their own staff and be encouraged to formulate development plans to enhance levels of engagement.

This research serves to add to existing management knowledge as studies of these variables in the motor vehicle industry, particularly in South Africa, are limited. Research within the framework of leadership and employee engagement in the South African context is limited, apart from Duma (2010) who conducted empirical research in Sasol Gas, South Africa, on the relationship between leadership and employee engagement. Research within this framework in the South African motor vehicle industry context is even more limited, with only similar frameworks having been researched by Botha (2001) on the relationship between leadership, internal quality and customer satisfaction, and Samuel (2005) on the relationship between leadership and employee satisfaction.

This research did not take demographic variables into account in exploring differences in transactional leadership, transformational leadership and employee engagement. Future research could be conducted comparing various homogenous demographic populations.

Future research may target other industries and environments in order to test the possible generalisations of this study. Such environments could include tertiary education institutions, the retail industry, the manufacturing industry and the political arena. The unique characteristics of these environments may also impact the relevance of future findings in these research areas.





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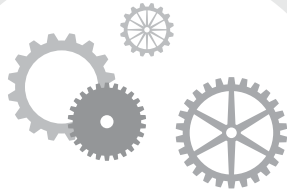
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## SUGGESTION SYSTEM AS AN HRM TOOL TO BE SUCCESSFUL IN ORGANISATIONS: SOME EMPIRICAL EVIDENCE IN NEW ZEALAND

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### ABSTRACT

Employees have ideas and will not submit it if the environment is not supportive. A suggestion system is as a formal procedure encouraging employees to think creatively about their work and environment to produce ideas. HRM should be creative and innovative and use any possible tool that contributes to their survival or success. The suggestion system is an undervalued tool. The success of it depends on management's commitment and involvement, proper policies, procedures and rules, an affective administration and processing process, objective evaluation of ideas and a fair recognition or rewarding system. Research executed through a qualitative approach in organisations in New Zealand resulted in a 100% response rate. Training and involving employees in the value of the system helps to be effective in using suggestion systems. Software should be used to administer and to manage the process effectively and efficiently. A flow chart was developed by the authors to assist with the use of the system.

### KEYWORDS

Suggestions, Systems, Rewards, Feedback



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## INTRODUCTION

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The view of Du Plessis (as cited in Du Plessis, Nel & San-Diego, 2013) is that human resource management (HRM) should be managed until it becomes a more ordinary part of the daily existence. In order to survive in the current competitive economies in New Zealand, human resource (HR) managers should be creative and innovative and use any possible tool that contributes to their survival and success. One of the most under valued tools available is the suggestion system. To give stature and structure to the success of the system will, however, depend on a number of factors, such as the manager's commitment and involvement, proper policies, procedures and rules, an affective administration and processing process, objective evaluation of ideas and a fair recognition or rewarding system.

It is necessary for HR managers to have a profound re-think of suggestion systems and what to do with the information gathered from employees to increase their profits, retain their workforce and sustain their competitive advantage. In order to survive in the current competitive economies globally, organisations should use any possible management tool that contributes to their survival. Supporting this statement is data from Statistics New Zealand (2008) that reveal that 86.8% of businesses in New Zealand generally have 5 and less employees in service with only 3.6% of businesses in New Zealand having 20 or more employees in service. Therefore entrepreneurs should use any possible tool to assist or help them to grow and to be successful.

There is an increasing sentiment to "act locally but think globally" resulting in community-based businesses becoming more important in encouraging businesses and public policy practitioners to focus on the significance of people working together to facilitate regional development (Du Plessis, Frederick & Maritz, 2013; Kapelus, 2002; Lyons, 2002). Talent management is the key challenge for the next decade (Nel et al, 2012). Human resource practitioners need to operate within the business cycle if they wish to become strategic business partners taking suggestions from their employees on board. It is crucial that the 'talent inventory' (skilled employees), is maintained at the right levels, in order to comply with the requirements of hiring and retention issues. This could only happen if HRM is aware of what climate in the workforce in other words if HRM knows exactly what their employees' suggestions are.

In this paper the respondents' responses are discussed, with the main findings and results of the research confirming that HRM needs to have some rewarding system in place for usable ideas received through the suggestion system. Additional issues such as the use of software to monitor and measure the implementation of suggestions, distributing of suggestions among all those involved, and a few others were also identified as a result of this study. This paper covers a literature review and reports on qualitative research with structured interviews. The analysis section includes a flow chart (Figure 1 below) of effective suggestion systems for HRM to follow to ensure that all steps are followed to use suggestion systems as an effective tool for getting innovative ideas from their employees; in the analysis of the results the different responses of the respondents are discussed. The evaluation of submitted ideas by employees, the implementation of ideas, whether large financial rewards contribute to team work, what create synergies and opportunities for new ideas in the organisation, whether non-financial rewards are powerful, and recognition and rewards are discussed in the results and discussion section; recommendations and conclusions form the last section of this paper.

### PROBLEM INVESTIGATED

The evaluation of ideas and the implementation of good ones are neglected due to the fact that most of the suggestion systems driven in New Zealand, are to a great extent of an informal nature



because more than 80% of businesses have five and less employees. The informality could be contributed to the absence of proper idea generation programmes, a lack of awareness and publicity programmes and the acceptance of responsibility by all levels of management.

## RESEARCH OBJECTIVES

The objective of this paper is to report on empirical research undertaken by Unitec New Zealand, (Auckland, New Zealand) on suggestion systems as applied in New Zealand organisations and the University of Pretoria, (Pretoria, South Africa). This paper concentrates on idea generation programmes, awareness and publicity programmes, administration and processing, and corporate wide implications; other papers and articles report on other areas of the same research project.

## LITERATURE REVIEW

### Incentives, initiative, idea generation and awards

Employees' ideas and innovations are so important in any organisation because they are on the shop floor and are experiencing the advantages or disadvantages of what they are doing. The initial view should be the assumption that all suggestions are beneficial until the evaluation proves otherwise. Stone (2008) is of the opinion that employees have ideas regardless of whether or not the environment is conducive but the employee will not submit it if the environment is not seen as supportive.

Therefore organisations must have incentives, which are proactive, in place for employees to feel that submission of their useable ideas will be rewarded. Incentives provide a very direct message to the employee and it is focused on their behaviour in achieving objectives; in our case idea generation programmes and participation in the suggestion system. A common aim of a suggestion system is to achieve greater employee involvement which eventually leads to greater tangible benefits such as cost savings, and higher sales and intangible benefits like higher levels of morale (Crail, 2006). Usually the employee's response follows from substantial exposure to surveys or involvement to generating ideas in the workplace. One of the most pervasive perceptions likely to be encountered is that many of the past initiatives amounted to nothing. This perception normally arises from the absence of feedback on the outcomes or the non-implementation of ideas and HRM should have feedback on the top their "to-do" list.

Creative behaviour conceptualises suggestions as creative acts while initiative adds one particular facet to the creative process idea. The notion of ownership which generally accrues from participation is a major consideration in the implementation of suggestions or ideas. It is through involving various stakeholder constituencies from the onset of the initiative, creating ideas, the pre-implementation stage, and during the diagnoses of generating ideas that psychological ownership for the suggestion programme is established (Van Tonder, 2006). There are different ways for HRM to use the information gathered from their employees (refer to Figure 1 below in the analysis section) but it is important that the method used must be clear, straight forward, and open to all potential participants for all employees to know what to do to receive the award, according to Wood (2003).

### The role of organisational culture in generating ideas

Organisational culture also plays an important role in the attitude and behaviour of employees. Du Plessis (2007) refers to culture as an important consideration for recognition. In cultures where status differentials are minimised and more individualistic in nature (for example New Zealand, Australia and the USA) a more egalitarian reward system is used rewarding individuals. This reward system includes rewards for suggestions made through the suggestion system. The implementation thereof is not rewarded. Ishaya (2006) explains that employees need to be skilled and well trained in their job, with systems in place so that they can work effectively and efficiently to add value to their organisations.

### **The role of technology in involving all employees when distributing rewards**

Technology normally reminds of science and technical subjects; it means a science of industrial and mechanical arts. Furthermore, technology denotes proven methods or systems and processes for attaining output from input. The use of a suggestion system by HRM and managers, therefore, could be the perfect tool in attaining their goal, in other words to be successful as an organisation. More caution rather than less should be exercised by managers to have their employees on board and totally committed to a suggestion programme. Methods to generate ideas should be clear, straight forward and open to all participants, teams and individuals. Figure 1 below is a flow chart to assist HRM and managers to make sure that all possible methods are used and that all levels of employees are involved. Software should be made available and should be used to manage the process effectively and efficiently. The software could replace the traditional suggestion box and should be able to acknowledge receipt, handle duplicated ideas, link ideas to evaluators and allow everyone to search for existing ideas and build on.

### **The importance of administration**

The administration of the suggestion system seems to be a major hurdle to overcome. Holland, Sheehan, Donohue and Pyman (2007) are supporting what was explained above that information or data received must be evaluated and if useable must be implemented. Recordkeeping is of the utmost importance and the notion of e-admin has taken over. Almost two decades ago already Love (1998) suggested that the system should start small and grow only if necessary. Administrative delays result in the employees getting the impression that the organisation does not view their ideas as worthwhile. An early acknowledgement of receipt of the suggestion is essential. Suggestion boxes, traditional ones and electronic ones (e-suggestion boxes), should be "cleared" on a daily basis. The suggestion system coordinator (e-admin coordinator) should make sure that employees who submit an idea receive a personal response to thank them (Figure 1).

### **The role of Human Resource Management and line managers**

The latest trend of pre-employment briefings by HR / employers is fast becoming the norm according to Du Plessis (as cited in Nel et al., 2012). These briefings or discussions take place before the employment contract is signed; thus if no agreement or consensus is reached on certain issues, no employment agreement is signed and no further working relationship is established. Suggestion systems could be one of the agenda points during these pre-employment discussions.

Usually new employees attend an induction programme before starting their new roles. In small businesses in New Zealand there is no human resource department and new employees rely on HRM/owner/manager to do the induction.

An induction programme should include an explanation and awareness of the suggestion system. Dessler (2005) endorses this and adds that such information should be given at the second stage of the three conducting stages of induction. Nel et al. (2012) point out those policies, including suggestion programmes, should be the responsibility of the HR department. They also state that policies and programmes must be developed in consultation with representatives from trade unions (if the organisation is unionised) and it must comply with relevant legislation. Most small businesses use HR consultants to do all their HR related functions (Du Plessis, 2007).

### **The importance of feedback on implementation of accepted ideas**

Du Plessis and Paine (2007) report that the power of feedback to employees is often underestimated. There is a correlation between the number of suggestions submitted and the time taken to give feedback to the suggestor. In her study Nel (2008) found that two discouraging elements in the suggestion systems are the length of time taken to evaluate a suggestion and secondly the delay in recognition through sometimes poor communication channels. The longer the time to give feedback and recognition, the fewer the suggestions submitted. The more immediate the feedback and recognition the more powerful it will be (refer to Figure 1 below). It is of the utmost importance to give feedback to all employees when accepted ideas or suggestions were implemented.

The importance of suggestion boxes as a tool for successful HRM and managers is immeasurable, therefore no matter how small the idea or suggestion is, if it contributes to the organisation's profitability, survival, sustainability or maintaining its competitive advantage it should be recorded and implemented. The progress of submitted ideas should be monitored by the software in use and that includes implementation and feedback to all employees. The implementation of ideas should also be part of the supervisor's performance appraisal. In Figure 1 the importance of proper feedback to all stakeholders is pointed out.

## **METHODOLOGY**

A number of critical success factors for suggestion systems were identified from the literature. From these critical factors the ten most important once were identified. A questionnaire was compiled by the University of Pretoria (UP) to establish to what extent these critical factors are complied with in organisations. The same questionnaire was used with permission from UP after minor modifications for an identical survey in New Zealand.

Minor modifications involved updating and scrapping of some questions because the questionnaire was too long for use during short interviews in New Zealand. A qualitative approach was followed. The questionnaire was used and completed during personal interviews which were conducted in four main business areas, namely Auckland, Greater North, Manukau and Waitakere City. Table 1 below is a profile of the distribution of the respondents in the four business areas. A 100% response rate was achieved.

**TABLE 1: PROFILE OF RESPONDENTS BY BUSINESS AREA**

Business Area	Number of organisations	Percentage of organisations
Greater North	6	28.57%
Auckland	10	47.62%
Manukau	4	19.05%
Waitakere City	1	4.76%
<b>Total</b>	21	100.00%

Although the results of Statistics New Zealand (2008) revealed that 86.8% of businesses in New Zealand generally have 5 and less employees in service with only 3.6% of businesses in New Zealand having 20 or more employees in service, the amount of employees in the organisations in our research project give a different picture. The number of employees employed by the organisations varies from a minimum of six employees to a maximum of 110, as reflected in Table 2 below.

**TABLE 2: PROFILE OF RESPONDENTS BY ORGANISATION SIZE**

Number of employees	Number of organisations	Percentage of organisations
6-29	8	38.10%
30-49	8	38.10%
50-110	5	23.80%
Total	21	100.00%

From the 21 organisations 90.48% are from the private sector while 9.52% are from the public sector. A total of 89.47% of the private sector organisations are from industry.

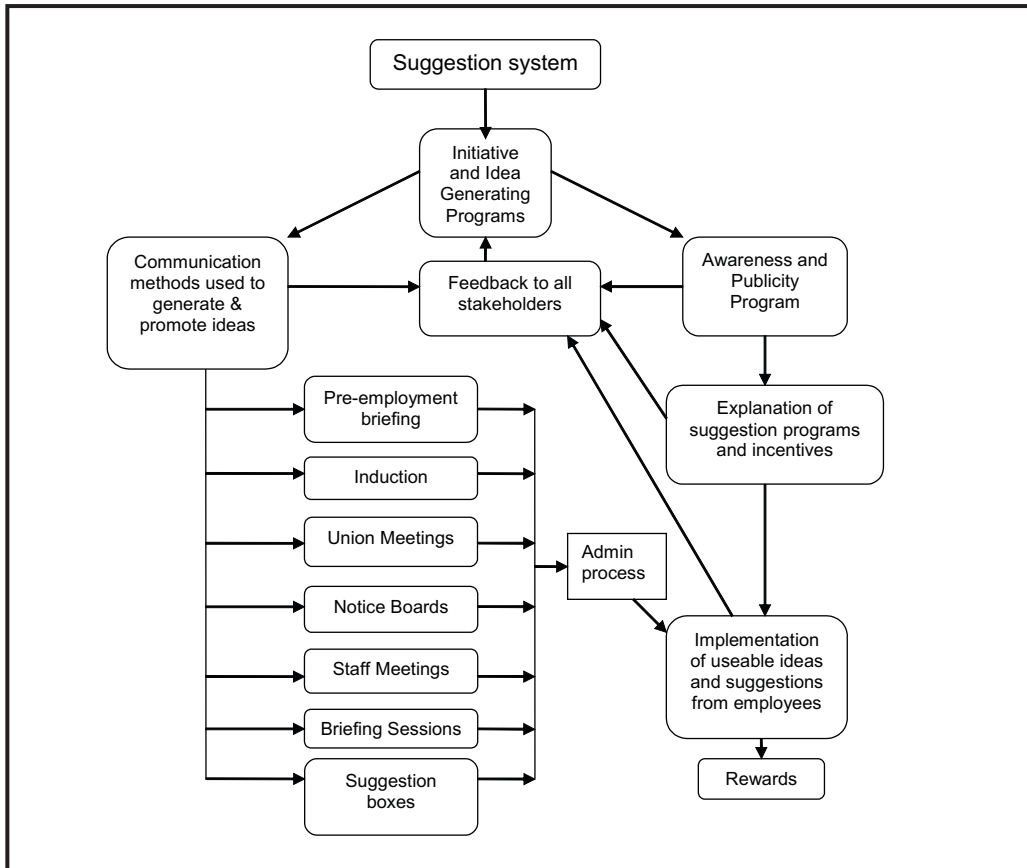
## RESULTS

### Discussion

In the empirical study it was found that only 19.05% of the organisations claimed to have a formal suggestion system, meaning they have an official policy, certain structures and procedures in place. It is interesting to note that none of the organisations, whether formal or informal, have an exclusive name for their system. It could therefore be concluded that managers will refer to “the suggestion system or suggestion scheme”. Not one of the respondents believes that the name of the system will contribute to the success on the system. Buchanan and Badham (2008) go one step further in saying that employees must have a conceptual understanding of the system and a name linked to it.

There was consensus among all the participating organisations that the evaluation of suggestions is completed in less than 90 days after it was submitted. This is an indication that the management is open for suggestions and that they value the ideas of employees. The fact, however, that 71.43% of the respondents either disagree or do not know whether suggestors are getting feedback on a regular basis during the evaluation period places a question mark on the commitment of management. The flow chart (Figure 1 below) explains the flow of feedback.

An alarming 38.10% of the respondents reported that their employees from all levels are not involved in the design of the idea generation system. A further 28.57% of the respondents were unsure; therefore two thirds (66.67%) of their organisation's employees are excluded in the basic design of what could be a possible cost saving or a possible labour turnover decrease. Only a third (33.33%) of the respondents is sure that their employees are involved and contribute positively to possible cost saving or attaining of their competitive advantage.



**FIGURE 1: FLOW CHART FOR HRM AND MANAGERS TO USE IN THEIR SUGGESTION SYSTEMS**  
(Source: Developed by the authors)

## Awards

Managers have to ensure that their employees are aware that there is an award system for accepted suggestions. Only 38.09% of the respondents agreed that they make it worthwhile for their employees to share their new ideas with the manager. It can be deduced that managers will have to adapt an attitude that they are not the “mister know all” in the world and if they are prepared to reward their employees they might just get more usable ideas.

## Do employees know what to do to get the award?

Only 4.76% of the respondents reported that they know exactly what to do to get any award for their suggestions. The fact that 19.05% of the respondents agree that their suggestion evaluators haven't received proper training for the programme and evaluation techniques, proves a serious

lack of commitment from management to ensure that ideas from employees get the necessary attention. An alarming 80.95% don't know whether suggestion evaluators do receive appropriate training in the reasons for suggestion systems and evaluation techniques is further supporting the fact that employees don't know what to do to receive an award. It also shows that management could get substantially more involved, at least in training their employees in "the why" and "the how" of the programme and to receive an award. A total of 57.14% of the respondents are not exactly sure what to do to get the award for their suggestions.

### **Financial awards and feedback**

Almost half of the respondents (42.86%) disagree that management make any financial awards for their suggestions accepted, whereas 47.52% is not sure. Holland, Sheehan, Donohue and Pyman (2007) link recognition and awards to the psychological contract. Although it might not be a written clause in their employment agreement, employees do want to be recognised or rewarded for their efforts and achievements in the organisation under the psychological contract, if their suggestions are accepted. A third (33.33%) of the respondents agrees that large financial rewards do not contribute to teamwork. It is also important to take note of the other respondents because 52.38% are in favour of large financial rewards. It can be deduced that employees value their contribution to the organisation and want to be rewarded for this extra efforts such as suggestions. In support of this statement only 14.29% reported that the organisation will get more suggestions without being offered any rewards. Feedback is regarded as very important, but 61.43% of the respondents don't want this feedback during their performance appraisals.

### **Distribution of rewards create synergies**

A surprisingly positive response was received from the respondents as 57.14% of the respondents want suggestion rewards to be distributed among all those involved in the process; they are also positive that the implementation of ideas create synergies and opportunities for more new ideas. Only 4.76% did not agree with this. A very strong response (95.24%) was received that non-financial recognition is just as powerful as financial rewards.

### **The role of HRM and line managers' responsibilities**

Line managers must accept responsibility and be accountable for what is happening in their work sections for which they are designated according to Clegg, Kornberger and Pitsis (2008). Some of the reasons are that suggestions originating in a specific section are usually referred to the line manager; they decide whether the suggestion will be accepted or implemented, especially when it relates to their particular area of supervision. If they suppress the initiatives of their subordinates, they will be unable to motivate their employees to participate. As pointed out above most New Zealand organisations have about five employees and therefore no HR department. This is the reason why the responsibility is on the shoulders of the line manager and HRM has basically no role to play in the implementation stage, but certainly in the induction stage of new employees in larger firms but not in these small organisations.

With reference to whose responsibility it is to implement ideas, only 14.29% of the respondents believe it is the suggestor's line manager's responsibility to see to it that accepted suggestions are implemented while 9.52% disagree and an alarming high percentage, more than three quarters



(76.19%) are not sure. If the line manager does not take the responsibility and there is no HR department involved, who must? Surely, the suggestor cannot implement the suggestion without the approval of the line manager?

### **Organisational culture in generating ideas**

Organisational culture is the pattern of basic assumptions, values, norms and artefacts (the highest level of cultural awareness) shared by the organisation's members, according to Waddell, Cummings and Worley (2011). Therefore, if the norm or assumption in the organisation is that suggestions are implemented by line managers, everybody will expect and even wait for the line manager to do their job. It can be deduced that if there is agreement on this, then it is the responsibility of the line manager and, according to the respondents, they are not even sure that it is one of their duties as line manager. Line managers are often the most important link in the idea generation programme. Employees and line managers are the people with the most knowledge of the job and it came as a surprise that 66.66% of the respondents admitted that no explanation of the suggestion programme forms part of the induction programme in their organisations. In Figure 1 above it is clear that the awareness and publicity programme follows the idea generating programme. The explanation could easily be done during the pre-employment or the induction period.

### **Administration and technology**

The question was put forward to the respondents whether software is used to submit and process suggestions. Only 4.76% of the respondents agreed that software is in use for administration and processing. Almost all (95.24%) of the respondents responded that they don't use any software for the said issues. It can be deduced that the organisations are too small to layout huge amounts of money on systems that they think could be managed manually.

## **CONCLUSIONS**

HRM and line managers will always remain pivotal in the success of the suggestion system. Managers should use any possible management tool that contributes to their survival and success in the current competitive economies globally. The most under-valued management tool available is the suggestion system which consists of a formal procedure that encourages employees to think innovatively and creatively about their work and work environment, and to produce ideas. To achieve greater employee involvement that eventually leads to greater tangible benefits such as cost savings, better sales and intangible benefits such as higher levels of morale are some of the goals. Managers must have incentives in place in their organisations for employees to feel that submission of their useable ideas will be rewarded. Explanation and awareness of the suggestion system could be done during the pre-employment stage or the induction stage. Administrative delays result in the employees getting the impression that the organisation does not view their ideas as worthwhile but it can be minimised with the use of software to manage the process effectively and efficiently.

Feedback should also be given to all stakeholders as is explained in Figure 1. A flow chart (Figure 1) was developed to assist HRM and managers in the suggestion system process. Some interesting responses were discussed and some implications for entrepreneurs were pointed out.

The motivational effect that recognition and rewarding have, must never be under estimated. Therefore, it is concluded that a suggestion system is the perfect tool for HRM and managers on their road to success.

### **IMPLICATIONS FOR HRM AND MANAGERS**

After analysing the data collected it is concluded that HRM and managers should have a much better knowledge of suggestion systems and its value add in their organisations. This would help them understand and interpret also recognition, awards, rewards and the use of non-financial rewards. Although it might not be a written clause in their employment agreement, employees do want to be recognised or rewarded for their efforts and achievements in the organisation under the psychological contract. The manager must ensure that they do not neglect recognising, rewarding and implementation of useable ideas and suggestions. The manager's involvement in the idea generation programmes is of the utmost importance to use suggestion boxes as a tool for successful business; without them supporting the programmes, it is hardly likely that subordinates will come up with new ideas. If there is an air of negativity, it will pervade down to the subordinates with the result that participation dwindles.

HRM and managers are engaged in evaluating the suggestions therefore they are instrumental in determining the advantages of the idea. They should maintain a good relationship with their subordinates, develop the idea generation programmes and motivate them to submit their suggestions. Feedback to suggestors should be documented and entrepreneurs should also become active in the system to make it a success.

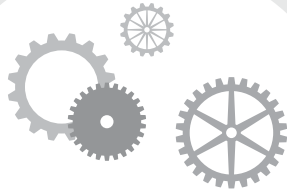


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# MANAGERS' ATTITUDES TOWARDS WORKPLACE TRADE UNIONISM AT A COAL MINING COMPANY

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## ABSTRACT

Trade unionism in South Africa has a history characterised by confrontation and antagonism between the employer and trade unions. However, in the South African contemporary labour relations environment the emphasis has shifted to the creation of constructive and cooperative relations between the employer and trade unions. The literature study cites managers' attitudes towards trade unions as one of the factors that could facilitate genuine interaction and promote productive cooperative management-trade union relations in the workplace. The objective was to assess managers' attitudes towards workplace trade unionism utilising a coal-mining company as a case study. This company has formally recognised three trade unions. The study was conducted pre-Marikana. From a stratified random sample, 78 managers completed the self-administered questionnaire. Exploratory factor analysis yielded three significant factors, namely pluralist (positive attitude and embrace trade unionism), social corporatist (consensus reaching) and unitarist (anti-union). The exploratory study provides valuable insights into manager's attitudes towards trade unionism. It represents original research that contributes new knowledge to the field of management.

## KEYWORDS

Attitudes, Workplace trade unionism, Employee

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## INTRODUCTION

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Since the advent of democracy in South Africa in 1994, the emphasis in labour legislation has been on the promotion of a democratic, peaceful and accommodating workplace (Nel, Kirsten, Swanepoel, Erasmus & Poisat, 2008). In 2005, Horwitz argued that a key challenge facing employment relations in the South African workplace is to shift from a legacy of adversarial relations to more employee participation and workplace cooperation. Basson, Christianson, Dekker, Garbers, Le Roux, Mische and Strydom (2009) concurred. In 2012, Ramphele warned that the relationship between employers and trade unions in the South African mining industry faces confrontational and adversarial relations which may negatively impact the industry's market competitiveness. On 16 August 2012 the labour dispute at one of the Rustenburg mines escalated into what is now termed the "Marikana massacre" during which 34 miners were killed (Coetzer, 2013).

Arguably, the South African current labour legislation framework is more favourable to trade unionism. The Labour Relations Act (LRA) 66 of 1995, as amended (Act 12 of 2002) (Republic of South Africa, 1995) aims to regulate the employer-employee relationship in the workplace. The LRA includes the fundamental workers' right to freedom of association and the right to engage in collective bargaining, conferred by section 27 of the Constitution (Republic of South Africa, 1996). The right to freedom of association entrenches workers' rights to form and join trade unions of their own choice. Furthermore, the legislation has created relatively simple processes for trade unions to register and legitimately participate in the labour relations system. The LRA protects the autonomy of trade unions and grants organisational rights to registered and sufficiently representative trade unions in an effort to enable trade unions to effectively bargain with the employer, to recruit members and to nominate and elect certain employees to represent the union and employees' interests in the workplace (Grogan, 2009). Thus, the LRA is seen (Du Toit et al., 2006) to move the labour relations system away from one based on adversarialism and confrontation towards a more consensus-seeking and consultative relationship between the employer and trade unions.

### PROBLEM STATEMENT

Organisational decision making has traditionally been the domain of management (Williams & Adam-Smith, 2006) and any encroachment on this prerogative is viewed with mistrust or even with hostility (Van Rensburg, 1997). On the other hand, any attempts to exclude trade unions can cause disruptions and instability in the workplace, given the collective power that employees are able to wield against the employer (Williams & Adam-Smith, 2006). The question arises: Do traditional beliefs about trade unions still prevail in companies or has attitudes changed?

### RESEARCH OBJECTIVE

The research objective of the study is to investigate managers' attitudes towards trade unionism at a coal mining company, Anglo Thermal Coal South Africa. This company is heavily unionised and has entered into collective recognition and procedural agreements with three trade unions namely: the National Union of Mineworkers (NUM), the United Association of South Africa (UASA) and Solidarity. These unions have become an integral component of and active participants in the workplace.

Understanding managers' attitudes towards trade unionism at a coal mining company, where trade unions are entrenched, could provide insight into prevailing attitudes which could either hamper or

promote good working relationships between management and the trade union representatives to achieve mutually beneficial strategic goals and objectives. An extensive local and international literature search has revealed that this specific research focus area has not been researched. Thus, the findings could contribute to the body of knowledge.

## LITERATURE REVIEW

To contextualise managers' attitudes about trade unionism, it is essential to understand the environment in which such attitudes are shaped by exploring the nature of trade unionism and the reasons for joining trade unions. In addition, trade unions' statutory recognition in the workplace could impact on managers' attitudes. From the elucidation of the relationship between management and trade unions, four perspectives/attitudes emerged. The literature review concludes with a brief discussion of the role of management in labour relations, as attitudes may be fashioned by management roles.

### The nature of trade unionism – an overview

Any attempt to understand labour relations processes necessitates an understanding of trade unions, of what they are, what they try to achieve, what methods and strategies they utilise and how they are organised (Bendix, 2010). According to Bendix (2010) South Africa's contemporary labour relations system can be traced to the craft brand of trade unionism, imported from Britain and Australia to the South African gold and diamond mining industry during the industrialisation period in the latter part of the 1800s. Historically, trade union activities and union membership was exclusive and limited only to skilled white workers working in the mining and manufacturing industries (Basson et al., 2009) to protect the minority skilled white workers from the encroaching threat of cheap black labour (Venter, 2010). The substitution of black labour for white resulted in a series of racially inclined labour unrests and protests mainly by skilled and semi-skilled white workers, culminating in the biggest strike ever organised by white mineworkers, known as the Rand Revolt of 1922 (Bendix, 2010).

The then government responded by introducing the Industrial Conciliation Act 11 of 1924, which provided for statutory recognition and registration of the trade unions and employer's organisations, however, excluded pass bearing African people (Black males) (Basson et al., 2009). Labour instability was fuelled by increasing militancy and labour unrest by black trade union workers (Venter, 2010).

In the late 1970s, the government appointed the Wiehahn Commission to investigate the prevailing labour legislation and the labour relations system. The commission's recommendations led to the introduction of more liberal and accommodating labour legislation called the Labour Relations Act 94 of 1979 which ended the dual labour relations system, by recognising and allowing black trade unions to participate in the mainstream of the collective labour relations system. In the early 1980s, active unionisation and representation of black mineworkers interests took shape with the formation of the National Union of Mineworkers (NUM) as the largest trade union representing the interests of the majority of black mineworkers (Macun, 2008).

From reviewing the historical developments of trade unionism in South Africa, it is evident that the labour relations system was characterised by confrontation, antagonism and uncontrollable industrial unrests, which were racially based (Basson et al., 2009).



## Reasons for joining trade unions

A trade union is defined in the Labour Relations Act (Republic of South Africa, 1995: 213) as “an association of employees whose principal purpose is to regulate relations between employees and employer, including any employers' organisations, and who may act during any dispute and or matter in its own interest, on behalf of any of its members and in the interest of any of its members”. This definition was expanded upon by Nel et al. (2008) who stated that a trade union represents an organisation created by the workers to protect themselves at their work in order to improve the conditions of their work, including but not limited to better salaries and conditions of employment through collective bargaining with the employer as well as providing a means of expression for the workers' views on broader matters of social and community affairs.

From these definitions it follows that workers may have different reasons for joining a trade union. The desire of non-members for union membership, as well as the perception of workers' satisfaction with their union, depends on a number of factors, including a relative positive return such as delivery of better salaries and improvement on working conditions, demographic characteristics, like age and employer attitudes to unionism (Bryson, 2003). To a large extent, unfulfilled needs may influence workers' decisions to join a union and participate in trade union activities and programmes (Nel et al., 2008). In addition, internal and external factors, such as job security, economic, political and social needs and self fulfilment are likely motivators for workers to belong and or join trade unions (Finnemore, 2009). Finnemore (2009) postulated that a relationship exists between workers' needs and the decisions to join a trade union, as well as the impact on a union achieving its goals. Venter (2010) concurred with the foregoing and stated that workers choose to join a trade union mainly because they seek protection from exploitation by the employer, fulfilment of economic, welfare, social and political needs as well as protection of members' trade status.

## Trade unions' statutory recognition in the workplace

The Labour Relations Act 66 of 1995 (LRA) as amended (Act 12 of 2002) (Republic of South Africa, 1995) provides for organisational rights of unions, including the right of access to the workplace, right to hold meetings in the workplace, right to deduct union subscriptions (stop order facility), right to elect trade union representatives (shop stewards or shaft stewards – in the mining industry), right to take leave for union activities (if union representative) and right to disclosure of information. The rights apply to trade unions that are registered and represent a sufficient proportion of the employees in the workplace.

Trade union representatives fulfil a primary role of creating and maintaining the stability between management and trade unions within the framework of existing rules and regulations (Nel et al., 2008). According to the LRA (Republic of South Africa, 1995), their primary duties are:

- To assist and represent trade union members' labour rights in the workplace
- To monitor the employer's compliance with any law or collective agreement relating to terms and conditions of employment in the workplace and report any alleged contravention thereof
- To perform any other union functions agreed between the union and employer
- To be given reasonable time off, without loss of benefits to undergo relevant training and to perform union duties in the workplace.

In spite of the legislative support, trade unionism is confronted by challenges, such as a high turnover of trade union representatives, and the election of inexperienced trade union representatives relating to their inability to appreciate and cope with the ever changing and complex collective bargaining environment in the workplace (Nel et al., 2008).

### Types of trade unions

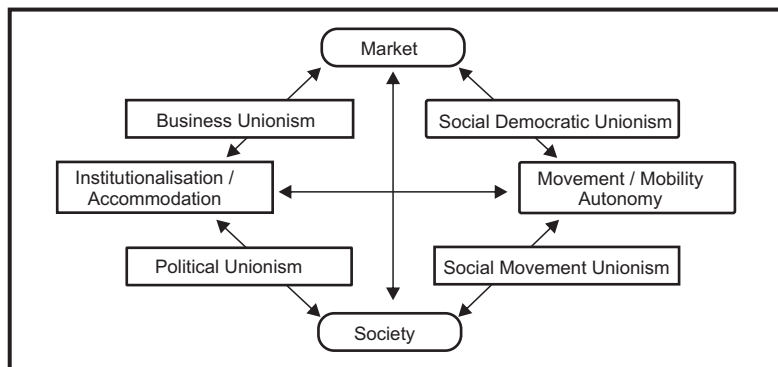
Trade unions can be broadly categorised into craft unions, industrial unions and general unions (Bendix, 2010). Craft unions represent specific trades or occupations, such as plumbers, electricians or boilermakers, to protect their members' trade status and interests (Bendix, 2010).

Industrial unions represent all workers irrespective of trade or profession in a well defined industry or groups of industries (Nel et al., 2008). Industrial unions may either seek to dominate and become the only union for all workers in an industry or to be merely a single-industry union (Bendix, 2010). The National Union of Mineworkers (NUM) is an industry-based union in South Africa's mining and mining related industries.

General unions, such as Solidarity, endeavour to recruit and service members in virtually every industry and company irrespective of the trade, profession or job being performed (Bendix, 2010). Although general unions may have a large membership, they may experience a low power base owing to a low concentration of membership in a particular industry (Bendix, 2010).

Union federations are formed when individual trade unions combine resources. The three largest trade union federations with affiliates operating in different sectors of the economy in South Africa are the Congress of South Africa Trade Unions (COSATU) with a membership of over 1.8 million, the Federation of Trade Unions of South Africa (FEDUSA) and the National Council of Trade Unions (NACTU) (Bendix, 2010). In 2012, the four largest trade unions in South Africa formed part of COSATU, namely: The National Union of Mineworkers (NUM) (310 382 members); The National Union of Metalworkers of South Africa (NUMSA) (291 025 members); The National Education, Health and Allied Workers Union (NEHAWU) (260 738); and The South African Democratic Teachers Union (SADTU) (251 276 members) (COSATU, 2012:6).

Although the LRA confined the role of trade unions to organising and representing workers' interests in the workplace, Fairbrother and Webster (2008) argued that trade unions may be established based on a combination of varying social and market ideological orientations and between institutionalisation and mobilisation forces, as depicted in Figure 1. Within their model emerged four different forms of trade union movements: social movement unionism, political unionism, business unionism and social democratic unionism.



**FIGURE 1: UNION DIMENSION MATRIX**

(Source: Adapted from Munck in Fairbrother and Webster (2008: 312))

While social movement unionism balances workers' workplace interests and community interests, business unionism is characterised by a narrow workplace focus of improving wages and working conditions of its members but refraining from significant socio-political involvement (Bendix, 2010). According to Mantashe (2008), the National Union of Mineworkers (NUM) is a genuine social movement union, while the United Association of South Africa (UASA) and Solidarity have adopted a business unionism dimension. Fick (2009) pointed out that trade unions fulfil a key role as the quintessential civil society organisation.

### **Challenges facing trade unions**

Trade unions form a pivotal part of the employer and employee relationship and cannot be marginalised or ignored as non-existent in the labour relations system (Nel et al., 2008). Trade unions have to adapt to ever changing and evolving economic, technological, political, social and legislative environments (Che Rose, Kumar & Gani, 2008; Buhlungu, 2008). Some of the current key challenges confronting trade union movements include the decline in union membership and union density, globalisation and increasing pressure to lower costs and improve productivity, rising unemployment and anti-union management practices in the workplace. Che Rose et al. (2010) pointed out that trade unions generally derive legitimacy to represent the interests of their members based on a high degree of union membership and union density. Multi-unionism or the existence of several recognised trade unions within a workplace is another phenomenon that can undermine the strength and potential influence of trade unions in the workplace. The existence of multiple unions in the workplace encourages competition for members between trade unions, which can create tension and union apathy among workers (Sinclair, 2006).

### **The relationship between management and trade unions**

In 1995, Barrett warned that for management to obtain the necessary commitment from their workforce and/or their representatives to achieve the desired organisational productivity, it is crucial that they promote an industrial (labour) relations climate or a system based on cooperative management-trade union workplace relations.

Traditionally different perspectives of labour relations systems were identified by the early industrial relations theories, namely: unitarist, pluralist, radical and societal corporatism (Finnemore, 2009). Nel et al. (2009) linked the different ideological perspectives to the cooperation and common ground dynamics of the employment relations and ultimately the influence on the management-trade union relationship in the workplace, resulting in either negative and destructive or more positive and constructive modes of interactions. The four perspectives are discussed briefly.

### **The unitarist perspective**

In terms of the unitarist perspective, an organisation is composed of a unified and integrated group of people with common interests and purpose. Management and all participants (including trade unions) share a common set of values, interests and objectives, thus not allowing for opposing groups in the workplace (Finnemore, 2009). From this perspective, trade unions are regarded as unnecessary and dysfunctional (Nel et al., 2008). Such a perspective can be viewed as anti-unionism and could result in an uncooperative management-trade union relationship.

### **The pluralist perspective**

The pluralist perspective recognises that there is an imbalance of power within an organisation owing to divergent views, interests and objectives of the distinct group of people (Nel et al., 2008). Conflict is acknowledged and accepted as a key ingredient of the process. Under the pluralist perspective management should embrace trade unionism as part of the employment relationship and attempt to engage the unions in a more positive and cooperative approach.

### **The radical perspective**

The radical perspective is grounded in Marxist philosophy and thus promotes an order in which productive capacity and the productive outputs thereof are owned by and shared among the people (Venter, 2010). It presupposes that the majority of the people – the working class – are oppressed by a few private individuals who control productive capacity (including land, capital and labour) and manipulate this capacity for personal gains. Accordingly, industrial conflict reflects wider socio-political and economic divisions and trade unions should be seen as agents for societal change in response to capitalism.

### **The societal corporatism perspective**

Under societal corporatism the two primary role players in the labour relationship (employer and labour) interact in greater consensus-building rather than adversarial relations and interdependence between all role players (including the state) is acknowledged and promoted to achieve long-term goals (Venter, 2010). Accordingly, trade unions retain their autonomy and engage in militant action to express their dissatisfactions when they deem it necessary.

The research focused on the assessment of management's attitudes with regard to these four attitudes. To conclude, the attitudes and style of management can threaten the collective traditions of trade unionism in the workplace (Hollinshead, Nicholls & Tailby, 1999).

### **The role of management in labour relations**

Management can be defined as the people responsible for assisting the organisation to achieve its objectives and for creating and implementing its plans through the process of planning, organising, leading and controlling the efforts of the organisational workforce and by utilising available organisational resources (Hannagan, 2005; Bartol & Martin in Nel et al., 2009).

In labour relations theory, it is acknowledged that managers, given their positions of authority in an undertaking, have become accepted as the representative employers of an organisation and will actively interact with other role players, including employees and their trade union representatives in the workplace, in pursuit of the employers' interests and goals (Bendix, 2010; Nel et al., 2009). Although the primary goal remains that of maximising the organisation's profit potential, Bendix (2010) asserted that there may be a diversity of goals.

In as much as management may care sufficiently for the interests of its employees, they may adopt differential treatment of trade unions as representatives of employees in the workplace (Bendix, 2010). To a large extent this differential treatment may be influenced by management's attitudes

towards trade unions, resulting in either adversarial or cooperative modes of relations in the workplace which might negatively or positively impact on the organisation's labour relations climate. To this end, Bendix (2010) asserted that a trade union in the workplace is still perceived by some managers as a potential obstacle in carrying out their managerial duties. This point was earlier raised by Van Rensburg (1998) who argued that management generally regards it as its prerogative to manage the business and any encroachment on this prerogative is viewed with mistrust or even with hostility.

Drawing from the pluralist frame of reference, trade unions are viewed as the legitimate representatives of employees' interests in the workplace and management have to accept them as such and learn to accommodate them so as to promote and maintain harmonious and peaceful relations in the workplace (Bendix, 2010).

## **RESEARCH QUESTION**

From the preceding discussion the question arises: Do current managers have a unitarist, pluralist, radical or societal corporatism perspective regarding trade unionism? The research question for this case study is: What are managers' attitudes towards workplace trade unionism at Anglo Thermal Coal South Africa?

## **RESEARCH METHODOLOGY**

A pragmatist research philosophy was adopted as the most important determinant of the epistemology, ontology and axiology was the research question (Saunders, Lewis & Thornhill, 2009). In developing the research design, the purpose of the study, which can be broadly classified as exploratory, descriptive or explanatory is considered (Babbie & Mouton, 2009). The descriptive approach is adopted as it is used to provide accurate and precise descriptions of the observed persons, situations and variables (Babbie & Mouton, 2009). A specific case, Anglo Thermal Coal South Africa, was selected for reasons explained earlier. For this case, a survey strategy was selected to collect cross-sectional quantitative data about managers' attitudes towards workplace trade unionism, which can be analysed quantitatively using descriptive and inferential statistics (Saunders, Lewis & Thornhill, 2009).

### **Research population**

A population is the theoretically specified aggregation of study elements (Babbie & Mouton, 2009). The population of this study consists of all (a total of 501) senior-level and mid-level managers employed in permanent positions across the operations of the selected company, Anglo Thermal Coal South Africa.

### **Sampling**

The basic process of sampling involves any procedure of selecting a small number of items or sampling units of the population to draw conclusions regarding the entire population (Zikmund et al., 2010). A sample is defined as a subset of all members of a target population (Wegner, 2007). Two basic methods of sampling are identified, namely probability and non probability sampling (Babbie & Mouton, 2009). Probability sampling allows every member of the target population to have a calculable chance of being included in the sample (Groebner, Shannon, Fry & Smith, 2011). Some examples of probability sampling include simple random sampling, stratified random sampling and systematic sampling. By contrast, non-probability sampling method select samples by using convenience, judgement, or other non-chance processes (Groebner et al., 2011).

A stratified random sampling method was used with the stratus being the ten business units and seniority level (senior and mid-level managers). The company's updated human capital labour report, containing a list of all senior and mid-level management personnel, including the company number, name and surname, position name and position level as well as the name of the operation (business unit), was used as the sampling frame of the study. A sampling frame is the list on which each unit of analysis is mentioned once and from which a probability sample is selected (Babbie & Mouton, 2009). From the sampling frame of 501 units of analysis, the sample of 150 (30 per cent) managers was selected; 15 managers were randomly selected from each of the ten business units. Of the 150 self-administered questionnaires distributed electronically to the selected participants, 78 completed questionnaires were returned (51% response rate).

### Measuring instrument

To collect primary data a structured questionnaire consisting of closed questions was developed from the literature review, as no existing measurement instrument could be found. Section A focused on biographical information. For sections B1 and B2 a five-point Likert-type scale was used as it is an appropriate method of measuring attitude (Zikmund et al., 2010). In section B1 (6 questions) respondents had to indicate their level of agreement or disagreement regarding statements dealing with awareness and perceptions of the concept trade unionism, while section B2 (19 questions) focused on general attitudes towards trade unionism in the workplace. The questions in B1 and B2 were gleaned from the discussions on the reasons for joining trade unions; the latter's statutory recognition in the workplace; the relationship between management and trade unions; and the role of management in labour relations.

For the purposes of ethical clearance, approval to conduct the study was obtained from the case company. The completion of the questionnaire was anonymous and confidentiality assured.

### Validity and reliability

To increase the validity of the questionnaire and ensure that it accurately measured what it was intended to measure (Saunders et al., 2009), input was obtained from various employee relations and human resource experts in the coal mining industry, as well as from the relevant academics at the University of Johannesburg.

### Data analysis

The data were subjected to data editing, data coding and statistical adjustment prior to analyses using the Statistical Package for the Social Sciences (SPSS) for descriptive statistics and factor analysis.

## RESULTS

First the respondents are biographically profiled, followed by the description and results of the factor analysis.

### Biographical profile of respondents

Respondents at Anglo Thermal Coal South Africa were requested to provide their biographical information including gender, age group, race, highest educational level, position level, department as well as the business unit where currently employed. With relevant biographical data it would be possible to determine the representativeness of the respondents and uncover possible significant relationships.



The questionnaire was distributed to the selected senior and middle-level managers. Of the 78 managers who responded, the majority (85.9%) are from middle management while the remaining 14.1% hold senior management positions.

With regard to gender distribution, of the 78 respondents, 65 (83.3%) are males and 13 (16.7%) females. This reflects the gender distribution in the coal mining industry. Just under a half (45.5%) of the respondents falls in the age bracket of 30-39 years, followed by the age bracket of 40-49 years (27.3%). The respondents aged 50 and older comprise 15.6%, while those under 29 comprise the remaining 11%. The ethnic distribution of the respondents lean towards blacks (48.7%), followed closely by whites (43.6%), then coloureds (5.1%) and Indians (2.1%).

As many as 39.7% of the respondents has a post-graduate degree as their highest qualification, with a further 16.7% with an undergraduate degree – a total of 56.4% with degrees. A further 35.9% has a post-matric diploma or certificate. A small percentage (7.7%) of the respondents has only passed grade 12 or grades below grade 12.

The 78 respondents are from four departments: 36 (46.2%) from the support services departments comprising of human resources, finance, administration and technical services; 22 (28.2%) from mining – a production department; 19.2% from engineering and 6.4% from metallurgy.

Respondents are from all ten business units: Kriel (14.1%), Landau (14.1%), Greenside (14.1%), Isibonelo (12.8%), New Vaal (11.5%), Mafube (10.3%), Kleinkopje (10.3%), New Denmark (5.1%), Zibulo (3.8%), and Goedehoop (3.8%).

In summary, in terms of the demographic characteristics of the respondents, the majority of the respondents are middle-level managers (85.9%), mostly males (83.3%) and mostly black (48.7%). Most (45.5%) of the respondents fall between the age group 30-39 years, with the highest educational level being a post-graduate qualification (39.7%). The data indicate that the majority (46.2%) of the respondents are employed in the support services departments. The respondents are from all ten business units, but mostly from Kriel, Landau and Greenside.

## Factor analysis

The main aim of factor analysis is to reduce a large number of variables to yield a smaller manageable set of related variables (Pallant, 2007). The 23 items from B1 and B2 were subjected to principal component analysis (PCA) using SPSS version 20. Further, items were forced to three factors based on items measuring three positions and inspection of the Scree plots. The suitability of data for the exploratory factor analysis was assessed: the correlation matrix revealed the presence of many coefficients of 0.3 and above; the value of the Kaiser-Meyer-Olkin measurement of sampling adequacy was 0.841, exceeding the recommended value of 0.6; and Barlett's Test of Sphericity was statistically significant, supporting the factorability of the correlation matrix. The Eigen values are all exceeding 1.0 and therefore acceptable. The Varimax with Kaiser Normalization rotation method was used to obtain a better loading of the factors. Of the 23 items one item was discarded.

The rotated matrix for the three factors is shown in Table 1. The three-component solution explains a total of 57.9% of the variance, with component 1 contributing 39.3%, component 2 contributing 10.1%, and component 3 contributing 8.4%.

**TABLE 1: ROTATED COMPONENT MATRIX FOR PCA WITH VARIMAX ROTATION OF THREE FACTOR SOLUTION OF TRADE UNION ATTITUDE ITEMS**

Items	Component		
	1	2	3
B1.4 Trade unions not only better their members' economic conditions but also contribute to the welfare of society	<b>.777</b>	.180	-.208
B1.6 Trade unions play a positive role in promoting health and safety in our workplace	<b>.743</b>	.258	-.002
B1.2 It is necessary for employees to form and join trade unions to protect and promote their collective interests in the workplace	<b>.732</b>	.224	.063
B2.8 Trade unions always make meaningful and constructive proposals and suggestions in our workplace	<b>.593</b>	-.032	-.462
B1.5 Trade union representatives (shop stewards) should be given reasonable time off to perform union activities	<b>.579</b>	.330	-.242
B2.12 In our working environment, management and trade unions share common objectives	<b>.567</b>	.068	-.299
B2.2 Trade unions' demands regarding salaries and other working conditions for members are fair and reasonable	<b>.548</b>	-.157	-.294
B2.4 In general, management should involve and consult with trade unions in making decisions in the workplace	<b>.531</b>	.391	-.158
B1.1 Trade unionism should be embraced and accommodated in our workplace	<b>.527</b>	.502	-.265
B2.17 In our workplace, trade unions help management to solve operational problems	<b>.520</b>	.376	-.421
B2.9 Good management-trade union relations should be promoted and encouraged	.086	<b>.849</b>	-.068
B2.7 It is important for management to be transparent and share relevant information with trade union representatives	-.063	<b>.771</b>	-.193
B2.18 I am committed to working with trade union representatives in my work area	.285	<b>.723</b>	-.112
B2.14 It is important for management and trade unions to work together to achieve desired productivity and performance goals	.210	<b>.674</b>	-.122
B2.19 Cooperative and constructive management-trade union relationship contribute to general good organisational climate	.478	<b>.602</b>	-.224
B2.11 The company is better off without trade unions	-.435	<b>-.525</b>	.356
B2.5 In our workplace, trade unions have too much power	-.197	.008	<b>.846</b>
B2.1 In our workplace, trade unions are allowed too much freedom	-.084	-.078	<b>.787</b>
B2.6 Trade unions are a disruptive and dysfunctional force in the workplace	-.282	-.179	<b>.763</b>
B2.13 In our workplace, trade unions complicate my managerial job functions/duties	-.087	-.249	<b>.730</b>
B2.15 Employees form or join trade unions to fight management	-.198	-.350	<b>.557</b>
B2.16 I do not trust trade union representatives	-.171	-.312	<b>.542</b>

Extraction method: Principal Component Analysis

The Cronbach's alpha coefficient, a measure of the internal consistency of a test or scale, for each of the three factors is greater than 7 (table 2).

**TABLE 2: CRONBACH'S ALPHA COEFFICIENTS AND SUMMARY STATISTICS FOR THE THREE FACTORS**

Factor	Cronbach's alpha coefficient	Mean	Standard deviation
F1: Pluralist	0.855	3.318	0.650
F2: Societal corporatist	0.848 (B2.11 reversed)	4.068	0.579
F3: Unitarist	0.848	2.953	0.806

## CONCLUSIONS

A major contribution of the study is the identification and definition of three factors underlying managers' attitudes and perceptions of trade unionism in the workplace at the coal mining company, Anglo Thermal Coal South Africa, selected as a case study. The discussion of the three factors follows.

### **Factor 1: Pluralist perspective (positive attitude and embrace trade unionism)**

The ten items that loaded on the first factor relate to the pluralist attitude of managers towards trade unionism. The pluralist tends to have a positive attitude towards trade unionism as evident from the following items that loaded on this factor: trade unions not only better their members' economic conditions but also contribute to the welfare of society (B1.4); trade unions play a positive role in promoting health and safety in our workplace (B1.6); trade unions always make meaningful and constructive proposals and suggestions in our workplace (B2.8); in our working environment, management and trade unions share common objectives (B2.12); trade unions' demands regarding salaries and other working conditions for members are fair and reasonable (B2.2); and in our workplace, trade unions help management to solve operational problems (B2.17). Not only do pluralists have a positive attitude towards trade unionism but their attitude is one of embracing trade unionism in the workplace and promoting cooperation with and support of trade unions as confirmed by the following items that loaded on this factor: it is necessary for employees to form and join trade unions to protect and promote their collective interests in the workplace (B1.2); trade union representatives (shop stewards) should be given reasonable time off to perform union activities (B1.5); in general, management should involve and consult with trade unions in making decisions in the workplace (B2.4); and trade unionism should be embraced and accommodated in our workplace (B1.1). These ten items afford a rich depiction of the attitude of a pluralist towards trade unionism, while expanding upon the description provided by Nel et al. (2008).

### **Factor 2: Societal corporatist perspective (consensus reaching)**

The six items that loaded on the second factor relate to the societal corporatist perspective towards trade unionism. The societal corporatist seeks collaboration and constructive engagement between the parties as is apparent from the following items that loaded on this factor: good management-trade union relations should be promoted and encouraged (B2.9); it is important for management to be transparent and share relevant information with trade union representatives (B2.7); cooperative and constructive management-trade union relationship contribute to general good organisational climate (B2.19); and the company is better off without trade unions (B2.11 – reversed). Not only should there be cooperation, but a personal commitment to cooperation and performance achievement as is obvious from the following items: I am committed to working with trade union representatives in my work area (B2.18); and it is important for management and trade unions to work together to achieve desired productivity and performance goals (B2.14). These items are in line with the description by Venter (2008), but add breadth and depth to the definition of the societal corporatist.

### Factor 3: Unitarist perspective (anti-union)

The six items that loaded on the third factor relate to the unitarist perspective towards trade unionism. The unitarist has negative attitudes towards the activities of trade unions, specifically in the workplace, as is unmistakable from the following items that loaded on this factor: in the workplace, trade unions have too much power (B2.5); in the workplace, trade unions are allowed too much freedom (B2.1); trade unions are a disruptive and dysfunctional force in the workplace (B2.6); and in our workplace, trade unions complicate my managerial job functions/duties (B2.13). In addition, a unitarist is of the opinion that employees form or join trade unions to fight management (B2.15) and does not trust trade union representatives (B2.16). These items elaborate on Nel et al.'s (2008) and Finnemore's (2008) descriptions of the unitarist as a manager that regards trade unions as unnecessary and dysfunctional and support the findings of Bendix (2010) that trade unions are perceived as an obstacle to completing managerial responsibilities.

#### Correlation between factors

A significant positive correlation exists between the pluralist and societal corporatist factors (table 3), while these two factors, in turn, correlate negatively with the unitarist. This is to be expected as some similarity in definition is evident between the pluralist and societal corporatist, while the unitarist adopts a diametrically opposite stance. The correlation between pluralist and societal corporatist is significant at the  $p < 0.001$  level, and so too the correlation between the pluralist and the unitarist. The correlation between the unitarist and the societal corporatist is significant at the  $p < 0.01$  level.

TABLE 3: CORRELATIONS BETWEEN FACTORS

	Pluralist	Societal corporatist	Unitarist
Pluralist	-	0.608	-0.567
Societal corporatist		-	-0.507
Unitarist			-

#### Strong and weak relationships between the three factors

One-way repeated measures analysis of variance (ANOVA) (using Chi-square tests) was used to compute for the three-factor model three variables measuring 'strong' and 'weak', unitarist, pluralist and societal corporatist attitudes. The classification of 'weak' or 'strong' is derived by splitting each variable into two groups at the median (in other words for each of the three attitudes about half the cases will be 'weak' and 'strong' depending). The results in table 4 confirm the correlation analysis (Fischer's Exact Test:  $p < 0.000$  significance) and show that when a manager is 'strongly' or 'weakly' pluralist they are also likely to be 'strongly' or 'weakly' societal corporatist, respectively. From table 4 it is evident that 41% of the responding managers are simultaneously 'strong' pluralists and 'strong' societal corporatists.

**TABLE 4: STRONG AND WEAK RELATIONSHIPS BETWEEN PLURALISTS AND SOCIETAL CORPORATISTS**

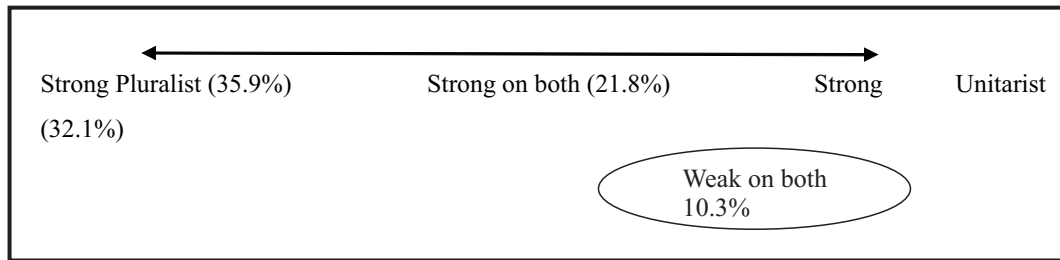
Recoded three factors: pluralist		Recoded three factors: societal corporatist		Total
		Weak	Strong	
Weak	Count	27	6	33
	% within: pluralist	81.8%	18.2%	100.0%
	% within: societal corporatist	67.5%	15.8%	42.3%
	% of Total	34.6%	7.7%	42.3%
Strong	Count	13	32	45
	% within: pluralist	28.9%	71.1%	100.0%
	% within: societal corporatist	32.5%	84.2%	57.7%
	% of Total	16.7%	41.0%	57.7%
Total	Count	40	38	78
	% within: pluralist	51.3%	48.7%	100.0%
	% within: societal corporatist	100.0%	100.0%	100.0%
	% of Total	51.3%	48.7%	100.0%

When managers are strongly unitarist, they are much less likely to be strongly pluralist or societal corporatist. These managers would presumably be consistently pro or anti union depending on their mainly pluralist / societal corporatist or unitarist attitude. However, there are some managers who are both strongly unitarist and strongly pluralist (table 5 - Fischer's Exact Test:  $p < 0.001$  significance), suggesting that they are conflicted in their attitude toward trade unionism. This may lead to them vacillating between being anti or pro trade union depending on the situation.

**TABLE 5: STRONG AND WEAK RELATIONSHIPS BETWEEN PLURALISTS AND UNITARIST**

Recoded three factors: pluralist		Recoded three factors: unitarist		Total
		Weak	Strong	
Weak	Count	8	25	33
	% within: pluralist	24.2%	75.8%	100.0%
	% within: unitarist	22.2%	59.5%	42.3%
	% of Total	10.3%	32.1%	42.3%
Strong	Count	28	17	45
	% within: pluralist	62.2%	37.8%	100.0%
	% within: unitarist	77.8%	40.5%	57.7%
	% of Total	35.9%	21.8%	57.7%
Total	Count	36	42	78
	% within: pluralist	46.2%	53.8%	100.0%
	% within: unitarist	100.0%	100.0%	100.0%
	% of Total	46.2%	53.8%	100.0%

From the information in table 5, the responding managers can be distributed along a continuum (figure 2) according to their attitudes of pluralism and unitarism.



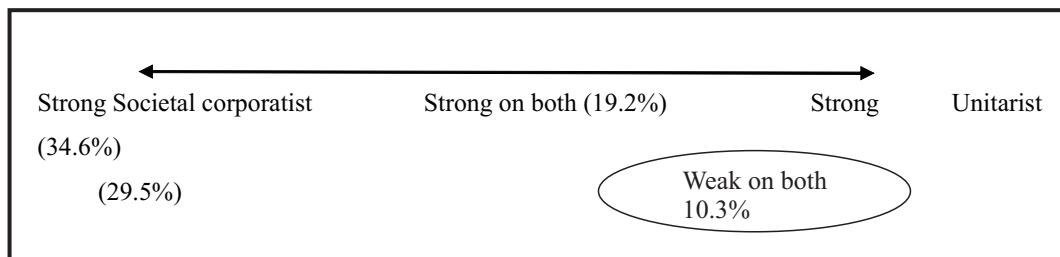
**FIGURE 2:** DISTRIBUTION BY MANAGERS' ATTITUDES: PLURALISTS VERSUS UNITARISTS

Some other managers are both strongly unitarist and strongly societal corporatist (table 6 - Fischer's Exact Test:  $p < 0.012$  significance), suggesting that they too are inconsistent in their attitude toward trade unionism. Whereas they may favour trade unionism with regard to specific issues or situations, at other times they may display an anti-union stance.

**TABLE 6:** STRONG AND WEAK RELATIONSHIPS BETWEEN SOCIETAL CORPORATISTS AND UNITARIST

Recoded three factors: societal corporatists		Recoded three factors: unitarist		Total
		Weak	Strong	
Weak	Count	13	27	40
	% within: societal corporatists	32.5%	67.5%	100.0%
	% within: unitarist	36.1%	64.3%	51.3%
	% of Total	16.7%	34.6%	51.3%
Strong	Count	23	15	38
	% within: societal corporatists	60.5%	39.5%	100.0%
	% within: unitarist	63.9%	35.7%	48.7%
	% of Total	29.5%	19.2%	48.7%
Total	Count	36	42	78
	% within: societal corporatists	46.2%	53.8%	100.0%
	% within: unitarist	100.0%	100.0%	100.0%
	% of Total	46.2%	53.8%	100.0%

From the information in table 6, the responding managers can be distributed along a continuum (figure 3) according to their attitudes of societal corporatism and unitarism.



**FIGURE 3:** DISTRIBUTION BY MANAGERS' ATTITUDES: SOCIETAL CORPORATISTS VERSUS UNITARISTS



## **Significant differences between the factors and the biographical information**

There are significant differences in rating of pluralist, societal corporatist and unitarist factors by some of the demographic variables. With regard to ethnicity, white managers have a significantly higher unitarist score than black/Indian/coloured managers, while the latter have a significantly higher score for pluralist and societal corporatist (Mann-Whitney U test). With regard to level of education, managers with lower levels of education (grade 12, post-matric diploma) have a significantly higher unitarist score than those with higher education level (under- or postgraduate degrees) (Mann-Whitney U test). With regard to the department where managers are located, managers from the service support department had a significantly higher pluralist score than managers from the mining, engineering and metallurgy departments (Kruskal-Wallis Test). No significant differences were found with regard to gender, age, management position (senior or middle), mine location or degree of unionisation.

A limitation of the study, at the time of conducting the research, was the lack of literature on managers' attitudes towards trade unionism and trade unions in the South African context. Owing to the extensive scope and complexity of the topic under research, it was not the intention of this study to explore every aspect of trade unionism in the workplace. The study of managers' attitudes and perceptions towards trade unionism was limited to only one specific company and two management levels at the company, therefore the results cannot be generalised.

## **RECOMMENDATIONS**

In heeding the warning from William and Adam-Smith (2006) that any attempt by management to exclude and marginalise trade unions can cause too much disruption and instability in the workplace, given the collective power that employees are able to wield against the employer, it is recommended that mining companies investigate the attitudes and perceptions of the managers towards trade unionism, in relation to the three factors identified in this exploratory study, namely pluralist, societal corporatist and unitarist. Whereas the pluralist has a positive attitude towards trade unionism and embraces it, the societal corporatist goes one step further, by personally supporting and promoting collaboration between management and unions. Ideally, the mining company in this case study should strive to inculcate the societal corporatist attitude among their managers as this attitude is more outcomes oriented, striving towards performance achievement. What the case mining company should try to eradicate is the unitarist view, which is an attitude diametrically opposite to that of the pluralist and societal corporatist. It is an attitude that could contribute to worsening workplace relationships between managers and unions.

A disconcerting fact that emerged from the analysis of the distribution of the managers' attitudes is that the attitudes of these managers are not necessarily consistent. Some managers seem to have conflicting attitudes, such as being both a 'strong' pluralist and a 'strong' unitarist, or being both a 'strong' societal corporatist and a 'strong' unitarist. It is possible that the attitudes of these managers oscillate between for and against unions depending on specific issues or circumstances. Further research is required to find out which issues or circumstances cause modifications in attitudes toward trade unionism. It does imply, though, that the case mining company should not assume that if a manager exhibits a pluralist or societal corporatist attitude in one situation, that this could be the expected behaviour of such a manager at all times and in all situations. It would therefore not be sufficient for the case mining company to merely classify managers according to the three factors for the purposes of understanding subsequent behaviours relating to trade unionism.

Although the findings revealed that the attitudes and perceptions of the managers were predominantly positive regarding the principles of trade unionism, it is the day-to-day operational issues that need further attention. In order to eradicate the perceived destructive role of the trade

unions, and increase the perception of their constructive role, it is recommended that the case mining company draft clear guidelines as to the responsibilities of trade union representatives in the work place. It is further recommended that the involvement in decision making by trade union representatives be resolved with management, to avoid any repercussions, in particular as multiple unions have representation in this mining company.

The research findings further indicate that managers seem to attach importance to a more cooperative and constructive management–trade union relationship building in the workplace. This suggests that there should be greater emphasis on promotion of healthy cooperative management–trade union relations in the workplace to improve managers' attitudes towards trade unionism in the workplace at the case mining company.

The management of the case mining company could compile a strategy document which should reflect, among others, management attitudes towards individual and collective labour relationships (recognised trade unions) and indicate how managers should conduct their relations with recognised trade unions in the workplace. Increased emphasis should be placed on greater cooperation and constructive management–trade union relationship which may positively impact the labour-relations climate at this mining company.

It seems that management at the case mining company should adopt more of a societal corporatist philosophy to genuinely involve recognised trade unions through existing consultative and participatory forums and structures, and recognise the trade unions' valuable role and inputs towards achievement of this mining company's strategic objectives. Perhaps if such an approach was adopted by a specific mining company in Rustenburg, “Marikana” could have been prevented. If this study could be repeated, it could reveal interesting findings whether a change in attitudes occurred, post-Marikana.

This study should be repeated at other coal mines, as well as other types of mines. Further future research could focus on investigating the perceptions of employees and their union representatives in terms of management style and conduct when dealing with the trade unions in the workplace.



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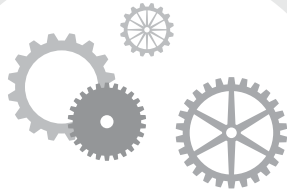
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# THE USE OF THE BALANCED SCORECARD TO ENHANCE PERFORMANCE CULTURE IN A NEW ZEALAND INFORMATION TECHNOLOGY ORGANISATION

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## ABSTRACT

This paper shed light on how managers can use the balanced scorecard to transform low performing information technology service teams into highly productive and profitable units that meet customer service expectations. Two research questions are answered: what were the major drivers of low business performance, and how were they addressed? How did managers get the necessary buy-in from employees for the balanced scorecard to be successful? An exploratory research was executed covering three years of the balanced scorecard implementation in a New Zealand Information Technology Service Organisation interviewing managers, employees and a customer director. Some findings are: a lack of process and management leadership; communication was poor; relationships between engineers, managers, Medicare and NZIS were also tensed and distrustful. Some recommendations are made and the conclusions form the last part of the paper.

## KEYWORDS

Balanced scorecard, Human resource management, Development, Leadership

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## INTRODUCTION

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As the economic climate has become increasingly turbulent, businesses seek to keep ahead of the competition by working faster and smarter; by raising productivity levels per employee while, at the same time, increasing innovation and minimising costs (Chavan, 2009). Employment security is no longer guaranteed, and loyalty from employees is no longer a given. Companies have always faced many challenges, but at no other time have the business challenges become more pronounced, with rapid and volatile change, as in the 21st century (Du Plessis, 2009; Du Plessis, Paine, Botha, 2012; Jørgensen, Owen, & Neus, 2009).

For knowledge-based industries, of which information technology companies are part, it has become increasingly clear that the best way to maintain a sustained competitive advantage is to develop and effectively deploy the knowledge-based resources they have to the advantage and benefit of their customers (Grundy, 2006; Lee & Lee, 2007; Perez & Pablos, 2003). At the heart of the business are managers who must deliver required services to increasingly demanding customers, through employees having differing levels of understanding, personalities, backgrounds and abilities. For the purposes of this study the organisation will be referred to as NZIS; the real name of the organisation and its employees will not be revealed, due to confidentiality requirements.

### **Background of the surveyed organisation**

The researcher is working in this organisation hence the background is from his point of view. This research project was an exploratory research covering the three years of the balanced scorecard implementation in the business unit of the New Zealand Information Technology Service Organisation. The researchers are not aware of any similar research ever having been done in an information technology service organisation within New Zealand, hence the exploratory nature of this particular research.

In 2004 NZIS was successful in securing a large outsourcing contract to provide information technology support services for Medicare Insurance, a major provider of private healthcare services and insurance in New Zealand. It was the first time that the customer had outsourced the management of its information technology infrastructure on such a scale. The outsourcing agreement required NZIS to manage the entire infrastructure for the customer, and the outsourcing contract prescribed response expectations, in a service level agreement (SLA), for finding solutions to problems and issues that could arise from time to time. SLAs are standard practice in information technology outsourcing contracts.

NZIS inherited an infrastructure system that was unstable, and a system environment that they were not familiar with. The company embarked on a number of projects which were meant to bring stability to the system and reduce the number of system faults resulting in priority one (P1) incidents. Priority one incidents are software, hardware or system faults that result in service disruptions to a number of business users or their customers. On the NZIS side, the morale and commitment was initially high as these projects were embarked on, but as some issues persisted, and the number of P1 incidents continued - which the customer had expected to be quickly eliminated, the customer's satisfaction levels went down, bringing about the possibility that the outsourcing contract could be lost. The persistent issues affected the morale, and productivity of NZIS engineers. NZIS account managers were under increasing pressure to meet ever-changing customer expectations.



NZIS has grown in business turnover and staff numbers; an interest has developed in how to more effectively manage its human and information technology resources. The need for more effective managers and a highly engaged workforce has never been greater. The increasing trend of encouraging and sending managers to management courses provides a strong indication that NZIS sees its workforce as a major source of competitive advantage that it can capitalise on through effective management.

HRM and managers face complex business environments in which there are many competing interests. Working out how to make the best use of the intellectual capital they have at their disposal in the form of existing productivity tools and employee knowledge to drive productivity can be a major challenge for many of them. This research considers how the balanced scorecard can be used to enhance performance culture in such an environment.

## **PROBLEM INVESTIGATED**

The core of the problem is how to efficiently meet the ever-changing needs of customers who are demanding higher performance, higher productivity and better service, while keeping abreast with developments in technology, legislation and the economy. The main question: how can managers use the balanced scorecard to transform low performing information technology service teams into highly productive and profitable units that meet customer service expectations? Two more research questions came to the fore: what were the major drivers of low business performance, and how were they addressed? How did managers get the necessary buy-in from employees for the balanced scorecard to be successful?

## **RESEARCH OBJECTIVES**

The main objective is to understand the reasons why customer expectations could not be met as a result of stymied team dynamics and to identify and address the key drivers of employee disengagement to improve organisational performance. High performance organisations have highly motivated employees; it can be inferred that the balanced scorecard cannot effectively work in an organisation which has an unhappy and disengaged workforce. Therefore the objective is to identify and investigate the drivers of disengagement in this particular team, and how management won the hearts and minds of the employees, thereby enabling the successful implementation of the balanced scorecard.

## **LITERATURE REVIEW**

### **Background of the balanced scorecard**

The original use of the balanced scorecard was to monitor a range of performance measures in an organisation, as opposed to just financial measures which offer a historical, but limited, view of an organisation's performance (Chavan, 2009; Dribin, 2009; Kaplan, 2009). The range of measures results in a balanced view of organisational performance. This view of organisational performance assists managers to know where to focus their attention, without doing so at the expense of something else important.

Given the fact that most organisations which adopt the balanced scorecard approach experience a high failure rate (Ittner & Larcker, 2003; Jørgensen, et al., 2009; Smith, 2005), this research identifies the initiatives and management approaches that were cumulatively critical for the

successful transformation of the business unit into one having a culture of high employee productivity and engagement.

### **What is the Balanced Scorecard?**

The balanced scorecard is a management tool that enables managers to manage organisational operations more effectively through the use of a balanced set of measures. The concept of the balanced scorecard was introduced by Robert Kaplan and David Norton in a Harvard Review publication in 1992 entitled “The Balanced Scorecard: Measures That Drive Performance”. It advocates a departure from the traditional emphasis on financial performance measures, and proposes adding operational measures which strongly affect the behaviour of managers and employees (Kaplan & Norton, 1992).

The balanced scorecard concept claims that no single measure can provide a clear performance target for a business, or focus attention on the critical areas the business needs to address. It is based on the understanding that you get what you measure, and that you cannot improve what you cannot measure (Elg & Kollberg, 2009; Kaplan, 2009; Kaplan & Norton, 2005). The scorecard approach proposes that we seek to understand and measure the key factors which drive value-creation in an organisation. It aims to present management with a summary of key performance indicators of a business and provide a rich set of measures with which they can effectively evaluate business performance (De Geuser, Mooraj & Oyon, 2009). The summary of key success factors then acts as an operational dashboard which business managers can use to make tactical decisions that successfully drive the business forward.

Through the use of the balanced scorecard, managers should not be overwhelmed with complexity, as they should have a handful set of balanced key performance indicators. This allows them to have an overview picture of organisational performance with minimal risk of overlooking something important. The balanced scorecard concept encourages managers to look at a business from four perspectives. These are: the financial perspective; the customer perspective; the internal business process perspective; and the learning and growth perspective (Ahmed, Ahmed, Nawaz, Dost & Khan 2011; Kaplan & Norton, 1992; Pang-Lo & Chih-Hung, 2007).

### **Financial Perspective (How does NZIS look to shareholders?)**

The balanced scorecard approach retains traditional financial measures. The financial perspective considers business profitability, the return on investment, cash flow, growth, shareholder value and so on (Ahmed et al., 2011; Kaplan & Norton, 1992; Kaplan & Norton, 2005). These financial indicators are lagging indicators, which are not a good predictor of the future. Lagging indicators only alert us when things have gone wrong and the effect is already being felt by the business and the balance sheet. Such indicators do not provide proactive feedback for NZIS.

Chavan (2009) goes further to say that a focus on financial indicators can cause organizations to do wrong things. An example of financial indicators causing organizations to do the wrong things could be when an organization focuses on short-term profits instead of investing in order to obtain greater revenues and profit over the long term.

### **The Customer Perspective (How do customers see NZIS?)**

The customer perspective considers measures for retaining and meeting customer satisfaction, as well as product expectations (Ahmed et al., 2011). Strategies for creating and maintaining customer relationships necessary for keeping current customers and acquiring new ones are the main focus. This perspective includes measures and factors that matter to customers, such as how the customers view NZIS in terms of efficiencies, cost, quality of products and services (Chavan, 2009; Kaplan, 2009). Market share considerations, customer performance, brand reputation and the company image are taken into account here.

### **Internal Business Processes Perspective (What must NZIS excel at?)**

The internal business perspective focuses on the processes, decisions and actions that are necessary for NZIS to meet customer and shareholder expectations (Ahmed et al., 2011; Kaplan & Norton, 1992). For shareholder and customer-based measures to be met there must be other measures and processes that must be executed internally (Kaplan & Norton, 2005). Without effective internal processes, NZIS will struggle to meet shareholder and customer expectations in the medium to long-term.

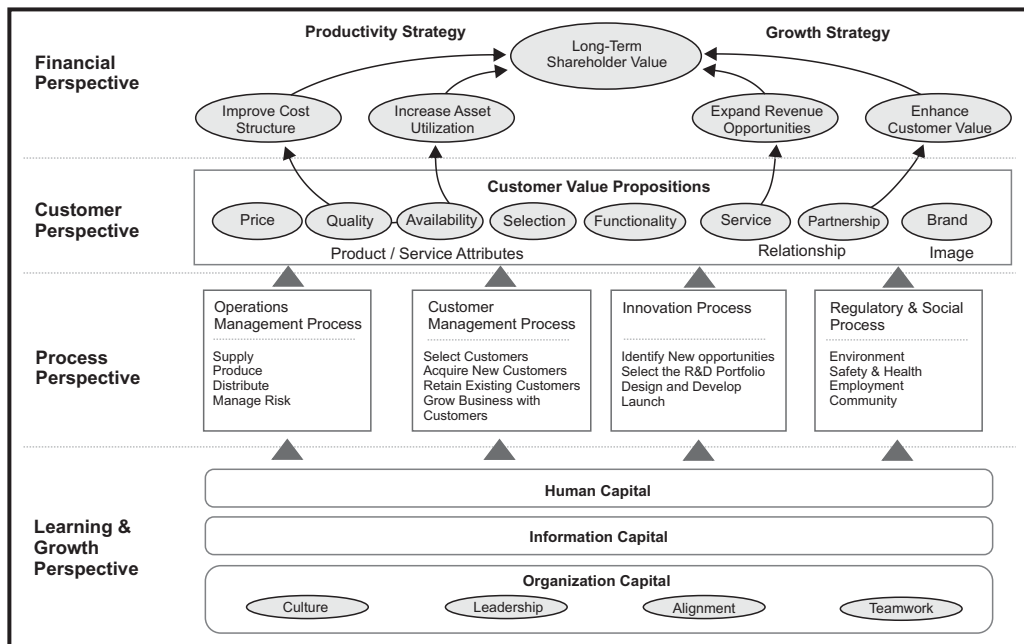
Research and development efforts which can bring about new product offerings to customers, as well as the enhancements of existing products which customers find value-adding fall under the internal process perspective. Operational excellence is critical in order to efficiently handle the internal logistics of production and delivery of products or services an organization offers.

### **The Learning and Growth Perspective (Can NZIS continue to improve and add value?)**

This perspective measures to what extent NZIS's employees, technology, and culture are capable of meeting future requirements. Measures such as employee satisfaction, retention and engagement form part of the learning and growth perspective. NZIS's ability to innovate and achieve operational excellence depends on the competencies of its employees, the capabilities of technology assets at its disposal, and on its culture and leadership (Ahmed et al., 2011; Kaplan, 2009; Kaplan & Norton 2005).

Engaged employees are critical to organizational performance (Macey, Barbera, Martin & Schneider, 2009). Investment in employee training and engagement is necessary. Key employees need to be retained as they are very valuable to an organization. They are essential for the creation, or improvements, of processes and products that drive value in the organizations. The learning and growth perspective is the foundation upon which all other perspectives of the balanced scorecard depend for success. As the operating environments for businesses change, so business strategies should change in order to adapt. The ability by the business to adapt depends on its culture, its internal leadership and the ability by its employees to change internal processes in order to adequately meet the challenges of the day (Murby & Gould, 2005).

The inability by an organization to adapt can greatly reduce its competitiveness. The value of the various perspectives is ultimately seen in the form of positive financial outcomes, as their purpose is to create a strategic value chain which ensures efficient internal processes underpinned by high internal capabilities. According to Kaplan (2009), this value chain is not cumulative, but rather multiplicative, thereby demanding that internal processes and capabilities be effectively high for any value to be realised. See Figure 1 below.



(Source: Kaplan (2009, p.22))  
**FIGURE 1: STRATEGY VALUE CHAIN**

## RESEARCH METHODOLOGY

### Background to the research project

For this research project a qualitative approach was followed; managers and employees were interviewed with the intention of understanding the management actions in their view made the balanced scorecard approach work in the NZIS business unit. The various views and experiences of management and employees within the business unit since the adoption of the balanced scorecard in 2008 were gathered. These views were analysed and summarised with the intention of making recommendations for a balanced scorecard approach that could be implemented company-wide.

### Sample selection

At the time of the research NZIS had only three managers in their business unit on which this case study was based; therefore the sample population of managers was limited to three. Employees to be interviewed were chosen on the basis of their length of service within the business unit. The longest serving employees were interviewed. The reason for this purposeful sampling (Bryman, Becker & Sempik, 2008) was that employees that had been around for less than thirty-six months would not be able to provide an insight into the changes that took place. Furthermore, employees with less than thirty-six months experience in NZIS could not add value to this study as the balance scorecard was implemented during this period. On this basis the four employees were selected.

### Data collection

The data collection was primarily through recorded verbal interviews of the research participants. One of the researcher's own e-mail archives from 2007 to 2010 was also used. Seven research participants were interviewed. The research participants were selected on the basis of their involvement during the time of the business transformation being researched. Qualitative data was collected through recorded verbal interviews of managers and employees in the business unit on which the case study is based.

Three managers and two employees in the business unit were interviewed. One senior manager (a director) in NZIS was interviewed to capture his views on the transformation of the business unit. One manager in the customer organisation was interviewed to obtain her views on how she experienced the quality of service by NZIS before and after the implementation of the balanced scorecard. No quantitative data was collected. The target population work in a highly stressful environment; the interviews were limited to 60 minutes each. All the data was collected by the researchers between December 2010 and July 2011. Care was taken by the researcher to ensure the trustworthiness of the interviewees by explaining to them the seriousness of the research project and the value their honesty could add to this research. Therefore semi-structured questions were used.

## **DISCUSSION OF THE RESULTS**

Before the introduction of the balanced scorecard, the NZIS Medicare business unit had no performance targets for the year. The team was always in reactive mode; performance evaluation was either non-existent or informal. Engineers did not feel supported, and were therefore demotivated, and not engaged in their jobs. There was a lack of process and management leadership. Relationships between the engineers and managers were tolerable at best. Relationships between Medicare and NZIS were also tensed and distrustful. Communication was poor and managers did not appear to have a solution on how to motivate the team to get ahead. According to the engineers change began in 2007 with the appointment of a new Service Delivery Manager, on contract, by the name of Nicola Hughes, and another Outsourcing Manager by the name of Stevens Simmonds. He did not stay for long as he was replaced by Jack, and Nicola by Carly Fiorina (all names are pseudonyms, as indicated before).

The engagement of new managers in 2007 in the NZIS / Medicare business unit resulted in a turnaround, as management were able to re-establish trustful relationships with the customer; able to motivate engineers; and put in place processes that ensured that the number of errors that caused business disruptions to Medicare was reduced. The processes also ensured the provision of more reliable data upon which sound decisions could be based. The engineers felt that the appointment of the new managers brought an increased level of management openness, and feedback regarding customer perception of service quality provided by NZIS. This resulted in the team becoming much more settled and certain of what was happening. More positive guidance from management increased team confidence.

For the balanced scorecard to be successful, managers need to provide clear guidelines and direction. A number of team members resigned and left the team. Most of those that resigned were team members that had a negative attitude. One of them used to be a team leader, who was so abusive as to drive some other team members to tears. When those team members left, the level of friction within the team diminished. The new engineers that joined the team were hard-working and friendly, resulting in a less tensed atmosphere.

The appointment of Jack as the Outsourcing Manager was seen by engineers as an event that had a huge impact on the team morale and performance. He formally introduced the balanced scorecard approach, and set expectations. Jack put an end to the blame game, and made engineers feel safer and more comfortable. Employee confidence, engagement and management support are important for the successful implementation of the balanced scorecard. Performance targets were put in place, and a greater emphasis on the wellbeing of engineers was made. Salary reviews were made; the professional development and training of engineers was looked into.

Where necessary, engineers were sent for training courses in order to properly equip them with the knowledge necessary to become effective in their roles. Engineers became more engaged, and

more productive, much to the customer's delight. In the interviews, one of the engineers described the team relationship as "pretty good" and dynamic, with people happily doing their work. If somebody is a little weak in some area of knowledge they have no problems asking anyone else for help, and this never used to be the case previously. The relationship with Medicare improved, and became more trustful as issues were addressed in a constructive way. All the research participants agree that the turnaround was as a result of the adoption of the balanced scorecard, effective management and good leadership.

### **Use of the balanced scorecard to enhance a low performance team culture to a high performance team culture**

The scorecard provided focus, and a blue-print of what the goals were. It was no longer enough to fix issues, as they occurred; importance was put on preventing the same issues from recurring. In addition it was no longer enough to close a job as soon as an issue was fixed. It was now necessary to investigate the root cause, and indicate in the system what the root cause was for the issue.

Kaplan, (2009) and other researchers refer to the use of the balanced scorecard as a monitoring tool to monitor a range of performance measures in an organisation. It opposes the view to use the balanced scorecard just to measure financial issues which offer a historical, but limited, view of an organisation's performance (Chavan, 2009; Dribin, 2009).

The balanced scorecard evolved to become a tool for translating strategy into action, and its core value was in enabling an organisation to realise its vision and strategy. It has evolved to perform strategic and operational control functions in organisations (Phillips, 2007). Strategically a determination is made on what the organisation is trying to achieve, and operationally an attempt is made to monitor, as well as get timely and accurate reports on the relevant processes critical for the successful implementation of strategy. The organisation's strategy and vision drive the balanced scorecard; therefore it became a tool for aligning NZIS's business with its strategies and organisational vision.

### **Major drivers to address low performance in NZIS**

Rampersad (2008) postulated that the balanced scorecard brings about a highly engaged, happy and productive workforce. Employee disengagement is a major cause of low productivity in companies; disengagement is infectious, with disastrous consequences to company morale. The aim for NZIS was to engage all employees; after the implementation of the balanced scorecard NZIS has engaged and productive employees. High levels of employee engagement result in less employee turnover; NZIS spent less on training new staff. Engaged employees are willing and able to contribute to organisational success.

Companies do not have issues with creating vision and mission statements, but face challenges in aligning business processes to work towards, and measuring, the fulfilment of these goals. They have problems in translating business strategy into operational actions. The balanced scorecard is a tool that alleviates these issues as it helps in achieving and sustaining strategic business alignment in an organisation. It also works as a strategic management and communication tool, and has the potential to improve transparency and accountability in organisations. Aligning the operational aspects of a business with strategy is crucial if NZIS is to experience sustained growth and success (Kaplan & Norton, 2008; Schulte, 2005).



Increasing the productivity of the knowledge worker is of paramount importance (Lee & Lee, 2007). The balanced scorecard is seen as the most effective way to implement business strategy in an area where there is constant turbulence and change in technological, social, political and economic arenas. The emergence of knowledge and its effective management can provide significantly sustainable competitive advantages to businesses (Lonnqvist, Kianto & Sillanpaa, 2009). Without a performance management system most people lack a clear focus on what needs to be achieved, and are inefficient in their use of time. Performance management systems, such as the balanced scorecard, enable people to make more effective use of their time, resulting in more work being done as well as business goals and targets being met. This is what is meant by increased productivity.

### **Buy-in from employees for the balanced scorecard to enhance a performance culture**

The management of NZIS had to make a few changes such as to focus on the things that matter to employees. The effect is then that the employees care about their work; they need recognition; they need interesting and challenging jobs; they need to feel empowered and trusted to do the right things (Lockwood, 2007; Townsend & Gebhardt, 2008). The open-door policy also proved to be genuine, as opposed to lip-service. This proves that employee engagement is a direct reflection of how employees experience their relationship with their managers; how important their work is in contributing to success. Sending employees for training courses paid for by NZIS, and providing proper equipment for engineers to perform their duties without having to struggle with inadequate, and under-powered equipment resulted in a dramatic improvement in productivity and performance of the employees and the organisation as such.

Ending the blame game in NZIS improved employee confidence. The ability by management to face any customer who was blaming engineers even if it was not even their fault, ensured them of management's support, hence they trusted management more. Even if they made a mistake, engineers could admit it knowing that management would sort it out - because there would be no backlash. This allowed people to openly seek help from each other, resulting in more open lines of communication between team members, as well as increased team cohesion. Clear management communication to employees of customer feedback and of systems performance resulted in clarity of expectations. They knew exactly what was expected of them, and what they needed to apply their energies to.

For the NZIS / Medicare business as usual (BAU) team, high employee engagement has become a key competitive advantage. While the balanced scorecard has been acknowledged as a crucial tool in the transformation process, the provision of good and strong leadership by the manager in which he provided a vision and the means to see their accomplishment is also seen as an important driver to progress. Having a flair for developing sound relationships with important people in the customer organisation was very important in improving employee engagement. NZIS management were able to identify, from customer feedback, areas that mattered most to the customer, and get them addressed. This resulted in a reduction in the number of complaints by the customer, and a relief of stress levels on the part of engineers. The balanced scorecard measures acts as a business dashboard which directs managers on where to focus their attention on (Iselin, Mia & Sands, 2008; Kaplan, 2009).

It is widely accepted that as a result of the system stability that was brought about in the customer environment, engineers were able to get some breathing space, and time to consider how to do things better, and started making innovative improvements. Each improvement did not on its own, make a huge difference to productivity, but it enhanced the performance culture. The cumulative effect of the various productivity improvements that engineers individually introduced was that they ended up achieving more without necessarily working harder in a high performance culture.

## CONCLUSIONS

This research has clearly identified that the balanced scorecard is successful in the context of an environment in which there is good leadership and management; employees having the right attitude whom are engaged in their work; in addition to having processes which measure progress and propel team members towards the desired objectives which are relevant for business success. A complex approach to the implementation of the balanced scorecard will almost result in failure.

A manager who is unable to motivate and engage employees is unlikely to succeed in bringing about a long-term culture of high performance. This also applies to a manager who is unable to manage process. Good managers are critical for the successful implementation of the balanced scorecard. Good managers successfully implement the balanced scorecard framework without formally knowing about it.

Identifying and addressing issues affecting employee morale resulted in increased engagement, which made the implementation of the balanced scorecard easier. Happy and satisfied employees are indeed productive, loyal with a performance culture. In conclusion, if the implementation of the balanced scorecard is failing, or if business productivity is low, one should look no further than the management chain responsible for the running of the business.

## RECOMMENDATIONS FOR HRM AND MANAGERS

- It is recommended that managers focus more on the soft factors of people management, and the required system processes if they are to succeed in the implementation of the balanced scorecard.
- Good people management and employee engagement takes effort and time, and few managers appear prepared to make the investment. It is recommended to start simple, and move on after making some progress to be successful in a performance culture.
- HRM and managers should use the balanced scorecard as a roadmap that allows one to see where one wants to get or as a Global Positioning system (GPS) to give consistent direction and avoid the culture and the team to become fragmented.
- The sustainability of this performance culture therefore largely depends on the manager. If the manager has a positive approach and support employee confidence with employee engagement, then the performance culture can be sustained.



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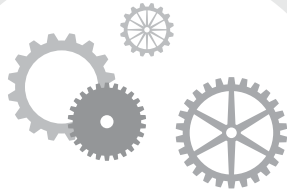
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# GENDER DIFFERENCES IN RESEARCH PRODUCTIVITY AS A FORM OF JOB PERFORMANCE IN THE SOUTH AFRICAN CONTEXT

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## ABSTRACT

A large body of human resources and gender literature documents gender inequality in working contexts; both historical and on-going. However, a global trend of dominance by males has given way to that of females in higher educational attainment, both world-wide and in the South African context. In the absence of literature that specifically relates gender inequality to research productivity in this context, this study attempts to place gender inequality in the South African context in relation to these global trends. Ascription theory predicts that, over time, gender inequality will diminish because of the need for knowledge and skills in increasingly complex working contexts. Such a context; a large South African university, provides the sampling frame for this study. Bivariate Pearson correlation, partial correlation, t-tests, Chi-Squared tests, ANOVA, factor analysis and multiple linear regressions are applied. Academics are found to be differentiated by gender roles related to teaching versus research.

## KEYWORDS

HRM, Gender, Research productivity

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## INTRODUCTION

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In 1989, the gender profile of bachelor and master degree graduates in the United States changed (U.S. Department of Education, 2007). In this year, for the first time, females dominated graduations, and this trend has persisted, rising over time (U.S. Department of Education, 2007). A similar 'tipping point' has followed, in the South African context; female enrolments at South African higher education institutions overtook male enrolments in 1995 (MacGregor, 2009). However, despite the dominance of females as students in the higher education context, and despite the dominance of females in terms of numbers of employees in higher educational institutions in South Africa (MacGregor, 2009), gender inequality in the research outputs of South African academics persist. Despite much literature that relates to gender inequality in the academic context, absent from the current literature is evidence of the gender related differences in the factor structure of relationships around research productivity. This research attempts to address this deficiency by offering a holistic perspective of the extent to which gender differences exist in research productivity and in the institutional context of a large South African research university. Recommendations for how to address gender inequality and improve research productivity in this context are offered.

Human capital theory predicts that investments in learning and experience, and not characteristics unrelated to productivity such as gender, are typically associated with increased productivity (Becker, 1975). This increased productivity accrues to human capital investments irrespective of arbitrary differences between individuals such as gender (Becker, 1975). However, according to ascription theory, in "every culture women and men are assigned disparate functions and patterns of behaviour well beyond those dictated by clear psychological differences" (Marwell, 1975: 445). Following Ridgeway and Correll (2004), it is argued in this paper that it is in these disparate functions and patterns of behaviour that are imposed upon women in our society that the cause of gender inequality is to be found. In other words, it is argued that cultural and societal pressures on women to conform to different norms is associated with a cost; to individuals, to organisations and to society itself. Such a cost arises if human resources are underutilised, or inequality persists due to these different norms. This research attempts to identify gender inequalities that relate to research productivity. Despite the differences in role behaviour that are reinforced by societal culture, the increasing value placed on scarce skills is predicted to ultimately result in increasing gender equality (Marwell, 1975). According to both Becker (1964) and Marwell (1975), gender differences, or sex-role ascription, in work contexts will diminish over time because the skills and knowledge that is related to productivity will dominate the influence of factors that have no relationship with productivity. In other words, differences that are not functional to societal groups will reduce over time due to the scarcity and importance of skills. Gender is no longer viewed primarily as an identity or a learned role but is rather taken to be the result of an "institutionalised system of social practices for constituting people as two significantly different categories...and organising social relations of inequality on the basis of that difference" (Ridgeway & Correll, 2004:510). This research takes this stance as a point of departure, and investigates gender inequality in research productivity in the academic context that may reflect institutionalised systems of social practices at the level of the institution and also at the societal level. This study therefore tests theory that relates gender and research productivity in this context. The research problem addressed by this paper is introduced as follows.

### RESEARCH PROBLEM INVESTIGATED

This research fits into the gender literature that relates to the management of gender inequality in different work contexts. Absent from this literature in the South African academic context are three aspects of gender inequality that this study seeks to investigate. These are (i) the specific extent to



which research outputs differ by gender; (ii) a holistic perspective of how the factor structure of this context differs by gender; (iii) differences on career progression that might be a practical reflection of these differences; and (iv) potential reasons for gender differences in this context that might provide further insight into gender differences in this context and how to manage them to improve gender equality in research productivity. The research problem addressed by this paper is therefore the absence of literature that relates to these aspects of gender inequality in the South African context of research productivity. The objective of this research is therefore to test theory that relates gender inequality to differences in research productivity in this context.

The core research question posed in this paper is the following: 'What differences in research productivity are related to gender inequalities in the South African academic context?' From this core research question, and derived from the objectives of this research, the subordinate research questions posed are the following:

- To what specific extent do research outputs differ by gender?
- How does the factor structure of this context differ by gender?
- How does career progression differ by gender?
- What primary differences potentially underlie gender inequality in this context?

One core research question is posed in this paper. These four subordinate research questions follow a rationale that relates each to the other in order to provide a holistic perspective. A lack of knowledge of these differences represents a cost to societal stakeholders because university research outputs contribute to the solving of societal problems. Knowledge of gender inequality can allow stakeholders to address these inequalities. The benefits associated with investigating and addressing gender inequality are well documented (Faust, 2013). The social and economic benefits are significant; as female equality in knowledge-based economies are associated with higher corporate profits and national gross domestic products (Faust, 2013). In developmental contexts, investments in the reduction of gender inequality has been found to be associated with a return to this investment, a form of 'dividend' in the form of an increased gross income for nations (Faust, 2013). The justification of such research therefore extends well beyond notions of 'fairness' to real economic and social benefits (Faust, 2013). At the heart of such changes to society, according to Faust (2013), is the role of education. This research, in the higher education context, is considered to be particularly important for this reason. The theoretical framework of the research is now outlined and hypotheses are derived.

## **THEORY AND HYPOTHESES**

At the societal level, measures of gender disparity have been developed. The Global Gender Gap Index (Hausmann, Tyson & Zahidi, 2009) indicates the size and extent of gender-based disparities, or gender gaps, in economic, political and educational dimensions of countries. Although placing sixth best in the world in 2009, South Africa has placed twelfth in 2010, fourteenth in 2011 and sixteenth in 2012 (Hausmann, Tyson, Bekhourche & Zahidi, 2012). In the higher education context, changes in the gender differences in student enrolments suggest a trend. Until 1989, male bachelor and master's degree graduates in the United States were dominated by males (U.S. Department of Education, 2007). After this time, female graduations have dominated, with female graduations in bachelor degrees rising from about 53% in 1989/1990 to about 57% for 1999/2000 and to approximately 57.5% for the period 2005/2006 (U.S. Department of Education, 2007). Female masters degree attainment has also risen from 52.6% over the period 1989/1990 to 55% for 1999/2000 and 59.95% for 2005/2006 (U. S. Department of Education, 2007). This trend is

reflected in the South African context. The local 'tipping point', where female enrolments at South African higher education institutions overtook male enrolments, occurred in 1995 (MacGregor, 2009). The South African context has followed the trend in the US Context, with a lag of about six years. Between 2000 and 2007, South Africa has seen growth in female students of 5.5% per annum against a growth of 4.9% in undergraduate enrolments over this time (MacGregor, 2009). The only fields in which male enrolments still dominate are science, engineering and technology (MacGregor, 2009). Extreme gender imbalances, however, have persisted in engineering and engineering technology, with 24% female enrolments, and health care and health sciences, with 32% male enrolments (MacGregor, 2009). Females are also relatively more successful in their studies, with higher graduation rates (MacGregor, 2009). MacGregor (2009; internet) notes that despite significant efforts to ensure gender equity, "one concern is missing: nobody seems worried about the declining proportions of male students". However, while male enrolments seem to be declining at undergraduate levels, females are still underrepresented at the doctoral level (MacGregor, 2009). Despite these changes, research productivity is heavily skewed toward male researchers, with female researchers comprising 18% of the National Research Foundation researchers in 2002 and 25% by 2006 (MacGregor, 2009). Further, in the South African labour market women are still not found to be equally represented in higher skills jobs or in jobs that are relatively more highly paid (Nhantsi, 2010).

Historically, the literature offers many examples of discrimination and gender disadvantages faced by female entrepreneurs and employees in enterprise and work contexts (Morrison, White & Van Velsor, 1987; Powell & Butterfield, 1994; Xie & Shauman, 2003). Gender differences have also been found in relation to entrepreneurship behaviour (Mueller, 2008), entrepreneurial orientation (Chow, 2006), entrepreneurial choice (Gatewood, Shaver & Gartner, 1995) and non-pecuniary motivation in enterprise contexts (Burke, Fitzroy & Nolan, 2002). Gender differences have also been found to be related to differences in job commitment in certain contexts (De Clerq & Ruis, 2007). Women have also been found to face higher business failure rates (Robb, 2002). Significant differences in research productivity have been found to exist by gender. In the higher education context Rachal et al. (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 et al. (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. They found that female academics published significantly more during this phase of their academic careers in more research-oriented departments (Rothausen-Vange et al., 2005). However, in less research-oriented departments, male academics were found to publish more, according to patterns in the data (Rothausen-Vange et al., 2005). Symonds, Gemmell, Braisher, Gorringer and Elgar (2006) investigated gender differences in research productivity in the field of ecology and evolutionary biology. They found differences that appeared relatively early in the careers of academics, which had a subsequent influence on their levels of citations (Symonds et al., 2006). At Fortune 500 companies, 4% of CEOs are female (Faust, 2013). On the basis of this body of literature that predicts the presence of gender inequality in working contexts, hypothesis a is offered, that there is a significant difference in research productivity by gender. Human capital theory (Becker, 1975) and ascription theory (Marwell, 1975) both predict that differences in research productivity, as a form of work performance, will diminish over time due to the scarcity of skills which as an influence will dominate the influence of factors unrelated to productivity, such as gender. There is a tension between these conceptions and the ongoing gender inequality in academic contexts (Barbezat, 2006) and in other working contexts (Morrison et al., 1987; Powell & Butterfield, 1994). This theoretical tension therefore reduces to the prediction that gender equality will occur over time (Becker, 1964; Marwell, 1975) versus the pervasive nature of institutionalised systems of social practices that constrain gender equality (Ridgeway & Correl, 2004). The core research question of this paper then relates to the extent to which Becker (1964) and Marwell's

(1975) predictions are reflected in tests of this theory in work contexts at this time. In this research, differences in the component categories of the factor structure of associations between male and female academics are therefore explored. Hypothesis b is therefore tested, that there is a significant difference in the factor structure of contextual factors by gender.

Notwithstanding extensive evidence of gender inequality in work contexts, evidence of changes toward gender parity in different contexts has also been documented (Igbaria & Baroudi, 1995; Powell & Butterfield, 2002). Increasing diversity is a feature of work contexts and global trends are toward increasing heterogeneity (Tsui, Egan & O'Reilly, 1992). The increasing dominance of female students in higher education uptake (U.S. Department of Education, 2007) is a dimension of these changes. However, cultural values and practices have been found to still account for significant differences between the genders in social and organisational contexts (House, Hanges, Javidan, Dorfman & Gupta, 2004). Despite gains in gender equality, gender clustering has been identified, such as in services and communication industries, giving rise to the term 'pink collar ghettos', which describe low wage jobs or sectors in which women are overrepresented (Emrich, Denmark & Den Hartog, 2004).

The "high powered job hypothesis", Summers (2005) relates the need for "eighty hours a week" investments in certain jobs to the underrepresentation of females in high end academic jobs (Summers, 2005). Summers (2005) questions the need for such intensity in these jobs in societies. If gender roles are a function of institutionalised systems of social practices (Ridgeway & Correl, 2004) that place an unequal responsibility on women for family roles then it is conceivable that such inequality can explain a certain amount of the variance associated with gender differences in research productivity. Dramatic gender gaps persist globally in education (Faust, 2013). Faust (2013) stresses that global gender inequality in education is a persistent problem, reflected in the estimated 66 million girls that are being kept out of school globally (UNESCO, 2012), due to a host of factors including "restrictive governments". Socialisation and continuing discrimination seem to be a dominant factor in global gender inequality, according to Faust (2013). Notwithstanding the different contributory factors associated with the phenomenon, gender inequality persists, and is reflected in differences in career progression in academic institutions.

As indicated previously, it is argued that the strong relationships found to exist between societal culture and organisational culture (Emrich et al., 2004; House et al., 2004) might make it challenging for work contexts to be robust to the persistent influence of institutionalised systems (Ridgeway & Correl, 2004) that are historically rooted in societal culture; that have organised social relations in a radically different way for men and women. Such differences in the way social relations have historically been ordered may persist, and may offer insight into the underrepresentation or over representation of either gender in different work roles.

In academic contexts females are typically overrepresented in teaching roles and males in research roles (Barbezat, 2006); therefore the higher institutional rewards associated with research work might lead to inequality in career progression over time. Hypothesis c is therefore offered, that levels of career progression differ significantly by gender. Time spent on teaching has been found to be a negative and significant predictor of research productivity, as measured by total publications ( $p < 0.01$ ) (Barbezat, 2006). Underrepresentation or overrepresentation by gender may offer insight into how inequality in social norms and practices manifests in working contexts. Kanter (1977) stresses that proportions, or the relative numbers of people in a group that differ socially or culturally, can also influence the interaction dynamics of groups. Male academics have been found to report less time spent on teaching and more on research; conversely, female academics have reported the reverse (Barbezat, 2006). Such a difference might be considered to relate to differences in satisfaction with these different roles by gender. Hence, hypothesis d is derived, that satisfaction with work role (teaching or research) differs by gender. Self-efficacy is a personal

judgement of “how well one can execute courses of action required to deal with prospective situations” (Bandura, 1982: 122). According to meta-analysis findings, self-efficacy has been found to be associated with job performance (Stajkovic & Luthans, 1998). Gender differences in self-efficacy have been found in the management of conflicts associated with work-to-family and family-to-work spillovers (Cinamon, 2006). Males seem to have higher efficacy relating to the management of these conflicts (Cinamon, 2006). Hence, hypothesis e is derived, that there is a significant difference in self-efficacy by gender. The current South African academic context exists at the nexus of such changes, both globally and locally, in which societal and institutional forces interact in their influence upon research productivity differences by gender. Even with evidence of improving gender equality in academic contexts (Barbezat, 2006), societal practices that relate to the organising of social relations (Ridgeway & Correl, 2004) still seem to be associated with unequal gender roles relating to child care, and the tension between work and family roles. One aspect of the tension between work roles and family roles is the influence of ‘spillovers’ on family life and on working outcomes. Working mothers have been found to experience higher levels of negative family-to-work spillover than fathers (Dilworth, 2004). In terms of bidirectional inter-role conflict, family boundaries have been found to typically be more permeable, in that work roles typically intrude more significantly on family roles than family roles on work roles, although not necessarily always in a gender-specific manner (Eagle, Miles & Icenogle, 1997). Hypothesis f is therefore formulated on the basis of this literature, that there is a significant association between the number of dependent children and research productivity. The rationale for the relationships between the hypotheses is now summarised. Based on the literature, the process of hypothesis testing is therefore structured around the following rationale. First, the existence of gender differences in this context is established (hypotheses a and b). The other hypotheses then develop from the premise that gender inequality does in fact exist and each relates to different aspects of this inequality. Second, the most important consequence of this inequality, according to the literature, is investigated. Hypothesis c is related to the potential practical consequences of this inequality in terms of career progression. Third, the most significant aspects of gender inequality in this context that underlie gender differences in research productivity are investigated by testing the rest of the hypotheses. This rationale therefore guides and links the tested hypotheses.

## **METHODOLOGY**

The study was premised on the ontological and epistemological assumptions associated with the postpositivist paradigm (Cresswell, 2007). According to the postpositive perspective, an objective reality is taken to exist in which causal relationships can be found (Cresswell, 2007). However, according to this perspective, evidence is considered to be “always imperfect and fallible” (Cresswell, 2007: 7). The study applied an associative cross-sectional quantitative exploratory research design. The sampling frame consisted of all the academic staff of a large South African university. The population of the study comprised approximately 900 full-time academic staff, and about 1300 staff including part-time staff. Two hundred and twenty-five responses were received; a response rate of 17.3%. Respondents were able to return their questionnaires through the internal mail system. This ensured anonymity. A sample size calculation was used to ensure that inferences could be made at the five percent level of significance. The data was analysed using SPSS statistical software. Scales were developed based on previous academic precedent. Bivariate Pearson correlation, partial correlation, t-tests, Chi-Squared tests, ANOVA, factor analysis and multiple linear regressions were used where appropriate to test the hypotheses. Bootstrapping was applied in all cases. A range of variables were justified for inclusion into the multiple linear regression models on the basis of the literature. Two multiple linear regression models were applied for each type of research productivity; one that included all the covariate factors and another that applied backward elimination. All scales had been found to be valid and reliable in other contexts. All

scales were piloted prior to use. The gender measure consisted of an item that gave a response option of either male or female. This data was captured as binary data, with male responses scored as one and female responses scored as zero. Job satisfaction was tested using adapted Likert-type scales derived from the Minnesota Satisfaction Questionnaire scales (Arvey, Bouchard, Segal & Abraham, 1989; Muchinsky, 1983). Three items were used, reversed each time. The Cronbach Alpha for these items was .859. The self-efficacy items were derived from Bandura's (2006) scales. Seven items were used. These attained a Cronbach Alpha value of .783. Negative and positive affect were tested based on items from the Positive and Negative Affect Schedule (PANAS) (Watson, Clark & Tellegen, 1988). Locus of control was tested based on Spektor's (1988) scales, which were found to return a Chronbach Alpha value of .738. Satisfaction with research versus teaching was tested using three items, reversed in each case (Cronbach Alpha=.886). Affect was also included in the multiple linear regression analysis as a covariate in order to control for potential method bias associated with affect (Podsakoff, MacKenzie, Lee, & Podsakoff, 2003). Similarly, the Harmon test was applied (Podsakoff et al., 2003) for common method bias. The results were considered acceptable for the data. The research was approved by the university's ethics committee, and approvals were obtained from the Human Resources department of the university. Anonymity was stipulated. It was therefore not within the ambit of the ethical prescriptions of the project to obtain independent measures of an individual's research output without revealing the identity of the participant to the researcher. Self-reports of research productivity were therefore used. This is acknowledged as a limitation. The cross-sectional nature of the research is also acknowledged as a limitation, as is the potential presence of self-selection because academics more interested in research productivity might have been more prone to participating. However, in spite of these limitations, the processes followed in this research and the limitation faced are considered similar to other research in this field, which face similar problems.

The female sample comprised 119 respondents and the male sample 106 (Tables 2 and 3). The age distribution of the two gender samples was similar, both with a mean of just over forty years of age. The male sample had higher mean years of experience of working as a researcher (14.16) versus the female sample (9.4).

**TABLE 1: STATISTICS TOTAL SAMPLE: MALE AND FEMALE ACADEMICS**

	N		Mean	Median	Std. Deviation
	Valid	Missing			
Job Satisfaction	225	0	15.07	15.00	4.025
Satisfaction with Research vs Teaching	225	0	4.33	4.00	1.717
Satisfaction with Teaching	225	0	4.24	4.00	1.583
Satisfaction with Administration	225	0	2.23	2.00	1.529
Satisfaction with Research	225	0	4.87	5.00	1.552
Self-Efficacy Research	225	0	425.25	429.00	106.358
Self-Efficacy Statistical Analysis	225	0	49.88	50.00	33.404
Self-Efficacy Qualitative Analysis	225	0	71.33	80.00	27.471
Self-Efficacy Teaching Postgraduate	225	0	84.94	90.00	20.540
Age	225	0	40.67	40.00	10.555
Total work experience	225	0	14.613	12.000	10.6913
Years as a researcher	225	0	10.1989	8.0000	8.84216



Years working Wits	225	0	6.387	4.000	6.7372
Years Formal Ed	225	0	19.309	20.000	4.3904
People reporting	225	0	2.70	.00	6.445
Preference Quant=1	225	0	.456	.500	.7213
Dependent Children	224	1	1.09	1.00	1.279
Total units of research	225	0	21.97	10.00	35.672
Tot Journal articles published	225	0	12.00	4.50	21.79

## RESULTS AND DISCUSSION

**Hypothesis a:** There is a significant difference in research productivity by gender.

T-tests results indicate that male academics have significantly higher gross research productivity, publish more internationally accredited journal articles and conference proceedings, and make more conference presentations. However, no significant difference was found for DOE journal article publication or for book or book chapter publication. The null hypothesis was rejected and the alternative hypothesis was accepted. These associations were analysed further using partial correlation analysis. The zero order Pearson point biserial correlations (Field, 2009) were found to support the initial t-test findings. When dependent children and, in turn, marriage, were controlled for, these significant associations were not found to change. These results suggest that the influence of marriage or dependent children might not necessarily account for the gender differences found in this context. These results were confirmed by the multiple linear regression analysis, which included covariate factors. Multiple linear regression analysis was run with each of the forms of research productivity as the dependent variable.

**TABLE 2: FEMALE ACADEMICS: DESCRIPTIVE STATISTICS**

	N		Mean	Median	Std. Deviation
	Valid	Missing			
Job Satisfaction	119	0	14.81	15.00	4.13
Satisfaction with Research versus Teaching	119	0	4.03	4.00	1.78
Satisfaction with Teaching	119	0	4.56	4.00	1.57
Satisfaction with Administration	119	0	2.10	1.00	1.60
Satisfaction with Research	119	0	4.68	5.00	1.61
Self-Efficacy Research	119	0	402.92	410.00	94.32
Self-Efficacy Statistical Analysis	119	0	42.12	40.00	30.86
Self-Efficacy Qualitative Analysis	119	0	69.76	80.00	27.79
Self-Efficacy Teaching Postgraduate	119	0	82.85	90.00	21.78
Age	119	0	40.80	40.00	10.91
Full-time work experience	119	0	15.017	11.000	10.88
Years as a researcher	119	0	9.3971	7.0000	7.70
Years working Wits	119	0	6.655	5.000	6.61
Years Formal Education	119	0	19.475	20.000	4.23



People reporting	119	0	2.72	.00	6.64
Preference for Quantitative methods=1	119	0	.416	.000	.90
Dependent Children	119	0	1.01	1.00	1.09
Total Units of research	119	0	14.96	8.00	20.3
Total Journal articles published	119	0	8.19	4.20	13.36

Male gender was positively associated with gross research productivity ( $p < .002$ ), ISI/IBSS journal article publication ( $p < .012$ ), conference proceedings publication ( $p < .009$ ) and conference presentations ( $p < .037$ ). The gender variable, however, was not found to be significantly associated with DOE journal article publication or with book or book chapter publication. The multivariate analysis was taken to provide support for the bivariate analysis findings. These results suggest that gender effects are robust to the influence of any of the covariate factors since their influence is evident in both bivariate and multivariate tests. These results support findings in other academic contexts that have found males to publish more journal articles (Barbezat, 2006; Rachal et al., 2008; Rothausen-Vange et al., 2005).

Males were found to be significantly associated with a preference for quantitative methods, and females with a preference for qualitative methods. However, female academics were found to have no significant association between a preference for quantitative methods and any of the measures of research productivity. In contrast, for male academics a preference for quantitative methods was found to be significantly and positively associated with the publication of conference proceedings. If male academics are able to present more conference papers, this might offer an advantage in self-efficacy or self-confidence as this is perhaps the 'first rung' of the output ladder. Conference presentations might possibly be a gate-way activity to further development as an academic.

**TABLE 3: MALE ACADEMICS: DESCRIPTIVE STATISTICS**

	N		Mean	Median	Std. Deviation
	Valid	Missing			
Job Satisfaction	106	0	15.37	15.00	3.91
Research1VSTeaching	106	0	4.67	5.00	1.59
Satisfaction with Teaching	106	0	3.88	4.00	1.53
Satisfaction with Administration	106	0	2.38	2.00	1.45
Satisfaction with Research	106	0	5.08	5.00	1.46
Self-Efficacy Research	106	0	450.32	470.00	113.73
Self-Efficacy Statistical Analysis	106	0	58.59	60.00	34.13
Self-Efficacy Qualitative Analysis	106	0	73.09	80.00	27.13
Self-Efficacy Teaching Postgraduate	106	0	87.29	100.00	18.87
Age	106	0	40.52	40.00	10.19
Full-time work experience	106	0	14.16	12.50	10.51
Years as a researcher	106	0	11.10	8.00	9.93
Years working Wits	106	0	6.09	4.00	6.89
Years of Formal Education	106	0	19.12	20.00	4.57
People reporting	106	0	2.68	.00	6.25
Preference for Quantitative methods=1	106	0	.500	.50	.45
Dependent Children	105	1	1.19	1.00	1.47
Total Units of research	106	0	29.85	12.50	46.19
Total Journal articles published	106	0	16.28	6.10	27.87

These results indicate that the trend of increasing female representation in higher education attainment and employment is not reflected in research productivity. Nonetheless, there is no difference in DOE journal article publication, which is recognised by the institution for career progression and incentivisation in the same way as ISI/IBSS journal publication. According to ascription theory, the gender differences in working contexts are expected to diminish over time (Marwell, 1975) due to the scarcity of skills and knowledge in increasingly complex work. The academic workplace is taken to represent such a context. If female academics are less productive in terms of gross research output, it is possible that this context might offer constraints to gender equity. These constraints might exist over and above the advances made by South Africa toward gender equity (Hausmann et al., 2009; Hausmann et al., 2012). These results therefore reflect the gender inequalities identified to persist in the academic context (Barbezat, 2006; Rothausen-Vange et al., 2005; Symonds et al., 2006). Having established that inequality may be present, the following hypothesis is tested, which relates to the dimensions of this potential gender inequality in this context.

**Hypothesis b:** There is a significant difference in the factor structure of contextual factors by gender.

The component matrix for the female sample is shown below in Table 4 and for the male sample is shown in Table 7. For female academics, the variables age, years as a researcher, years working at the institution, total units of research and total journal articles are found to load on the first component category, termed 'experience'. For male academics, similar variables are found to load on the same component category, with the same name; to some extent possibly reflecting a trend toward gender parity that has been found in other contexts (Igbaria & Baroudi, 1995; Powell & Butterfield, 2002; Tsui et al., 1992). For female academics, self-efficacy related to postgraduate teaching, age, total work experience, years as a researcher, years of working in the institution, and dependent children are found to load on the second component category, labeled 'life experience'. This component category differs from the first in that the strongest loading of these variables is for total work experience, which is not present in component category one. In contrast, for the sample of male academics the total working experience variable was found to load on component category one only. Preference for research rather than teaching, and satisfaction with research, were found to load on component category two for male academics as a contrast with the satisfaction with teaching item. This component category is termed 'work role satisfaction'. Job satisfaction, satisfaction with research rather than teaching, satisfaction with research and years of formal education were found to load on component category three for the female sample. As in the case of the male sample, satisfaction with teaching was found to load in contrast to these variables. This component category was also considered to represent 'work role satisfaction'. Self-efficacy relating to research and statistical analysis together with a preference for quantitative methods were found to load on component category three of the male sample. The dependent children variable was found to load in contrast with these variables. This component category was taken to reflect a self-efficacy aspect relating to 'harder' research methods, and was named 'quantitative methodology'. The contrast of the dependent children variable with the other variables of this component category is interesting, given that this is the male data. Self-efficacy relating to research, statistical analysis, qualitative analysis and postgraduate teaching were found to load on component category four of the female sample. This component category is named 'self-efficacy'. All the self-efficacy items, together with years of education and dependent children are found to load on component category four of the male sample. This component category is also termed 'self-efficacy'. The loadings of the dependent children variable therefore differ between the male and female categories.

**TABLE 4: FEMALE ACADEMICS ROTATED COMPONENT MATRIX**

	Component		
	1	2	3
Job Satisfaction	-.211	.125	<b>.614</b>
Satisfaction Research versus Teaching	.212	-.059	<b>.845</b>
Satisfaction with Teaching	-.301	.115	<b>-.752</b>
Satisfaction with Administration	-.057	-.048	-.102
Satisfaction with Research	.073	-.186	<b>.654</b>
Self-Efficacy Research	.324	.007	.278
Self-Efficacy Statistical Analysis	-.101	-.228	-.019
Self-Efficacy Qualitative Analysis	.025	.074	.202
Self-Efficacy Teaching Postgraduate	.266	<b>.477</b>	.044
Age	<b>.359</b>	<b>.851</b>	-.015
Total work experience	.293	<b>.800</b>	-.091
Years as a researcher	<b>.615</b>	<b>.500</b>	.078
Years working at the institution	<b>.625</b>	<b>.350</b>	-.148
Years Formal Education	.081	.043	<b>.395</b>
People reporting	.100	.295	.043
Preference for Quantitative methods=1	.051	-.001	.088
Dependent Children	-.225	<b>.573</b>	-.064
Total Units	<b>.870</b>	.094	.203
Total Journal articles	<b>.857</b>	.038	.164

	Component		
	4	5	6
Job Satisfaction	-.034	-.175	.198
Satisfaction Research versus Teaching	.115	.051	.019
Satisfaction with Teaching	-.183	-.005	-.158
Satisfaction with Administration	-.209	<b>.678</b>	.082
Satisfaction with Research	.280	-.016	-.337
Self-Efficacy Research	<b>.775</b>	.037	.016
Self-Efficacy Statistical Analysis	<b>.649</b>	.299	.222
Self-Efficacy Qualitative Analysis	<b>.716</b>	-.167	-.076
Self-Efficacy Teaching Postgraduate	<b>.484</b>	-.208	.001
Age	-.056	.143	-.045
Total work experience	-.044	.159	-.030
Years as a researcher	.062	.176	-.085
Years working at the institution	-.068	<b>.387</b>	-.161
Years Formal Education	.241	<b>.398</b>	-.220
People reporting	.278	<b>.494</b>	-.037
Preference for Quantitative methods=1	.070	.014	<b>.901</b>
Dependent Children	.017	-.102	.085
Total Units	.192	-.049	.068
Total Journal articles	.105	-.107	.068

Extraction Method: Principal Component Analysis.  
 Rotation Method: Varimax with Kaiser Normalization.

**TABLE 5: FEMALE ACADEMICS TOTAL VARIANCE EXPLAINED**

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	4.494	23.655	23.655	4.494	23.655	23.655	2.919	15.363	15.363
2	3.125	16.450	40.105	3.125	16.450	40.105	2.519	13.260	28.623
3	1.379	7.256	47.361	1.379	7.256	47.361	2.490	13.105	41.728
4	1.267	6.667	54.028	1.267	6.667	54.028	2.141	11.270	52.998
5	1.176	6.189	60.217	1.176	6.189	60.217	1.309	6.890	59.888
6	1.093	5.752	65.969	1.093	5.752	65.969	1.155	6.080	65.969
7	.985	5.184	71.153						
8	.959	5.047	76.200						
9	.827	4.355	80.555						
10	.765	4.025	84.580						
11	.677	3.562	88.142						
12	.549	2.890	91.032						
13	.496	2.609	93.641						
14	.441	2.319	95.960						
15	.253	1.334	97.294						
16	.225	1.183	98.477						
17	.167	.880	99.357						
18	.066	.346	99.703						
19	.056	.297	100.000						

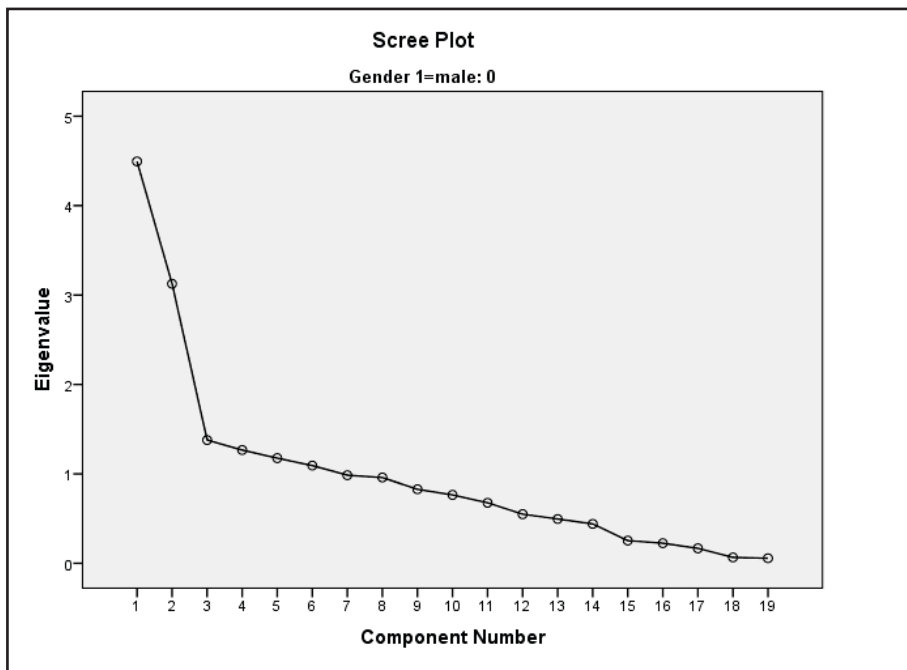
Extraction Method: Principal Component Analysis.

Satisfaction with administration, years working in the institution, years of formal education and span of control are found to load on component category five of the female sample. This component category was termed 'management' because of the alignment of the other variables with the span of control item. Years of formal education together with span of control were found to load together in a contrast with job satisfaction on component category five of the male sample. This component category was also termed 'management' due to the presence of the span of control item. However, the job dissatisfaction loading on this component category (only for male academics) was considered an interesting and unexpected gender difference. Preference for quantitative methods was found to load strongly on component category six of the female sample. However, it was a singlet and was therefore not interpreted. Satisfaction with administration and dependent children were found to load on component category six of the male sample. However, this was taken to be a doublet and was also not interpreted. Table 6 shows the differences in the factor structure based on the interpretations of the component categories.

**TABLE 6: INTERPRETED COMPONENT CATEGORY DIFFERENCES BY GENDER**

Component Category	Female	Male
1	Experience	Experience
2	Life Experience	Work Role Satisfaction
3	Work Role Satisfaction	Quantitative Methodology
4	Self-Efficacy	Self-Efficacy
5	Management	Management

In summary, the differences that stand out in the analysis primarily relate to a different loading of the experience variables, and loadings on quantitative methodology variables in the male sample. The different loadings of the dependent children variable in the two models are also noted. These results also support the argument that differences persist in this context (MacGregor, 2009), and that there are multiple dimensions to these differences. Further research is recommended in order to understand the causal structure that relates to these results. Quantitative methods cannot do this. Further qualitative research is therefore recommended in order to thread out these dimensions of differences, and to identify the causal mechanisms that underlie this factor structure. On the basis of the differences in the loadings of these models, the null hypothesis is rejected and the alternative hypothesis is accepted. Tests were run in order to establish the sampling adequacy of the models. For the male sample, the Kaiser-Meyer-Olkin (KMO) statistic was .671 with an approximate Chi-Squared statistic of 1089.046. Bartlett's Sphericity test was significant ( $p < .0001$ ), with 171 degrees of freedom. The sampling adequacy of the model was therefore taken to be acceptable. For the female sample, the KMO statistic was .686, with an approximate Chi-Squared value of 1015.723. The Bartlett's Sphericity test for this sample was also significant ( $p < .0001$ ), with 171 degrees of freedom.



**FIGURE 1: FEMALE SAMPLE: THE SCREE PLOT FOR COMPONENT CATEGORIES**

This model was also taken to have an acceptable level of sampling adequacy. Six component categories were found to have eigenvalues greater than one for both models (Tables 5 and 8). However, as can be seen in Figures 1 and 2, the Scree plots indicate that most of the variance is contributed by the first three component categories, which together account for about half of the cumulative variance in the case of the female sample (Table 5) and 43.6% of the cumulative variance in the male sample (Table 8). Having identified further differences that may exist by gender in this context, the results of the testing of hypothesis c are now reported and discussed. This hypothesis relates to a potential consequence of gender inequality; differences in career progression.

**Hypothesis c:** Levels of career progression differ significantly by gender.

According to Pearson Chi-Squared test statistics (3.140;  $p < .208$ ) there is no significant differences by gender at the Mr./Ms. cohort level. Similarly, there is no significant difference at the Doctoral designation level (.495;  $p < .482$ ) or at the Associate Professor level (1.731;  $p < .188$ ). However, a significant difference is found at the level of full Professor (4.951;  $p < .026$ ). This finding reflects the imbalances that seem to persist in South African academia, despite females being a majority in employment in these institutions (MacGregor, 2009). It is recognised that the differences in research output identified in the testing of hypothesis a, and the gender differences identified in the overall factor structure of this context discovered in the testing of hypothesis b, might be reflected in differences in career progression for female academics. Having provided evidence in support of the argument that gender inequality is still present in this context in terms of research productivity (hypothesis a), of differences in the factor structure in the context (hypothesis b) and of the potential consequences of these differences in terms of a practical outcome; career progression (hypothesis c), the results of the testing of hypotheses that relate to potential reasons for specific gender differences are now reported and discussed. Recommendations based on the analysis that relate to how gender inequalities in research productivity can better be managed are also made.

**Hypothesis d:** Satisfaction with work role (teaching and research) differs by gender.

According to the bivariate analysis, being female was found to be significantly and positively associated with a preference for teaching over research. Being male was therefore found to be significantly and negatively associated with a preference for teaching over research. Being female was also found to be significantly and positively associated with satisfaction with teaching, or a teaching locus of satisfaction. Being male was therefore found to be significantly and negatively associated with satisfaction from teaching, and weakly and positively associated with satisfaction with research. According to the ANOVA results, differences in gender were also found to be significantly associated with satisfaction with teaching ( $F(1, 223) = 10.993$ ;  $p < .001$ ; partial Eta Squared = .047). Differences in gender were found to have a weak influence on satisfaction with research ( $F(1, 223) = 3.854$ ;  $p < .051$ ; partial Eta Squared = .017). A Bonferroni correction was applied, and statistical significance was taken to require p values of less than  $p < .025$ . According to ANOVA testing, differences in gender were found to have a weak influence on satisfaction with research ( $F(1, 223) = 3.854$ ;  $p < .051$ ; partial Eta Squared = .017). These results support findings in other contexts that male academics typically report spending less time on teaching and more on research, and that female academics typically report the converse (Barbezat, 2006). Overrepresentation of females in teaching/underrepresentation of males in teaching is therefore expected to correspond with an overrepresentation of males in research/underrepresentation of females in research. These differences reflect MacGregor's (2009) argument that enrollments and higher education achievement, although dominated by female attainment, actually represent a context in which gender inequality in the form of over- and under- representation might be increasing.



It is argued that societal culture, which has its roots in historical gender inequality in role ascription, might exert an influence on organisational gender inequality, as demonstrated by House et al. (2004). The clustering of females in this role category of teaching might be analogous to the clustering of females in other workplace contexts, which is a current, and not only a historical, phenomenon according to Emrich et al. (2004). The literature suggests that this inequality is caused by institutionalised systems that organise social relations through the ascription of roles on the basis of gender (Ridgeway & Correl, 2004). Even if organisational culture and practices are relatively robust to the influence of societal culture (and its historical gender inequality aspects) (Emrich et al., 2004; House et al., 2004), it is argued that research productivity may be enabled through empowering female academics to overcome the influences that prescribe societal roles. Conversely, male academics might be empowered to embrace the teaching role in a more equitable way. The results of the testing of hypothesis e, which relates to gender differences in self-efficacy, which is a dominant determinant of job performance (Bandura, 2006), are reported and discussed as follows.

**Hypothesis e:** There is a significant difference in self-efficacy by gender.

T-tests were used to test for differences between the means of the self-efficacy items by gender. All tests applied bootstrapping. In each case Levene's test for equality of variance was applied and the appropriate statistic was used. Males were found to have significantly higher levels of research self-efficacy ( $t=3.379; p<.001$ ); self-efficacy relating to DOE journal article publication ( $t=2.022; p<.044$ ); self-efficacy relating to ISI/IBSS journal article publication ( $t=3.189; p<.002$ ); conference proceedings self-efficacy ( $t=2.296$ ) and statistical analysis self-efficacy. Self-efficacy related to conference presentations, qualitative analysis and postgraduate teaching were not found to differ by gender. The significant gender differences in self-efficacy are worrying, because self-efficacy is inherently related to the successful performance of tasks (Bandura, 1982; 2006) and has been found to be associated with job performance across different contexts (Stajkovic & Luthans, 1998). It is recommended that the development of academic staff is undertaken with a specific focus on self-efficacy. By specifically encouraging academic staff to present at conferences as a first form of research output, confidence may be developed. By developing staff according to a developmental 'ladder'; by targeting the most basic of research outputs and then developing confidence before moving to more difficult forms of research productivity, it is argued that self-efficacy can be prioritised. It is argued that self-efficacy may, in this way, be developed through a focus on 'learning by doing'. Given that gender differences in self-efficacy have been found to be related to the need to manage work-to-family and family-to-work spillovers (Cinamon, 2006), the results of the testing of hypothesis f are considered to potentially not be unrelated to these findings. The results of the testing of hypothesis f are reported and discussed as follows.

**Hypothesis f:** There is a significant association between the number of dependent children and research productivity.

According to bootstrapped bivariate Pearson tests of association, the dependent children variable is found to be significantly associated with conference proceedings publication (.164;  $p<.014$ ). However, when included with the covariate factors in the multiple linear regression analyses, dependent children are found to be significantly and negatively associated with ISI/IBSS journal article publication ( $p<.035$ ).

**TABLE 7: MALE ACADEMICS: ROTATED COMPONENT MATRIX**

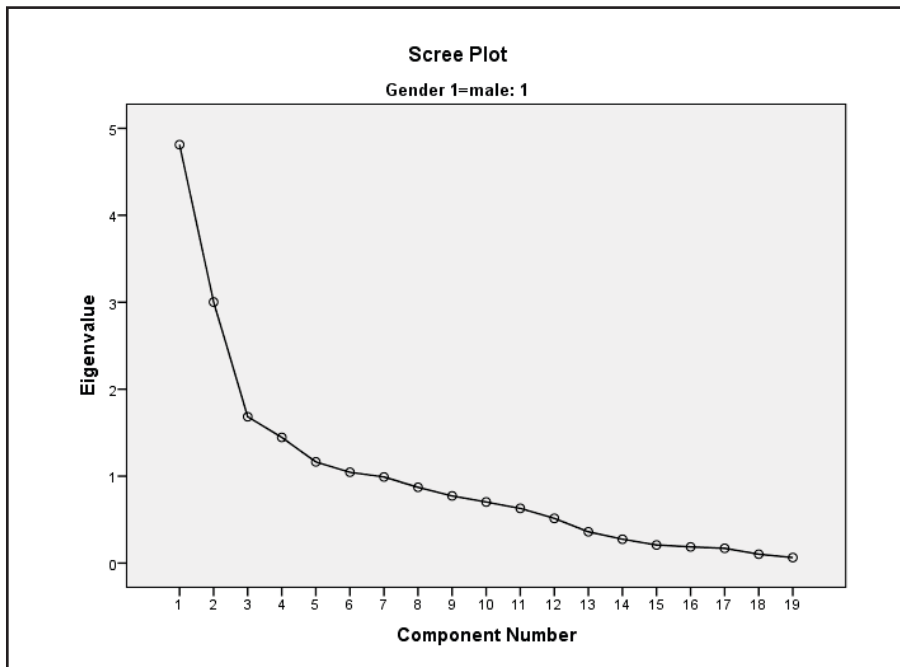
	Component					
	1	2	3	4	5	6
Job Satisfaction	-.102	.140	.340	-.019	<b>-.732</b>	-.013
Preference for Research versus Teaching	-.017	<b>.906</b>	.076	.116	.011	.031
Satisfaction with Teaching	-.076	<b>-.784</b>	-.075	-.147	-.188	.144
Satisfaction with Administration	.055	-.138	.022	-.068	.092	<b>.791</b>
Satisfaction with Research	.056	<b>.778</b>	.015	.067	-.115	-.085
Self-Efficacy Research	.214	.208	<b>.538</b>	<b>.646</b>	-.153	-.010
Self-Efficacy Statistical Analysis	.010	.102	<b>.758</b>	<b>.348</b>	-.082	-.087
Self-Efficacy Qualitative Analysis	.135	.106	-.013	<b>.812</b>	-.041	-.196
Self-Efficacy Teaching Postgraduate	.242	.289	.174	<b>.501</b>	-.072	.158
Age	<b>.835</b>	.059	-.134	.044	.032	.238
Total working experience	<b>.856</b>	.009	-.057	.078	.009	.229
Years as a researcher	<b>.873</b>	.037	-.043	.179	.109	.081
Years working in the institution	<b>.788</b>	-.070	.071	.019	-.166	.001
Years of Formal Education	-.098	.142	.225	<b>.396</b>	<b>.422</b>	-.074
People reporting	.180	.123	.137	-.248	<b>.578</b>	.198
Preference for Quantitative methods=1	.005	.019	<b>.859</b>	-.107	.050	.057
Dependent Children	.037	-.022	<b>-.358</b>	<b>.487</b>	.071	<b>.389</b>
Total Units	<b>.805</b>	.117	.158	.120	.217	-.287
Total Journal articles published	<b>.818</b>	.115	.131	.023	.201	-.293

Extraction Method: Principal Component Analysis.  
 Rotation Method: Varimax with Kaiser Normalization

**TABLE 8: TOTAL VARIANCE EXPLAINED**

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	4.812	25.327	25.327	4.812	25.327	25.327	4.321	22.744	22.744
2	3.002	15.799	41.127	3.002	15.799	41.127	2.301	12.110	34.854
3	1.684	8.861	49.988	1.684	8.861	49.988	2.028	10.671	45.525
4	1.446	7.609	57.597	1.446	7.609	57.597	2.016	10.610	56.136
5	1.164	6.126	63.723	1.164	6.126	63.723	1.277	6.721	62.857
6	1.045	5.500	69.223	1.045	5.500	69.223	1.210	6.366	69.223
7	.991	5.215	74.438						
8	.872	4.588	79.026						
9	.773	4.066	83.092						
10	.703	3.697	86.789						
11	.630	3.314	90.103						
12	.515	2.708	92.811						
13	.360	1.894	94.705						
14	.275	1.446	96.151						
15	.208	1.096	97.248						
16	.186	.980	98.228						
17	.170	.896	99.124						
18	.102	.539	99.663						
19	.064	.337	100.000						

Extraction Method: Principal Component Analysis.



**FIGURE 2: MALE SAMPLE: SCREE PLOT FOR COMPONENT CATEGORIES**

Similarly, when backward elimination was applied, the dependent children variable was also found to be significantly and negatively associated with this measure of research output. The other variables in the model were self-efficacy relating to ISI/IBSS publications, total work experience and gender. The gender variable was significant in both of these models. This result is taken to suggest that dependent children have a negative relationship with ISI/IBSS journal article publication over and above the influence of gender. This result might suggest that family-to-work spill-over (Dilworth, 2004; Dilworth & Kingsbury, 2005) may be present in terms of international journal article publications. This result might suggest some degree of gender equality in this relationship. In order to further investigate this, for the purposes of further analysis a split was applied to the data by gender. For the female sample, none of the measures of research productivity were significantly associated with the dependent children variable. However, for the male sample, dependent children were found to be positively associated with conference proceedings publication ( $r=.202$ ;  $p<.039$ ). Partial correlation analysis was then applied. Age was controlled for in case the dependent children variable may have been picking up age effects. Interestingly, with age controlled, ISI/IBSS journal article publication was found to be negatively and significantly associated with ISI/IBSS journal article publication for male academics ( $r=-.195$ ;  $p<.048$ ), yet not for female academics. For the female sample, dependent children are found to be associated negatively and significantly with conference presentations ( $r=-.217$ ;  $p<.018$ ). For males, this relationship is not significant.

These results suggest that family-to-work spill-over, which has been found to potentially have a negative influence on work productivity (Dilworth, 2004; Dilworth & Kingsbury, 2005) might be present in this context, and that its effects may differ by gender. Although family-to-work spill-over effects might have less of an influence than work-to-family effects (Eagle et al., 1997), the presence of a negative association between international journal article publication and the number of dependent children of an academic might suggest that further research is needed into what potential 'family' costs are associated with highly productive researchers. It is concluded that family-to-work spillovers (that are proxied by the dependent children variable) may not be homogenous in this context. The influence of societal culture can manifest strongly in the different family roles that it

prescribes in different ways to men and women (Emrich et al., 2004). It is recommended that universities proactively engage with these challenges by providing day-care facilities and other support to parents, as gender role differences might still place a gender-unequal burden on parents who are academics. On the basis of these results it is recommended that the influence of family-to-work spillovers on male academics are also not neglected. Further research is recommended in order to establish the causal mechanisms that underlie these associations, given that statistical methods cannot establish causality. The paper is concluded as follows.

## CONCLUSIONS

The core research question posed in this paper was the following: 'What differences in research productivity are related to gender inequalities in the South African academic context?' From this core research question, the objectives of this research were derived together the following subordinate research questions:

- To what specific extent do research outputs differ by gender?
- How does the factor structure of this context differ by gender?
- How does career progression differ by gender?
- What primary differences potentially underlie gender inequality in this context?

Research productivity was found to differ significantly by gender. Male academics were found to publish significantly more ISI/IBSS journal articles, conference proceedings and to present significantly more conference papers. On the whole, male academics were found to produce more gross research output. These results were found to support research in other contexts that have found similar results (Barbezat, 2006; Rachal et al, 2008; Rothausen-Vange et al., 2005).

At this point in time, these results are found to contest the predictions of ascription theory, which predict that gender equality will eventually result, particularly in knowledge work that is dependent on scarce knowledge and skills which are not related to arbitrary characteristics like gender differences (Marwell, 1975). Similarly, these results contest the predictions of human capital theory (Becker, 1964) which predicts a similar outcome. Having demonstrated potential differences in research productivity, factor analysis results were found to indicate differences in the structure of the component categories by gender in this context. Having found evidence of gender-related differences in both research productivity as well as in the factor structure contextual differences, the focus moved on to testing the potential practical consequences of these differences. Career progression was also found to be differentiated by gender. Female academics were found to be significantly less likely to progress past Associate Professor level to full Professor level.

This was taken to potentially represent a gender-career threshold. Having considered one dimension of the practical consequences of gender inequality in this context, theory derived from the literature that predicted primary gender differences in this context was tested. Female academics were found to be significantly more likely to derive their primary satisfaction from teaching. Male academics were found to be significantly more likely to derive theirs from research. Satisfaction with teaching was found to be negatively associated with satisfaction with research. Female academics were also found to have significantly lower levels of self-efficacy related to ISI/IBSS journal article publication, DOE journal article publication, conference proceedings publication and statistical analysis. Interestingly, male academics with more dependent children were found to have published significantly fewer ISI/IBSS journal articles and female academics with more dependent children were found to have presented significantly fewer conference papers.

It is concluded that within trends towards a dominance of females in higher educational attainment and employment gender clustering is still evident; females in teaching and males in research. It is concluded that the highly knowledge-intensive context of university research productivity is perhaps not yet robust to the influence of societal culture and its historical gender role ascription (Emrich et al., 2004; House et al., 2004). Managerial recommendations made on the basis of these results are summarised as follows.

## MANAGERIAL RECOMMENDATIONS

The following recommendations follow from these results. A developmental approach to increasing research productivity might best provide results if it focuses on the development of self-efficacy. All staff should be encouraged to present more conference papers. In this way, the gender difference in research productivity at the level of conference papers may be addressed. It is argued that self-confidence and self-efficacy can be developed if a 'laddered' approach to research productivity is taken. The first rung of the ladder is conference presentation. By 'learning by doing', self-efficacy can be built up. The clear gender differentiation in this context by work roles of teaching versus research seem to reflect societal cultural differences (Emrich et al., 2004; House et al., 2004) that may be deeply embedded in societal systems that organise social relations on the basis of gender (Ridgeway & Correl, 2004).

It is recommended that female academics be incentivised to engage in research, as in highly incentivised contexts female academics have been found to be highly research productive (Barbezat, 2006). It is suggested that in the face of societal cultural influences that seem to have resulted in gender-based clustering (Emrich et al., 2004) universities should make a serious commitment to the reduction of gender inequality in research output by significantly increasing the incentives provided for research (for both male and female academics equally). It is argued that, following Barbezat (2006), a dramatic increase in incentives (financial and otherwise) for research might reduce gender inequality in research productivity. The preference of female academics for qualitative methods and male academics for quantitative methods also seems to reflect this gender dichotomy. Increased training in both quantitative and qualitative research methods, by highly productive researchers, should be provided by academic institutions to all their academic staff. If research productivity is sufficiently incentivised, then staff may be more likely to take advantage of this training. Further research may need to be commissioned by academic management in order to gain insight into the causal relationships that underlie these effects. One of the primary 'pathways' through which societal systems of gender inequality (Ridgeway & Correl, 2004) might transmit to constraints to research productivity, or job performance, is perhaps through gender inequality in family roles. This may be reflected in the gender differences in the relationships between dependent children and different forms of research output.

This may be better managed through the provision of day-care facilities for all staff at all universities in this context. Other flexible work arrangements might also be provided on a proactive basis. It is argued that an immediate investment in proactive measures to empower female academics might counter the negative influence of societal gender role ascription (Ridgeway & Correl, 2004) on research productivity, and result in a gender equality 'dividend' (Faust, 2013). Such a dividend will surely accrue in the form of increased research output, in the form of more efficient and effective institutions and in the form of increased contributions to societal stakeholders.



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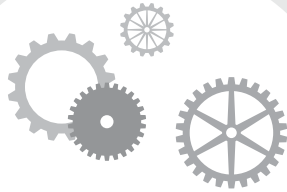
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# IMPACT OF SKILLS SHORTAGES ON PROPENSITY TO LEAVE IN SOUTH AFRICAN GOLD MINES

37



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## ABSTRACT

This paper sets out to examine the impact of skills shortages on propensity to leave in gold mines, as perceived by management. The ageing and global dearth of skilled people in the mining industry have created the need to investigate why employees intent to leave the South African gold mining industry. It is important for mine management to determine why they are unable to retain skilled employees that could improve performance and maintain health and safety in the mining industry, by understanding the factors related to propensity to leave. A comprehensive literature study was conducted to provide the theoretical framework for the study. The empirical study was conducted in three selected gold mining companies in South Africa using the survey method by means of self-administered questionnaires. A purposeful sample of 300 valid responses was obtained. Findings showed that the working environment, employment conditions, resources and education and training are variables that are significantly related to skills shortages which impact propensity to leave the gold mines. It is recommended that management actively monitor workloads, extrinsic and intrinsic sources of satisfaction and corrective measures of propensity to leave should be taken in advance.

## KEYWORDS

Gold mining, Skills shortage, Turnover, Propensity to leave, Working environment, Employment conditions, Resources, Education and training

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## INTRODUCTION

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“A flood of trained and highly skilled mining engineers left South Africa in the past 30 years and are still being recruited by companies in Australia, Canada and other major mining countries ... it's more a skills factor than a political one ... many of the engineers in Canada are South African ... students are being snapped up before they even complete their degrees ... critical shortage of students studying for a degree in the sciences, therefore, anyone who obtains a degree in engineering sciences is highly prized and highly paid ... we are not retaining the expertise needed to mine our own minerals and process them in South Africa which is an unmitigated disaster.”

(Moolman, 2012.)

The losing of key employees has long been recognised as a huge cost especially when replacing workers when the contest for talented employees between organisations is considered (Hissom, 2009: 4). The word costly may refer to opportunity cost while an organisation is in the process of finding a replacement for the individual who has left and the loss of productivity of an experienced employee. During this period the duties of an employee who have left the organisation may have to be assumed by remaining employees, leading to increased work demands, stress, and uncertainty until the vacant position is filled. The external replacement may create dissatisfaction among some employees who were hoping that they will be promoted and fill that position (Al-Harbi, 2011: 15).

Omar, Anuar, Majid and Johari (2012: 194) believed that, when studying turnover and skills shortage in certain professions, it is crucial to understand why employees leave their place of work. However, knowing the reasons for leaving from exit interviews are too late to stop the actual turnover but some researchers have suggested that it is better for employers to detect the presence of propensity to leave feelings so that necessary preparation and preventive actions can be taken (Omar, Majid & Johari, 2012: 2615). It was mentioned in general theories of planning that the behaviour of employees suggest that the intention to leave is a strong predictor of quitting a job (MacIntosh & Doherty, 2010: 107) and when identified, corrective measures to prevent turnover could be taken in advance (Van Schalkwyk, Du Toit, Bothma & Rothmann, 2010: 2). This is in line with attitude-behaviour theory (Samad, 2006: 12) that one's intention to perform a specific behaviour is a close predictor of that behaviour, therefore, propensity to leave and actual turnover are correlated (Omar et al., 2012: 2616; Castle, Engberg, Anderson & Men, 2007) and propensity to leave may predict staff turnover (Ongori, 2007: 49). Moreover, it is easy to persuade non-leavers to provide appropriate information than to wait for employees to terminate their employment (Mustapha, Ahmad, Uli & Adris, 2011: 263).

The first part of the paper covers the introduction, problem statement and research objectives. Thereafter, the theoretical framework of the study is outlined and the research methodology is highlighted. The last part focuses on the empirical results and main conclusions and recommendations.

### PROBLEM STATEMENT

Previous studies have contributed the understanding of the relationship between independent and dependent variables but very few of them have investigated theoretically the mediators of these relationships (Sun & Chiou, 2011: 2865). Few efforts have been made to understand how working

environment, employment conditions, availability of resources and education and training influence propensity to leave in gold mines. However, the nature of the processes leading from the independent variables to propensity to leave has not yet been systematically explored (Fried, Shirom, Gilboa & Cooper, 2008: 306). This paper addresses this research gap. Most studies of staff turnover, skills shortage and intention to leave used educational institutions, hospitals, hotels, clothing and manufacturing organisations as subjects. These studies have made important contributions to the theory, however their results may be sample specific or their antecedents may be influenced by employees' occupation (DeConinck, 2011: 87). Therefore, the results may not be applicable to mining managers and professionals. Despite the growing interest in investigating propensity to leave, empirical research on its antecedents and mediating effect of skills shortage among managers and professionals in the South African gold mines has not been undertaken (Bothma, 2010; Perryer, Jordan, Firms & Travaglione, 2010: 91; Van Schalkwyk, du Toit, Bothma & Rothmann, 2010: 1) hence the need for this study.

The research question to be addressed in paper is: What are the perceptions of management regarding skills shortages and its impact of propensity to leave in South African gold mines?

## CONCEPT CLARIFICATION

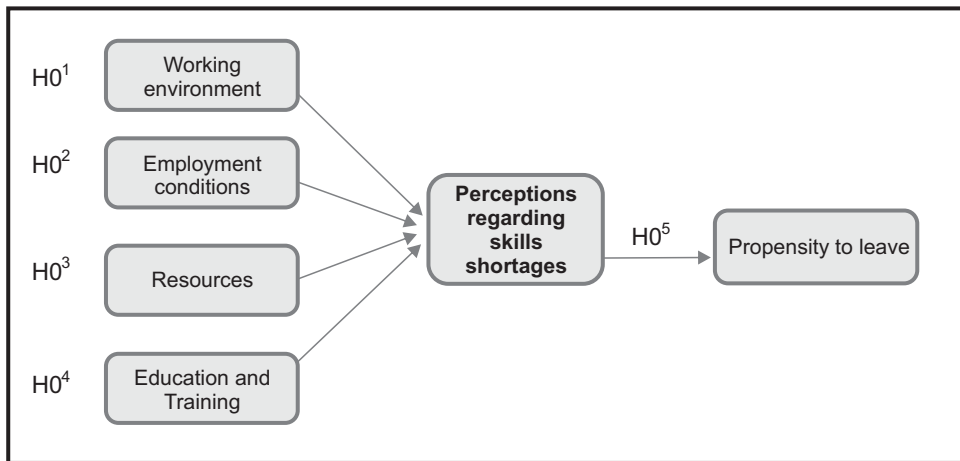
Propensity to leave as a concept may be defined as the degree of employee's desire or perceived likelihood that they do not want to stay with their employer due to various antecedents (Kahumuza & Schlechter, 2008) and were quitting and actively searching for alternative employment (Park & Kim, 2009). Employees with high withdrawal intentions from the organisation have already made a decision subjectively that they will be leaving the organisation in the near future (Masri, 2009: 16). Withdrawal may manifest itself in terms of lateness, absenteeism, avoidance behaviour and lowered performance.

## CONCEPTUAL FRAMEWORK OF THE STUDY

### **Hypothetical model of perceptions regarding skills shortages in gold mines and impact on propensity to leave**

Employees' skills are the backbone of any business' success and therefore, they need to be motivated and maintained at all costs to aid the organisation to be globally competitive in terms of providing quality products and services to society (Appollis, 2010: 31). In this section, the model would identify propensity to leave as a business-related variable that occurred as a result of changes in skills requirements. Secondly, the conceptual framework would demonstrate the mediating effect that ultimately leads to a particular problem (turnover and propensity to leave) as a particular ultimate result (see for example Deloitte Access Economics, 2011; Kaplan, 2011; Penney, Melanie, Stark & Sheales, 2012; Stewart, 2013). Figure 1 depicts the variables and hypotheses that are included in the model.

**FIGURE 1: HYPOTHETICAL MODEL OF PERCEPTIONS REGARDING SKILLS SHORTAGES IN GOLD MINES AND PROPENSITY TO LEAVE**



(Source: Own construct)

### Propensity to leave (dependent variable)

The propensity to leave is categorised as a dependent variable in this study. African countries continually lose a significant number of trained nationals, with for example, a third of South Africa's artisans and engineers leaving the country over the past 40 years. This is normally referred to as brain drain. Australia, Canada, United Kingdom, USA and New Zealand were popular destinations for people intending to emigrate and live abroad in search of higher incomes and a better standard of living, among a host of other reasons (Shah, 2010: 64; Khadria, 2002: 1). According to International Labour Organization (2010: 18), there are many salient factors contributing to migration and any explanation may not apply to all situations. Some factors that are generally relevant to the mining industry include poor conditions of service, human rights abuses, incorrect placement of trained personnel, disregard for local talent, scarcity of jobs, limited access to education, poor healthcare services, a high level of crime, and the fear of losing valued relationships developed in host countries. Some reasons underpinning individual migration decisions, where official data exists, are for work (lack of job security), study (job opportunity) or to join a partner or immediate family (Horsfield, 2005: 126).

There are comprehensive factors that influence the propensity of professionals to leave their current organisations to work in other sectors or foreign countries and are classified as push and pull factors. According to Jauhar and Yusof (2011: 121), push factors may include lack of promotion, autonomy and social support; limited job opportunities; low salary or income; and lack of satisfying working conditions, social and cultural life, while pull factors are the opposite of push factors. Push factors stimulate workers to consider leaving their country of residence (World Bank, 2004: 2), while pull factors lure potential applicants to destination countries, making them more attractive places to live and work (Lowell & Findlay, 2001: 3).

Firth, Mellor, Moore and Loquet (2004) claimed that there are several reasons why people leave the organisation, such as insufficient information of how to perform the job adequately; extensive job pressures; and dissatisfaction regarding the working environment or employment conditions. Additionally, Ali Shah, Fakhr, Ahmad and Zaman (2010: 169-172) reviewed various research studies and indicated that employees in the organisation resign for a variety of reasons. Firth et al. (2004) believed that management's ability to actively monitor workloads and maintain a good



working relation between supervisors might not only reduce stress, but also increase job satisfaction and commitment to the organisation. Managers also need to monitor both the extrinsic and intrinsic sources of job satisfaction available to employees. These activities could assist in retaining talented employees and reducing turnover.

The variables that are related to propensity to leave, identified by Masri (2009: 27), are examined in more detail below.

### **Demographic factors**

Khatri, Budhwar and Fern (1999: 5) stated that demographic factors that have been found to have a stable relationship with propensity to leave include age, tenure, level of education, level of income, and job category (managerial or non-managerial). Khatri et al. (1999) have reported a negative relationship between turnover intention and three demographic factors, age, tenure, and income level. The amount of education, on the other hand, is found to be positively associated with turnover, suggesting that an employee with a higher education level and possessing skills has an increased affinity for more enriching jobs with higher compensation (Heydarian & Abhar, 2011: 32). Chiboiwa, Samuel and Chipunza (2010: 2103) argue that non-managerial employees are however more inclined to quit than managerial-level employees. It appears that findings regarding studies on the relationship between gender and labour turnover are mixed (Martin & Roodt, 2008: 25). According to Khatri et al. (1999:5), males are more likely to quit their jobs than females, as they are in most cases the breadwinners and have a greater need for achievement than females. Consequently, females have reportedly shown higher turnover rates than their male counterparts where gender biases and stereotypes are common in the workplace (Ganesan, 2010: 18).

### **Organisational factors**

There are many organisational-related factors that could push employees to quit. Amongst them, are salary, benefits and facilities; size and location of the organisation; nature and kind of organisation; stability of the organisation; communication system and management practice and policies; and employee empowerment (Ali Shah et al., 2010: 170).

### **Attitudinal factors**

Attitudinal factors are variables such as job satisfaction, work-related stress and level of commitment to the organisation. According to Loquercio (2006), it is relatively rare for people to leave jobs in which they are happy, even when offered higher pay elsewhere. However, sometimes employees are pushed to leave due to dissatisfaction in their present jobs to seek alternative employment. Satisfied employees are less likely to quit (Ali Shah et al. 2010:170). De Lange, De Witte and Notelaers (2008) found a relationship between low departmental resources, low job autonomy, low work engagement with intention to leave and later quitting to work for a new organisation. Wright (2009: 15) and Simpson (2008) concur that staff interaction was positively related to employee engagement while studies by Kular, Gatenby, Rees, Soane and Truss (2008: 6) and Saks (2006) believed that employees, who are more engaged, trust their employer and therefore report more positive attitudes and intentions towards the organisation. Various pull factors derived from literature are: high salary, career advancement, new challenges and interesting work, job security, good location of organisation, better culture, life-work balance, more freedom or autonomy, good reputation of organisation, values, more benefits, and reputable employer (Ali Shah et al., 2010: 172).

### **Skills shortages (mediating variable)**

Skills shortages is by nature an employer perception construct and a balanced understanding of the problem in the context of workplace skills development initiatives is an imperative (Tan, Savchenko,

Gimpelson, Kapelyushnikov & Lukyanova, 2007: 13-18). Furthermore, Shah and Burke (2005) state that management strategies on skills shortages are important because they often are the main, if not the only, source of data about the existence of a skills shortage in the market. Instead of recruiting new workers, some organisations may react to an increase in the product demand with a range of coping mechanisms that could involve the reallocation of resources within the internal market (Shah & Burke, 2005). Erasmus (2006: 3) argued that an understanding of the reasons for perceived skills shortages will help to determine the appropriate measures needed to alleviate these shortages.

It is essential that managers, leaders, and organisations develop professionals that understand factors which may influence organisational outcomes, such as performance, competitive advantage and sustainability and always ensure employees are motivated and prepared for change (Madsen, Miller & John, 2005: 1). The South African mining industry provides a number of economic and other benefits. However, it has a variety of built-in environmental, health and safety hazards owing to chemicals, biological agents, physical factors, adverse ergonomic conditions, allergens, a complex network of safety risks, and many psychosocial factors (Oldfield & Mostert, 2007: 68). The main drivers of departure of skilled workers in the mining industry are related to the work environment, that include low pay, poor working conditions, limited educational and career opportunities, unsafe workplaces and a lack of resources for effective working and socio-economic environment. The elements of the wider socioeconomic environment such as political and economic instability, the impact of the human immunodeficiency virus, or security issues also influence decisions to move but are not discussed in this paper (Wiskow, Albrecht & De Pietro, 2010: 1). As a result of the above discussions, the study analyses the effects of four independent variables, namely, working environment, employment conditions, resources for effective working and education and training.

### **Independent variables**

The four independent variables of the model are outlined below.

### **Working environment**

The major indicator of a hazardous work environment is the industry's injury and illness rate. Injuries caused by slippery surface, caving in of side walls, struck by an object, or hurt by machinery, are among the common incidents causing work-related injuries and illnesses (Emery, 2005: 28). Awases, Gbary, Nyoni, and Chatora (2004: 54) stated that working conditions have been singled out, along with remuneration, as one of the major de-motivators and are often the reason why skilled people leave their occupation. This view was verified by a report by the Canadian Health Services Research Foundation (2001: 1-4) which identified work pressures and safety as some of the issues affecting the mining environment. Brenner (2004) argued that work environment designed to suit employee's satisfaction and free flow of exchange of ideas is a better medium of motivating employees towards higher productivity. Vermaak (2010: 52) concurred with this notion that the main reasons for propensity to leave is the lack of a professional working environment where employees may grow, be better professionals and have a sense of fulfilment.

### **Employment conditions**

Employment conditions in the mining industry vary by occupation. Most underground jobs are physically demanding as they comprise tasks involving strength, mobility and muscular endurance. These activities often place great strain on the human musculoskeletal system (Heine 2008: 26). Jacobs, Tytherleigh, Webb and Cooper (2007: 201) claimed that workers who are ill are more likely to take sick leave and have a reduced capacity to perform successfully at work. Bakker, Demerouti, De Boer and Schaufeli (2003) stated that job demands are the most important predictor of health

problems, which in turn are related to sickness and absence. Potter, Deshields, Divanbeigi, Berger, Cipriano, Norris and Olsen (2010: 57) believed that compassion fatigue can take a toll on the mining professional, causing decreased productivity, more sick days used, and higher worker turnover. Khalatbari, Ghorbanshirodi, Akhshabi, Mahmoudi and Nejad (2011: 446) claimed that industrial workers that are under thermal stress for extended periods eventually become fatigued. According to Chew and Chan (2008: 5) and Willis (2000: 20), remuneration and recognition are the most critical issues in terms of attracting and retaining talent. However, after people have settled down in a job, extrinsic rewards became less important, as day-to-day motivation is more strongly driven by intrinsic rewards (Ram & Prabhakar, 2011: 50).

## Resources

Mine health and safety legislation and regulations set very strict competency requirements for certain positions and without people with the necessary competencies mining operations cannot extend further. According to Peek, Fenard, Gantes and Theiler (2008: 11-31), the low level of skills development in sub-Saharan Africa is no doubt the principal cause for the lack of skilled workers. Some governments in this region do not allocate adequate funds for education and training; as a result there is a lack of infrastructure and qualified teaching personnel. Along with university education, technical and vocational training, funds allocated to them are equally limited. A recent survey by the African Development Bank showed there is a serious lack of such facilities in nearly all the minerals producing countries, and that these institutions were not functioning in an efficient manner (African Development Bank/OECD, 2008). Nickell and Nicolitsas (2000) are of the opinion that investments in skills development have a cumulative effect. They found that skilled labour shortages at industry level were significantly and negatively associated with subsequent reductions in investments in physical capital and research and development at organisational level in industries concerned.

## Education and training

According to some employers and industry associations, the vocational education and training system of the country has been labelled as the main contributor to the national skills crisis and difficulties in supplying the skilled workers needed by the South African mining industry. University education does not produce commercially or workplace able and ready graduates that would, firstly, keep pace with technological changes occurring as a result of innovation and extensive research and development outcome; and secondly, the education and training system does not meet the growing demands of local organisations for skilled graduates (Rasool & Botha, 2011: 2). According to Taylor (2008: 17), the lack of relevant and responsive education and training opportunities can result in a mismatch between supply and demand and hence contribute to skills shortages. Quintini (2011: 28) reported that there is some evidence that developing existing employees with work-related training could alleviate the skills mismatch; improve individual employee and organisational capabilities. In this situation, training can narrow the gap between skills acquired at schools and skills required for the job (Arulampalam, Booth, & Bryan, 2004) and contribute to the resolution of skills mismatch (Van Smoorenburg & Van der Velden, 2000).

## HYPOTHESES

The following null-hypotheses were formulated for this study:

**H0<sub>1</sub>:** There is no relationship between the perceptions regarding skills shortages and the working environment in goldmines.

**H0<sub>2</sub>:** There is no relationship between the perceptions regarding skills shortages and the employment conditions in goldmines.

**H0<sub>3</sub>:** There is no relationship between the perceptions regarding skills shortages and the availability of resources in goldmines.

**H0<sub>4</sub>:** There is no relationship between the perceptions regarding skills shortages and training and development in goldmines.

**H0<sub>5</sub>:** There is no relationship between perceptions regarding skills shortages and the propensity to leave in gold mines.

## RESEARCH METHODOLOGY

This section outlines the research methodology adopted in this study.

### Research paradigm

A positivistic research methodology (quantitative research) was 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 management perceptions regarding skills shortages in gold mines.

### Population

The unit of analysis are all managers at three gold mines in South Africa. The study was conducted in the Free State, Gauteng and North West Provinces, where the three largest gold mines, AngloGold Ashanti, Goldfields (now SibanyeGold) and Harmony, are situated. The population for this study has thus been identified as all managers at these three gold mines.

### Sampling

The sampling frame was restricted to management (lower, middle, top and professionals). A non-probability sampling technique, namely purposive sampling was applied to select the samples for the study. The sampling frame consists of all employees at management levels of AngloGold Ashanti, Goldfields and Harmony.

### 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 343 questionnaires were administered and 300 were usable and subjected to further statistical analyses. The effective response rate of this survey was thus 87%.

### Questionnaire design

A self-administered structured questionnaire was designed for this survey. The questionnaire consists of four sections:

- **Section A** covers factors influencing skills shortages in gold mines, using a seven-point Likert-type ordinal scale.
- **Section B** was designed to obtain information of general perceptions regarding skills shortages in the mining industry, using a seven-point Likert-type ordinal scale.
- **Section C** concentrated on the impact of skills shortages on propensity to leave in gold mines.
- **Section D** covered the biographical information of the respondents, using a nominal scale.

## Pilot study

A pilot study was conducted among 30 managers from the designated population to determine any problem areas and suggestions for improving the measuring instrument.

## Data analysis

The questionnaires received were checked for omissions, legibility and consistency and then transferred to an Excel spread sheet and analysed using the Statistica computer programme. Data was analysed by means of descriptive statistics, frequency distributions; Cronbach's alpha values, correlations and regression analysis.

## EMPIRICAL RESULTS

Table 1 provides a demographical profile of the respondents of this study.

TABLE 1: DEMOGRAPHICAL PROFILE OF RESPONDENTS

Demographics	Range	Number	Percentage
Age	21-30	42	14
	31-40	94	31
	41-50	104	35
	51-60	56	19
	60+	4	1
Gender	Female	37	12
	Male	262	87
	Missing	1	1
Ethnic classification		211	70
	African	12	4
	Coloured	4	2
	Indian	73	24
	White		
Highest qualification		38	13
	Grade 11 and lower	129	43
	Grade 12	88	29
	Diploma/ National cert.	35	12
	Bachelor's degree	8	3
	Post graduate degree	2	1
	Other		
Position in organisation	Supervisors and Foremen	204	68
	Middle management	61	20
	Top management	1	1
	Professional	33	11
		1	1

Table 1 indicates that 87% of respondents are males and most (54%) of them are in the age group of 41-60. Seventy (70%) per cent of respondents are Africans, while fifty six (56 %) per cent have either completed their Grade 12 or lower. Eighty eight (88%) per cent of the respondents were supervisors or foremen.

## Descriptive statistics

Table 2 indicates the descriptive statistics of the various factors tested in this study.

**TABLE 2: DESCRIPTIVE STATISTICS FOR EACH FACTOR**

VARIABLE	MEAN	STANDARD DEVIATION
Working Environment (WE)	4.66	1.09
Employment Conditions (EC)	4.87	1.13
Resources (RE)	4.47	1.14
Education and Training (ET)	5.97	0.99
Skills Shortage (SS)	4.57	1.29
Propensity to Leave (PL)	4.95	1.19

Table 2 summarised the scores for each of the six variables. For example, in the case of Education and Training (ET), the score obtained from 300 respondents shows a mean of 5.97 and standard deviation of 1.00. Overall, the variable scores are generally centrally distributed as all the scores are close to average (agree somewhat), except one variable (Resources), score which is average (neutral) with the mean value of 4.47. It also indicates that all the variables' scores lie within  $\pm 1$  standard deviation from the mean, indicating that respondents did not vary much in their responses around the mean score.

### Exploratory factor analysis

Table 3 indicates the exploratory factor loadings of the various factors tested in this study. These six factors were subjected to an exploratory factor analysis. According to Vinayan, Jayashree and Marthandan (2012: 36) a cut-off point of 0.5 is recommended and in general the cut-off line of 3 items loading per factor were used as the threshold to ensure practical significance for further analysis and to confirm convergent validity as loadings greater than 0.4 is considered significant (Johari, Yahya & Omar, 2011: 140). Some of the items/variables have thus been omitted for further analysis.

**TABLE 3: EXPLORATORY FACTOR LOADINGS**

Items	Working environment	Employment conditions	Resources	Training and development	Skills shortages	Propensity to leave
WE1	0.529					
WE2	0.736					
WE3	0.682					
WE4	0.550					
WE5	0.564					
WE8	0.527					
WE9	0.615					
WE10	0.667					
EC1		0.719				
EC2		0.603				
EC3		0.682				
EC4		0.655				
EC5		0.741				
EC6		0.596				
EC7		0.736				
EC9		0.640				
EC10		0.526				
EC11		0.714				
EC12		0.589				



Items	Working environment	Employment conditions	Resources	Training and development	Skills shortages	Propensity to leave
RE1			0.688			
RE2			0.560			
RE4			0.670			
RE5			0.677			
RE6			0.646			
RE7			0.739			
RE8			0.614			
RE9			0.580			
RE10			0.559			
ET1				0.542		
ET2				0.547		
ET4				0.654		
ET5				0.604		
ET6				0.675		
ET7				0.590		
ET8				0.675		
ET10				0.544		
SS3					0.738	
SS6					0.568	
SS8					0.605	
PL1						0.634
PL2						0.691
PL3						0.791
PL4						0.829
PL5						0.800

### Reliability of the measuring instrument

The statistical software package, SPSS, was used to determine Cronbach's alpha values for the three predetermined factors. To confirm the internal reliability of the six factors, Cronbach's alpha values were calculated (refer to Table 4).

**TABLE 4: CRONBACH'S ALPHA FOR SECTION A OF THE QUESTIONNAIRE**

Factor	Cronbach's Alpha
Working Environment (WE)	0.82
Employment Conditions (EC)	0.89
Resources (RE)	0.86
Education and Training (ET)	0.81
Skills Shortage (SS)	0.71
Propensity to Leave (PL)	0.87

The reliability coefficients of Cronbach's alpha values for the various factors are all above 0.7. It can therefore be concluded that all factors are internally reliable.

## Correlations

Correlation analysis is one of the most widely used and reported statistical methods in summarising quantitative research data (Williams, 2007: 67). Variables that are not associated with at least some of the other variables would not contribute to the analysis. Those are variables that were identified as having low correlations of less than a threshold value of 0.5 and were eliminated from further analysis.

**TABLE 5: CORRELATION MATRIX OF THE VARIABLES**

	Mean	Std dev	WE	EC	RE	ET	SS	PL
WE	4.662	1.089	1.000	0.734	0.738	0.757	0.622	0.644
EC	4.869	1.135	0.734	1.000	0.792	0.686	0.534	0.505
RE	4.470	1.144	0.738	0.792	1.000	0.796	0.617	0.677
ET	4.972	0.997	0.757	0.686	0.796	1.000	0.646	0.701
SS	4.567	1.296	0.622	0.534	0.617	0.646	1.000	0.657
PL	4.945	1.186	0.644	0.505	0.677	0.701	0.657	1.000

Table 4 indicates that, among other, working environment is positively correlated to skills shortage with a coefficient of 0.622. Table 4 further shows that skills shortage is positively correlated to employment conditions with a coefficient of 0.534 and is also positively correlated to resources with a coefficient of 0.617. Education and training is positively related to skills shortages with a coefficient of 0.646. Table 4 indicates that propensity to leave and skills shortages have a significant positive correlation with a coefficient of 0.657.

## Regression analysis

Table 6 indicates the regression analysis results of the influence of working environment, employment conditions, resources and education and training on skills shortages in gold mines.

**TABLE 6: REGRESSION ANALYSIS: INFLUENCE OF WORKING ENVIRONMENT, EMPLOYMENT CONDITIONS, RESOURCES AND EDUCATION AND TRAINING ON SKILLS SHORTAGES**

REGRESSION SUMMARY FOR DEPENDENT VARIABLE: SKILLS SHORTAGES				
Parameter	B	Std Error	T-value	P-value
Working environment (WE)	<b>0.311</b>	0.087	3.574	<b>0.001***</b>
Employment conditions (EC)	-0.034	0.085	-0.397	0.691
Resources (RE)	<b>0.228</b>	0.096	2.379	<b>0.017**</b>
Education and training (ET)	<b>0.399</b>	0.100	3.993	<b>0.001***</b>
R	R <sup>2</sup>	F	Std Error of P estimate	
69%	0.4703	65.484	0.9497 p<0.00000	
* = p < 0.05 ** = p < 0.01 *** = p < 0.001				

Table 6 shows that the R<sup>2</sup> of 0.470 indicates that 47% of the variability in the model is explained by the variables WE, RE and ET. This means that 'working environment' (b = 0.311, p < 0.001), 'resources' (b = 0.228 p < 0.017), and 'education and training' (b = 0.399 p < 0.001) have a positive relationship with the perceptions of management on skills shortages in gold mines. Table 8 indicates that all independent variables are able to predict skills shortages, except 'employment conditions' that was classified as statistically insignificant. This view is based on the reason that when all other variables command positive values, it scored some negative values (b = -0.033757 and t = -0.397076) variable, so it is not commendable to let it pass on to the next stage of analysis, hence, this variable was withdrawn for further analysis.

Table 7 indicates the influence of skills shortages on propensity to leave.

**TABLE 7: REGRESSION ANALYSIS: INFLUENCE OF SKILLS SHORTAGES ON PROPENSITY TO LEAVE**

REGRESSION SUMMARY FOR DEPENDENT VARIABLE (PL): SKILLS SHORTAGES				
Parameter	B	Std Error	T-value	P-value
Propensity to leave (PL)	<b>0.601</b>	0.039	15.036	<b>0.001***</b>
R	R <sup>2</sup>	F	Std Error of P estimate	
65%	0.4314	226.07	0.8954 p<0 .00000	
* = p < 0.05 ** = p < 0.01 *** = p < 0.001				

Table 7 shows that the R<sup>2</sup> of 0.431 indicates that 43% of the variability in the model is explained by the variable PL. This means that 'propensity to leave' (b = 0.601, p < 0.001) have a positive relationship with perceptions regarding skills shortages in gold mines. The dependent variables have a strong impact on skills shortages, 'propensity to leave' with a high t-value (t = 15.035) as indicated in Table 9.

It thus appears that there is sufficient evidence that the discriminant validity of the skills shortage scale with respect to the "propensity to leave" scale is acceptable. The literature on the link between skills development and propensity to leave has found that organisations that enhance the skills of the existing employees experienced lower turnover rates. However turnover is higher when an employee is trained to be multi-skilled, which may imply that this type of training enhances the prospect of the worker to find work elsewhere, where there are better fringe benefits. The literature on the link between training and mobility found that the training that is off-the-job and wholly sponsored by the individual increases the likelihood of mobility; while formal on-the-job training and training that is sponsored by the employer would decrease the likelihood of mobility (Srinivas, 2008: 90). Human resource mechanism such as recruitment policy and succession planning can be used to control propensity to leave and staff turnover (Mbah & Ikemefuna, 2012: 277).

## CONCLUSIONS AND RECOMMENDATIONS

After examining the patterns of skills shortage for interrelationship between skills shortage and the propensity to leave, it has been shown that propensity to leave has a positive correlation with skills shortages. What this statement means is that for any increase in skills shortage there is likelihood that the propensity to leave would increase.

Propensity to leave could be defined as the degree of employee's desire or perceived likelihood that they do not want to stay with their employer due to various factors. Employees claim that if there is a

reason to leave, it would be for another organisation in another sector and only for better fringe benefits. The gold mining sector is at a mature/declining stage. It appears that intention to leave is a strong predictor of actual turnover rates among staff members, employees who are more engaged trust their employer and therefore reported more positive attitudes and intentions towards the organisation. There is no standard framework for understanding the employees' turnover process as a whole, and a wide range of factors have been found useful in interpreting employee turnover.

**The following conclusions could be drawn from the hypotheses testing:**

- Hypothesis one (H01) explored the respondents' views of whether there is a relationship between perceptions regarding the working environment and skills shortages in gold mines in relation to safety, health, occupational fatalities and physical surroundings. The purpose was to examine whether the working environment has an influence on skills shortages in gold mines. A statistically significant positive relationship was reported between the perceptions regarding the working environment and skills shortages in gold mines ( $p < 0.001$ ). This means that the working environment positively influences skills shortages (correlation coefficient of 0.622). Therefore, H01 is rejected. The alternative hypothesis was thus accepted.
- Hypothesis two (H02) was formulated to investigate the respondents' views of whether there is a relationship between perceptions regarding employment conditions in gold mines and skills shortages in relation to retirement, recruitment or head-hunting, contracts, rewards, fringe benefits and placements. The purpose is to examine whether employment conditions have an influence on skills shortages. The relationships with employment conditions were positive but not significantly related to skills shortages ( $p > 0.691$ , NS) despite the correlation coefficient of 0.534. This means that the employment conditions were unrelated to skills shortages. Therefore, H02 is thus accepted.
- Hypothesis three (H03) examined the respondents' views of whether there is a relationship between perceptions regarding the availability of resources and skills shortages in gold mines in terms of funds or costs to hire, educational qualification, labour, competency level and infrastructure or accessibility to technology. The purpose was to investigate whether availability of resources has an influence on skills shortages in gold mines. A statistically significant positive relationship between the availability of resources and skills shortages ( $p < 0.017$ ) was reported (correlation coefficient of 0.677). Therefore, H03 is rejected and the alternative hypothesis thus accepted.
- Hypothesis four (H04) scrutinised the respondents' views of whether there is a relationship between perceptions regarding education and training and skills shortages in gold mines relative to technical or engineering skills, experience, training institutions, literacy levels and on- and off-the job training. The purpose was to examine whether education and training have an influence on skills shortages in gold mines. A statistically significant positive relationship was reported between the perceptions regarding education and training and skills shortages ( $p < 0.001$ ). This means that education and training influences skills shortages in gold mines (correlation coefficient of 0.646). Thus, H04 is rejected and the alternative hypothesis is accepted.
- Hypothesis five (H05) was intended to investigate the respondents' views of whether management perceptions of skills shortages negatively correlated with propensity to leave in gold mines. The purpose was to examine whether management perceptions of skills shortages have an influence on the propensity to leave in gold mines. A statistically significant positive relationship between skills shortages and propensity to leave ( $p < 0.001$ ) were identified. This means that skills shortage influences propensity to leave (correlation coefficient of 0.657). Therefore, H05 is rejected and the alternative hypothesis is thus accepted.

**Based on the perceptions regarding skills shortages and its impact on propensity to leave in gold mines, it is recommended that:**

- Management should actively monitor workloads and maintain good working relations between supervisors as not only reduce stress, but also increase job satisfaction and commitment to the organisation.
- Managers need to monitor both the extrinsic and intrinsic sources of job satisfaction available to employees to assist in retaining talented employees and reducing labour turnover.
- When intention to leave has been identified, corrective measures to prevent turnover should be taken in advance.
- Mine managers should implement practices and policies to overcome the “push factors” that could influence propensity to leave in gold mines. For example, ensure that there are promotion prospects especially in scarce skills areas; encourage employee engagement in the workplace; provide career guidance; enhance the quality of work life of all employees; offering market-related occupational income and promote autonomy for employees in their jobs.
- Mine managers should also plan for and cater to overcome the “pull factors” that could influence propensity to leave in gold mines. For example: offering better perks than other industries; provide for further educational opportunities; consider family needs and provide a conducive working environment.

## **LIMITATIONS**

**The following limitations of the study must be noted:**

- The influence of the independent variables on skills shortages was tested by means of a cross-sectional study, while true results may have been obtained through a longitudinal study and testing of reversal causal effects.
- The focus of the study was on the South African gold mining sector but only the top three gold producers were investigated.
- Due to time and costs constraint, only people within the radius of 200 km were selected.

The following extract seems appropriate to conclude this paper with:

“... globalization is a catalyst for international migration and its impact on Africa's development remains polemical ... the adverse effects of international migration on Africa, in the form of brain drain—the emigration of Africa's trained professionals far outweighs the perceived advantages associated with migrant remittances. ... formulation of workable policies to manage the brain drain ... such policy measures should include a conscious attempt to address the root causes of the push factors which instigate the emigration of brains ...”

(Akokpari, 2006:125)



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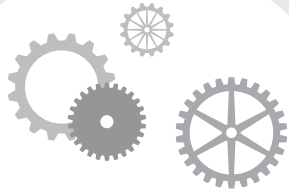
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# INDIVIDUALS' PERCEPTIONS TOWARDS FACEBOOK AND LINKEDIN AS RECRUITMENT TOOLS: AN EXPLORATORY STUDY

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## ABSTRACT

The use of social networking websites such as Facebook and LinkedIn for recruiting purposes is increasingly growing in popularity in South Africa, yet research on these practices is lacking. The main objective of this exploratory paper is thus to investigate individuals' perceptions towards the use of these social networking websites within the recruitment process. The sample was drawn using non-probability sampling, specifically convenience and snowball sampling. Data was gathered via paper-versions of the questionnaire as well as electronic means, resulting in a total sample of 210 respondents. Descriptive and inferential statistics revealed that respondents prefer LinkedIn over Facebook as their recruitment tool of choice. Recommendations for organisations include the development and implementation of organisational policies that will govern the use of social networks within recruitment.

## KEYWORDS

Facebook, LinkedIn, Recruitment, Social networks

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## INTRODUCTION

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The insurmountable rise of employable talent that can be found on the Internet and social networks has opened up a channel through which organisations can now e-recruit potential candidates. In a survey by Robert Half International in which executives were asked which technologies would be most useful in their firm's future recruiting efforts, 62 percent of executives believed that professional networking sites would be most useful for recruiting (Herbold & Douma, 2013). This leads one to question which specific social networking sites would be deemed most appropriate by individuals for use in such recruitment processes.

For the purposes of this study, two social networks, namely Facebook and LinkedIn, have been focused on, due to the fact that the use of these social networks is increasing. While relatively unknown in 2003, Facebook and LinkedIn have rapidly grown to more than 800 million (Internet World Stats, 2012) and 100 million (The Social Skinny, 2012) users respectively in 2012. Today, these two prominent social networking websites appear to be used for different purposes and in different contexts. Facebook is an application that connects friends and family and allows individuals to share personal information, and to meet new people (Papacharissi, 2009), while LinkedIn allows for professionals to connect, market their skills, share knowledge and experiences, and plan future career steps (Trusov, Bucklin & Pauwels, 2009). Facebook thus appears to belong primarily to an individual's private sphere and LinkedIn to an individual's professional sphere; yet both are used by recruiters when attempting to gather job applicants.

### PROBLEM INVESTIGATED

This paper aims to investigate individuals' perceptions towards the use of Facebook and LinkedIn as recruitment tools. Numerous studies have been conducted on the use of Facebook and LinkedIn within the recruitment process (see for example Hunt, 2010; Joos, 2008; Smith & Kidder, 2010), but most of these studies focused on the benefits that arise to organisations that use social networks as part of their Human Resources (HR) initiatives as well as how and why organisations use social networks in recruitment processes. That is, the majority of these studies focused on how social networking impacts businesses; but few studies have focused on whether differences between ages, genders, racial categories or the employment status of individuals has an impact on their perceptions regarding the use of either Facebook or LinkedIn for recruitment purposes. Such regard is especially lacking in the South African context, which justifies the need for this study and points towards its exploratory nature.

### Research objectives and/or hypotheses

To investigate this topic, the following primary objective was set:

To determine individuals' perceptions towards the use of Facebook and LinkedIn as recruitment tools.

More specific secondary objectives were set as follows:

1. To determine whether individuals use Facebook and LinkedIn to search and apply for jobs.
2. To investigate whether age, gender or racial category differences occur regarding the use of Facebook and LinkedIn as recruitment tools.

3. To examine whether HR professionals have different opinions from individuals with other employment statuses, with regards to the use of Facebook and LinkedIn as recruitment tools.
4. To develop and test a questionnaire that measures individuals' perceptions towards the use of Facebook and LinkedIn as recruitment tools.
5. To make valuable recommendations for industry on the use of Facebook and LinkedIn as recruitment tools.

**A number of hypotheses were set for investigation:**

- **Hypothesis 1:** LinkedIn is a more acceptable recruitment tool than Facebook.
- **Hypothesis 2:** Individuals working within HR view the use of LinkedIn in the recruitment process as more acceptable than individuals working for recruitment agencies.
- **Hypothesis 3:** Individuals working within HR view the use of Facebook in the recruitment process as more acceptable than individuals working for recruitment agencies.
- **Hypothesis 4:** Students view the use of Facebook in the recruitment process as more acceptable than individuals working within HR.
- **Hypothesis 5:** Individuals working within HR view the use of LinkedIn in the recruitment process as more acceptable than students.

## LITERATURE REVIEW

### Social Networking

A definitional framework needs to be built around the term “social networking” as a means of strengthening the area of research interest. Boyd and Ellison (2008: 211) define social networking as “a web-based service or application that allows individuals to construct a public or semi-public profile within a bounded system, define a list of users with whom they share a social connection and use the connections made by themselves and others within the system.” Jackson, Schuler and Werner (2012) concur, stating that social networking is a set of technologies and communication tools that enable a virtual community of participants to productively collaborate.

Social networking websites such as Facebook were initially designed for people to locate friends and family as well as interact with others online to discuss similar shared interests and remain in contact with loved ones (Bonhert & Ross, 2010). When social networking was first introduced, many business professionals felt that social networking applications were focused on the youth; thus, business leaders failed to see the advantages and possible gains of social networking to the business world (Rutledge, 2008). Today, approximately ten years later, social networking has to a great extent expanded to reach all demographics (Rutledge, 2008); and within the last five years, an increase in the use of social networks for business purposes has been noticed.

### Social networking as a recruitment practice for organisations

HR professionals and hiring managers perform two important functions during the recruitment process. Firstly, they need to generate potential and viable job candidates for the organisation's vacancies. This includes sourcing job candidates by advertising the vacant position using the most



appropriate channels to ensure that a wide demographic is reached in order for the organisation to attract the best talent (Marchal, Mellet, & Rieucan, 2007). In the case of this study, social networks such as Facebook and LinkedIn are increasingly being used by organisations for recruitment to reach the millions of individuals registered on these sites, in the hope that they will attract the best talent. Secondly, hiring managers conduct an initial screening process whereby they sift through curriculum vitae's (CV's) and online applications to identify those job applicants that are most likely to fit in the organisation and the position's requirements (Chapman & Webster, 2003). This is referred to as the screening and selection process (Dineen & Soltis, 2011). A discussion on this second function, however, goes beyond the scope of this study.

It is apparent that employers are increasingly using social networks as a sourcing tool (Bonhert & Ross, 2010). Berkshire (2005: 95) defines social networking recruitment technology as "software and web based services that enable users to leverage their personal relationships for networking, hiring, employee referrals and reference." Social recruiting focuses on utilising social media tools to communicate, engage, inform as well as recruit, screen and select future talent. Social networking enables organisations to attract talented individuals, thus making it an important business tool (Doherty, 2010). In so doing, it makes the organisation's brand stand out from their competitors by showing that their business is staying relevant and embracing change, especially as technology and ways of communicating evolve. In an employment branding and recruitment environment, social networking tools allow HR professionals/recruiters to source, recruit and engage with active and passive jobseekers, therefore tapping directly into niche talent communities and their wider connections, and reaching a greater talent base (Berkshire, 2005).

While the use of social networks such as Facebook and LinkedIn for job searching, sourcing and recruiting individuals is relatively new, their use for these purposes is clearly growing while research on these practices is lacking (Kaupins & Park, 2011). Elmore (2009), as stated by Griffin (2009), found that 73 percent of students surveyed had used social networking for internship and job hunting purposes. Moreover, 43 percent of students surveyed sought to use social networking to search for a job, compared to eight percent who favoured a company website and 13 percent who would prefer to visit career fairs. It was furthermore established that the majority of students surveyed stated that they would research an employer's offer on a social networking site, and that if they found that the job information matched their job requirements, they would follow through by applying for the position. In relation to the above, Kelly Services (2011) found that Facebook is the most common social media site for Generation Y (aged 18-29) respondents to look for work. On the other hand, LinkedIn is more popular with Generation X'ers (aged 30-47) and baby boomers (aged 48-65). From a recruiters' point of view, Savvas (2007) conducted a survey of professionals from 30 United Kingdom Information Technology recruitment firms and found that 58 percent perceive sites such as Facebook and LinkedIn as being more useful for staffing than print advertisements. Additionally, 49 percent of respondents considered social networking sites more effective than internet banner advertising to find job applicants (Savvas, 2007). From the above, it is apparent that a growing number of people are using social networking sites to search for jobs. It can also be deduced that recruiters are using Facebook and LinkedIn as recruitment tools.

Social networking can be used to focus recruitment advertising on active and passive job seekers who have indicated an interest in the employer brand of an organisation (Postoaca, 2012). According to this author, social networking has given recruiters a chance to connect on a more personal level with potential job candidates, which adds a unique dimension to the recruitment process. The business environment is continuously changing and workforces are aging; thus businesses need to get more competitive in order to attract younger and older workers (Doherty, 2010). Jacobs (2010) asserts that social networking is delivering sound hiring decisions by actively using web-based technologies to build a shared understanding between employers/recruiters and

passive job seekers and active job applicants. In support of this, Doherty (2010: 12) states that, “there is no denying that social networks are here to stay, therefore it is important that organisations fully understand the potential benefits and pitfalls”. Many organisations have successfully implemented social networking into their business practices, indicating to organisations that if they choose not to utilise social networks, they face the risk of becoming less competitive (Madia, 2011).

According to Doherty (2010), when done successfully, social recruiting can improve an organisation’s recruitment brand and efforts and can augment an organisation’s image by creating a new modern identity as well as preparing an organisation for future challenges. Social media websites carry with them the distinct advantage of enabling companies to reinvent themselves internally as well as externally. Social networking enhances the HR department’s image in the eyes of other departments, enabling it to take a more proactive recruitment role that guides the rest of the organisation towards employee engagement (Doherty, 2010). Therefore, social networking undoubtedly adds value to many organisations’ HR practices especially with regards to recruitment.

Ruettimann (2011) mentions that in a 2011 Achievers Social HR Survey, 98 percent of HR professionals who use social networking in their business and personal lives stated that they believe that social networking is an important tool for recruiting employees. This is a strong display of consensus rarely seen in the global corporate environment. Yet, Chamberlain (2012) found that HR professionals were cynical about social recruitment replacing traditional recruitment processes, with 63 percent of respondents stating that they believed that profiles on social networking websites such as LinkedIn will not replace traditional CV’s in the future.

Although many job seekers and current employees of organisations are using their social networks for job seeking purposes and to gather job-seeking information, there seem to be differing opinions as to whether individuals (job seekers/employees) approve of the use of social networks for recruitment purposes. In a study conducted by Peluchette and Karl (2010), respondents were generally in strong agreement that they were comfortable with their friends, classmates and family having access to their profiles but were neutral or in disagreement regarding access by employers and strangers. Approximately 20 percent of respondents who indicated that they had a social network site also indicated that there were items on their social network profile that they would not want current or prospective employers to see (Peluchette & Karl, 2010). Contradicting the above authors, Davison, Maraist and Bing (2011) found that the use of social networking websites for recruitment seems to be widely accepted due to its close relation to the act of posting a job advertisement on the Internet. This type of activity just posts the advertisement on a social networking site. Some social networking sites such as Facebook and LinkedIn have even added classified sections for job seekers and job advertisers.

### **Benefits of using social networks as a recruitment tool**

The need for HR to become more strategic has led to organisations wanting to find ways of accessing a greater number of talents with lesser effort. Research has shown that job boards and employment fairs are producing more individuals who are less qualified for positions, implying that these traditional forms of recruitment are less successful in the current competitive business market. These can now be supplemented with social networking, which is less costly and reaches a more targeted talent pool. The business reasons for engaging in social networking can be attributed to the many benefits that social networking holds. Waddill and Marquardt (2011) postulate that there are both positive and negative implications for organisations that use social networks as a business tool. One of the advantages identified relates to the recruitment and employment branding context, where social technologies enable recruiters to reach and engage with active and passive

jobseekers, thus tapping into a greater talent pool, increasing one's business connections and reaching broader geographical locations (Jacobs, 2010). Professional networking websites create greater business opportunities by enhancing communication among employees, customers and businesses who can learn about each other's backgrounds and gain access to contact information, education, employment history and employment opportunities (Bechina & Hustad, 2011). According to Penttila (2006), learning about prospective employees on social networks is both efficient and low cost. This author further states that social networking profiles can reveal much about the personality, principles and values of prospective and current employees, which is imperative in jobs that require individuals that are highly professional and confidential. Clark and Roberts (2010) assert that another benefit of using social networks as a pre-employment screening tool is that it is an easy way to gain more insight into the character of a job candidate. These benefits are only a few that accrue to organisations or recruiters who effectively integrate social networking into their staffing strategies. As social recruitment grows, organisations will learn that this means of recruiting can be a tremendous benefit provided that it is used effectively and is well thought through and strategised.

## RESEARCH METHODOLOGY

### Sampling method

The self-developed questionnaire used in this study was initially tested by means of a pilot study, which was conducted in order to test the reliability of the questionnaire and to conduct exploratory factor analysis due to the fact that the questionnaire was developed by the researchers. This data was collected electronically by posting the link to the online questionnaire on the researchers' Facebook and LinkedIn profiles. Changes were made to the questionnaire based on these results, by deleting unnecessary items in order to increase levels of reliability. A discussion of pilot study results, however, goes beyond the scope of this study.

Thereafter, two means to collecting data were used for the final study. Firstly, a paper version of the questionnaire was distributed, followed by an electronic version being created to ensure a higher response rate. Non-probability sampling in the form of convenience and snowball sampling was used to attract respondents. Convenience sampling can be defined as a sample in which only convenient or accessible members of the population are selected (Burt, Barber & Rigby, 2009). This was achieved by requesting friends and family members to complete the paper version of the questionnaire, followed by posting the link to the questionnaire on the researchers' Facebook, Twitter and LinkedIn profiles where the researchers requested friends/followers/connections respectively to participate in the study by completing the questionnaire. Additionally, inbox messages were sent to the researchers' Facebook friends and LinkedIn connections, requesting them to complete the questionnaire. The link to the questionnaire was also published in the September 2012 edition of the "South African Board of Peoples Practices" newsletter which was distributed to HR professionals across South Africa.

Snowball sampling was also utilised in addition to the above, which enabled the researchers to obtain additional respondents by connecting with the current samples' networks (Black, 2012). Snowball sampling was achieved by e-mailing questionnaires to contacts within the researchers' networks and requesting these contacts to e-mail the questionnaire to their contacts, and so forth. Furthermore, the researchers e-mailed the administrator of the Public Servant News Network (PSNN) Port Elizabeth on Facebook to post the link to the questionnaire on the Network's page. The link to the questionnaire was posted onto the Facebook walls of four major PSNN's in South Africa.

These networks included:

- PSNN Johannesburg
- PSNN Port Elizabeth
- PSNN Kwa-Zulu Natal
- PSNN Western Cape/Traffic fines, cameras & updates in Western Cape

The elements of this study were individuals that have an opinion on social networking. The researchers especially encouraged HR professionals to complete the questionnaire, in order to benefit from their professional opinions. Control categories were established, namely that respondents should be registered on Facebook or LinkedIn and should be from varying demographic backgrounds.

### **Sample size**

The pilot study had a sample size of 58 respondents. A total of 210 questionnaires were thereafter completed for the final study, with 31 questionnaires obtained using the paper version of the questionnaire, and 179 questionnaires obtained using the electronic methods described above. This sample size was considered to be sufficient for the purposes of this exploratory study. The researchers may have gained fewer responses than anticipated as a result of the fact that the online questionnaire was lengthy, requiring respondents to complete the questionnaire in one sitting. Moreover, many completed the pilot study questionnaire which was also lengthy in nature; therefore they might not have wished to complete the final questionnaire which was similar to the pilot version. This highlights why the researchers utilised numerous channels to encourage individuals to complete the questionnaire, as explained above.

### **Measuring instrument**

The researchers designed a five-point Likert scale questionnaire to measure individuals' perceptions with regards to the use of Facebook and LinkedIn as a recruitment tool. The questionnaire was based on literature consulted during the course of the study. The researchers also consulted the questionnaire of Peluchette and Karl (2010), who conducted a study on why students post what they post on Facebook, as well as Lory (2011), whose study investigated employers' use of Facebook as a pre-employment screening tool.

The first section of the questionnaire, "demographic information", encompassed six variables which included age; race; gender; employment status; social networks with which the respondents are familiar; as well as the social networks on which the respondents are registered. This was followed by the primary section of the questionnaire, comprising of ten factors which were each divided into their own sub-sections.

The first two factors, "Recruitment Facebook" and "Recruitment LinkedIn", comprised of six items each and focused on how people perceive the use of Facebook and LinkedIn as recruitment tools. The next two factors, "Selection Facebook" and "Selection LinkedIn", consisted of nine items each and measured people's perceptions of the use of Facebook and LinkedIn in the selection process. Thereafter, "Impressions of Facebook" and "Impressions of LinkedIn", dealt with how people think they will be affected by, and what the outcomes would be if, Facebook and LinkedIn were used as selection tools. These comprised of four statements each. "Personal Facebook" and "Personal LinkedIn" focused on what individuals believe the information on their profiles should be used for and whether these networks should be used for social or business purposes, with three items each. The last set of factors, "Work Behaviour and Facebook" and "Work Behaviour and LinkedIn", also

with three items each, measured individuals' views on whether Facebook and LinkedIn can be used to determine their work potential and whether information on these websites suggest that they will or will not be able to perform their jobs effectively. For the purposes of this paper, the researchers will only discuss results related to "Recruitment Facebook" and "Recruitment LinkedIn", "Personal Facebook" and "Personal LinkedIn", as well as "Work Behaviour and Facebook" and "Work Behaviour and LinkedIn".

In addition to the above factors, the questionnaire consisted of four forced choice ("yes/no") questions and two forced choice ("yes/no/don't know") questions. These concerned whether individuals would use Facebook or LinkedIn to apply for a position and whether individuals think that the use of Facebook and LinkedIn for recruitment purposes is illegal. The last three questions in the questionnaire were open-ended, allowing respondents to make additional comments on the topic as well as express their views on the use of social networks in recruitment and selection. All items in the questionnaire were marked as mandatory questions, except for the last three open-ended questions, which were optional.

### Data collection

Together with the paper version of the questionnaire, the final questionnaire was converted into an online questionnaire using a survey tool website. This website facilitated not only the design of the final questionnaire, but also captured the subsequent data into an Excel spreadsheet. The emails sent to individuals within the researchers' networks as well as the posts made on the researchers' Facebook and LinkedIn profiles contained the link to the questionnaire, and also included a cover letter discussing the details of the study (including the purpose of the study and information regarding confidentiality). This letter also highlighted the fact that participation in the study was voluntary, and invited respondents to contact the researchers with any queries.

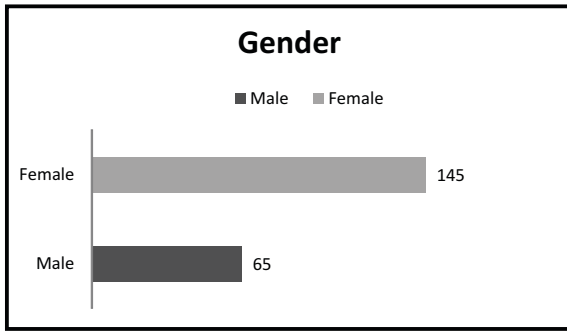
### Data analysis

The researchers partnered with a statistician who analysed the data using both descriptive and inferential statistics. According to Aron, Aron and Coups (2008), descriptive statistics are used to summarise and describe the sample. Inferential statistics on the other hand are used to determine whether a relationship exists between variables, whether the results can be generalised to the entire population, and to make other statistical inferences (Aron et al., 2008). The statistician used Statistica 10 and Microsoft Excel to analyse the raw data. Exploratory factor analysis was conducted using results from the pilot study, which resulted in changes to the questionnaire. For the purposes of this paper, these results will not be discussed. ANOVA's were calculated to determine whether a relationship existed between the factors and the demographic variables with more than two categories. These categories include age, racial category and employment status. t-Tests were calculated to determine whether the results obtained support and were sufficient to generalise the findings for the population from which the sample was drawn.

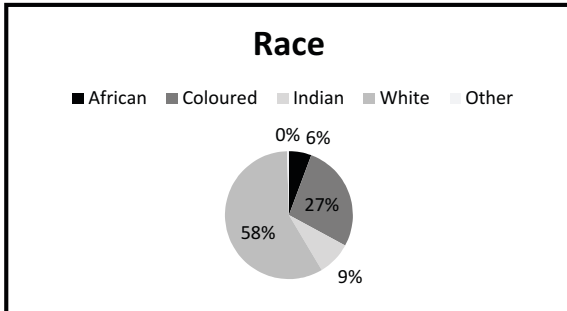
## RESULTS

### Demographics of study

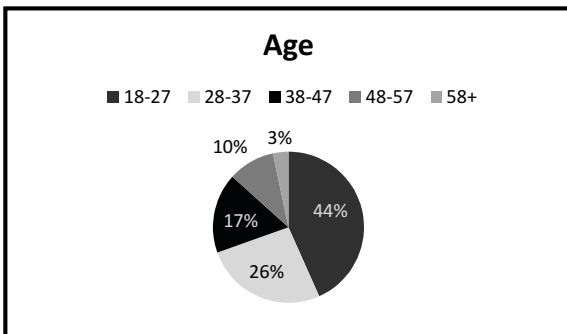
Figures 1 to 4 indicate the demographics of this study.



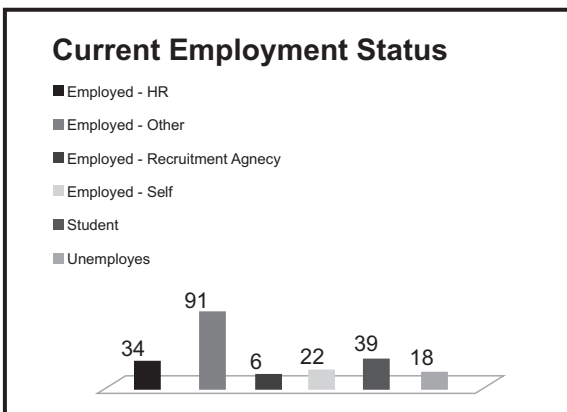
**FIGURE 1: GENDER DISTRIBUTION (N=210)**



**FIGURE 2: RACIAL DISTRIBUTION (N=210)**



**FIGURE 3: AGE DISTRIBUTION (N=210)**



**FIGURE 4: EMPLOYMENT STATUS DISTRIBUTION (N=210)**



It is evident that the majority of respondents were females (69%) and in the age category of 18-27 years (44%). The sample was made up primarily of White (58%) and Coloured (27%) South Africans. Students comprised 15% of the sample, while 16% of the sample was employed within the HR environment. Ten percent of the sample were self-employed, 9% were unemployed, and only 3% were employed within recruitment agencies. The remaining majority were employed within other areas not specified.

### Reliability and validity

To measure the reliability of the various factors, Cronbach's coefficient alpha was calculated for each factor. Table 1 below presents the alpha values for the factors relevant to this paper. It is evident that all factors have alpha values above the suggested 0.60 minimum value for reliability (Malhotra, 2010). It can thus be said that the measuring instrument was proven to be reliable.

**TABLE 1: CRONBACH'S COEFFICIENT ALPHAS OF FACTORS FOR FINAL STUDY (N=210)**

Factor	Cronbach's alpha ( $\alpha$ )
Recruitment Facebook (RF)	0.75
Recruitment LinkedIn (RL)	0.78
Personal Facebook (PF)	0.61
Personal LinkedIn (PL)	0.78
Work Behaviour and Facebook (WBF)	0.84
Work Behaviour and LinkedIn (WBL)	0.89

Face validity was determined by having an Industrial and Organisational Psychology staffing expert read through the questionnaire. This expert stated that the questionnaire was satisfactory and indeed measured individuals' perceptions towards the use of Facebook and LinkedIn as recruitment and selection tools. Additionally, content validity was established through the items in the questionnaire corresponding to information found in literature.

### Descriptive statistics

Table 2 below indicates the descriptive statistics for male and female respondents. It is apparent that females have a higher mean score than males in five of the factors. Interestingly, females and males disagree with Facebook as a recruitment tool and agree with the use of LinkedIn as a recruitment tool. Furthermore, it is visible that females strongly agree that LinkedIn does determine their work behaviour or current / future work performance, evident from a mean female score of 3.28 obtained for this factor compared with 2.88 for males. Additionally, both females and males had a standard deviation of higher than one for two factors; namely Personal LinkedIn and Work Behaviour LinkedIn. This implies that for these factors, the responses were not cluttered around the mean, thus the respondents had different views pertaining to these factors.

**TABLE 2: DESCRIPTIVE STATISTICS FOR FEMALE VERSUS MALE RESPONDENTS (N=210)**

Factors	Females			Males		
	n	Mean – 2	Std. Dev. - 2	n	Mean – 1	Std. Dev. – 1
RF	145	2.74	0.88	65	2.57	0.90
RL	145	3.23	0.94	65	3.36	0.93
PF	145	4.14	0.89	65	4.03	0.84
PL	145	3.20	1.20	65	3.00	1.10
WBF	145	4.35	0.87	65	4.09	0.97
WBL	145	3.28	1.35	65	2.88	1.24

Table 3 represents the descriptive data for the six factors relevant to this paper. It is evident that Recruitment Facebook had a mean score and standard deviation of 2.69 and 0.89 respectively, whereas Recruitment LinkedIn had a mean of 3.27 and a standard deviation of 0.94. From these results it can be deduced that the respondents perceive recruitment via LinkedIn as more acceptable than recruitment via Facebook. Furthermore, the standard deviations obtained indicate that the responses for Recruitment LinkedIn were more scattered around the mean than the responses for Recruitment Facebook.

Based on Table 3, Personal Facebook scored a mean of 4.10 and Personal LinkedIn scored a mean of 3.14. These means indicate that the sample agree that the use of Facebook in the staffing process is an invasion of privacy. Additionally, the standard deviation of 0.87 for Personal Facebook and 1.17 for Personal LinkedIn indicate that the responses from the sample with regards to Personal LinkedIn were more dispersed around the mean than the responses to Personal Facebook.

**TABLE 3: DESCRIPTIVE STATISTICS FOR SIX FACTORS (N=210)**

Factors	Mean	Median	Min.	Max.	Lower Quartile	Upper Quartile	Quartile - Range	Variance	Std. Dev.
RF	2.69	2.58	1.00	5.00	2.00	3.17	1.17	0.79	0.89
RL	3.27	3.33	1.00	5.00	2.50	3.83	1.33	0.88	0.94
PF	4.10	4.33	1.00	5.00	3.67	5.00	1.33	0.76	0.87
PL	3.14	3.00	1.00	5.00	2.00	4.00	2.00	1.37	1.17
WBF	4.27	4.67	1.00	5.00	4.00	5.00	1.00	0.83	0.91
WBL	3.15	3.00	1.00	5.00	2.00	4.33	2.33	1.76	1.33

Work Behaviour Facebook scored a mean of 4.27 and Work Behaviour LinkedIn's mean was calculated at 3.15. This noticeable difference indicates that the sample agrees that information displayed on their Facebook profiles does not affect their current or future work behaviour / abilities. The high standard deviation of 1.33 for Work Behaviour LinkedIn indicates that the responses for this factor were more scattered around the mean than the responses to Work Behaviour Facebook.

Table 4 summarises responses to the forced choice items. It is apparent that the majority of the respondents stated that they have not used Facebook (90%) or LinkedIn (88.1%) to apply for vacant positions. It is also observable that the majority of the respondents answered "no" regarding whether a vacant position has become known to them on both Facebook (59.6%) and LinkedIn (70%). The assumption would be that more positions will be advertised on LinkedIn than Facebook, but based on these results more vacant positions have become known to the sample through the use of Facebook than through the use of LinkedIn. Table 4 also indicates that 34.3 percent of the respondents believe that the use of Facebook in the pre-employment screening process is illegal, whereas only 24.8 percent of the respondents believe that the use of LinkedIn in the pre-employment screening process is illegal. Furthermore 53.3 percent (Facebook) and 57.6 percent (LinkedIn) of the respondents stated that they "don't know" whether the use of these social networks in the pre-employment screening process is illegal.

**TABLE 4: RESULTS FOR FORCED CHOICE QUESTIONS (N=210)**

Items	Category			Total Percentage (%)
	Yes (%)	No (%)	Don't Know (%)	
I have used Facebook to apply for a vacant position	10	90	0	100
I have used LinkedIn to apply for a vacant position	11.9	88.1	0	100
A vacant position has become known to me on Facebook	40.4	59.6	0	100
A vacant position has become known to me on LinkedIn	30	70	0	100
It is illegal to use Facebook as a tool in the pre-employment screening process, without the consent of the job candidate	34.3	12.4	53.3	100
It is illegal to use LinkedIn as a tool in the pre-employment screening process, without the consent of the job candidate	24.8	17.6	57.6	100

## Inferential Statistics

### Analysis of Variance

To examine differences occurring across ages, race and employment status for factor profiles, ANOVA techniques were used. These test whether the between-group differences and the interactions among biographical variables are significant. As shown in Table 5, the researchers found that at a statistically significant level of 0.05, there was a relationship between Race and Recruitment LinkedIn.

**TABLE 5: ANALYSIS OF VARIANCE (N=210)**

		Age	Race	Employment status
RF	F	0.20	0.20	1.70
	p	0.94	0.89	0.14
RL	F	1.80	4.29	2.08
	p	0.13	<b>0.01</b>	0.07

\* Relationship is significant at  $p < 0.05$

A Scheffé's test was calculated to determine between which racial categories the statistically significant relationship exists. Based on the Scheffé test results in Table 6, a statistically significant relationship exists between Africans and Coloureds ( $p < 0.05$ ). This indicates that there is a statistically significant difference between the means of Coloured and African respondents.

**TABLE 6: SCHEFFÉ'S TEST; VARIABLE RECRUITMENT LINKEDIN ACCORDING TO RACE (N=210)**

Race	{1}	{2}	{3}	{4}
1. African		<b>0.012428</b>	0.542486	0.112052
2. Coloured	<b>0.012428</b>		0.310411	0.280516
3. Indian	0.542486	0.310411		0.892570
4. White	0.112052	0.280516	0.892570	

Cohen's d was calculated to determine the practical significance of the above difference, as shown in Table 7. It is apparent that a large practical significance exists between Africans and Coloureds regarding the use of LinkedIn for recruitment purposes ( $d > .80$ ).

**TABLE 7: COHEN'S D FOR RECRUITMENT LINKEDIN ACCORDING TO AFRICANS AND COLOURED**

		Cohen's d
RL	African	0.838372
	Coloured	

## T-Tests

t-Tests were calculated to determine whether any gender differences occurred for Recruitment Facebook and Recruitment LinkedIn. Based on Table 8, it is apparent that for Recruitment Facebook and Recruitment LinkedIn, the p-values are greater than the significance level of 0.05. Thus, there is no statistically significant relationship between these factors and the gender variable. In conducting a t-test for dependent means (Table 9), the sample had a t-score of 9.321, which is more than the extreme cut-off t of 1.99.

**TABLE 8: T-TESTS FOR RECRUITMENT FACEBOOK AND RECRUITMENT LINKEDIN FOR GENDER (N=210)**

Factors	Females			Males			t-value	p
	n	Mean - 2	Std. Dev. - 2	n	Mean - 1	Std. Dev. - 1		
RF	145	2.74	0.88	65	2.57	0.90	1.272	0.205
RL	145	3.23	0.94	65	3.36	0.93	-0.907	0.365

\* Relationship is significant at  $p < 0.05$

**TABLE 9: T-TESTS FOR DEPENDENT SAMPLES: RECRUITMENT FACEBOOK AND RECRUITMENT LINKEDIN (N=210)**

	Mean	Std.Dev.	N	Diff.	Std.Dev.	t	df	p	Confidence	Confidence
RL	3.271	0.936								
RF	2.688	0.888	210	0.583	0.907	9.321	209	0.00	0.460	0.707

\* Relationship is significant at  $p < 0.05$

Tables 10 and 11 illustrate the results of t-tests conducted to conclude whether any differences occur for Recruitment Facebook and Recruitment LinkedIn when comparing respondents working as HR professionals with those with other employment statuses. From Table 10 it is evident that there is a statistically significant difference between those respondents employed in HR and those respondents employed in recruitment agencies, in terms of their perception of using Facebook for recruitment purposes, as the p-value is less than the significance value of 0.05. This difference holds a large practical significance ( $d > .80$ ). The direction of the means imply that those respondents working in recruitment agencies are more inclined to use Facebook for recruitment purposes than those working within HR.

**TABLE 10: T-TEST FOR INDEPENDENT SAMPLES: RECRUITMENT FACEBOOK ACCORDING TO EMPLOYMENT STATUS (N=210)**

Grouping	Mean of "Employed HR"	Mean of comparison group	t-value	df	p	Valid N of "Employed HR"	Valid N of comparison group	Std Dev	Std Dev of comparison group	Cohen's d
Employed HR – Employed Other	2.78	2.60	1.105334	123	0.271	34	91	0.81	0.85	0.22
Employed HR – Employed Recruitment Agency	2.78	3.61	-2.40234	38	<b>0.021</b>	34	6	0.81	0.47	<b>1.06</b>
Employed HR – Employed Self	2.78	2.58	0.783355	54	0.437	34	22	0.81	1.18	0.21
Employed HR - Student	2.78	2.75	0.187171	71	0.852	34	39	0.81	0.84	0.04
Employed HR - Unemployed	2.78	2.6	0.479166	50	0.634	34	18	0.81	0.89	0.14

Table 11 indicates that there is a statistically significant difference between those respondents who are employed in HR and those who are currently unemployed, in terms of their perception of using LinkedIn for recruitment purposes ( $p < 0.05$ ). This difference also has a large practical significance ( $d > .80$ ). The direction of the means imply that those respondents working within HR are more inclined to use LinkedIn for recruitment purposes than those who are unemployed.

**TABLE 11: T-TEST FOR INDEPENDENT SAMPLES: RECRUITMENT LINKEDIN ACCORDING TO EMPLOYMENT STATUS (N=210)**

Grouping	Mean of "Employed HR"	Mean of comparison group	t-value	df	p	Valid N of "Employed HR"	Valid N of comparison group	Std Dev	Std Dev of comparison group	Cohen's d
Employed HR – Employed Other	3.47	3.33	0.712756	123	0.477	34	91	0.87	0.95	0.14
Employed HR – Employed Recruitment Agency	3.47	3.78	-0.800340	38	0.429	34	6	0.87	0.93	0.35
Employed HR – Employed Self	3.47	3.20	0.967577	54	0.338	34	22	0.87	1.14	0.26
Employed HR - Student	3.47	3.17	1.481164	71	0.143	34	39	0.87	0.83	0.35
Employed HR - Unemployed	3.47	2.73	3.077395	50	<b>0.003</b>	34	18	0.87	0.70	<b>0.90</b>

## Hypotheses testing

The hypotheses are tested as follows:

- H1:** LinkedIn is a more acceptable recruitment tool than Facebook.  
According to the results shown in Table 8, the sample had a t-score of 9.321, which is more than the extreme cut-off t of 1.99. As such, H1 is supported and thus could not be rejected. This implies that individuals view the use of LinkedIn as a recruitment tool more favourably than Facebook as a recruitment tool.
- H2:** Individuals working within HR view the use of LinkedIn in the recruitment process as more acceptable than individuals working for recruitment agencies.  
The p-value comparing these respondents in Table 11 for Recruitment LinkedIn ( $p=0.429$ ) is greater than the significance level of 0.05, indicating that this relationship is not statistically significant. H2 is thus rejected.
- H3:** Individuals working within HR view the use of Facebook in the recruitment process as more acceptable than individuals working for recruitment agencies.

The p-value comparing these respondents in Table 10 for Recruitment Facebook ( $p=0.021$ ) is less than the significance level of 0.05, indicating that this relationship is statistically significant. Furthermore, Cohen's  $d$  indicated a large practical significance. The direction of the means showed that individuals working in recruitment agencies perceived Facebook to be more acceptable for use in recruitment than HR professionals; the opposite to what was hypothesised. H4 is thus rejected, because HR professionals view Facebook as a recruitment tool as less acceptable than recruitment agency employees.

**H4:** Students view the use of Facebook in the recruitment process as more acceptable than individuals working within HR.

Table 10 indicates that the p-value comparing students to HR professionals for Recruitment Facebook ( $p=0.852$ ) is greater than the significance level of 0.05, implying that no statistically significant relationship exists. H4 is thus rejected.

**H5:** Individuals working within HR view the use of LinkedIn in the recruitment process as more acceptable than students.

According to Table 11, the p-value comparing these respondents for Recruitment LinkedIn ( $p=0.143$ ) is greater than the significance level of 0.05, indicating no statistically significant relationship. H5 is thus rejected.

## CONCLUSION

### Managerial implications and recommendations

Due to the fact that social recruitment is still a new practice, the full degree of its effects is yet to be experienced. However, in light of this study, numerous recommendations can be offered to individuals, employers and hiring managers regarding social networks as recruitment tools.

Interestingly, recruitment agency employees were shown in this study to have a greater preference for using Facebook for recruitment purposes compared to HR professionals. Yet, the overarching results of this study imply that LinkedIn is a more acceptable recruiting source than Facebook. One of the reasons for this preference for LinkedIn may be because individuals believe that the information displayed on their Facebook profiles is private and might be used to discriminate against them; furthermore, Facebook may indicate an individual's current or future work behaviours or abilities to a lesser extent than LinkedIn. Thus, more professional social networking websites such as LinkedIn should be given preference for recruiting purposes over more personal websites such as Facebook, especially by recruiters working within recruitment agencies. LinkedIn should be used more in the future to advertise positions, as 70% of respondents in this study have not yet heard about vacant positions via this social network.

Due to the fact that this study found that unemployed individuals place less of a preference on LinkedIn as a recruitment tool than do HR professionals, despite the fact that LinkedIn is an important site to make use of when individuals seek positions, it can be recommended that unemployed individuals create LinkedIn profiles and begin networking with companies of their choice via this social networking platform, in order to greater their chances of ascertaining employment in their chosen companies.

Doherty (2010) states that while social networking is making the lives of HR professionals less complicated, it is important to bear in mind that setting best practice guidelines for HR's use of social networking is critical. A clear social recruitment policy is necessary, as the results of this study indicate that individuals do not know whether it is illegal for recruiters to access their social networking profiles or not. In a study by Lory (2011), it was found that the majority (93%) of employers and hiring managers do not have a policy that guides the use of Facebook and LinkedIn



in recruitment. South African organisations should develop policies that will govern the use of social networking in recruiting, such as specifying what social networking sites are acceptable to use and what personal information found on these sites can be taken into account. By doing so, organisations will not misuse information found on individuals' Facebook and LinkedIn profiles. Such a policy should also specify that recruiters should advertise in ways that will reach broad demographics, so that it protects the organisation from claims of discrimination.

Organisations should establish a strong online presence by marketing and branding themselves using Facebook and LinkedIn. This can be achieved by appointing a social media liaison officer. If this is not viable, then an organisation can appoint an existing employee to head the company's social media pages in order to ensure that prospective employees stay up to date with vacant positions.

It is recommended based on the results of this study that hiring managers or recruiters do not request employees or job candidates to befriend them on Facebook, but rather request employees or job candidates to connect with them on LinkedIn. From an individual perspective, employees or job applicants should keep their social networking practices "clean" and carefully consider what they post on social networks to ensure that a bad light is not shed on them (Roberts & Roach, 2009). Job applicants should not only emphasise avoiding certain online practices, but also focus on personal branding efforts. Applicants must moreover be aware of what others are posting about them by identifying what potential employers are likely to view, and ensure that all posted information increases and boosts their job prospects (Roberts & Roach, 2009). This could be achieved by posting images of awards ceremonies, charity events, positive social or family outings, or copies of articles that mention the applicant.

## **LIMITATIONS AND RECOMMENDATIONS FOR FUTURE RESEARCH**

It is recommended that future studies focus on either social recruitment or social selection, to obtain a more holistic view of how social networks (such as Facebook and LinkedIn) will change the nature of recruitment and selection. Future research can also focus on other social networks such as Twitter or Tumblr for staffing purposes, and could examine whether one's social networking profile can predict job behaviour or work ethics. Another future research area can focus on how social networks will change the nature of recruitment and selection.

A number of limitations were encountered during the research process. Firstly, regardless of the fact that use was made of different data collection methods, a relatively small response rate was achieved (especially in terms of African and Indian Respondents and the age distribution of the respondents). This can be seen as a limitation due to the fact that the link was posted on four different PSNN pages on Facebook which have over  $\pm 100\ 000$  users. The small response rate can also be accounted to the length and the monotony of the questionnaire as respondents may have felt demotivated or discouraged to complete the questionnaire after becoming aware of its length. Furthermore, a limitation existed in that the researchers did not conduct factor analysis on the final study results, having only analysed the factors with results from the pilot study. To overcome these limitations, the questionnaire should be shortened through further factor analysis, and the importance of social recruitment and selection research should be emphasised to potential respondents to encourage completion.

The results of this study might be valid only for a period of time, perhaps becoming less relevant as time goes by. Social recruitment and selection in South Africa is not as popular as it is in other regions of the world, and thus South Africans might change their views or opinions on social recruitment and selection when they become more affected by it. It also cannot be assumed that the results obtained for this study (having focused on Facebook and LinkedIn only) can be generalised to other social networks such as Twitter.

This study aimed to provide industry with guidelines regarding how useful social recruitment can be if used strategically. The findings led the researchers to conclude that LinkedIn is a more acceptable recruitment tool than Facebook. Based on literature and data analysis, the researchers were able to identify the implications for management which served as the basis for recommendations to employers, hiring managers and individual who are contemplating the use of Facebook and LinkedIn for recruitment purposes. In conclusion, this investigation provided exploratory knowledge and insights into the use of Facebook and LinkedIn as recruitment tools within South Africa. In so doing, this study adds to the body of knowledge that exists on this topic, while encouraging further research to take these insights further.



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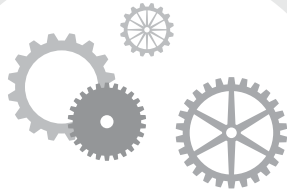
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# INVESTIGATING THE INFLUENCE OF EXPECTED REWARDS ON THE CAREER INTENTIONS OF ACCOUNTING STUDENTS

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## ABSTRACT

It is commonly accepted around the world that a shortage of accounting skills exists, and South Africa is no exception. Various reasons may account for these skills shortages in the field of accounting. What students' perceptions are of a career in accounting and whether these perceptions influence their intentions of following such a career, is not known. The primary objective of this study was to investigate the perceptions that students have of a career in accounting and to establish the influence of these perceptions on their intentions to enter the profession. The respondents were students studying diplomas in accounting at the Nelson Mandela Metropolitan University. A total of 246 usable questionnaires were returned. Factor analysis was performed and Cronbach's alpha coefficients calculated to assess the validity and reliability of the measuring instrument. Descriptive statistics were calculated to summarise the data, and multiple regression analysis was undertaken to investigate whether relationships exist between the rewards expected and intentions to follow a career in accounting. The findings showed that the students participating in this study were positive and had high expectations with regard to the rewards they would receive in following a career in accounting. Future prospects as well as Stimulating and flexibility significantly influenced their intentions to follow a career in the field.

## KEYWORDS

Accounting students, Accounting perceptions, Field of accounting, Intrinsic rewards, Extrinsic rewards

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## INTRODUCTION

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According to the chairperson of the South African Institute of Professional Accountants' (SAIPA) National Accounting Olympiad Committee, it is internationally accepted that there is a shortage of people with accounting skills (Nyamvura, 2011). This is particularly the case in South Africa, where SAIPA estimates a current shortfall of 20 000 accountants in the country. Similarly, research conducted by the South African Institute of Chartered Accountants (SAICA) reports that more than 22 000 accountants (technician and chartered accountant level) are needed by the financial and accounting sector to deal with the skills shortage facing the country (Wadee, 2009: 1). According to the South African Auditor General, "there is a shortage of chartered accountants in the public sector, which is specifically beset by a skills shortage in this field" (Government can plug skills shortage says AG, 2013). Various reasons may account for these skills shortages in this field, some being the level of difficulty of studying accounting at a tertiary level, emigration, and black economic empowerment (Wadee, 2009).

In order to address this shortfall and to contribute to solving the unemployment crisis in South Africa, SAIPA has embarked on a campaign encouraging school leavers to follow a career in accounting (Nyamvura, 2011). These efforts by SAIPA seem to suggest that the number of students studying the subject has declined, which is also possibly contributing to the shortage of skilled accountants in South Africa.

Various factors influence an individual's decision to follow a particular career path. Intentions-based theory (Ajzen, 1991) suggests that an individual's decision to follow a particular career path is influenced by their attitude towards that career, which in turn is influenced by their beliefs or perceptions of whether that experience would be desirable or not, if they should choose that particular career. Applying intentions-based theory to the context of a career in the field of accounting suggests that the perceptions that students have of a career in accounting will influence their decision to embark on such a career path. Studies have shown (Marriott & Marriott, 2003: 113) that at the commencement of their course students had a reasonably positive attitude towards accounting as a profession, but became more negative by the end of their studies. What students' perceptions are of a career in accounting and whether these perceptions influence their intentions of following this career is, however, not known. Therefore, the primary objective of this study is to investigate the perceptions that students have of a career in accounting and to establish the influence of these perceptions on their intentions to enter the profession. According to Aichinger and Barnes (2010), employees in the field of accounting place the greatest value on the rewards (salaries and benefits) they receive in exchange for their labour. For this reason the perceptions of financial diploma students at the Nelson Mandela Metropolitan University (NMMU) will be established in terms of expected intrinsic and extrinsic rewards.

To overcome the skills shortage in the field of accounting, careers in the field should be presented as highly desirable career options, and South African learners should be encouraged to pursue these options. However, to position accounting as a desirable career, the beliefs and perceptions about it should first be established, so that where perceptions are not in line with reality, interventions can be implemented, and students entering the field can be prepared accordingly. Establishing the perceptions that students have of the rewards they will receive when following a career in accounting can provide the profession with valuable insights into attracting this stakeholder group.

The following concepts adopted in this study require clarification. For the purpose of this study 'accounting students' refers to students studying a diploma in Accountancy, Financial Information Systems, Auditing and Cost and Management Accounting at NMMU from first to third-year level. In



this study the 'accounting profession' refers to positions in the field of accounting that include, trainee accounting clerks (articled clerks), professional accountants (after having passed the board examination), and financial managers.

What follows is firstly a theoretical overview which serves as the basis for the development of the hypotheses. Thereafter, the methodology will be described and the empirical results presented. Finally some conclusions and recommendations will be made.

## **THEORETICAL OVERVIEW**

Central to the theory of planned behaviour is an individual's intention to perform a given behaviour. This behaviour includes following a particular career path. The general rule underlying the theory of planned behaviour is that the stronger the intention to undertake a behaviour, the more likely the actual performance of that behaviour will be (Ajzen, 1991: 181). According to the theory of planned behaviour, three independent variables determine the intentions of an individual, namely the attitude towards behaviour, the social pressure to perform (subjective norm), and perceived behavioural control (Ajzen, 1991: 188; 2006: 1). The relative importance of these variables is expected to vary depending on the behaviours and the situations (Ajzen, 1991: 188). Attitude towards the behaviour has been reported as having the strongest influence on intentions by several authors (Gray, Farrington & Sharp, 2010; Gird & Bagraim, 2008).

According to Ajzen (1991: 188), attitude towards the behaviour refers to the degree to which a person has a favourable or unfavourable evaluation of the behaviour in question, and reflects a person's judgement about the impact of the desired behaviour (Ajzen & Fishbein, 1980). As such this favourable or unfavourable evaluation of a particular behaviour is determined by the beliefs associated with it – beliefs about the likely consequences of the behaviour, and the evaluations of those consequences. It is these beliefs which are assumed to influence attitudes towards the behaviour (Ajzen, 2006:1; Ajzen, 1991: 189). An individual's attitude towards performing a particular behaviour is said to reflect their perceptions of the personal desirability of performing the behaviour (Zellweger, Sieger & Halter, 2010: 3).

In applying the theory of planned behaviour to a career in the field of accounting, one can assume that one's attitude towards a career in the field determines one's intentions to embark on such a career path, and one's attitude is determined by one's beliefs or perceptions about such a career path. For the purpose of this study, student beliefs and perceptions of a career in accounting will be established in terms of the rewards they expect to receive.

According to Khalid, Salim and Loke (2011: 35), as well as Ibrahim and Boerhaneoddin (2010: 44), the rewards employees receive in return for their services play a vital role in influencing their levels of job satisfaction and organisational commitment, as well as in retaining their services. Ibrahim et al. (2010: 45) contend that rewards that are generous tend to encourage employees to remain in their current employment because they appear to lead to high levels of job satisfaction, commitment and loyalty. Rewards that are perceived by employees as satisfying their needs and desires, lead to a positive emotional state and increased commitment to their employer (Mahdi, Zin, Nor, Sakat & Naim, 2012: 1523).

Several authors (Khalid et al., 2011: 35; Linz & Semykina, 2010: 2; Byars & Rue, 2006: 244) classify rewards as either intrinsic or extrinsic in nature. Rewards that are linked to the job itself are classified as intrinsic rewards. These include feelings of passion, energy, enthusiasm and autonomy (Khalid et al., 2011: 35), job involvement, variety and challenge (O'Driscoll & Randall, 1999: 200), as well as more freedom on the job, the chance to learn new skills and the chance to achieve something worthwhile (Linz & Semykina, 2010: 2). Rewards that are received in exchange for doing the job are classified as extrinsic rewards. Examples of extrinsic rewards include cash

incentives or pay, co-worker relationships and job security (Van Zyl & De Villiers, 2011: 56; Khalid et al., 2011: 35; O'Driscoll & Randall, 1999: 200), as well as fringe benefits, promotion or advancement, social climate and physical working conditions (Mahdi et al., 2012: 1519; O'Driscoll & Randall, 1999: 200).

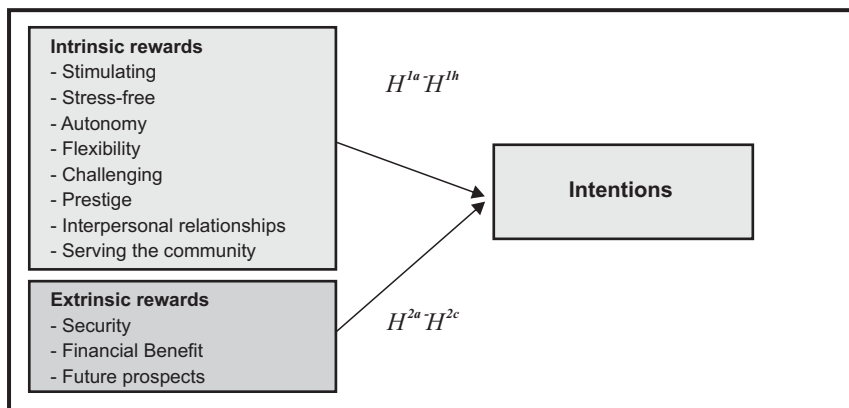
Research on the influence of extrinsic rewards (financial) on employee motivation and job satisfaction has produced mixed results. Some studies report extrinsic rewards as being most influential (Paolillo & Estes, 1982), with perceived long-term benefits being more influential than initial benefits (Chen, Jones & McIntyre, 2005; Allen, 2004; Felton, Buhr, & Northey, 1994). Others studies suggest that extrinsic rewards are less important than rewards of a non-financial (intrinsic) nature (Jackling & Calero, 2006; Francisco, Parham & Kelley, 2003). For example, in their study among knowledge workers, Markova and Ford (2011) report that intrinsic rewards are a stronger predictor of intrinsic motivation than either group or individual financial rewards.

Studies done in the USA, the UK, New Zealand, Australia and Canada show that professional accountancy practice is becoming less attractive to accounting graduates and trainees from universities and colleges (Danziger & Eden, 2006). Several authors (Marriott & Marriott, 2003; Albrecht & Sack, 2000; Fisher & Murphy, 1995; Wilson, Mason & Coates., 1997) attribute this change in mindset to the unrealistic rewards and workplace expectations of these students. Marriott and Marriott (2003: 113), for example, have found that when students begin their accounting studies, their attitude is favourable towards accounting as a profession, but over the course of their studies this enthusiasm wanes. These authors (2003) conclude that as the accounting students become more familiar with the accounting profession, they become more aware of the reality of that profession.

**Against the background of the discussion above, the following hypotheses were subjected to empirical testing:**

- H<sup>1a-1h</sup>** : There is a positive relationship between the intrinsic rewards (Stimulating, Stress-free, Autonomy, Flexibility, Challenging, Prestige, Interpersonal relationships and Serving the community) expected and the Intentions of students to enter the accounting profession.
- H<sup>2a-2c</sup>** : There is a positive relationship between the extrinsic rewards (Security, Financial benefit and Future prospect) expected and the Intentions of students to enter the accounting profession.

The hypothesised relationships are depicted in Figure 1. Intentions serves as the dependent variable and refers to the intentions of students to follow a career in the field of accounting, and selected intrinsic and extrinsic rewards serve as the independent variables.



**FIGURE 1: EXPECTED INTRINSIC AND EXTRINSIC REWARDS INFLUENCING INTENTIONS TO ENTER THE ACCOUNTING PROFESSION**

## RESEARCH DESIGN AND METHODOLOGY

### Sample and sampling procedure

The sample consisted of students studying diplomas in Accounting at the Second Avenue Campus of the NMMU. Convenience sampling was used. Convenience sampling is a non-probability sampling technique where the respondents are chosen in a non-random manner. The members of the population were chosen based on their ease of access and proximity to the researchers. Convenience sampling was used in the study because of its exploratory nature. Students were approached during class time and asked to participate in the study. Given that the respondents were students the necessary ethics approval was obtained from the appropriate authorities at NMMU. Questionnaires were handed out to willing students and they were given the opportunity to return the completed questionnaires at a date agreed upon. Once completed, the questionnaires were returned to the researchers in person.

### Measuring instrument

The independent and dependent variables were defined and operationalised. Operationalisation was done using reliable and valid items sourced from a measuring instrument used in a previous study (Gongxeka, 2012). The items were rephrased so as to contextualise them to the current study. The covering letter of the questionnaire explained the purpose of the study and gave relevant details to potential respondents. Section A of the measuring instrument consisted of several statements (items) relating to the rewards under investigation. The items measuring the independent and dependent variables were phrased to measure the perceptions of the rewards that students expected to receive when following a career in accounting and their intentions of following a career in this field. Using a 7-point Likert-type scale, respondents were requested to indicate the extent of their agreement with each statement. The scale was interpreted as 1 = strongly disagree and 7 = strongly agree. Demographic information pertaining to the respondents was requested in Section B.

### Data analysis

The software programme STATISTICA 11 was used to analyse the data. Factor analysis was performed to identify the unique factors present in the data and to assess the validity of the measuring instrument. In order to assess the reliability of the measuring instrument used in this study, Cronbach's alpha coefficients were calculated.

Descriptive statistics, namely the mean, standard deviation and frequency distributions of the rewards and Intentions were calculated, to summarise the data. Pearson's product moment correlations were calculated to establish the associations between factors. A multiple regression analysis was undertaken to investigate whether relationships existed between the rewards expected and intentions to follow a career in accounting. The various rewards served as the independent variables, and intentions served as the dependent variable.

## EMPIRICAL RESULTS

### Demographic information

In Section B of the questionnaire, information relating to the basic demographics of the respondents was requested. Table 1 summarises this demographic data collected, and a discussion thereof takes place in paragraphs that follow.

From Table 1 it can be seen that most (58.54%) of the respondents participating in this study were female, while male respondents accounted for 37.80% of the sample. Most (56.10%) of the respondents were under the age of 20, followed by respondents between the ages of 21 and 23 (31.30%), and those older than 23 (4.47%).

**TABLE 1: DEMOGRAPHIC PROFILE OF RESPONDENTS**

<b>Gender</b>	<b>Frequency</b>	<b>Percentage</b>
Male	93	37.80%
Female	144	58.54%
Missing values	9	3.66%
<b>Total</b>	<b>246</b>	<b>100.00%</b>
<b>Age</b>	<b>Frequency</b>	<b>Percentage</b>
0-20	138	56.10%
21-23	77	31.30%
>23	11	4.47%
Missing values	20	8.13%
<b>Total</b>	<b>246</b>	<b>100.00%</b>
<b>Ethnicity</b>	<b>Frequency</b>	<b>Percentage</b>
White	11	4.47%
Black	198	80.49%
Coloured/Asian/Other	26	10.58%
Missing values	11	4.47%
<b>Total</b>	<b>246</b>	<b>100.00%</b>
<b>Parents in profession</b>	<b>Frequency</b>	<b>Percentage</b>
None	215	87.40%
Father/Male guardian	9	3.66%
Mother/Female guardian	7	2.85%
Both parents/Guardians	4	1.63%
Missing values	11	4.47%
<b>Total</b>	<b>246</b>	<b>100.00%</b>
<b>Qualifications</b>	<b>Frequency</b>	<b>Percentage</b>
ND Accounting	58	23.58%
ND Internal Auditing	97	39.43%
ND Cost and Management Accounting	46	18.70%
ND Financial Information Systems	31	12.60%
B Tech Cost and Management Accounting	4	1.63%
B Tech Financial Information Systems	2	0.81%
Missing values	8	3.25%
<b>Total</b>	<b>246</b>	<b>100.00%</b>
<b>Year of study</b>	<b>Frequency</b>	<b>Percentage</b>
First year	95	38.62%
Second year	82	33.33%
Third year	54	21.95%
Fourth year	7	2.85%
Missing values	8	3.25%
<b>Total</b>	<b>246</b>	<b>100%</b>

The great majority (80.49%) of respondents were Black, with only 10.58% being Coloured/Asian or White (4.47%). A large majority (87.40%) of respondents indicated that neither of their parents or guardians were in the accounting profession. Only 3.66% reported that their father or male guardian was in the accounting profession, and only 2.85% reported that their mother or female guardian or both parents (1.63%) were in the profession.

Most (39.43%) respondents were completing the National Diploma Internal Auditing, followed by the National Diploma Accounting (23.58%), and the National Diploma Cost and Management Accounting (18.70%). A more or less even number of first (38.62%) and second (33.33%) year respondents participated in the study. Although students from all four study years participated, a very small number of fourth (3.25%) years participated.

### Validity and reliability of the measuring instrument

In order to assess the validity of the scale measuring the dependent variable Intentions, a factor analysis of a confirmatory nature was undertaken. This type of analysis is common when scales from previous studies are used to measure certain constructs, as was the case in this study (Reinard, 2006: 428). With regard to assessing the validity of the independent variables (rewards) an exploratory factor analysis was undertaken. This analysis was undertaken separately on each of the intrinsic and the extrinsic reward categories. Principal component analysis with a varimax rotation was specified as the extraction and rotation method for these analyses. The percentage of variance explained and the individual factor loadings were considered in determining the factors to extract. Items that loaded onto one factor only and reported factor loadings of greater than 0.5 (Hair, Black, Babin, Anderson & Tatham, 2006) for both the confirmatory and the exploratory factor analyses were considered significant. Only factors with more than two items measuring that factor were considered for further statistical analysis.

The confirmatory factor analysis revealed that eight of the nine items intended to measure the dependent variable Intentions loaded as expected. However, the exploratory factor analyses revealed that the original items measuring the various intrinsic and the extrinsic rewards did not load as expected. Several items loaded onto factors that they were originally not intended to measure, and several items did not load onto any factors.

**TABLE 2: VALIDITY AND RELIABILITY RESULTS**

Rewards	Items	Range - Factor loadings	CA's
Intentions	8	0.762 - 0.829	.91
Wealth and financial security	6	0.547 - 0.769	.76
Future prospects	4	0.588 – 0.822	.76
Stimulating and flexible	4	0.535 – 0.565	.70
Stress	5	0.528 – 0.785	.74
Community service and respect	7	0.537 – 0.709	.79

From Table 2 it can be seen that factor loadings of  $\geq 0.5$  were reported for all factors, providing sufficient evidence of validity for the scales measuring these factors. In addition, Cronbach's alpha coefficients of greater than .70 (Nunnally & Bernstein, 1994) were reported for all factors, suggesting a reliable measuring instrument.

**TABLE 3: REFORMULATED OPERATIONAL DEFINITIONS**

Reward	Operational definition
Intentions	Refers to the intention to follow a career in the field of accounting.
Wealth and financial security	Refers to the ability of a career in accounting to provide one with a rewarding income and increased personal wealth, as well as a stable and secure future and provision for retirement income.
Future prospects	Refers to the ability of a career in accounting to provide one with the opportunity to grow personally and professionally, to advance in one's field of expertise and to follow one's dream.
Stimulating and flexible	Refers to the ability of a career in accounting to provide one the opportunity to perform interesting tasks in an independent and flexible manner, and to follow one's passion.
Stress	Refers to a career in accounting as being a source of worry, tension and constant pressure, as well as having unregulated working hours and having to work closely with customers.
Community service and respect	Refers to the ability of a career in accounting to provide one the opportunity to be of service to the community and make the world a better place, and to earn status and respect in the community.

As a result of the factor analyses, the rewards investigated in this study were relabelled and consequently the hypotheses reformulated. Furthermore, given the nature of the items measuring Stress-free, the factor was renamed Stress and the hypotheses reformulated as being negative. The following hypotheses were therefore subjected to empirical testing in this study:

**H1a:** There is a positive relationship between the intrinsic rewards Stimulating and flexible expected and the Intentions of students to enter the accounting profession.

**H1b:** There is a negative relationship between the Stress expected and the Intentions of students to enter the accounting profession.

**H2a-2c:** There is a positive relationship between the extrinsic rewards Wealth and financial security, Future prospect and Community service and respect expected and the Intentions of students to enter the accounting profession.

## Descriptive statistics and correlations

The sample data (see Table 4) was summarised by calculating descriptive statistics. The mean, standard deviation and frequency distributions were calculated. For discussion purposes, response categories on the 7-point Likert type scale were categorised as disagree ( $1 \leq x < 4$ ), neutral ( $4 \leq x < 5$ ) and agree ( $5 \leq x < 8$ ).

**TABLE 4: DESCRIPTIVE STATISTICS (N=246)**

Factor	Mean	Std. Dev	Disagree%	Neutral%	Agree%
Intention	5.996	1.085	4.88	7.72	87.40
Wealth and financial security	5.755	0.842	3.66	9.76	86.59
Future prospects	6.077	6.077	2.03	6.91	91.06
Stimulating and flexible	5.272	1.030	10.16	19.92	69.92
Stress	4.019	1.211	45.93	32.93	21.14
Community service and respect	5.260	0.940	11.38	19.51	69.11

The dependent variable Intentions returned a mean score of 5.996, with the great majority (87.40%) of respondents agreeing that they intended to follow a career in the field of accounting.



The extrinsic rewards Wealth and financial security and Future prospects returned mean scores of 5.755 and 6.077 respectively. The great majority of respondents (86.59%) agreed that a career in accounting would provide them with a rewarding income and increased personal wealth, as well as a stable and secure future and provision for retirement income. With regard to Future prospects, the great majority of respondents (91.06%) agreed that a career in accounting would provide them with the opportunity to grow personally and professionally, to advance in their field of expertise and to follow their dream.

The intrinsic reward Stimulating and flexible returned a mean score of 5.272. Most of the respondents (69.92%) agreed that a career in accounting would provide them the opportunity to perform interesting tasks in an independent and flexible manner, and would result in their following their passion. The independent variable Stress returned a mean score of 4.019, with only 21.14% of respondents agreeing that a career in accounting would be a source of worry, tension and constant pressure, and would involve having unregulated working hours and having to work closely with customers. Many students (32.93%) were neutral with regard to a career in the field of accounting being stressful. The extrinsic reward Community service and respect returned a mean score of 5.260 with 69.11% of respondents agreeing that a career in accounting would provide them the opportunity to be of service to the community and make the world a better place, and to earn status and respect in the community.

From Table 5 it can be seen that with the exception of Stress and Future prospects, the independent variables were all positively and significantly associated with each other. In addition, Stress was the only independent variable not to be positively or significantly associated with Intentions.

**TABLE 5: CORRELATION COEFFICIENTS**

	1	2	3	4	5	6
1 Wealth and financial security	1.000	<b>0.401</b>	<b>0.415</b>	<b>0.178</b>	<b>0.554</b>	<b>0.376</b>
2 Future prospects	<b>0.401</b>	1.000	<b>0.650</b>	-0.028	<b>0.477</b>	<b>0.764</b>
3 Stimulating and flexible	<b>0.415</b>	<b>0.650</b>	1.000	<b>0.259</b>	<b>0.614</b>	<b>0.598</b>
4 Stress	<b>0.178</b>	-0.028	<b>0.259</b>	1.000	<b>0.323</b>	-0.067
5 Community service and respect	<b>0.554</b>	<b>0.477</b>	<b>0.614</b>	<b>0.323</b>	1.000	<b>0.403</b>
6 Intention	<b>0.376</b>	<b>0.764</b>	<b>0.598</b>	-0.067	<b>0.403</b>	1.000

(p<0.05)

## Multiple regression analyses

A multiple regression analysis was undertaken to assess whether the intrinsic and extrinsic rewards investigated in this study had a significant influence on the dependent variable, Intentions. When the predictor variables in a multiple regression model are highly correlated, multicollinearity may exist. In order to establish whether multicollinearity was present, the variance inflation factors (VIF) were calculated. Factors of less than 5 (Hair et al., 2006) were reported for all predictor variables (see Table 6), therefore multicollinearity was not a problem when estimating the multiple regression model in this study.

**TABLE 6: TESTING FOR MULTICOLLINEARITY**

Independent variables	VIF
Wealth and financial security	1.498
Future prospects	1.990
Stimulating and flexible	2.308
Stress	1.241
Community service and respect	2.056

**TABLE 7: INFLUENCE OF THE REWARDS ON INTENTIONS**

<b>Dependent variable: Intentions</b>		<b>R-Square = 0.6157</b>	
<b>Independent variables</b>	<b>Beta</b>	<b>t-value</b>	<b>Sig.(p)</b>
Intercept	0.1572	0.408	0.684
Wealth and financial security	0.1009	1.598	0.111
Future prospects	<b>0.7538</b>	<b>10.566</b>	<b>0.000***</b>
Stimulating and flexible	<b>0.2347</b>	<b>3.666</b>	<b>0.000***</b>
Stress	<b>-0.1017</b>	<b>-2.545</b>	<b>0.012*</b>
Community service and respect	-0.0292	-0.440	0.660

(\*p<0.05; \*\*p<0.01; \*\*\* p<0.001)

From Table 7 it can be seen that that the rewards investigated in this study explained 61.57% of the variance in Intentions. The rewards Future prospects and Stimulating and flexibility reported a significant positive influence on Intentions, whereas Stress reported a significant negative influence.

Future prospects (0.7538; p<0.001) exerted the greatest influence on Intentions. This implies that the more the respondents in this study perceived a career in accounting likely to provide them with the opportunity to grow personally and professionally, to advance in their field of expertise and to follow their dream, the more likely they were to follow a career in accounting. The results of this study also showed that Stimulating and flexibility (0.2347; p<0.001) exerted a positive influence on Intentions. In other words the more a career in accounting was perceived to provide one the opportunity to perform interesting tasks in an independent and flexible manner, and to follow one's passion, the more likely the respondents in this study were to follow such a career. The results showed that Stress (-0.1017; p<0.05) reported a significant negative influence on Intentions. In other words the more the respondents perceived a career in accounting as being a source of worry, tension and constant pressure, as well as having unregulated hours and having to work closely with customers, the less likely they were to follow a career in accounting. No significant relationships were reported between Wealth and financial security or Community service and respect and intentions to follow a career in accounting. In other words whether the participants in this study perceived these rewards to exist or not, had no influence on their intentions to follow such a career.

Against this background support was found for the independent variables Future prospects (H2b), Stimulating and flexibility (H1a) and Stress (H1b), but not for Wealth and financial security (H2a) and Community service and respect (H2c).

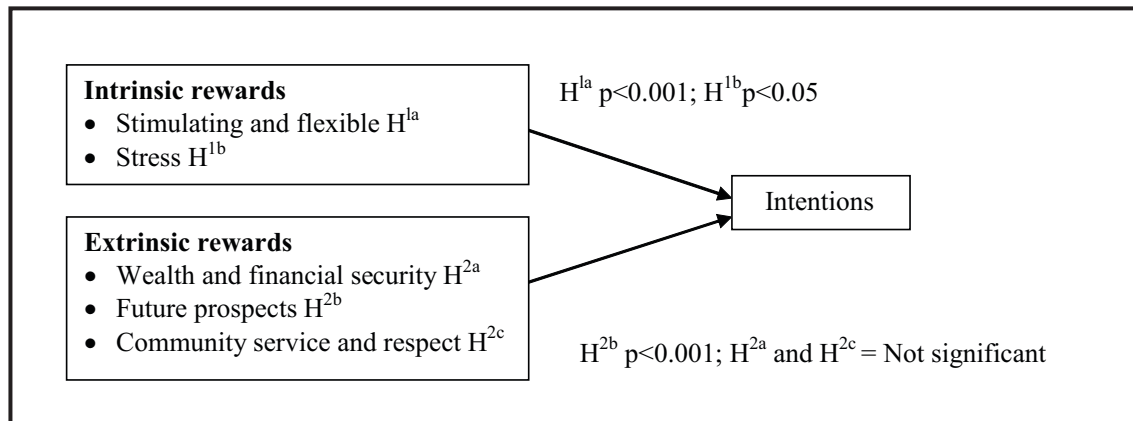
## **CONCLUSIONS AND RECOMMENDATIONS**

The primary objective of this study was to investigate the perceptions that students have of a career in accounting, and to establish the influence of these perceptions on their intentions to enter the profession.

In order to establish the perceptions that students have of a career in accounting, descriptive statistics were calculated. For the rewards investigated in this study, mean scores of between 5.755 and 4.019 were returned. The reward Future prospects returned the highest mean, with the great majority of respondents agreeing that a career in accounting would provide them with the opportunity to grow personally and professionally. The majority of respondents also agreed that a career in accounting would present them with Wealth and financial security, be Stimulating and flexible and provide them the opportunity to do community service and earn the respect of the community. Only 21% of respondents agreed that a career in accounting would be stressful. Based

on these findings it appears that the students participating in this study were positive and had high expectations of the rewards they would receive when following a career in accounting. It is therefore not surprising that the great majority of respondents showed intentions of following a career in the field.

In order to establish whether the intrinsic and extrinsic rewards investigated in this study have a significant influence on the Intentions of students to follow a career in accounting, a multiple regression analysis was undertaken. The significant relationships identified are summarised in Figure 2.



**FIGURE 2:** SUMMARY OF MOST SIGNIFICANT FINDINGS

The findings of this study showed that the rewards Future prospects and Stimulating and flexibility exerted a significant positive influence on Intentions, whereas Stress reported a negative influence. These identified relationships will be interpreted and recommendations made in the paragraphs that follow.

The results show that Future prospects exerted the greatest influence on Intentions. This implies that the more accounting students perceived a career in accounting as being likely to provide them with the opportunity to grow personally and professionally, to advance in their field of expertise and to follow their dream, the more likely they are to follow a career in accounting.

**The following recommendations are put forward in this regard:**

- Before pursuing a career in accounting, potential accounting students should research whether following such a career will indeed enable them to achieve their dream and give them the opportunity to grow personally and professionally. In many cases the dreams of individuals do not match reality, and these discrepancies could result in a dream not being realised. Through research students could prevent disappointments in the future.
- Accounting educators should guide students with regard to what to expect when pursuing a career in accounting. Accounting students should attend employability workshops when these are offered. Students would then know at an early stage in their studies what to expect from the accounting profession before entering the work place.
- Professional accountants and accounting clerks can share their experiences by giving lunch-hour talks to accounting students. They can guide students on how to achieve their goals and how to advance in the accounting field. This will enable students to know what is expected when entering the profession.

- The findings of this study showed that Stimulating and flexibility also had a positive influence on Intentions. In other words the more a career in accounting was perceived to provide the opportunity to perform interesting tasks in an independent and flexible manner, and to follow one's passion, the more likely the accounting students in this study were to follow a career in accounting. The results also showed a significant negative relationship between Stress and Intentions. These findings imply that the more accounting students perceived a career in Accounting as being a source of worry, tension and constant pressure, as well as having unregulated hours and having to work closely with customers, the less likely they would be to follow a career in accounting.

**The following recommendations are put forward regarding these perceptions:**

- Prospective accounting students should be made aware at an early stage in their studies of the various, complex and interesting tasks that an accountant has to deal with on a daily basis, as well as the manner in which these tasks must be performed. This should be done by accounting educators while lecturing on various topics.
- Students should also be exposed to an accounting workplace so as to experience the stress associated with having strict deadlines. These deadlines must be adhered to otherwise clients could be financially affected.
- Existing practitioners could give guest lectures to students and provide hands-on information on the nature of accounting work, and the stress one can expect. Students can then also be given the opportunity to ask questions concerning what to expect when they enter the field.

## **IMPLICATIONS**

This study has implications for educators of accounting and for the accounting profession. The focus of this study has been on establishing the perceptions of accounting students with regard to expected rewards. These expectations could be unrealistic and lead to students realising this and either not completing their studies or entering the field and being disappointed. Accounting professionals who are unhappy, unmotivated and disillusioned concerning their work can influence the performance of the industry as a whole.

The findings indicated that the majority of students were either neutral or disagreed that a career in accounting would be a source of worry, tension and constant pressure. In reality no career is without some form of stress, and students need to be made aware that the accounting profession too has its own sources and levels of stress. It is therefore the responsibility of accounting educators to make students aware of the reality of the stress associated with the tasks that must be performed on a daily basis, and the tight deadlines that must be adhered to. It is also the accounting profession's responsibility to inform students in their advertising material about what to expect from a prospective career in accounting, without focusing only on the glamour that is often associated with those who become a professional accountant after their three years of training. In conclusion, educators of accounting and the accounting profession in general play a vital role in creating realistic expectations of a career in the field.

## **LIMITATIONS AND FUTURE STUDIES**

This study has several limitations that should be highlighted. Firstly, a person's intention to follow a career in accounting is influenced by several factors that have not been addressed in this study. The focus here was on selected intrinsic and extrinsic rewards only. Future studies should attempt to identify factors other than those relating to rewards that influence students' intentions to follow a career path in this field.

Convenience sampling was adopted, and therefore the results of this study cannot be generalised to the student population as a whole. Lists of students from university records should be obtained and from these lists probability samples can be drawn in future studies. Furthermore, the participants in this study were students studying diplomas in Accounting at NMMU only. The results of this study can thus not be generalised to the population as a whole. An opportunity for future research would be to include students from other universities, and undertake the study on a national basis.

The responses from students were based on individual perceptions and on one-time self-report measures. A degree of bias in the responses could therefore have occurred. The factor analyses revealed that several of the items measuring the rewards under investigation did not load at all or did not load as expected. Future studies should strive to improve the measuring instrument in this regard. Furthermore, the demographic characteristics of the respondents and the influence thereof on their perceptions of a career in accounting were not considered in this study. Previous experience, the year of study and the age of the respondent could, for example, influence their perceptions of a career in the field. Investigating the influence of these characteristics provided an interesting avenue for future research.

Despite the aforementioned limitations, this study has provided educators of accounting and the accounting profession with insights into the expectations that students have of following a career in the field.



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# STRATEGIC QUALITIES OF WOMEN IN TOP MANAGEMENT POSITIONS WITHIN THE FINANCIAL SERVICES SECTOR IN A POST DEMOCRATIC SOUTH AFRICA

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## ABSTRACT

This research investigates the strategic qualities of women in top management positions within the financial services sector in South Africa. The study fills a gap in the concepts that suggest that women are limited in advancing to becoming leaders in their organisations. The literature provided contains themes emanating from a framework developed by Wilson, Lenssen and Hind (2006) in identifying the strategic qualities that are needed for leaders. The project is qualitative in nature, using semi-structured interviews to collect data. The overall findings showed that the qualities of integrity, open mindedness, long term perspective, ethical-behaviour, care for people, responsible management, empowerment, teamwork, and communication were important for participants to succeed. This research will contribute to further findings relating to the study of women in management positions.

## KEYWORDS

Strategic qualities, Women, Top management, Financial services

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## INTRODUCTION

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This study fills a gap in that the existing theories suggest that women who seek top management positions face barriers on their journeys to becoming leaders in organisations (Montgomery & Growe, 2000; April & Dreyer 2007; Haslam et al., 2008). There is no significant research to provide information on the necessary character traits or qualities needed for women to overcome these barriers and become top managers within their various sectors. This paper will aim to identify qualities that can assist women in the future. To conceptualise the study, the authors use the framework developed by Wilson, Lenssen and Hind (2006) that provides guidelines for leadership qualities for success and apply it to the study in understanding strategic qualities for leaders. The research sample is women in top management jobs in the financial industry.

Women have made strikingly little progress in advancing to the boardrooms and the executive suites; including the financial sector. In a recent report by Ernst and Young (2009: 2), “researchers demonstrated that groups with greater diversity tend to perform better than homogeneous ones, even if the members of the homogeneous groups are more capable. Diversity in leaders not only promotes fairness, but also delivers a strong financial advantage.” Research has shown that when women are present in significant numbers, the bottom line improves, from financial profits to the quality and scope of decision-making (White House Report, 2009). “Fortune 500 companies with high percentages of women officers experienced, on average, a 35.1% higher return on equity and a 34% higher total return to shareholders than those with low percentages of women corporate officers, according to a recent study” (White House Report, 2009: 8). These studies confirm that the presence of women enhances a business.

According to Montgomery and Growe (2000: 1), “society has determined that only males make good leaders; therefore it continues to deny easy access for women seeking management roles because they do not fit the norm”. Regardless of how the strategic capabilities of women are explained, successful women still possess the skills to be outstanding executives. As explained by the authors, “female attributes of nurturing, being sensitive, empathetic, cooperative, and accommodative are increasingly associated with effective administration” (Montgomery & Growe, 2000). Therefore this study will identify, together with the above mentioned characteristics, other qualities, soft and hard skills, that women must possess to advance in business. By concentrating on specific character traits and behaviours as stipulated in the framework by Wilson, Lenssen and Hind (2006), the study will fill the gap by allowing women to acknowledge these traits and concentrate on them to further their career paths.

One of the most consistent demographic trends over the last fifty years has been the increasing number of women in the workforce. Although women are occupying a significant and growing proportion of entry and mid-level management positions (White, Cox & Cooper, 1997), gaining access to higher occupational positions has proved difficult. The empowerment of women on the executive level is an issue gaining attention worldwide, particularly within the South African business environment (April & Dreyer, 2007). Since the start of democracy in 1994, the South African Government has acknowledged the unique problems facing South African women in achieving equality in the labour force, and has adopted legislation (The Employment Equity Act no 55 of 1999), which was designed to systematically eradicate the formalised discrimination of the past. Groups designated for promotion under this legislation include black people, women, and people with disabilities (Fassets, 2009). Since the legislation has been put into place, the advancement of women into management positions has shown incremental progress and evidence regarding specifically the number of black women holding executive positions has increased, as presented below by statistics (see Table 1). Table 1 below illustrates the percentage

of women in executive and senior management within the financial services sector based on both black (African, Coloured and Indian) and white women. Black women, for the purpose of this study shall include women groups from Africans, Coloureds (Mixed Race) and Indians.

**TABLE 1: PERCENTAGE OF WOMEN IN TOP MANAGEMENT IN THE FINANCIAL SECTOR**

		2003	2004	2005	2006	2007
African female	%	2.4	3.4	3	3.5	3.4
Coloured female	%	1.4	1.3	0.6	1.9	1.3
Indian female	%	1.2	1.3	1.7	1.9	2.3
<b>Sub-total black female</b>	%	<b>5</b>	<b>6</b>	<b>5.3</b>	<b>7.3</b>	<b>7</b>
White female	%	20.1	22.2	21.5	20.9	16.3
<b>Total female</b>	<b>%</b>	<b>25.1</b>	<b>28.2</b>	<b>26.8</b>	<b>28.2</b>	<b>23.3</b>

(Source: Fassets Women in Management Research Report (2007:20))

The Business Women’s Association (2011) also conducted a census in 2011 on Corporate Leadership to show an increase of women in top jobs. The report stated that, “women constitute 51% of the South African population and 42% of the employed population. Yet, only 14.4% of executive managers are women. Out of the 14.4% female executive managers, only 4.4% are CEOs and Chairpersons of boards (Business Women’s Association Census, 2008:6). The above figures in Table One suggest that women still struggle to penetrate executive levels in high numbers, despite the legislation. Eagly and Carli (2008) argue that women, regardless of making up much of the talent pool, are only able to rise to a certain level within their career before reaching a point where they cannot progress any further because of an invisible barrier. The authors further state that even with their progress, women still encounter obstacles and barriers throughout their leadership journeys (Eagly et al., 2008). However, a recent study by Haslam and Ryan (2008: 3) suggests that, “women are beginning to enter junior management roles; however, they still struggle to occupy the upper levels of organizational leadership.” It is through this journey that these obstacles against women are explored to identify the specific qualities that contribute to women attaining senior managerial and executive positions.

In Europe and other western countries, women employed in the financial services sector are seen to reap more benefits than in any other sector (Woodward & Ozbilgin, 1998). Further research states that in terms of white-collar employment, this sector offers women a safe, non-discriminatory environment not only in the UK but in other countries globally (Pollert, 2005).

In the South African context, as women begin to assume senior and top executive positions in the financial services industry, the question then arises, seeing that there are still so few women in executive roles in business, what strategic qualities do women have to possess to achieve positions in this sector? In essence, what are the qualities that contribute to their achievements to make an impact in this rather competitive sector?

#### **Problem investigated**

To identify strategic qualities that women in top management positions within the financial services sector possess.

#### **Research objectives**

The objectives of this study are to identify the strategic qualities that women in top management positions within the financial services sector possess. Bearing in mind the legal imperative and intent of the Employment Equity Act which seeks to ensure the implementation of employment equity to redress the effects of discrimination, the report will look to identify the characteristics that women within the financial services believe are essential for them to succeed in a post-democratic South Africa.

## LITERATURE REVIEW

Women in management positions have been widely discussed, both in the business environment and in academic literature. Although women make up half of the workforce in the world, the majority of them work in lower and middle management occupations (Schein, 2001). Furthermore, according to the Fasset's study (2009: 6) on women in management, the "latest figures show that there are 21 265 women professionals and 5 920 women managers in the Financial and Accounting Services Sectors within South Africa. In respect of these occupational categories, women make up nearly half (48.0%) of all professionals and just over one third (34.0%) of all managers. However, they are mostly in low levels of organisations. Black women form 8.3% of managers and 19.0% of professionals in the sector". The report further states that "the need to correct racial and gender imbalances and to increase the labour-market participation of all population groups in the economy in South Africa is widely accepted, and measures to attain these objectives are entrenched in a suite of legislation and policies", in South Africa.

In South Africa, the advancement of black women into corporate management positions has been somewhat slower than that of white women, particularly in the financial sector (see Table One). Needless to say, there has been a slight growth of the number of black women professionals in top management of the financial sector from 2003 to 2007.

Despite Constitutional guarantees underpinned by ground-breaking legislative provisions, The Employment Equity Commission's 2007/08 and 2008/09 findings revealed that women are better represented in administrative than decision-making functions (Mercury, 2010). It is because of this that the paper will outline the strategic qualities that women ought to have in order to fill top management positions.

### International Context

Although the number of women in middle management has grown quite rapidly in the last two decades throughout the world, the number of female Chief Executive Officer (CEO)s in large corporations remains extremely low (Oakley, 2000). Whether it is due to a lack of line experience, inadequate career opportunities, or gender differences in management styles, there is still an underrepresentation of women in top management positions. The barriers that prevent women from ascending to senior management positions in large corporations have often been disguised by systematic organisational barriers (Oakley, 2000).

Barriers to women in management exist worldwide. According to an International Labour Organization report, "although women represent more than 40% of the world's labour force, their share of management positions remains unacceptably low, with only a small proportion obtaining top jobs" (Schein, 2001: 681). Schein (2001) recorded that according to national survey worldwide, women's share of management jobs rarely exceeds 20% and the higher the position, the more glaring the gender gap.

According to Fasset's (2009: 39), "a survey of top 200 companies in 2002 by the Equal Opportunity for Women in the Workplace Agency (EOWA) in Australia, women held 8.2 per cent of board positions in the companies, with just two women CEOs (1 per cent). Out of the companies surveyed, 52.6 per cent had no women executive managers; 29.6 per cent had one; and 17.8 per cent had two or more. Women executive managers were found in the software and ICT sectors, banking, telecommunications, insurance and retailing. They have not made any noticeable inroads into real estate, transportation, food and beverage, hotels and restaurants, leisure and energy".

In all parts of the world, female senior executives, and especially female CEOs, are extremely rare in large corporations. Although women in the USA comprise approximately 40% of all managers, in the largest corporations women hold less than 0.5% of the highest paid management jobs (White House Report, 2009). Fassets (2009: 39) stated that “in the United States, women’s share in senior top management has made marginal increases. According to a survey by Catalyst in 2003, women’s participation on the boards of the Fortune 500 companies was 13.6, up from 12.4 per cent in 2001, 11.7 per cent in 2000 and 11.2 per cent in 1999. Fifty-four companies had no women board directors, compared to 66 companies in 2001. Another 208 companies had just one woman director. Fifty-four companies had 25 per cent or more women directors, up from 30 companies in 2001 and 11 in 1995”.

According to Woodall, Edwards and Welchman (2002), many UK companies are introducing initiatives designed to improve the status of women in the workforce. These business led initiatives, such as Opportunity 2000, which is similar to some other projects worldwide, were formed as a culture change to approach equal opportunity. According to Fassets (2009: 39), “based on European countries, the share of female directors had increased by 20 per cent (up from 84 in 2002 to 101). Eighteen (90%) of the top 20 companies had women directors. The number of female executive directors had gone up from 15 to 17 since 2002. There were still 32 companies out of the top 100 with not one women director. A tendency was noted for long-serving chairmen to run boards without women directors, suggesting that long-term tenure led to “complacency” in the recruitment of new board members. The report also noted that women were more likely to be appointed to boards if the nomination committees included women”.

Although the occupations in which women are managers are what are known to be ‘traditionally female’ areas, evidence has shown that more women are entering sectors that are not traditionally female, such as banking, insurance, and manufacturing, in the UK (Woodward & Özbilgin, 1999). According to Fassets (2009: 39), “in the UK particularly, the issue of the current global financial crisis has put renewed emphasis on gender diversity in the financial services sector, which has limited gender transformation at top management levels and is the worst performing sector.

In Japan, women constitute 40% of the workforce but only 8% of all managers are women (Gelb, 2000). The global statistics show that women face challenges progressing up to executive levels.

### South African Context

In the South African corporate environment, gender transformation at executive management level is greatest in the Financial and the Services sectors, with 27.8% and 23.7% of positions held by women respectively (Fassets, 2009). According to the Fassets Study (2009: 6), “Black women form 8.3% of managers and 19.0% of professionals in these sectors. Black women’s representations at these levels across the financial services sub-sectors are, however, variable. The sub-sector that employs the largest number of women in management (799 black and 2 507 white) and professional (6 102 black and 9 303 white) categories is Accounting, Bookkeeping, Auditing and Tax Services. Only in the South African Revenue Service (SARS) and Government Departments sub-sector do black women outnumber white women at both manager level and professional level. Outside of government the most equitable distribution at management level is for Stockbroking and Financial Markets, with 45.4% of women managers being black. The most inequitable distribution between black and white women is in the sub-sector Activities Auxiliary to Financial Intermediation. Within these sub-sectors, white women make up 99.3% of women managers- with women managers, furthermore, representing 54.2% of all managers in the sub-sector”.

Furthermore, according to Fassets (2009: 67), “a large number of women professionals and women managers in the Financial and Accounting Services Sector within South Africa, women make up



nearly half (48.0%) of all professionals and just over one third (34.0%) of all managers, yet women are still underrepresented in leadership roles”.

Strategic qualities of top managers: Wilson, Lenssen and Hind (2006)’s framework. Below is the framework developed by Wilson, Lenssen and Hind (2006: 12) that discusses the strategic leadership qualities. The study uses this framework in assessing its applicability to women in top management roles to determine their strategic leadership qualities that make these women successful.

According to a study conducted by Wilson, Lenssen and Hind (2006: 12), “in understanding responsible business behaviour, the starting point remains that leadership qualities are in the domain of personal attitudes and beliefs. These are values-driven and almost by definition relate to the moral aspects of decision-making - distinguishing between right and wrong, good and bad. As such, they comprise those characteristics of the individual such as honesty and integrity. They are the deep seated personal qualities that change and develop only slowly over time”.

Emanating from the above study, a framework was developed by the research team in order to identify strategic qualities that are essential for leaders in an organisational setting, the aim of which was to explore in greater depth the skills, knowledge and attitudes necessary to implement into management practice. The following attributes were concluded as being necessary for those in senior management, drawing from the Wilson, Lenssen and Hind (2006).

### **Integrity**

As a senior top executive, the framework suggests that a high level of ethical awareness/moral reasoning is required. The person occupying this position will not let unethical behaviour go unchallenged and is honest and trustworthy. The framework goes on to state that the senior executive must be willing to explore ethical dilemmas and have a willingness to take ethical action without a clear picture of the final outcome (Wilson et al., 2006).

### **Open-mindedness**

As a strategic leader, Wilson, Lenssen and Hind (2006) stated that a senior executive must be willing to act on criticism from inside or outside the organisation. To remain in the position individuals have achieved, the researchers state that a top executive should not be complacent and assume that business processes cannot be improved. Looman (2003) concurs that top executives should always be questioning ‘business as usual’ by being open to new ideas and challenging others to adopt new ways of thinking.

### **Long-term perspective**

The framework speaks to leaders taking a long-term perspective. Leaders often work with uncertainty, ambiguity and incomplete information. They need to have an eye to the future in making decisions about the present, driven by a motivation to achieve improvements. This strategic vision enables them to take radical actions, which may be needed to modernise their service and make it genuinely responsive to the needs of users. Moreover, according to Collins and Clark (2003), strategic managers envisage the future and are able to see current opportunities and linkages that others may struggle to see, and they act on these. Leaders generate, test and implement a range of innovative approaches to move a situation forward and they think and act with a long-term, futuristic perspective (Collins & Clark, 2003).

## **Ethical behaviour**

Ethical behaviour is embedded in personal actions and day to day behaviours. As a top executive, a leader must be willing to take an organisation beyond the minimum legal standards; they should be willing to be a public role model for ethical behaviour and be able to change the beliefs of followers to those which are consistent with leaders' own high values (Wilson, Lenssen & Hind, 2006). Credibility stems from ethical behaviour and integrity is critical for one to fully partner with both internal and external customers (Adams, Tashchian & Shore, 2003). According to Adams et al. (2003), sustainable business growth is dependent on how employees exhibit ethical behaviour within the company. During difficult times, the company will be sustained by the support they receive from those who admire them for acting ethically at all times. Ethical behaviour is the foundation for the company's long-term success.

## **Care for people**

As a strategic manager, the framework suggests that commitment to the growth and development of employees is essential; the manager must at all times have respect for employees across all levels. This includes respect for diversity and equal opportunities for all. Having these attributes will ensure that leaders will not make unrealistic demands on themselves and others, for example not working all hours. As a top executive, leaders should have a management style of empowerment rather than control (Wilson, Lenssen & Hind, 2006).

## **Communication**

In order to hold a position as a top executive, the framework states that one needs to listen to others with respect for diverse views. Senior executives should have a broad model of communications, including a two-way dialogue with staff. Oakley (2000) concurs that by being honest and open with staff in the organisation, the top executive is assured collaborative work from the employees. Moreover, the senior executive should believe in the principles of accountability, e.g. measuring and publicly reporting on company progress with regard to financial, business and sustainability issues (Oakley, 2000).

## **Responsible Management**

In the current environment where corporate responsibility and sustainability are relevant issues of discussion, the framework suggests that top executives should have an interest in the impact of the business on surrounding local communities by building relations with external stakeholders, engaging in consultation and balancing demands. Moreover, they should build capacity and external partnerships and create strategic networks and alliances (Wilson, Lenssen & Hind, 2006).

## **Empowerment**

Giving people the freedom to pursue excellence by fostering a culture that encourages delegation, risk taking, speed of response, accountability and partnership is what Wilson, Lenssen and Hind (2006) suggested that leaders should do. According to Crowder (2006), the rationale is that in this rapidly changing world where creativity and innovation is of the utmost importance, leaders must have employees that continually ask themselves, "how can it be done better and more efficiently?"

How can I provide a better service? How can I improve my skills?" Every work process eventually requires that people make the right decisions. Leaders should empower their employees to make these decisions and give them the tools they need to perform to the best of their ability.

## **Teamwork**

The framework states that teamwork encourages open communication and collaboration across the organisation through the sharing of knowledge, technologies and best practices to create fruitful synergies that spring from the combined strengths and abilities of all. According to the framework, teamwork means developing a common spirit within the members of a group and helping one another to succeed (Wilson, Lenssen & Hind, 2006). According to Eagli and Carli (2008), the success of teamwork is ensured if a project is well defined with clear timelines, objectives and processes. An organisation's continued success cannot be attained by a singular person doing singular things. The company must behave in the spirit of team work. Leaders should ensure that employees must act collectively and cooperatively to draw on the strengths and abilities of all their employees.

## **Conclusion of Literature Review**

The literature review revealed that women have faced slow yet steady progress within the past few decades into top management positions. While there are systematic organisational barriers affecting women to be effective strategic decision makers, research shows that there are qualities that may reduce these barriers. With the help of legislation in a post democratic South Africa, women now have a chance to access executive levels, if they have the relevant qualities.

### **Research Question**

What strategic qualities do women in senior executive positions within the financial services sector possess?

## **RESEARCH METHODOLOGY**

### **This section outlines the proposed methodology that was used**

to conduct this research. The study used a qualitative methodology to answer the research questions. Qualitative researchers are "more concerned about issues of the richness, texture, and feelings of raw data because of their inductive emphasise in developing insights and generalization out of the data collection" (Neuman, 2003: 137). In light of this study attempting to identify the strategic qualities of women in top management positions, it is appropriate to adopt this method because this unique approach will try to uncover the underlying common themes and categories.

The data used for this study was collected in a series of in-depth semi-structured interviews with each respondent lasting approximately 60 minutes. According to Lewis and Ritchie (2003), in-depth interviews enable the informant to relate experiences and attitudes to the researcher in their own words. The interviews comprised open-ended and semi-structured questions. According to Creswell (2007), the advantages of in-depth interviews also include participants providing rich context within which the data was analysed. The study was conducted in Johannesburg and Pretoria areas. These cities were selected because of being the business "hub" for South Africa and have the concentration of major organisations in the financial services.

The sample consisted of senior executive women from different companies, who were able to answer questions due to their knowledge and experience of the financial services sector.

The sample size for the study was 10 women, who voluntarily agreed to a taped interview with possible follow ups to ensure the necessary data for the study was collected. The identity of the participants was kept confidential. They all had finance related degrees such as Accounting, Auditing and Finance. Six of the participants had MBA qualifications. The age ranged from 35 to 51 years. They were all black women and occupying positions such as Managing Director (MD)s and CEOs of divisions. The organisations represented ranged from investment portfolio-related companies, to insurance, to economic development and the banking industry. The majority (60%) was from the insurance, some (20%) in the banking and others (20%) in the investment sectors of the financial industry.

### **Data analysis**

The data analysis procedure made use of the data management system used by Miles and Huberman (1999), which is linked to sub processes of data reduction, data display and finally conclusion drawing or verification. Data reduction requires one to take transcripts or notes from recorded interviews and convert them to data summaries for analysis. Key themes and terms present across all interviews were identified, using content analysis. By constantly re-examining the data at hand, this study ensured truth and consistency. When transcribing the data, emphasis was made at every interview that notes were taken and compared with audio-transcripts. Also, peer examination of the data at hand ensured that the data was plausible.

#### **Results**

To answer the question: what qualities do women in senior executive positions within the financial services sector possess? The results are discussed below using Wilson, Lenseen and Hind (2006).

### **Integrity**

The theme that remained consistent with all respondents was that of integrity. Respondents felt that it is of the utmost importance to remain moral and ethical in business dealings. As in all companies, managers and particularly executives are expected to act with integrity by taking action on verified unethical conduct, by generally being honest, by respecting and trusting employees and by listening carefully to the opinions of others (Norris & Inglehart, 2000).

According to Wilson, Lenseen and Hind (2006), as a senior executive a high level of moral reasoning is required. A person occupying this position should not let unethical behaviour go unchallenged and must be honest and trustworthy. The executive must be willing to explore ethical dilemmas and have a willingness to take ethical action (Wilson, Lenseen & Hind, 2006).

### **Open mindedness**

Many of the respondents identified innovation and keeping up with current trends as being the most important factor for growth. According to Wilson, Lenseen and Hind (2006), a senior executive must be willing to act on criticism from inside or outside the organisation. To remain in the position, the top executive should not be complacent and assume things cannot be improved. Looman (2003) agreed that top executives should always be questioning 'business as usual' by being open to new ideas and challenging others to adopt new ways of thinking. The research also illustrates the importance of innovation and keeping up with internal and external trends. Many executives either do not comprehend innovation or cannot get past their finance-focused mind-sets (Looman, 2003).

### **Long term perspective**

The framework by Wilson, Lenseen and Hind (2006) highlighted the importance of taking a long term perspective in business and the need to have an eye to the future in making decisions about the present, driven by a motivation to achieve improvements. This strategic vision enables them to take any radical actions which may be needed to modernise their service and make it genuinely responsive to the needs of users. With regards to the respondents, they believed that change is

taking place but at a slow rate, therefore a forward looking outlook is needed. The examples of Maria Ramos of Absa and Gill Marcus of the South African Reserve Bank were given in order to illustrate this. As executives in top management positions, women hold some of the most important and influential roles in an organisation. It is important that they possess qualities that exhibit vision, are forward looking and have a long term perspective, as identified by respondents. According to Wilson (1992: 18), “being a visionary or having a long term perspective must be realistic about the market, competitive, economic, and regulatory conditions and must reflect the values and aspirations of management, employees, and stakeholders. In uncertain and difficult times visioning is vital to establish direction”.

### **Ethical Behaviour**

According to Adams et al. (2003), sustainable business growth is dependent on how employees exhibit ethical behaviour within the company. During difficult times, the company will be sustained by the support they receive from those who admire them for acting ethically at all times. Ethical behaviour is the foundation for the company’s long-term success. Ethics and ethical behaviour was one of the many themes, which resonated throughout the interviewees’ responses, together with the importance of not allowing any business dealing to alter the person one is or one’s morals.

### **Care for people**

As a strategic manager, the framework suggests that commitment to the growth and development of employees is essential. At all times the manager must have respect for employees across all levels, including respect for diversity and equal opportunities for all. Having these attributes ensures that leaders do not make unrealistic demands on themselves and others. As a top executive, a leader should have a management style of empowerment rather than control (Wilson, Lenssen & Hind, 2006). Almost all of the respondents agreed that caring for people and your team is an essential tool for a senior executive. Interpersonal skills are often necessary and a lack of these may be costly to business.

### **Responsible Management**

In the current environment where corporate responsibility and sustainability are relevant areas of discussion, the framework suggests that top executives should have an interest in the impact of its business on surrounding local communities by building relations with external stakeholders, engaging in consultation and balancing demands. Moreover, leaders should build capacity in external partnerships and create strategic networks and alliances (Wilson, Lenssen & Hind, 2006). As an executive it is of utmost importance to become a responsible and contributing corporate citizen. By forming strategic networks, both the company and the senior executive compile a strategy whereby community investments are designed to enhance the relationships between the communities in which they operate. This point was highlighted in the interviews as an added platform for the executives and the companies to communicate their brand values and vision to the communities as a key stakeholder.

### **Empowerment**

The respondents believed that there was a need to support and mentor younger women as career professionals. Respondents emphasised the need for a culture in the workplace that supports employee growth of these young women professionals, including participation and empowerment through training, mentoring programmes, and equitable pay for all employees.

According to Crowder (2006), the rationale behind empowerment is that in this rapidly changing world where creativity and innovation is of utmost importance, leaders should have employees that continually ask themselves, “How can it be done better and more efficiently? How can I provide a

better service? How can I improve my skills?" Every work process eventually requires that people make the right decisions; therefore they must empower their employees to make these decisions and give them the tools they need to perform to the best of their abilities.

### **Teamwork**

The framework describes teamwork as encouraging open communication and collaboration across the organisation through the sharing of knowledge, technologies and best practices to create fruitful synergies that spring from the combined strengths and abilities of all. According to Eagli and Carli (2008), the success of teamwork is ensured if a project is well defined with clear timelines, objectives and processes. Leaders should ensure that employees act collectively and cooperatively to draw on the strengths and abilities of all their employees. Many of the respondents echoed the point that the ability to work as part of a team is one of the most important skills in today's job market. Employers are looking for workers who can contribute their own ideas, but also want people who can work with others to create and develop projects and plans.

### **Communication**

The framework states that one needs to listen to others and have respect for diverse views. Communication is important in a workplace setting because people must interact with one another in ways that get the job done as quickly and effectively as possible and in ways that maintain the morale of employees. Both of these are important aspects of workplace communications (Wang & Chaudhri, 2009). Oakley (2000) agreed that by being honest and open with staff in the organisation, top executives are assured collaboration among employees.

Most of the respondents felt that it is important to communicate in ways that maintain employees' morale. If they, as executives, communicate in an angry manner or degrading way, the workers will tend to feel unhappy with their situations. This negative behaviour might even decrease their desire to work and will therefore decrease productivity in the workplace (Wang & Chaudhri, 2009).

## **CONCLUSION**

This paper has identified a range of strategic qualities that women, particularly those in the financial services sector, possess, especially when climbing the ladder to corporate management and reaching the upper echelons of management. These strategic qualities were all discussed in the interviews as being important when one is in a senior management position. According to most of the interviewees, possessing feminine qualities such as soft skills, mentorship and empowerment are important ingredients for becoming a senior executive in any company. The interviewees also positively perceived the power of networking, especially with their male counterparts. This research also established through interviews that women that have identified these qualities as being essential in career growth, have themselves been able to attain senior management positions within their respective companies. This research confirms previous work by Wilson, Lenssen and Hind (2006). Since the study focused on their framework, the findings of this project are limited to the applicability of other frameworks. It has been one of the few studies that uses the Wilson, Lenssen and Hind (2006) framework in the studies focusing on barriers women face on their journeys to becoming leaders in organisations. The project also provides suggestions on the character traits needed for women to overcome barriers, as possible solutions for success.

According to Fassets (2006: 54), "at the heart of the problem is that most organisations were created by men, for men and for the most part continue to be managed by them. Even in South Africa, where black people are the majority group in the population by a considerable margin, women and especially black women remain a minority in top management structures", particularly in the financial industry.



## RECOMMENDATIONS

The paper makes some recommendations. According to McGuire and Agranoff (2011: 266), “transforming top management structures, which across all countries are dominated by men, continues to be a challenge, as women remain concentrated in certain sectors, professions and occupations. Through the influence of gender socialisation, women continue to make career choices that do not support promotion to leadership levels”. Terjesen et al. (2009: 320) stated that “the evidence shows that gender diversity at board, executive and managerial level contributes to more effective corporate governance through a variety of board processes, some of which do not show up as a direct influence on the firm’s bottom line, as well as through individual interactions. As well as governance outcomes, women directors contribute to important firm level outcomes as they play direct roles as leaders, mentors, and network members as well as indirect roles as symbols of opportunity for other women, and inspire them to achieve and stay with their firm”.

By employing a diverse executive and board there is an evolutionary impact at managerial level, as the broader range of opinions and perspectives change the culture and subsequently the morale of the company. Terjesen et al. (2009: 334) argues that “research on corporate boards and executive positions is an important tool, not only for making an academic contribution, but also to provide the basis for change, not just for a more equitable, but also for a more effective gender representation at the decision-making levels.

As per findings of the study, possession of strategic qualities in top positions is important, particularly for women. Attributes such as, integrity, open-mindedness, long-term perspective, ethical behaviour, caring for people, communication, responsible management, empowerment, and teamwork, are key ingredients for achievement. In today’s modern technological society, where everything is interlinked, it is important to introduce an integrated manner in which both women and men can manage organisations. By integrating all systems and processes into one framework, team members are able to have a shared vision and values. However, this system would need both feminine and masculine attributes. The overall impact of the system should be to give women a fair advantage by empowering them and also attracting and advancing them. This will ensure that they receive the full benefits of their qualification and experience in a very competitive environment.

It is also recommended that companies within the financial services sector should be assessed according to their employment equity responsibilities in terms of their policy making, strategy, activities and organisational culture.



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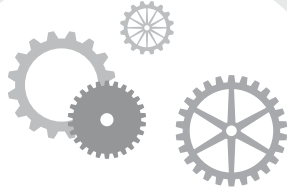
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# THE RELATIONSHIP BETWEEN SMES AND INSURANCE PROVIDERS IN NELSON MANDELA METROPOLITAN AREA, SOUTH AFRICA

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## ABSTRACT

Media reports on the effects of climate change on small and medium-sized enterprises (SMEs) in South Africa have increased over the past decade. Yet insurance providers are not eager to insure SMEs and prefer to deal with larger organisations. The purpose of this study is to establish the factors which have an influence on the relationship between SMEs and insurance providers. An empirical study was conducted amongst 203 SMEs. Data was collected and statistically analysed. The ANOVA, the multiple Linear Regression and simple Linear Regression illustrated that factors such as brand name of the insurer, affordability and advantages had a significant influence on the relationship between SMEs and insurance providers. SME owners who had an insurance policy and had been approached by an insurance broker had a business relationship with insurance providers. This leads to a conclusion that any form of interaction between SMEs and insurance providers facilitates a business relationship.

## KEYWORDS

SMEs, Insurance providers, Business relationship



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## INTRODUCTION

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Being in business in today's tough economic environment is hard work, with the small business owner having to keep a close eye on many parts of the business, from marketing to compliance issues up to managing cash flow. They now also have to worry about the adverse consequences brought about by natural disasters on their small businesses. There are many media reports that have been given on how small businesses have been affected by climate change around South Africa (SABC News, 2006; IOL, 2008; SABC News, 2009; Macgregor, 2012). Yet there is little or no research that has been carried out in this area. Reference to media reports from 2006 till 2012 have given an indication of this rising crisis faced by small and medium-sized enterprises (SMEs). In 2006, flood damages to small businesses and residential premises in the Nelson Mandela Metropolitan Area was estimated at R120 million (SABC News, 2006). In 2008, the South African Coast Chamber of Commerce and Industry reported that several businesses along Marine Drive in Durban were flooded and forced to close down (IOL, 2008). In 2009, Cape Town was affected by floods and the famous River Club in Observatory was flooded (SABC News, 2009). In 2012, damage resulting from floods in the Eastern Cape was estimated to be more than R1 billion and this did not include the economic loss that the province faced (Macgregor, 2012). It was the SMEs that were affected the most by these disasters. The reason why SMEs are more vulnerable to such risks Large organisations are able to hedge their losses because of their large profit base. Research by Pretty (cited by Strutt, 1998: 8), examined the purchase of insurance by large corporations and the benefit of the insurance program in the event of a large insurable event. The research found that as corporations increased the diversity of their products and their geographical spread of assets, they placed greater reliance on natural operating hedging, rather than transferring the risk to an insurer. This willingness to accept more of the risk themselves was found to be based on the level of diversification rather than on the actual size of the firm. The limitation of the research was that it concentrated solely on the large firms and its relevance to SMEs was not addressed (Strutt, 1998: 10).

SMEs owners would like to achieve growth and sustainability in their business. In order for them to achieve growth, they should guard themselves against setbacks that may hinder their progress. These setbacks may include unexpected occurrences of theft, breakages, fires, floods, strikes, the death of the owner of the business and any other crises that may befall their business (Manning, 2004: 6).

Crisis is an inevitable part of business and business people cannot set it apart from regular business activity (Dumaine, 1993: 123-127; Mitroff, 2000: 30; Smits & Ezzat, 2003: 15; Elsubbaugh, Fields & Rose, 2004: 112). Friedrich and Isaacs (2006: 169) estimated that 80% of small businesses in South Africa fail within the first five years of operation. The estimated rate of failure increases dramatically following a fire or any other major event such as floods and significant storm damage. The business person has to manage the rebuilding, the sourcing and replacement of the plant and equipment, as well as the re-supply of stock on hand (Manning, 2004: 6).

SMEs play an important role as employers and in the economic growth of the modern society (Taymaz, 2005; Van der Nest, 2004: 39; Gregory, Harvive & Lee, 2002: 3). In a seminal paper Bennett (2008: 357) argued that small businesses account for 99% of job providers in developed countries. SMEs are a means by which governments all around the world use to improve their economies. The creation of small businesses is necessary for economic development. The same is true for developing economies. SMEs can be used as a way of redistributing wealth and restructuring society at a time the gap between the rich and poor is widening in South Africa (Hisrich, Peters & Shepard, 2005: 15; Floyd & McManus, 2005: 144).



There is a lot of national support that is given to SMEs by the South African government. Other service providers such as insurance providers are yet to play their part in supporting this sector. It is our aim to highlight through this research, the nature of the relationship between SMEs and insurance providers and the factors that affect this relationship. The research was done by means of a questionnaire administered to SME managers/owners. The data was analysed and the results, conclusion and recommendations will be presented in this paper.

## **PURPOSE OF THE STUDY**

Longenecker, Moore and Petty (2003: 612) state that short-term insurance providers are not eager to insure SMEs and may even turn them down in some cases because they are not as profitable as large organisations. The same view is shared by Mthimkhulu (2008: 10), when he stated that the insurance industry prefers to deal only with established businesses. This means that an owner of an SME would have to take time to educate themselves on the available insurance products that help to mitigate the risk their business may face. Risk management is generally not something that requires immediate attention until something happens (Moore, Petty, Palich & Longenecker, 2008: 559). A prudent small business owner should take the time to identify the different types of risks faced by the small enterprise and find ways to mitigate them.

In most cases, SME owners do not have the skill and time to look into risk management for their business. When a disaster occurs most businesses are unable to recover because there will be no or inadequate insurance cover to protect the business. The owner could be forced to close down their business and their employees could lose their source of employment. It is therefore, important to understand the nature of the relationship between insurance providers and SMEs.

## **RESEARCH PROBLEM**

A review of literature has shown that insurance providers are not willing to insure SMEs and this is the problem to be investigated. The aim of this research is to investigate whether there is a business relationship between SMEs and insurance providers and to establish the nature of the relationship.

## **RESEARCH OBJECTIVES**

### **Main Objective**

The main objective of the research was to determine which factors have the most influence on relationship building between SMEs and insurance providers.

### **Secondary Objective**

To investigate if having an insurance policy and having been approached by an insurance broker has an effect on the establishment of a business relationship between SMEs and insurance providers.

## **HYPOTHESES**

### **Primary Hypothesis**

**H0:** The level of training in the field of short-term insurance and the factors influencing the purchase of insurance by SME managers or owners has no effect on their relationship with insurance brokers;

**H1:** The level of training in the field of short-term insurance and the factors influencing the purchase of insurance by SME managers or owners has an effect on their relationship with insurance brokers;

### Secondary Hypothesis

**H0:** SMEs who have an insurance policy and have been approached by insurance providers do not have a business relationship with insurance providers;

**H2:** SMEs who have an insurance policy and have been approached by insurance providers have a business relationship with insurance providers.

## LITERATURE REVIEW

The review of literature has shown that there is no standard definition of SMEs that everyone agrees upon. Although within the definitions of SMEs, many authors typically define SMEs on the basis of either annual turnover or number of employees (Keats & Bracker, 1988: 41; European Commission Recommendation 2003; SBA, 2004). This research will be using the definition that is provided by the South African National Small Business Act of 1996, which is summarised in the Table 1.

**TABLE 1:** SMES DEFINITION

Size of the business	Turnover	Employees
Small	Less than R2 million to R25 million	5 to 20
Medium	Less than R4 million to R50 million	20 to 200

(Source: KNC and Associates (2002: 3)).

The South African SMEs sector has been neglected during much of the twentieth century following the discovery of diamonds and gold and the establishment of a modern, capitalist economy with almost exclusive control (Ministry of Trade and Industry, 1994: 9). Currently the unemployment rate is reported to be at 24.9 % (Statistics South Africa, 2013). The SME sector has a major role to play in the South African economy in terms of employment creation and income generation.

SMEs employ approximately nine million South Africans and they contribute more than 60% of the national South African GDP (Mahembe, 2011; Finweek, 2012). They are the vehicle by which the lowest income people in our society gain access to economic opportunities at a time that distribution of income and wealth in South Africa is amongst the most unequal in the world. However, the South African government has since identified the SMEs sector as a priority in creating jobs to solve the high unemployment condition (Rwigema & Venter, 2004: 396; SEDA, 2008).

Government cannot be able to achieve its goal unless other service providers give support to the SMEs industry. The main problem experienced by owners or operators of SMEs, is the difficulty in accessing the necessary support from service providers. Thus, it is imperative that significant investment (in terms of support from service providers) is made in the SMEs sector in order to create both short-term and long-term capacity for labour absorption, as well as to improve income generation and wealth redistribution.

The success of the SMEs sector can be aided if a relationship between SMEs and other service providers, such as insurance providers, is established. In the event that an SME faces a catastrophe like a fire, strike or that its employees are injured at work, they need to have insurance to cover such eventualities as such disasters may leave them vulnerable if they do not have

insurance. The occurrence of natural disasters in most cases results in the loss of workers, along with key talent and organisational knowledge, low staff morale, fear, physical relocation or death. The owners of SMEs need to develop strategies on how to deal with such crises. These strategies should address the safety, health and welfare of employees before, during and after an emergency. Crisis preparedness, response and recovery are essential to help businesses begin to recover (Manning, 2004: 10). This shows the importance of having an insurance cover in order for the business to recover from any disturbance.

A review of the theory on this matter showed that there is little or no research undertaken on SMEs and insurance, with past research predominately concentrating on large organisations (Aliber, 2002: 4; Manning, 2004: 253).

Research conducted by Manning 2004, into the business protection market looked into what the level of insurance businesses hold, what types of insurance they believe are important and what insurable risk would have the largest impact on their business, should it occur. The findings from the research highlighted the need for protection for whatever type of business (Manning, 2004).

The culture of risk aversion constrains the growth of the SME sector among low-income entrepreneurs (Aliber, 2002: 4; OECD, 2010: 7). Micro insurance is one of the ways identified to encourage a positive attitude towards risk aversion (Aliber, 2002: 4). Insurance provides a hedge against risk, yet insurance that might specifically assist SMEs is rare. The only way that insurance that is specifically targeted at SMEs can be developed, is if short-term insurance providers are willing to approach SMEs and establish their needs and offer those products. This can be done through establishing a business relationship.

Business relationships are valuable long-term assets of a company. It is necessary to invest in such relationships and to manage this investment to ensure their repeat business (Claro, 2004: 406). There is a need for a business relationship between SMEs and insurance providers, as a relationship of that nature can be beneficial for both parties involved. In business-to-business relationships, firms usually customise products and services more than in business-to-customer relationships (Claro, 2004: 407). For that reason, prices are seldom standardised, and are calculated for each customer individually. In this case, Ryals (2006: 101-113), recommends the value-based pricing model. This means that the price a service provider charges a customer should reflect the value a customer sees the product or services that they get. As a precondition, a company needs deep insight into and detailed knowledge of the perceived value of each customer. The success of a business relationship lies in the development and the growth of trust and commitment amongst partners (Brink & Berndt, 2004: 30). If there is a relationship that is created between short-term insurance providers and SMEs, it will be easier for short-term insurance providers to establish the insurance needs of SMEs.

Short-term insurance is defined in the short-term insurance Act as providing benefits under short-term policies which means engineering policies, guarantee policies, liability policies, miscellaneous policies, motor policies, accident and health policies, property policies or transportation policies or a contract comprising a combination of these policies (Short-Term Insurance Act, 1998).

Households and businesses buy insurance to transfer risk from themselves to the insurance company. The insurance company accepts the risk in return for a series of payments, called premiums. In the insurance industry, underwriting is the process used by insurance providers to determine whom to insure and what to charge. During a typical year, insurance providers collect more in premiums than they pay in claims. Insurance providers are a major source of short and long term financing for businesses (Boone & Krutz, 2003: 561).

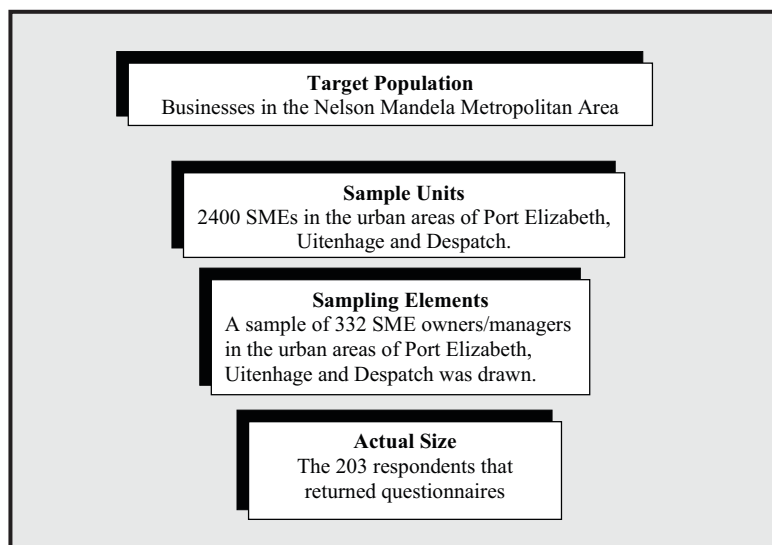
Insurance providers may be a good source of funds for SMEs, especially those involved in real estate ventures. The business owner can go directly to the insurance company or contact its agent

or a mortgage banker. While insurance providers have traditionally engaged in debt financing, they have more recently demanded that they be permitted to buy an equity share in a business as part of the total package (Megginson et al., 1997: 12). This means that they become partners and relationship building between the two becomes an essential element.

The concept of relationship building emanates from the theory of relationship marketing. Boone and Kurtz (2003: 409) define relationship building as developing and maintaining long term, cost effective exchange relationships with individual customers, suppliers, employees, and other partners for mutual benefit. Relationship building involves the whole organisation and its stakeholders. Trust is a major component of the relationship building process. The term relationship refers to voluntary repeat business between a supplier and a customer where the behaviour is planned, cooperative, intended to continue, of mutual benefit and is perceived by both parties as a relationship. Using this approach means that repeat purchase through lack of alternative suppliers or the operation of loyalty schemes cannot be defined as relationship marketing. There are a combination of factors that encourage relationship building such as brand, customer orientation and product knowledge (Little & Marandi, 2003: 23). An ongoing interaction between insurance providers and SMEs means that there will be an improvement on the services that will be provided to SMEs.

## METHODOLOGY

An empirical research was carried out, using a questionnaire which was administered to owners or managers of SMEs in the Nelson Mandela Metropolitan area. Data was collected through a survey-type structured questionnaire that was developed, pretested and validated. The target population for the research was SME owner-managers within the Nelson Mandela Metropolitan Area. The area was chosen because it is located in one the most poorest provinces in South Africa and SMEs development is crucial to ensure economic growth in the region and because of the adverse weather conditions over the years explained in the being of the paper. They form part of the complete group of specific population elements relevant to the research project. A sampling frame was drawn from the population and from that the actual sample was derived. The population and the sample for this study are illustrated in Figure 1.



**FIGURE 1: TARGET POPULATION, SAMPLE UNITS, SAMPLE ELEMENTS AND ACTUAL SAMPLE SIZE FOR THE STUDY**

(Researcher's own construction)

## Sampling technique

The sampling technique that was used was cluster sampling. The SMEs were divided into clusters according to the number of employees as this is consistent with the definition of SMEs which was used for this research. It was most suitable because there was heterogeneity between subgroups and homogeneity within subgroups. The first cluster had SMEs that had 5 to 20 employees and the second cluster contained SMEs that had 20 to 200 employees as illustrated.

TABLE 2: SMES CLASSIFICATION

Type of Business	Employees
Small	5 to 20
Medium	20 to 200

(Source: Adapted from Zaayman (2003:16)).

## Sample size

The level of sampling error that can be accepted in a research project influences the sample size. In reality the sample statistic is known but the population statistic is unknown, so, the difference between the sample and the population value can be assessed in terms of the likelihood that a sample value differs by a certain value from the population value (Leedy, 2005: 35). Cooper and Schindler (2003: 190), recommend that since researchers can never be 100% certain that a sample reflects its population; they must decide how much precision they need in making this decision.

It was estimated that there were approximately 2400 registered SMEs in the Nelson Mandela Metropolitan Area. This is based from information received from Small Enterprise Development Agency. The sample size was then calculated using 95% confidence interval with a margin of error of 5%, the sample size was 332 SMEs. There were only 203 respondents who gave back their questionnaires, which represented a 61% response rate.

The data instrument used to collect data was in the form of a self administered questionnaire distributed to SMEs in the Nelson Mandela Metropolitan Area. The questionnaire had two different sections on Business information and Insurance and Business relationship. There was a 5 scale likert scale asking SMEs owner-managers to rate the factors affecting their business relationship with an insurance provider. The instrument was validated and reliability was tested using Chi-square test and Cronbach's alpha. The Chi-square test was used to test if a sample of data came from a population with a specific distribution. The data was analysed by using Statistica and Statistical Package for the Social Sciences (SPSS). The statistical methods which were used to analyse the data are descriptive statistics, Cronbach's alpha, correlations, simple regression analysis and multiple regression analysis.

## RESEARCH RESULTS

The statistical analysis that was conducted illustrates the extent to which the results yielded answers to the research objectives that underpin the research conducted. The main objective of the research was to determine which factors had the most influence on the relationship building between SMEs and insurance providers. To achieve this objective a questionnaire was administered to SME owners or managers, the following is a profile of the respondents in Table 3 and the size of the business in Table 4.

## Biography of respondents

**TABLE 3: SIZE OF THE BUSINESSES THAT PARTICIPATED**

Size of business	Frequency	Valid percent
Small	132	65
Medium	71	35
Total	203	100.0

The majority of the respondents who participated in the research (65%) were small businesses and the rest (35%) were medium-sized businesses.

**TABLE 4: OCCUPATION OF THE PARTICIPANTS**

Occupation	Frequency	Percent
Owner	82	40.4
Partner	11	5.4
Middle Management	36	17.7
Supervisor	53	26.1
Other	21	10.3
Total	203	100.0

The majority of the respondents were owners of SMEs (40.4%), followed by supervisors (26.1%), middle management (17.7%) and lastly partners (5.4%). These demographics affirms studies carried out by Mutezo (2005: 81) on SMEs in Tshwane where 86% of the respondents were also owners of the business. This shows that most SMEs are managed by their owners.

### Descriptive Statistics

The descriptive statistics that are provided help to explain the different variables that were used for the hypothesis testing and to help achieve the research objectives for this study.

**TABLE 5: DESCRIPTIVE STATISTICS ON INSURANCE TRAINING**

Occupation	Yes (%)	No (%)
Insurance related training	16.7	83.3
SMEs owner/managers who want insurance training	72.1	27.9
SMEs who have been approached by insurance brokers	66	34

A large number of SMEs (83.3%) had not received any form of insurance related training or workshops for them to understand what insurance products to take for their business and what are the benefits associated with having such, Only 16.7% of the respondents received insurance training or workshops. The study shows that, 72.1% of the respondents want to be trained on short-term insurance related matters and 27.9% do not want any training. Sixty six percent of the SME managers/owners who participated in the research had been approached by an insurance broker within the past six months and 34% had not been approached. These variables were used to establish the existence of a relationship between SMEs and insurance providers.



## Hypothesis Testing

Researchers must demonstrate that instruments are reliable since without reliability, results are not replicable. Reliability analysis can be used to measure the consistency of a questionnaire. Cronbach's alpha is the most common form of internal consistency reliability coefficient. Cronbach's alpha ( $\alpha$ ) indicates the overall reliability of a questionnaire and values around 0.8 and 0.7 show that the questionnaire is reliable (Field 2009: 675). The following is a table summarising the results of the reliability tests done on the two hypotheses tested for this research.

**TABLE 6: RELIABILITY TESTS**

Cronbach's alpha ( $\alpha$ ) = 0.7	<b>Primary Hypothesis</b> <b>H<sub>1</sub>:</b> The level of related information workshops in the field of short-term insurance and the factors influencing the purchase of insurance by SME managers or owners has an effect on their relationship with insurance brokers;
0.8	<b>Secondary Hypothesis</b> <b>H<sub>2</sub>:</b> SMEs who have an insurance policy and have been approached by insurance broker have a business relationship with insurance providers.

## Primary Hypothesis

**H0:** The level of related information workshops in the field of short-term insurance and the factors influencing the purchase of insurance by SME managers or owners has no effect on their relationship with insurance providers;

**H1:** The level of related information workshops in the field of short-term insurance and the factors influencing the purchase of insurance by SME managers or owners has an effect on their relationship with insurance providers;

The SMEs having received related information workshops for SME owner-manager, the factors influencing the purchase of an insurance policy and having a business-to-business relationship, all had high reliabilities, all Cronbach's  $\alpha = .7$ . A multiple regression analysis<sup>1</sup> and an Analysis of Variance (ANOVA) were used to statistically test, the significance of the null hypothesis.

**TABLE 7: MULTIPLE REGRESSION MODEL FOR THE EFFECT OF INSURANCE RELATED INFORMATION WORKSHOPS FOR SME OWNER-MANAGER AND FACTORS INFLUENCING THE PURCHASE OF INSURANCE ON BUSINESS-TO-BUSINESS RELATIONSHIP**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.309 <sup>a</sup>	.095	.089	.385
2	.554 <sup>b</sup>	.307	.260	.347
a. Predictors: (Constant), Insurance related information workshops for SME owner-manager of SME owner-manager				
b. Predictors: (Constant), Insurance related information workshops for SME owner-manager of SME owner-manager, Cost, Advantages, Affordability, Durability, Brand Of Insurer, Type of Policy, After Sales Care, Disadvantages				

<sup>1</sup> Multiple regression, is a technique employed to account for (predict) the variance in a dependent variable. It can establish that a set of independent variables explains a proportion of the variance in a dependent variable at a significant level (Garson, 2009).

The value of  $R^2$  in Model one is .095, which shows that insurance related information workshops for SME owner-manager accounts for 9.5% of the variation in SMEs business-to-business relationship with insurance providers. Model two which regresses the factors influencing the purchase of insurance policy by SMEs and their business-to-business relationship has  $R^2 = .307$ , which means that these factors account for 30.7% of the variation in SMEs business-to-business relationship<sup>2</sup>. The next table of analysis is the ANOVA.

**TABLE 8:** ANOVA RESULTS SHOWING THE EFFECT OF INSURANCE RELATED INFORMATION WORKSHOPS FOR SME OWNER-MANAGER AND THE FACTORS INFLUENCING THE PURCHASE OF INSURANCE ON BUSINESS-TO-BUSINESS RELATIONSHIP

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	2.201	1	2.201	14.839	.000 <sup>a</sup>
	Residual	20.917	141	.148		
	Total	23.119	142			
2	Regression	7.097	9	.789	6.546	.000 <sup>b</sup>
	Residual	16.022	133	.120		
	Total	23.119	142			
a. Predictors: (Constant), Insurance related information workshops for SME owner-manager						
b. Predictors: (Constant), Insurance related information workshops for SME owner-manager, Cost, Advantages, Affordability, Durability, Brand Of Insurer, Type of Policy, After Sales Care, Disadvantages						
c. Dependent Variable: Business-to-Business Relationship with Insurer						

The Analysis of Variance (ANOVA) aims to show whether the model results in a significantly good degree of prediction of the outcome variable (Field, 2009:208). When tested at 95% confidence interval and 5% margin of error, the results reported that Insurance related information workshops for SME owner-manager and the factors influencing the purchase of insurance have a significant effect on the business-to-business relationship between SMEs and insurance providers. This can be seen from a p-value of .000 in Table 8, which indicates the significance of the model.

**TABLE 9:** MULTIPLE REGRESSION ANALYSIS FOR THE EFFECT OF INSURANCE RELATED INFORMATION WORKSHOPS FOR SME OWNER-MANAGER AND FACTORS INFLUENCING THE PURCHASE OF INSURANCE ON BUSINESS-TO-BUSINESS RELATIONSHIP

Coefficients <sup>a</sup>						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.595	.161		3.691	.000
	Insurance related information workshops for SME owner-manager	.401	.104	.309	3.852	.000
2	(Constant)	1.780	.540		3.296	.001
	Insurance related information workshops for SME owner-manager	.343	.107	.264	3.211	.002
	Brand Of Insurer	-.197	.065	-.244	-3.055	.003
	Affordability	-.233	.073	-.267	-3.179	.002
	Advantages	-.124	.054	-.191	-2.293	.023
	Disadvantages	.064	.050	.106	1.283	.202
	Durability	.039	.045	.069	.870	.386
	Cost	.035	.099	.028	.355	.723
	After Sales Care	.024	.031	.064	.777	.439
	Type of Policy	-.014	.086	-.013	-.166	.869
a. Dependent Variable: Business-to-Business Relationship with Insurer						

<sup>2</sup> The correlation coefficient squared (known as the coefficient of determination  $R^2$ , is a measure of the amount of variability in one variable that is shared by the other.  $R^2$  is used to show how much of this variability is shared by predictors (Field 2009:173).

It was further observed that the factors that influenced the purchase of insurance such as the brand name of insurer ( $p = .003$ ), affordability ( $p = .002$ ) and advantages ( $p = .023$ ) had a significant effect on the business-to-business relationship between SMEs and insurance providers. Statistically this means that these factors can determine the existence or non existence of a business-to-business relationship between SMEs and insurance providers.

Statistically, the null hypothesis is rejected and the alternative hypothesis is accepted. It is concluded that:

The level of related information workshops in the field of short-term insurance and the factors influencing the purchase of insurance by SME managers or owners has an effect on their relationship with insurance providers.

### Secondary Hypothesis

**H0:** SMEs who have an insurance policy and have been approached by insurance providers do not have a business relationship with insurance providers.

**H2:** SMEs who have an insurance policy and have been approached by insurance providers have a business relationship with insurance providers.

The type of insurance, having an insurance policy, approached by insurance broker and business-to-business relationship, all had high reliabilities, all Cronbach's  $\alpha = .8$ . ANOVA and multiple regression analysis were used to test the statistical significance of the hypothesis.

**TABLE 10:** ANOVA RESULTS SHOWING HOW BEING APPROACHED BY AN INSURANCE BROKER AND HAVING AN INSURANCE POLICY AFFECT THE BUSINESS-TO-BUSINESS RELATIONSHIP BETWEEN SMES AND INSURANCE PROVIDERS

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1.947	2	.974	7.219	.001 <sup>a</sup>
	Residual	21.986	163	.135		
	Total	23.934	165			
2	Regression	5.265	12	.439	3.596	.000 <sup>b</sup>
	Residual	18.668	153	.122		
	Total	23.934	165			
a. Predictors: (Constant), Approached by Broker, Have Insurance Policy						
b. Predictors: (Constant), Approached by Broker, Have Insurance Policy, Employee Dishonesty, Personal liability, Other, Public Liability, Buildings, Employee's Liability, Contents, Risk, Vehicle/fleet, Electronic equipment, Stock & Money						
c. Dependent Variable: Business-to-Business Relationship with Insurer						

There are two models that were fitted into our multiple regression analysis. The first model, Model One, included having an insurance policy and being approached by an insurance provider. These factors had an effect on business-to-business relationship between SMEs and insurance providers,  $F(2, 163) = 7.23$ ,  $p < .05$ . Model Two included the type of insurance held by SME owners/managers for their business and this was also found to be significant with a  $p < .05$ .

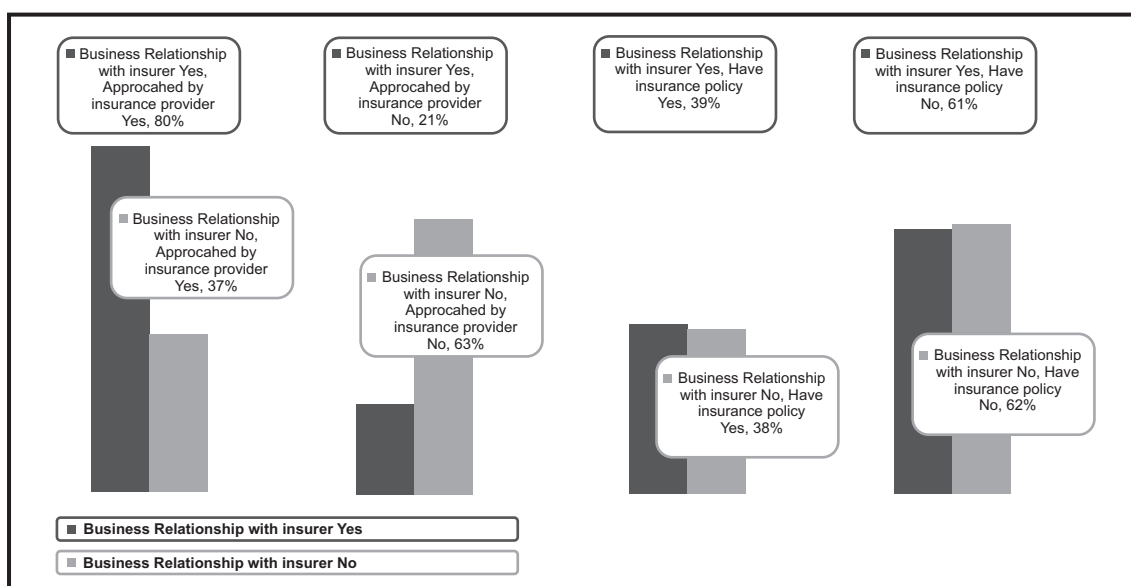
**TABLE 11: REGRESSION ANALYSIS SHOWING HOW BEING APPROACHED BY AN INSURANCE BROKER AND HAVING AN INSURANCE POLICY AFFECT THE BUSINESS-TO-BUSINESS RELATIONSHIP BETWEEN SMES AND INSURANCE PROVIDERS**

Model		Un-standardised Coefficients		Standardised Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.916	.122		7.508	.000
	Have Insurance Policy	-.032	.058	-.041	-.545	.586
	Approached by insurance provider	.243	.064	.286	3.794	.000
2	(Constant)	1.028	.427		2.406	.017
	Have Insurance Policy	-.053	.106	-.069	-.504	.615
	Approached by Broker	.169	.065	.200	2.595	.010
	Vehicle/fleet\	.028	.096	.036	.287	.774
	Buildings	-.244	.086	-.283	-2.840	.005
	Contents	.118	.106	.131	1.106	.271
	Electronic equipment, Stock & Money	-.224	.118	-.259	-1.901	.059
	Public Liability	.011	.099	.011	.116	.908
	Personal liability	.133	.079	.159	1.692	.093
	Employee's Liability	.285	.108	.273	2.631	.009
	Employee Dishonesty	.051	.172	.023	.298	.766
	Risk	.158	.092	.192	1.715	.088
	Other	-.291	.128	-.182	-2.276	.024

a. Dependent Variable: Business-to-Business Relationship with Insurer

It was further observed (refer to Table 11) in the first model that being approached by an insurance provider is significant ( $p = .000$ ) in predicting the business relationship between SMEs and insurance providers. Whilst having an insurance policy ( $p > .05$ ) is not necessarily a predictor of having a business relationship with insurance providers.

In model Two, having an insurance policy that covers buildings, electronic equipment, stock & money, personal liability, employees liability and other insurance policies were seen to be significant with p-values less than .05.



**FIGURE 2: CROSS TABULATION OF SMES WHO HAD INSURANCE POLICIES, HAD A BUSINESS RELATIONSHIP WITH INSURANCE PROVIDERS AND HAD BEEN APPROACHED BY AN INSURANCE BROKER**

The graph illustrates cross tabulations that were done between three variables, namely, insurance policy, business relationship and approached by insurance providers. The results showed that 80% of the respondents who agreed to having been approached by an insurance provider and 39% who agreed to have an insurance policy also agreed to have a business relationship with an insurance company. Of those who had not been approached by an insurance provider 21% said yes to having a business relationship with an insurance company, 61% of the respondents without an insurance policy had a business relationship with insurance providers.

The results show that 62% of the respondents who did not have an insurance policy did not have a relationship with an insurance provider, and 63% who were not approached by an insurance provider did not have a relationship with an insurance provider. The results also illustrated that 37% of the SMEs who were approached by an insurance provider did not have a business relationship with an insurance provider. Of those respondents who had insurance policies 38% did not have a relationship with an insurance company.

Hence, statistically the null hypothesis is rejected and accept the alternative hypothesis which states that:

SMEs who have an insurance policy and have been approached by an insurance provider have a business relationship with insurance providers is accepted.

The primary and secondary null hypotheses were both rejected and both alternative hypotheses were accepted. The results illustrated that the main factors such as the brand name of insurer, affordability and advantages had a significant effect on the business-to-business relationship between SMEs and insurance providers. The results also highlighted that, there is a significant relationship between SMEs that had been approached by an insurance provider and their having a business relationship with an insurance provider.

## **CONCLUSIONS**

The main objective of the research was to determine which factors have the most influence on relationship building between SMEs and insurance providers. The conclusion reached through the results is that factors such as the reliability of an insurer, staff knowledge and brand name of the insurer have a great impact on the decision made by SMEs to build a relationship with insurance providers. Insurance related information workshops for SME owner-manager accounted for only 9.5% of the variation of whether SME owners or managers had a business relationship with insurance providers. Research revealed that of the respondents who had been approached by an insurance broker, 80% of the SME owners/managers had a business relationship with an insurance provider. This helps to reach a conclusion that any form of interaction between SME owners/managers and insurance providers helps to facilitate a business relationship.

The results reveal that only 16.7 % of SME owners/managers had any form of related information workshops on short-term insurance and most of them (72.1%) want to be given related information workshops in this field. The information workshops given to SME owners-managers is crucial for the relationship building process between SMEs and insurance providers. This shows that SME owners/managers had not been offered any form informative workshops by insurance providers. Although, more than half (66%) of SMEs had been approached by an insurance broker. This leads to the conclusion that SMEs are not aware of the different insurance products that are available to them in order to mitigate the risk faced by their businesses. There are unpredictable weather phenomena that are occurring around world. These adverse conditions can result in floods, fires and other natural disasters. Due to these and many other disasters that can happen, SME owners/managers need to be prepared. The South African government can put in place legislation

that enforces SMEs owners/managers to have insurance policies that cover their employees and their assets. This is a way to ensure that SMEs are protected from any form of crisis that may result in their closure and resulting in the owners and their employees going to the job market and adding on to the list of the unemployed.

## **MANAGERIAL RECOMMENDATIONS**

The study has shown that there are many factors that influence the business relationship between SMEs and insurance providers. It is recommended that insurance providers should increase their interaction with SMEs. They need to hold frequent workshops for SMEs where they can get a chance to inform them of their various product offerings. Insurance providers can hold research programmes twice a year, where they can be able to find out what sort of insurance cover they need to offer SMEs and premiums they can afford.

One of the major factors that influenced the relationship building process between SMEs and insurance providers was the reliability of the insurer (96%). Insurance providers can use workshops, road shows and they can hold summits where they can invite SMEs. This will give them a chance to interact with their clients and create a platform where they can provide information concerning their premiums and pay outs when a claim has been made. They can also determine the needs of their clients. Insurance providers should build a relationship with SMEs and trust should be the foundation. They should train their staff on how to deal with SME owners/managers, their products and payment plans as well as claims. This is all part of the relationship building process.

The study revealed that 72.1% of the SME owners-managers want to be given insurance related information workshops. Insurance providers can therefore, hold frequent workshops and information sessions with SME owners-managers so that they can have an understanding of the type of insurance policy covers that their businesses need, the premiums and how insurance claims can work for them. Based on the number of SME owners/managers who received insurance related information workshops for , insurance providers are not holding needs analysis with their client (SMEs). It is required under the South Africa Financial Advisory and Intermediary Services (FAIS) Act 37 of 2002 that they hold educational workshops, to enable them to get the needs of their clients and offer them products that suit their financial bracket. This is in breach of the requirements stipulated by this Act. This suggests that insurance providers are not complying with the code of conduct that is provided in the Financial Advisory and Intermediary Service Act of 2002. The government needs to ensure that insurance providers follow the law and if they fail to meet the requirements, stiffer penalties need to be introduced. The government can also look into giving incentives to insurance providers so that they develop insurance products that suit the particular needs of the SME sector. This would result in a more stable and sustainable SME sector which will create jobs and help with the fight against poverty.





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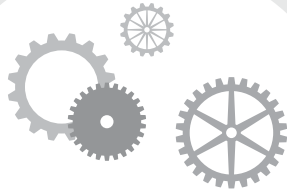
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# SITUATIONAL VARIABLES AND WORK-RELATED ATTITUDES IN A MANUFACTURING COMPANY IN THE GAUTENG PROVINCE

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## ABSTRACT

A study was done to investigate the state of situational variables related to what employees gain from the business and how these variables affect work attitudes and subsequently intentions to quit in a South African catalyst manufacturing company. Situational variables such as learning and development, recognition, respect, appreciation, benefits and perks, salary, promotion, organisational support, perceived opportunity for rewards, and work-related attitudes such as organisational commitment, organisational citizenship, job satisfaction, job involvement, employee engagement and intentions to quit the organisation, designed to capture the state of affairs within the organisation, were investigated based on the employees' perceptions of their experiences of these variables. The aim of the study was to determine the relationship between (and impact of) key situational variables and (on) employee attitudes. A quantitative approach making use of a cross-sectional design was followed, with a convenient sample (N=103) to reach the objectives of this study. The research outcome showed an affirmed state of unhappiness with all seven of the situational variables scoring below the midpoint, signalling a need for the organisation to reinforce all these variables. Work-related attitudes were moderate and almost all scoring around the midpoint, but intention to quit yielded a lower score. The regression analyses showed that key situational work-related variables did predict work-related attitudes and outcomes with perceived organisational support proving to be the most important predictor for all work-related attitudes and outcomes. Recommendations are provided for the organisation and for future research.

## KEYWORDS

Learning, Recognition, Rewards, Benefits, Organisational support,  
Employee attitudes

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## INTRODUCTION

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South African manufacturing companies are challenged by the increasing global competition and most businesses are fighting to be globally competitive. Organisations have no choice but to perfect their business processes and technologies to maintain world leadership by adapting constantly to rapidly changing customer needs. One such company that is facing increased operational pressure together with increasing competition is a chemical catalyst manufacturer in Gauteng. Besides having the cutting edge manufacturing technology and the financial muscle of a multi-national corporation, the company has faced daunting challenges to sustain a stable skills base. The human resources-related challenges for the manufacturing plant have partly been aggravated by labour protests and direct shop floor strikes across the unionised workforce. The staffing position has seen sinusoidal annual staff turnover of up to 20% in phases of peaks and troughs recurring in roughly 14-month cycles. The staff exodus has mainly been observed at the key technical staff level, engineers, artisans, supervisors and machine operators.

The effectiveness of the manufacturing company as a viable business can only be attained if the level of operational reliability is predictable and controllable at the required performance level. To attain operational reliability, the support systems need to be operating at optimal levels. The labour concerns signalled by the exodus of key technical staff seem to have a direct and indirect impact on the effectiveness of other key operational elements of the business. As an initiative towards improving business unit viability, a more structured in-depth study to characterise and unbundle the weaker operational factors causing the observed performance shortfalls is being pursued. There is a need to investigate the state and position with regard to situational variables and work-related attitudes within the manufacturing plant and how they relate to the employee intentions to quit. Although much has been published on the subject of how situational work variables affect work-related attitudes and outcomes, there still are limited reports in academia and in practice on the study and understanding of the work-related attitudes in specialised South African manufacturing organisations. Apart from the generally known effects of work conditions on employee job satisfaction and retention, there have not been universally applicable findings across different countries and in different industries and different manufacturing plants in the interactions of these variables.

### Research objectives

The objective of the study was to investigate key situational work-related variables and work-related attitudes. Specifically, the research project was aimed at determining the relationship between (and impact of) key situational work-related variables and (on) work-related attitudes. We were also interested in the impact of work-related attitudes on intentions to quit the organisation.

### OPERATIONALISATION OF VARIABLES

The causes and consequences of employee job attitudes, such as job satisfaction, job involvement, organisational commitment, organisational citizenship and employee engagement have been of great interest to researchers and behavioural scientists over the last few centuries (McCook, 2002). Researchers have rigorously explored various work-related variables to great lengths to try and understand influences to employee job attitudes and their relationships with important employee and organisational outcomes, such as job performance, absenteeism, employee retention and intentions to quit. In addition to these variables, job attitudes are of particular interest to managers and researchers because of their assumed link to job performance (Organ & Ryan, 1995).

It is hypothesised that key situational work-related variables, such as learning and development, recognition, respect, appreciation, benefits and perks, salary, promotion, organisational support, and perceived opportunity for rewards as independent variables have significant relations with (and impacts on) the dependent variable(s) work-related attitudes, such as organisational commitment, organisational citizenship, job satisfaction, job involvement, employee engagement and intentions to quit the organisation. We assumed that work-related attitudes will impact significantly on intentions to quit the organisation.

#### **Dependent variable(s): Work-related attitudes**

Work attitudes, such as organisational commitment, job involvement and job satisfaction are an outcome of perceived organisational support and perceived opportunity for reward and have a dual interest from managers (McCook, 2002). On the one hand, they represent important outcomes that managers may want to enhance. On the other hand, they are symptomatic of other potential problems. For example, low job satisfaction may be a symptom of an employee's intention to quit. An attitude is defined as "a learned predisposition to respond in a consistently favourable or unfavourable manner with respect to a given object" (Kreitner & Kinicki, 2008). Values represent global beliefs that influence behaviour across all situations, while attitudes relate only to behaviour directed towards specific objects or situations (Kreitner & Kinicki, 2008). The difference between attitudes and values is clarified by considering three components of attitudes: affective, cognitive and behavioural (Kreitner & Kinicki, 2008). The affective component of an attitude contains the feelings or emotions one has about a given object and situation. The cognitive component of an attitude reflects the beliefs or ideas one has about an object or situation. The behavioural component refers to how one intends to act toward someone or something. Various researchers have studied various work-related attitudes as predictors of work-related outcomes and both caused by some situational or personal work-related variables. In this study, job satisfaction, organisational commitment, organisational citizenship, employee engagement and job involvement are considered.

#### **Organisational commitment**

Organisational scholars and business leaders have paid special attention to organisational commitment based on the belief that organisations with committed employees are more effective and employees who exhibit high levels of affective organisational commitment are more productive and less likely to quit. Organisational commitment reflects the extent to which an individual identifies with an organisation and is committed to its goals. It is an important work attitude because committed individuals are expected to display a willingness to work harder to achieve organisational goals and a greater desire to stay employed at an organisation. Meyer and Herscovitch (2001) showed that organisational commitment is composed of three separate but related components: affective commitment, normative commitment and continuance commitment. These three components combine to produce a binding force that influences the consequences of employee turnover and on the job behaviour such as performance, absenteeism and organisational citizenship (Meyer & Allen, 1991). Business leaders are more likely to frame the importance of affective organisational commitment in terms of attracting, motivating and retaining key talent (Michaels, Handfield-Jones & Axelrod, 2001). Employees who are low in organisational commitment are also more likely to miss work and engage in counterproductive behaviours such as theft, sabotage and aggression (Luchak & Gellatly, 2007). Job satisfaction has a positive association with organisational commitment (Yavas & Bordur, 1999).

#### **Job satisfaction**

Owing to its importance, job satisfaction is one of the most researched constructs in business science and organisational behaviour for various reasons. Job satisfaction reflects the extent to which an individual likes his or her job. Job satisfaction is an affective or emotional response toward



various facets of one's job. Job satisfaction is not a unitary concept and therefore one can be relatively satisfied with one aspect of his or her job and dissatisfied with another aspect. Various researchers have looked at different indicators to assess one's job satisfaction. Firstly, job satisfaction is relevant for scholars interested in the subjective evaluation of work conditions such as job characteristics (Schjoedt, 2009). Secondly, job satisfaction is relevant for managers and researchers interested in organisational outcomes, such as organisational commitment (Rutherford, Boles, Hamwi, Madupalli & Rutherford, 2009; Tsai & Huang, 2008), extra-role behaviour, absenteeism, turnover or intentions to quit the job (DeConinck & Stilwell, 2004; Rutherford et al., 2009). Thirdly, job satisfaction is assumed to have major implications as it is a multidisciplinary and everlasting relevant construct covering all professions, work, jobs and contexts. Despite some controversy concerning this issue (Cropanzano & Wright, 2001), several studies recognise job satisfaction as a key factor influencing productivity (Ng, Soresen & Yim, 2009). Job satisfaction is an attitude that relates to overall attitudes towards life, or life satisfaction (Ilies, Wilson & Wagner, 2008).

### **Job involvement**

Job involvement is a work attitude that depicts the extent to which an individual is cognitively and personally involved with his or her work. A meta-analysis (Brown, 1996) demonstrated that job involvement was moderately related to job satisfaction, organisational commitment and intrinsic motivation and negatively related to intentions to quit. Blanch and Aluja (2009) stated that work value first affects an individual's work attitude (such as job involvement), then behavioural intent (such as inclination to resign), and finally actual behavioural manifestation (such as absenteeism and performance). Chuang (2003) indicated that the Interpersonal Relationship Index showed highest predictive power for job involvement. Chen (2006) indicated that among the police, job plan, job cognition and quality of work life, job involvement and job achievements are significantly related. Lin (2008a) stated that population variables, work value and job characteristics of primary offices are predictive of job involvement. Chen (2006) analysed the mediating effect of job involvement and organisational commitment and found that the two attitudes were positively and strongly related. Furthermore, according to Lin (2008b), factors influencing individual behaviour include personal background, competency, personality and learning.

### **Employee engagement**

Employee engagement has been defined as workers' willingness and ability to contribute to a company's success, the extent to which employees put in discretionary effort into the work (Hundley, Jacobs & Drizin, 2005). Engagement is important for organisations since it contributes to the bottom line (Demerouti & Cropanzano, 2010). Engaged employees feel passionate about their work, provide drive and innovation, and feel that their contribution helps in moving the company forward (Roche, 2005). Work engagement is an active, positive work-related state that is characterised by vigour, dedication, and absorption (Schaufeli, Bakker & Salanova, 2006). Organisations are demonstrating the impact that employees have on the business by measuring employee engagement, tying the target improvement efforts to other business metrics and using the findings to target improvement efforts. As a result, this boosts both engagement and business results (Feather, 2008).

### **Organisational citizenship**

Organisational citizenship behaviours (OCBs) are behaviours performed beyond the regular or expected scope of one's job (Podsakof, Mackenzie & Bommer, 1996). Typical of such inputs are novel ideas, creativity, cultural skills, language skills, working styles, strong work ethics, and taking on extra responsibilities. This is because employees are not rewarded for or trained in order to

exhibit such behaviours (Organ, 1990). This is widely known as extra-role behaviour; Van Dyne, Graham and Dienesch (1994) argued that extra-role behaviour is underlined by the importance of organisational innovation, flexibility, productivity and responsiveness to changing external conditions. Morrison and Phelps (1999) argued that extra-role behaviour is critical to organisational effectiveness because managers cannot foresee all the contingencies that may lead employees to perform. Therefore, the benefits that will accrue from using a diverse workforce can be adequately captured by the concept of OCB.

### **Employee retention and intentions of leaving**

Employee turnover is an expensive proposition for companies and organisations (Martin, 2011). Direct costs include recruitment, selection, and training of new people. Indirect costs include such things as increased workloads and overtime expenses for co-workers as well as reduced productivity associated with low employee morale (Martin, 2011). Taking into account both the direct and indirect costs of employee turnover, the minimum cost equates to one year's pay and benefits and a maximum of two years' pay and benefits (Ramlall, 2004). Employee retention and intentions to leave are key outcomes of work-related attitudes. Although intentions to leave are an undesirable outcome for organisations, it is valuable to understand its predictors in order to minimise its negative impact on organisations' effectiveness. Human resources-related labour problems can result in operational risks associated with poor quality, low productivity, and unfilled orders (Jiang, Lepak, Han, Hong, Kim & Winkler, 2011). Researchers have theorised that low levels of organisational commitment will lead to willingness to search for another job, intentions to leave and turnover. Research results have shown that organisational commitment is negatively related to intentions to leave (Ingram & Kuen, 1990). Shaw, Duffy, Jenkins and Gupta (1999) argued that there is a strong negative relationship between job satisfaction and the level of employee turnover.

### **Independent variable(s): Work-related situational variables**

In an attempt to better understand the factors affecting job attitudes and employee behaviour, researchers have turned their attention to organisational and individual factors that might influence these relationships (Brown & Leigh, 1996; Jacobs & Solomon, 1977; Netemeyer, Boles, McKee & McMurrian, 1997; Randall, Cropanzano, Bormann & Birjulin, 1999). Based on his research with engineers and accountants, Herzberg (1964) concluded that the existence of specific job factors in relation to job attitudes was "fairly well accepted" (Lord, 2002). In this study, the focus is on key situational work-related variables such as learning and development, recognition, respect, appreciation, benefits and perks, salary, promotion, organisational support, and perceived opportunity for rewards as predictors of work-related attitudes, such as organisational commitment, organisational citizenship, job satisfaction, job involvement, employee engagement and intentions to quit the organisation. The literature study on key situational work-related variables follows below.

### **Salary and monetary compensation**

Employers and researchers have often identified compensation among the most important factors for potential employees in considering accepting a job offer; however, what is not so clear is the impact that pay has with regard to the retention of the new employee after hire (Barber & Bretz, 2000). Kingdon and Knight (2007), in their research using South African data, found a positive relationship between reference income, defined as average income of others in the local residential cluster, and subjective well-being. Fang (2001) found no statistically significant influence of pay on turnover cognition or turnover intention. It is important to track the pay satisfaction of an employee from their initial hiring as it does not necessarily mean that they will continue to be satisfied with their pay in the years to follow. Currall, Towler, Judge and Kohn (2005), in a study of public school teachers, found that pay satisfaction is significantly associated with the intention to quit. In support

of this finding, pay satisfaction has also been associated with increased organisational commitment, job satisfaction, and greater intent to stay in the organisation and position (Farrell & Rusbult, 1981; Lum, Kervin, Clark, Reid & Sirola, 1998). From literature, it is apparent that compensation is an important situational variable necessary to include in the present study.

### **Benefits and perks**

Employment benefits include things such as retirement, health insurance, life insurance, disability insurance, paid leave, paid holidays, flexible scheduling, and educational assistance, to name a few (Martin, 2011). These benefits have been shown to bond an employee to the employing organisation and result in a strong correlation between benefits and turnover (Shaw, Delery, Jenkins & Gupta, 1998). The inequity of effort made by the employee and reward gained in the working place may lead to negative stress among employees; effort and reward equity at work also affect employees' work-related attitudes, especially job satisfaction (Li, 2005) and intention to leave the organisation (Derycke, 2010). Level of effort spent by employees can be seen through their responsibility, job demands, overtime, work interruptions, time pressure and workload (Siegrist, 2004). This level of effort should be equivalent with rewards (money, esteem, job security and career opportunities) received by the employees (Kinman & Jones, 2008). When there is a mismatch between effort and reward, a condition called high cost-low gain occurs (Siegrist, 2004). This condition is associated with job dissatisfaction and high turnover intentions due to the employees' emotional distress. Owing to the findings in literature and employees' concerns on the ground, benefits and perks as situational variables have been deemed important for this research.

### **Learning and development**

Wellins and Concelman (2005) noted that organisations can enhance engagement in their workforce by creating a learning culture and creating individual development plans for every employee. Most employees want to keep their jobs inventive and interesting by acquiring new knowledge and skills and applying new approaches in their daily work life. Professional development exists when employers provide employees with opportunities to improve their work-related knowledge and skills (Hart, 1994). Keeping employees educated and developing them for future challenges have become the only sustainable competitive advantage in today's marketplace, with, for example, Motorola believing that it receives \$33 for every \$1 invested in its employees' education and training (Kaliprasad, 2006). The Chartered Institute of Personnel and Development (CIPD)'s Recruitment and Turnover Survey 2006 stated that the second most frequently cited action to increase employee retention was learning and development opportunities (Wilson, 2006). Past research in organisational psychology provides empirical support for this link. Hart (1994) did report a link between professional development and morale (job satisfaction). In addition, Hart, Wearing, Conn, Carter and Dingle (2002) also reported significant relations with correlation coefficients in the range of 0.18 to 0.60 between professional growth (professional development) and facets of job satisfaction (such as satisfaction with pay, satisfaction with supervisor).

### **Prospects for promotion and aligned growth path**

Career commitment describes one's commitment to a number of work-related targets; namely to one's career, one's profession and one's occupation (Cooper-Hakim & Viswesvaran, 2005). The development of affective occupational commitment begins with occupational choice and changes based on actual experiences. Early in one's career, occupational commitment is typically low, but positive job experiences that illuminate career goals, explore different careers and achieve better person-job fit help build affective occupational commitment (Goulet & Singh, 2002; Meyer, Allen & Smit, 1993). Therefore, the degree that an organisation provides for career growth via activities that meet career goals develops one's professional abilities, and rewards individuals for those activities

that should enhance their emotional attachment to their chosen occupation. This is consistent with the work of Thomas (2000) showing that meeting career goals and developing new skills are related to occupational attachment and of Darden, Hampton and Howell (1989) showing a relationship between perceived increases in work-related rewards and satisfaction with one's current occupation.

### **Recognition, respect and appreciation**

Appreciation of individual and professional aspirations promotes motivation and commitment towards an organisation (Mumford, 2000; Quinn & Rubb, 2006). Effective reward systems encourage employees to take risks, pursue the development of new products and continuously generate ideas that can be realised (Mumford, 2000). Creativity can be encouraged if freedom, financial rewards, promotion and other forms of recognition exist (Amabile, 1997). Workers' empowerment self-esteem, the feeling of power, is an important determinant of employee performance. According to Bartlett, Lawler, Bae, Chen and Wan (2002), people should be given the opportunity and means to tackle new problems, to gain varied experiences, and to be prepared to take on more challenging tasks. People may participate in the definition of personal objectives; the time they spend at work. Employees should be able to voluntarily involve themselves in assignments that promote skills development, or the establishment and management of effective mentoring relationships (Hemmert, 1998). In this way, firms can foster discovery activities (Mumford, 2000). However, Bartlett et al. (2002) warned that mismatches between increased responsibility, and means and skills to perform the job can render empowerment meaningless, counterproductive even.

### **Perceived organisational support (POS)**

Perceived organisational support (POS) is defined as an individual's belief that the organisation for which one works values one's contributions and cares for one's well-being (Eisenberger, Huntington, Hutchison & Sowa, 1986). POS is affected by employees' interactions with their organisation with regard to the receipt of praise, support, or approval. POS is a concise measure conceptually related to both leadership support and psychological climate (McCook, 2002). Some work situational variables will directly influence an employee's perceived organisational support and therefore the handling of situations is critical if managers are to achieve a commendable level of POS from their subordinates. Organisational support theory (OST), as discussed by Aselage and Eisenberger (2003) and Eisenberger et al. (1986), suggests that treatment offered by the organisation (in terms of fairness, job conditions, and supervisory relationships) serves as a signal to employees regarding the extent to which the organisation values their contributions and cares about their well-being (POS). Consistent with social exchange theory (Blau, 1964), POS obligates employees who feel supported to reciprocate by expressing greater affective organisational commitment, performing citizenship behaviours, and exhibiting lower levels of withdrawal (Rhoades & Eisenberger, 2002). As a result, organisations that foster POS within employees are thought to have a competitive advantage over organisations that do not (Pfeffer, 2005).

### **Perceived opportunity for reward (POR)**

POR is defined as employees' beliefs about their opportunities for obtaining rewards in their organisations. Included in this are beliefs about the fairness of rewards, its availability, and the belief that if one works hard, one will be appropriately rewarded (Sims & Szilagyi, 1975). There is a very close relationship between perceived organisational support and perceived opportunity for reward as both lead into how employees view their employer and how they are likely to behave based on their resultant values and attitudes (McCook, 2002). Siegrist (1996) formulated the model of effort reward imbalance at work. The model emphasises that important social roles (the work role) are to

offer a person recurrent options of contributing and performing (self-efficacy), of being rewarded or esteemed (self-esteem), and of belonging to some significant group. These potentially beneficial effects of the work role on self-regulatory needs are dependent on a basic requirement of social exchange, reciprocity and fairness (Cosmides & Tooby, 1992). Effort at work is spent as part of a socially organised exchange process to which society at large contributes in terms of rewards. Rewards are distributed by means of three channels: money, esteem, and career opportunities, including job security (McCook, 2002).

## RESEARCH METHODOLOGY

### Research approach and procedure

The quantitative approach was selected based on the nature of the data. A cross section design using questionnaires was selected as the most applicable method in obtaining data for this study. Participants for this study were from one company at one production site, in the province of Gauteng in South Africa, involved in the manufacture of chemical catalysts. Permission was sought from management to do the study in the company and it was granted. The questionnaires were targeted on key groups in each strategic business unit of the company where high turnover was observed and conveniently distributed to 200 employees from the level of supervisors, engineers, artisans and operators; participation was voluntary. The confidentiality of the respondents was respected and upheld in conducting the collection and analysis of the questionnaires. The questionnaire did not require any identification, such as name or personnel employee numbers, from the respondents. A properly informed consent letter was sent to the respondents with the questionnaire to explain the purpose of the study and the questionnaire.

### Participants and response rate

Of the 200 questionnaires distributed, there were 111 completed responses. Of the returned questionnaires, 103 were useable and eight were spoiled and could therefore not be used for the purpose of this study. Useable responses were 51.5% of the target. The study population consisted of 100% participants who were permanently employed by the company. Moreover, the sample consisted of white (4.9%), black (89.3%), coloured (1.9%) and Indian (3.9%). The participants were also predominantly male (71.8%), similar to the company environment. The majority (51.5%) were within the 0 to five years of service, while 39.8% were in the six to 10 year service group. Concerning the level of qualification, 35.9% had degrees, 25.2% had grade 12 certificates, 18.4% had college certificates, 13.6% had diplomas and 6.8% had postgraduate qualifications as their highest levels of qualification. Regarding the age group of the sample, 49.5% were between 20 and 30 years, 44.7% were between 31 and 40 years and 5.8% were between 41 and 50 years. 46.6% of the sample was primarily employed as operators, 34% as professionals and 18% working in supervisory roles. It is important to note that though employees have primary roles, there are also levels of seniority within roles and some of the supervisors also physically work as operators.

### Measuring instruments

Work-related variables and work-related attitudes and outcomes were measured using scales with sound psychometric properties used in previous studies using a five-point Likert scale to assess perceived importance ranging from strongly disagree (1) to strongly agree (5).

- Salary and Monetary Compensation Survey developed by Kennedy and Daim (2010) measuring the employees' view of the salary practices in the company. A sample item includes: "I feel I am being paid a fair amount for the work that I do".



- Benefits and Perks Survey developed by Kennedy and Daim (2010) measuring employees' perception of the benefits system in the organisation. A sample item includes: "The reward procedures in my organisation are fair".
- Learning and Development Survey developed by Kennedy and Daim (2010) measuring the employees' view of the learning and skills development in the company. A sample item includes: "My Company is providing me with job specific training".
- Prospects for Promotion and Aligned Growth Path Survey developed by McCook (2002) measuring the employees' perception of how the organisation aligns and treats promotion and employee growth. A sample item includes: "Those who do well on the job stand a fair chance of being promoted".
- Recognition, Respect and Appreciation Survey developed by McCook (2002) measuring the employees' view of the performance recognition systems used. A sample item includes: "The organisation recognises the significance of the contribution I make".
- Perceived organisational support was measured using the Survey of Perceived Organisational Support (SPOS) developed by Eisenberger et al. (1986). This measures employees' perception of how well their organisation supports them. Sample items include: "My organisation cares about my opinions," and "Help is available from my organisation when I have a problem."
- Perceived opportunity for reward was measured using Perceived Opportunity for Reward Survey developed by McCook (2002) based on the scale identified by Sims and Szilagyi's (1975) Leader Reward Behaviour Instrument (LRBI). This measured perceptions of reward and punitive behaviours engaged in by leaders as viewed by their subordinates. Sample items include: "The reward procedures in my organisation are fair," and "I have plenty of opportunities to be rewarded for the work I do."
- Overall job satisfaction was measured using the Michigan Organizational Assessment Questionnaire Job Satisfaction Subscale (Cammann, Fichman, Henkins & Klesh, 1979). Sample items include: "All in all I am satisfied with my job," and "In general, I like working here."
- Job involvement was measured with Kanungo's (1982) Job Involvement Questionnaire (JIQ). Sample items for the JIQ include: "The most important things that happen to me involve my job," and "I live, eat, and breathe my job."
- Employee engagement was measured using Work and Well Being Survey (UWES) developed by Schaufeli and Baker (2003), measuring the level of employees' engagement to the organisation. Sample item includes: "At my work I feel bursting with energy".
- Organisational commitment was measured using Meyer, Allen and Smith's (1993) Affective Organisational Commitment Scale (AOCs). This scale measures commitment or desire to stay with an organisation out of want, rather than need or pressure to conform (Meyer et al., 1993). Sample items include: "I would be happy to spend the rest of my career with my organisation," and "I feel as if my organisation's problems are my own."
- Organizational Citizenship Behaviour Questionnaire developed by Podsakoff, Mackenzie, Moorman and Fetter (1990) measuring altruism and conscientiousness. Sample items include: "I help others who have heavy workloads" (altruism), and "I try to avoid creating problems for co-workers" (conscientiousness).
- Intentions to Quit Survey revised from Meyer et al. (1993) and integrated with Moore's (2002) scale assessing respondents' turnover intentions. Sample item includes: "I am thinking about leaving this organisation".



- A biographical section with questions on gender, race, age, years of service qualifications and employee levels.

## Data analysis

The statistical analysis was carried out by means of the SPSS program. Exploratory factor analyses (EFA) were conducted on the measure to examine the dimensionality of the sub-scales. Descriptive statistics including Cronbach alpha coefficients were determined to assess the reliability of the measuring instruments. Pearson product-moment correlation was used to identify the relationships between the variables. A cut-off point of 0.30 (medium effect) was set for the practical significance of correlation coefficients (Cohen, 1988). A step-wise multiple regression analysis was conducted to determine the proportion of variance in the dependent variables of job satisfaction, organisational commitment, organisational citizenship, employee engagement, job involvement and intentions to quit that is predicted by the independent variables (situational work-related variables). The effect size in the case of multiple regressions is given by the formula (Steyn, 1999):  $f^2 = R^2/1-R^2$ . The following parameters 0.01 (small effect), 0.09 (medium effect) and 0.35 (large effect) were set for practical significance of  $f^2$  (Steyn, 1999).

## RESULTS

Results of the study are presented in three sections, namely exploratory factor analyses, descriptive statistics, the correlational analyses of all the measures used in the study, and lastly, the regression analyses.

### Exploratory factor analyses

The results obtained from separate exploratory factor analyses (EFA) and inspections of the scree plots and eigenvalues of the factors indicated that all scales used to assess key situational work-related variables and employee attitudes were one-dimensional. The choice for one factor was based on problems in interpreting multi-factorial solutions and on the strong decrease of the eigenvalue after the first factor. The uni-factorial solutions extracted explained 42.8% of the variance in learning and development, 50.5% of the variance in recognition, respect, appreciation, 45.7% of the variance in benefits and perks, 38.6% of the variance in salary and monetary compensation, 46.1% of the variance in prospects for promotion and aligned growth, 38.4% of the variance in organisational support, 43.9% of the variance in perceived opportunity for rewards, 29.0% of the variance in organisational commitment, 24.8% of the variance in organisational citizenship, 75.4% of the variance in job satisfaction, 40.9% of the variance in job involvement, 43.8% of the variance in employee engagement and 70.5% of the variance in intentions to quit the organisation.

### Descriptive statistics and correlational analyses

This section focuses on descriptive statistics of the variables covered in the study. The descriptive statistics of the variables in the study are presented in Table 1 below. Internal consistency calculated for the research data using Cronbach's alpha is presented in Table 1. The Cronbach alpha of all scales falls within the acceptable range of 0.70 and above (Nunnally & Bernstein, 1994) required for data to be useable in research of a similar nature. The correlation results for the data are shown in Table 1. The discussion of the correlation analysis follows after the table.

**TABLE 1: DESCRIPTIVE STATISTICS ALPHA COEFFICIENTS AND CORRELATIONS BETWEEN VARIABLES**

	Variable	$\alpha$	Mean	SD	1	2	3	4	5	6	7	8	9	10	11	12
1	Learning	0.88	2.66	0.58	1											
2	Recognition	0.87	2.89	0.60	.59**	1										
3	Benefits	0.87	2.38	0.54	.53**	.65**	1									
4	Salary	0.89	2.36	0.52	.37**	.47**	.46**	1								
5	Promotion	0.88	2.23	0.58	.51**	.50**	.65**	.55**	1							
6	Organisational support	0.88	2.72	0.54	.58**	.61**	.52**	.56**	.53**	1						
7	Opportunity rewards	0.88	2.48	0.52	.44**	.57**	.69**	.51**	.64**	.54**	1					
8	Organisational commitment	0.85	2.97	0.45	.54**	.55**	.45**	.58**	.49**	0.63**	0.36**	1				
9	Organisational citizenship	0.86	3.73	0.37	.17*	.20*	.16*	.15*	.08*	0.33**	.01*	.37**	1			
10	Job satisfaction	0.85	3.27	0.93	.42**	.47**	.39**	.38**	.27**	.60**	.42**	.62**	.43**	1		
11	Job involvement	0.86	2.90	0.48	.37**	.48**	.40**	.37**	.28**	.50**	.30**	.61**	.28**	.60**	1	
12	Work Engagement	0.85	3.31	0.56	.52**	.66**	.50**	.47**	.35**	.63**	.42**	.64**	.49**	.71**	.67**	1
13	Intentions to quit	0.86	2.03	0.86	-.38**	-.24*	-.33**	-.28**	-.33**	-.44**	-.35**	-.48**	-.23*	-.55**	-.24*	-.24*

Closer inspection of Table 2 revealed that key situational work-related variables such as learning and development, recognition, respect, appreciation, benefits and perks, salary, promotion, organisational support, and perceived opportunity for rewards were statistically significant positively related to one another (medium to mostly large effect sizes), statistically significant positively related to organisational commitment, job satisfaction, job involvement, work engagement (mainly medium to large effect sizes, with the exception of the relation between job satisfaction and promotion where a small effect size was observed), statistically insignificant positively related to organisational citizenship (with mainly small effect sizes with the exception of recognition and organisational support where a medium effect size was observed) and statistically significant negatively related to intentions to quit (mainly medium effect sizes with the exception recognition and salary where a small effect size was observed). Work-related attitudes such as organisational commitment, organisational citizenship, job satisfaction, job involvement and work engagement were statistically significant positively related to one another (medium to mainly large effect sizes with the exception of job involvement and organisational citizenship where a small effect size was observed) on the one hand, and statistically significant negatively related to intentions to quit (mainly small effect sizes with the exception of the relation between job satisfaction and intention to quit where a large effect size was observed).

### Regression analysis

One of the main objectives of the research was to explain employees' work-related attitudes as predicted by situational variables and intentions to quit as predicted by work-related attitudes. The regression analysis looked at how the key situational variables related to what an employee gains from the business affect work-related attitudes and intentions to quit. The second part of the regression analysis looked at how the work-related attitudes affect the intentions to quit. The results of the regression models are presented in Tables 2 and 3 below.

### Situational variables as predictors of work-related attitudes

The first regression analysis looked at how the situational variables related to what an employee gains from the business affect work-related attitudes and intentions to quit. The results of the analysis are presented in Table 2.

**TABLE 2: REGRESSION ANALYSIS OF SITUATIONAL VARIABLES AS PREDICTORS OF WORK-RELATED ATTITUDES AND INTENTIONS TO QUIT**

	Organisational commitment	Organisational citizenship	Satisfaction	Involvement	Engagement	Intentions to quit
Learning and development	.18	-.04	.10	.04	.11	.20
Recognition, respect / appreciation	.16	.06	.08	.21	.38**	-.26
Benefits and perks	.04	.18	.05	.18	.23	.11
Salary and monetary compensation	.30**	.01	.06	.12	.10	.00
Prospects for promotion / growth	.10	-.07	-.25*	-.12	-.19	.02
Perceived organisational support	.30**	.43**	.47**	.31*	.31**	.34**
Perceived opportunity for rewards	-.21*	-.31*	.18	.12	-.05	.14
<b>R</b>	.73	.40	.64	.57	.74	.51
<b>R<sup>2</sup></b>	.54	.16	.41	.32	.55	.26
<b>f<sup>2</sup></b>	.41	.03	.20	.11	.43	.07

\* = $p < 0.05$  / \*\*= $p \leq 0.01$

With regard to employees' perceptions of what they gain from the business, regression analysis yielded an  $R^2 = 0.54$  between organisational commitment with situational variables, which means that 54% of variance in organisational commitment is statistically and practically significantly explained by these situational variable. Salary and monetary compensation ( $\beta=0.30$ ,  $t=3.29$ ), perceived organisational support ( $\beta=0.30$ ,  $t=2.89$ ), and perceived opportunity for reward ( $\beta=-0.21$ ,  $t=-1.96$ ) proved to be the only statistically significant predictors of organisational commitment. The effects of this impact seem to be large in practice ( $f^2 = .41$ ).

An  $R^2$  of 0.16 was obtained between organisational citizenship with the situational variables related to what employees gain from the business, which means that 16.3% of variance in organisational citizenship is statistically and practically significantly explained by these key situational variables. Perceived organisational support ( $\beta=0.43$ ,  $t=3.07$ ), and perceived opportunity for reward ( $\beta=-0.31$ ,  $t=-2.81$ ) proved to be the only statistically significant predictors of organisational citizenship. The effects of this impact seem to be small in practice ( $f^2 = .03$ ).

An  $R^2$  of 0.41 was obtained between job satisfaction and the situational variables related to what employees gain from the business, which means that 41% of variance in job satisfaction is statistically and practically significantly explained by these key situational variables. Perceived organisational support ( $\beta=0.47$ ,  $t=4.04$ ), and prospects for promotion and aligned growth ( $\beta=-0.25$ ,  $t=-2.12$ ) proved to be the only statistically significant predictors of job satisfaction. The effects of this impact seem to be medium in practice ( $f^2 = .20$ ). An  $R^2$  of 0.32 was obtained between employee involvement and the situational variables related to what employees gain from the business, which means that 31.9% of variance in employee involvement is statistically and practically significantly explained by these key situational variables. Perceived organisational support ( $\beta=0.31$ ,  $t=2.49$ ) proved to be the only statistically significant predictor of employee involvement. The effects of this impact seem to be medium in practice ( $f^2 = .11$ ).

An  $R^2$  of 0.55 was obtained between employee engagement and the situational variables related to what employees gain from the business, which means that 55% of variance in employee engagement is statistically and practically significantly explained by these key situational variables. Perceived organisational support ( $\beta=0.31$ ,  $t=3.06$ ), recognition, respect and appreciation ( $\beta=0.38$ ,  $t=3.65$ ) proved to be the only statistically significant predictors of employee engagement. The effects of this impact seem to be large in practice ( $f^2 = .43$ ). An  $R^2$  of 0.26 was obtained between

intentions to quit and the situational variables related to what employees gain from the business, which means that 25.8% of variance in intentions to quit is statistically and practically significantly explained by these key situational variables. Perceived organisational support ( $\beta=0.34$ ,  $t=2.58$ ) proved to be the only statistically significant predictor of intentions to quit. The effects of this impact seem to be small in practice ( $f^2 = .07$ ).

### Work-related attitudes as predictors of intentions to quit

The second part of regression analysis looked at how the work-related attitudes affect the intentions to quit. The results of the analysis are presented in Table 3 below.

**TABLE 3: REGRESSION ANALYSIS OF WORK-RELATED ATTITUDES AS PREDICTORS OF INTENTIONS TO QUIT**

Variables	Intentions to quit
Organisational commitment	.41**
Organisational citizenship behaviour	.03
Job satisfaction	.65**
Job involvement	-.13
Work engagement	-.42**
<b>R</b>	<b>.66</b>
<b>R<sup>2</sup></b>	<b>.44</b>
<b>f<sup>2</sup></b>	<b>.24</b>

\* =  $p < 0.05$  / \*\* =  $p < 0.01$

With regard to employees' work-related attitudes as predictors of intentions to quit, regression yielded an  $R^2$  of 0.44 between intentions to quit with work-related attitudes, which means that 44% of variance in intentions to quit is statistically and practically significantly explained by employee attitudes. Organisational commitment ( $\beta=0.41$ ,  $t=3.84$ ), job satisfaction ( $\beta=0.66$ ,  $t=5.72$ ) and engagement ( $\beta=-0.42$ ,  $t=-3.27$ ) proved to be the only statistically significant predictors of intentions to quit. The effects of this impact seem to be medium in practice ( $f^2 = .41$ ).

## DISCUSSION

The first objective of the study was to determine the relationship between key situational work-related variables, such as learning and development, recognition, respect, appreciation, benefits and perks, salary, promotion, organisational support, and perceived opportunity for rewards and work-related attitudes, such as organisational commitment, organisational citizenship, job satisfaction, job involvement, employee engagement and intentions to quit the organisation. The results indicated that that key situational work-related variables were statistically significant positively related to one another with medium to mostly large effect sizes, statistically significant positively related to organisational commitment, job satisfaction, job involvement, work engagement, statistically insignificant positively related to organisational citizenship with mainly small effect sizes and statistically significant negatively related to intentions to quit with mainly medium effect sizes. In support of this finding, pay satisfaction has also been associated with increased organisational commitment, job satisfaction, and greater intent to stay in the organisation and position (Currall, Tower, Judge & Kohn, 2005; Farrell & Rusbult, 1981; Lum, Kervin, Clark, Reid & Sirola, 1998). Research has also confirmed that effort and reward equity at work affects employees' work-related attitudes especially job satisfaction (Li, 2005) and intention to leave the organisation (Derycke, 2010). Hart (1994) did report a link between professional development and

morale (job satisfaction). In addition, Hart, Wearing, Conn, Carter and Dingle (2002) also reported significant relations between growth and professional development and facets of job satisfaction (such as satisfaction with pay, satisfaction with supervisor). Perceived Organisational Support obligates employees who feel supported to reciprocate by expressing greater affective organisational commitment, performing citizenship behaviours, and exhibiting lower levels of withdrawal (Rhoades & Eisenberger, 2002). In addition, research has confirmed that low pay and unclear growth paths were found to be the major reasons why employees left their employment (Martin, 2011). Recently, the lack of opportunity for advancement has also been identified as a major reason why people decide to leave (Van Zyl, 2011).

Work-related attitudes such as organisational commitment, organisational citizenship, job satisfaction, job involvement and work engagement were statistically significant positively related to one another with medium to mainly large effect sizes on the one hand, and on the other hand, statistically significant negatively related to intentions to quit with mainly small effect sizes with the exception of the relation between job satisfaction and intention to quit where a large effect size was observed. The results seem to suggest that the key situational variables that are related to what the employee gets from the organisation are very strongly related to one another, in a statistical and practical sense. This means that recognition and salary, although significantly related to intention to quit, are comparatively speaking not as important as organisational support, opportunity for rewards, given the relations observed in this study, benefits and promotion for the reduction of intentions to quit. These findings concur with that of Jackson and Vahed (2013), where positive relations were observed between job satisfaction and employee commitment and negative relations were observed between satisfaction and employee commitment, on the one hand, and intentions to quit on the other hand. Research results have also shown that organisational commitment is negatively related to intentions to leave (Ingram & Kuen, 1990). Shaw (1999) argued that there is a strong negative relationship between job satisfaction and the level of employee turnover. The findings of this study also concur with the findings of Jackson and Ruiters (2012) who observed negative relations between job satisfaction and intentions to quit. The positive association between job satisfaction and commitment were also observed by Yavas and Bordur (1999). Chen (2006) also confirmed the positive relationship between job involvement and organisational commitment.

Another objective of the study was to determine the impact of key situational work-related variables, such as learning and development, recognition, respect, appreciation, benefits and perks, salary, promotion, organisational support, and perceived opportunity for rewards on work-related attitudes. The findings of the regression analyses seem to suggest that recognition is important for engagement, that salary only mattered for organisational commitment, that prospects for promotion and growth were important for job satisfaction, that perceived organisational support was important for job satisfaction, job involvement, engagement and the reduction of intentions to quit, while opportunities were important for organisational commitment and organisational citizenship. Learning and development was not a statistically significant predictor of any of the employee attitudes measured in this study for this sample. The results seem to indicate that the key situational variables had practically significant effects on organisational commitment and engagement (large effects), organisational citizenship and intentions to quit (small effects), and job satisfaction and job involvement (medium effects).

This difference in effect sizes of the influence by the same independent variables as well as the variance in predictability of each of the independent variables highlight the distinctiveness of each of the mentioned employee attitudes and work-related outcomes. Therefore, even though people in practice use concepts such as organisational commitment and organisation citizenship or engagement and involvement as synonyms, these concepts represent employee attitudes in their

own right. This study's findings concur especially with McCook's (2002) findings that revealed that organisational support impacts on job satisfaction, job involvement, and organisational commitment suggesting that perceptions of the organisation's support efforts contribute uniquely (and in some cases more strongly) to employee attitudes. We were also interested in the impact of work-related attitudes on intentions to quit the organisation. The findings seem to suggest that employee attitudes had a statistically and practically significant impact on intentions to quit. Organisational commitment, job satisfaction and engagement were also statistically significant predictors of intentions to quit. A somewhat strange positive direction was observed for the role of organisational commitment and job satisfaction in intentions to quit. This strange direction was also observed in a recent study focusing on continuous improvement implementation and employee attitudes, where work success was also observed as a positive predictor of intentions to quit (Jackson & Vahed, 2013).

## **RECOMMENDATIONS AND MANAGERIAL IMPLICATIONS**

Based on the findings of this study, there are a number of recommendations and managerial implications that could be emphasised for the institution where the study was conducted. It is evident from this research that salary, perks and benefits have an important influence on job satisfaction, organisational commitment, employee engagement and also the intention to quit of younger and newly hired employees. The organisation should develop a clearer and realistic employee performance plan for the initial years of employment. The organisation can begin this process during the recruitment and hiring phase by providing realistic job previews and internships to see how employees have moved according to their initial career plans. Since job satisfaction, organisational commitment and employee engagement are predictors of employees' intent to quit, the organisation should conduct formal assessments of their employees to measure success in providing an employment environment that promotes job satisfaction and organisational commitment. This may provide information useful for analysing and modifying HR practices that will help to improve where there are deficiencies in employee perceptions of job satisfaction, organisational commitment and employee engagement. A replication study should be conducted to see whether results would differ as employment conditions change and options become more readily available for employees. All the key situational variables that were significant in this study should be explored with regard to the direct influence on intent to quit of all employees

## **LIMITATIONS**

Like any other study, this one also has limitations. These include that no causal conclusions could be drawn from this study because "a danger in any cross-sectional design is that the conversation assumes and builds theory for causality; but is only implied" (Avey, Patera & West, 2006: 55). This study did not include experimental manipulation or random assignment; therefore, causal effects between situational variables and employee attitudes cannot be determined. Another limitation relates to the sampling method and sample size as these have implications for generalizability. The results of this study can therefore not be generalised to the entire organisation or other manufacturing concerns in South Africa.





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## DIFFERENCES IN ETHICAL BELIEFS AND INTENTIONS OF UNIVERSITY STUDENTS – A CASE STUDY PERSPECTIVE

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### ABSTRACT

The purpose of this study was to address the differences between the ethical intentions and beliefs of undergraduate students in business sciences at a South African university. The research approach applied to the study was quantitative, supported by a descriptive research focus. The target population was all full time students, registered for a business degree at the university. Probability sampling was used, and the conveniently sampling technique applied to select the sample. Personal interviews were conducted and a 5 point Likert scale was used to gather the data. Students were given eight scenarios to which they provided a yes/no response to each part of the question. Chi-Squared analysis was performed on the data to test the stated null-hypotheses at a 95% confidence level. The findings stipulate that in terms of all scenarios, females exhibited a greater propensity for being ethical, both in terms of belief and in terms of intent.

### KEYWORDS

Ethics, Management, Higher education, Gender



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## INTRODUCTION

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Immorality in business organisations has generated interest for a tenable period of time now, in both academic and applied circles (Ruis-Palomino & Martinez-Canas, 2011). This interest seems to stem from a sense to prevent negative consequences for the business organisation and for society in general. Although organisations generally aspire to do what is right and exhibit honest and fair dealings on a daily basis (Abratt, Bendixen & Drop, 1999; Harvey, 2002), errors ethical conduct occur just as frequently (Clark, 2006). This stems from inter alia competitive pressures, resulting in extreme demands on employees to meet goals that are not realistic. This in turn leads to “cutting corners” and acting unethically.

In the recent past, a whole host of highly publicized scandals have come to the fore such as Enron and WorldCom (Groves, Vance & Paik, 2008). In conjunction with this, the reach of ethical consumerism has widened from the cultural fringes to mainstream society (Carrington, Neville & Whitwell, 2010), and in the wake of the 2008 global economic crisis the interest in business ethics, and in ethical decision making processes in particular, is now more pertinent than ever (Nguyen & Biderman, 2008).

Most ethical decision-making models purport that ethical judgment, ethical intent and ethical behaviour are vital in a multi stage ethical decision-making process (Jones, 1991; Rest, 1986). During these three phases, the individual moves from a cognitive evaluation between the moral acceptability of courses of action to a priority of moral acceptability of the different courses and finally to a decision to enact the decided upon course of action (Jones, 1991; Trevino, 1992; Nguyen & Biderman, 2008). One could easily assume that ethical judgment, ethical intention and ethical behaviour should directly follow on from each other, but ethical decision-making models warn that moderators appear between these steps that causes incongruence between ethical judgment, ethical intent and ethical behaviour (Farrell & Gresham, 1985; Trevino, 1986). Thus, as far as business ethics are concerned, one can observe that organisations aspire to be fair and honest in their endeavors, but certain moderating factors often cause such behaviour to be questionable at the end of the day.

Literature abounds with examples of corporate scandals and instances where ethics within the sphere of business is seriously questioned (Ketz & Owsen, 2003; Tang & Weatherford, 2004; Armstrong; Nguyen & Biderman, 2008). Such literature paints businesspeople who act unethically as either selfish and acting in their own best interests, or using the veil the business case as justification for unethical and immoral behaviour. However, the 2008 financial crisis has brought the discourse around business ethics to the fore and has highlighted the importance of ethics training in management and commerce courses and degrees (Armstrong et al., 2003). Thus, one could speculate that this increased discourse around business ethics will trickle down to the managers of the future. It is this train of thought that has served as impetus for this research, namely to explore the extent to which ethical intent coincides with ethical behaviour amongst commerce students at a residential university in Johannesburg.

## LITERATURE REVIEW

This literature review will briefly introduce the broader term of ethics and highlight the emergence of business ethics as a sub-stream of the study of ethics. In particular, ethical decision making will be expounded upon in order to establish a theoretical framework for this research.

## An introduction to ethics

A dictionary will define ethics as (Soanes & Stevenson, 2006: 490):

“...the moral principles governing or influencing conduct...the branch of knowledge concerned with moral principles.”

From this basic definition, it is apparent that ethics is not a topic in isolation, but rather is inseparable from aspects such as morality, behaviour and character.

The ancient Greek philosopher Socrates, Plato and Aristotle were arguably the first scholars to make a meaningful contribution to the body of knowledge surrounding ethics (Wall, 2005). Socrates suggested that ethics is about improving one's soul, and thus the best reason for behaving ethically is that it enhances the soul which in turn leads to a fulfilled life (Hartman, 2008). Similarly, Plato also ascribes to this eudaemonistic outlook. However, for Plato the fulfilled life is a function of knowledge and intellect keeping the emotional and physical parts of the body in check (White, 1991). The idea here is that reason should keep emotion in check and people can only attain this through an understanding the consequences of their actions, which, in turn, requires knowledge of what is morally right and wrong (White, 1991). For Aristotle, being virtuous is a prerequisite to attain the fulfilled life. As such, virtues involve having the right amount of a particular passion, or engaging in a particular kind of action to the right extent. Thus they rely just as much on “feeling” as do on “doing”: For Aristotle, this balance is a mean between extremes, acquired through experience, not through instruction (Hartman, 2008). Although these ancient scholars promoted ethical behaviour as the method of attaining eudaemonia (the good or fulfilled life) through building sound character, it is also clear from their conceptions of ethics that they attest to the notion of balance in ethics, a balance between excess and rationality, a balance between intellect and emotion (Wall, 2005).

More contemporary conceptions of ethics purport that the purpose of ethics is to acquire mental powers that will overcome fleeting instincts and passions by means of preferring the general good over the bad, and to develop the self to a level at which the decision to be moral or ethical will come from the heart and soul and does not have to be imposed by any outside power (Guttman, 2006). Note how Platonic and Aristotelian notions of balance, emotion vs rationality and character persist here. Connock and Johns (1995) also suggest that ethics is about fairness, deciding right from wrong, about defining the practices and rules which highlight responsible conduct between individuals and groups. Wines (2008) defines ethics as “the cognitive, analytical, systematic and reflective application of moral principles to complex, conflicting or unclear situations”. Similarly Holme (2008) defines ethics as “a moral principle or set of moral values held by an individual.” Grobler, Warnich, Carrell, Elbert and Hatfield (2006) define ethics as the discipline dealing with what is good or bad, or right and wrong, or with moral duty and obligation. From these definitions, it is evident that ethics involves cognitive processes acquired over time. Furthermore, these definitions attest to acting in a fashion that is morally acceptable, and being responsible for ones actions by deciding what is right and wrong.

From the ancient Greek conceptions of ethics to the more contemporary definitions of ethics supplied above, it is evident that acting in an ethical fashion involves:

- doing what is honest, right and good (Harvey, 2002);
- integrity (defined as uncorrupted, thus honest (Bradley & Schrom, 2004);

- values (how individuals and organisations feel about the worth and usefulness of ideals and customs (Bradley & Schrom, 2004). It must be born in mind that values change over time and differ according to circumstances, but at the end of the day, moral values include aspects such as fairness, honesty and responsibility (Brandl & Maguire, 2002).

### The emergence of business ethics

Business ethics is a particular context to which ethics can be applied. In order to comprehend what ethics means in a business sense, Holme (2008) offer some guidance by purporting that business ethics as a set of moral principles used for arriving at a decision within the values of the organisation. Continuing on this subject, Crane and Matten (2004) further purport that business ethics is the study of business situations, activities, and decisions; where issues of right and wrong are addressed. This view seems to coincide with Lewis (1985), who views business ethics as rules, standards, codes, or principles which provide guidelines for moral behaviour and truthfulness in precise situations. Nieman and Bennett (2006) further attest that business ethics are applicable when the moral duties of ethics apply to the activities and goals of an organisation.

From the above, business ethics seemingly refers to:

- The value system of a business;
- Management principles and behavioural norms which regulate the business organisation, expressing its ethical culture

This sentiment is also echoed by Comite (2009). What is interesting to note about the definitions cited above is that, although they all view business ethics as a moral endeavor, business ethics is seen as something subservient to the organisation and something that should be considered only when the need arises. Although it does not fall within the scope of this research to debate these issues, it is pertinent to point out that the definitions cited here leads one to deduce that business ethics seemingly operates from a platform of ethical relativism, where the ethical norms of one grouping (such as a business organisation) will be decided by that grouping, with little consideration for broader societal ethical norms, (Nieman & Bennett, 2006).

However, irrespective of these relative norms, organisations still have a duty to regard all those affected in every decision that they take (Hertz, 2006). Doing ethically questionable things may have enabled a firm to acquire a competitive advantage in days gone by, but today such questionable dealings could force organisations out of business. As already mentioned, temptations and pressures abound that could result in dishonesty, focusing on short-term benefits and compromising quality in return for expediency (Harvey, 2002). Competition in the corporate environment is a normal phenomenon. Most companies are geared for competition and some thrive on it. But when competition starts having a harmful effect on the company and on profitability, it can force people to into situations that may lead them to compromise their values and ideals (Cohan, 2002; Sethi, 2003; Svensson, Wood & Callaghan, 2009).

Cragg (2000), however states that commerce without conscience is a formula for human exploitation, not development. Svensson et al. (2009) concur, stating that there cannot be sustainable business without focusing on ethical practice. Thus, if you place ethical behaviour as paramount in everything the business does should logically contribute to being sustainable in the long term. This seems to bear witness to a rising movement of ethical universalism amongst scholars of business ethics, supporting the notion that ethics should be seen as comprised of universal protocols, irrespective of context or situation.

As good and evil, right and wrong, just and unjust, and fair and unfair have different meanings to different people (not only between individuals, but also across cultures), it would stand to reason that there is not one set of ethical principles. Instead different views on ethics are apparent. Hence, when confronted with a situation that requires moral judgment, a person is confronted with choices. Firstly the choice is to act in a morally correct fashion or not. Plato first considered this question when Glaucon laid down the Ring of Gyges challenge to Socrates in Plato's Republic (White, 1991). The Ring of Gyges granted its wearer the power of invisibility at will, and the question posed by Plato is whether a person will be moral if he did not have to fear being caught and punished. In the event that a person has decided to act morally, a decision now has to be made in terms of which moral course to pursue (White, 1991).

Goodpaster (1983) offers an operationalised framework for decision making, which also illuminates the conception of decision making in ethics in the first instance. For Goodpaster (1983), ethical decisions rest on respect and rationality. Here, the rationality concept is process orientated and involves four aspects, namely: lack of impulsiveness, care in mapping out alternatives and consequences, clarity about goals and purposes, and attention to details of implementation (Goodpaster, 1983; Zsolnai, 2010). Respect refers to a special awareness of, and concern for, the effect of one persons' decisions on others. For Goodpaster, respect implies something beyond seeing other people as merely instrumental in the attainment of personal goals, thus moving away from self-centeredness and functioning in a more shared environment (Goodpaster, 1983).

The Interactionalist Model of Trevino posits that ethical decisions in organisations are the result of the interaction between both individual and situational components. According to Trevino, ethical dilemmas force people to react with cognitions based on their stage of cognitive moral development, which determines how a person is likely to think about the ethical dilemma (Trevino, 1986). Although it is a purely conceptual model, Trevino's Interactionalist model suggests that there is a difference between peoples' thoughts and opinions about ethics on the one hand and peoples' actual ethical behaviour on the other. Other ethical decision-making models also suggest this disparity between ethical cognition and ethical behaviour (Rest, 1986; Dubinsky & Loken, 1989; Jones, 1991; Bass, Barnett & Brown, 1999), although earlier scholars suggest in part that attitude toward a behaviour leads to the formation of behavioural intentions, and that actual behaviour is likely to be consistent with intentions (Fishbein & Ajzen, 1975). Arguably the most notable model on ethical decision making is that of Jones (Jones, 1991), based on the work of Rest (Haines, Street & Haines, 2008). Rest proposes that ethical decision-making is the result of a four stage process, namely:

- Recognition of the ethical issue
- Making a moral judgment
- Resolution to place moral concerns above all other concerns (i.e. establish moral intent)
- Act on the moral concerns

Rest further asserts that success in one stage of the process does not necessarily guarantee success in the next and subsequent stages. Thus, even though a person has sound ethical reasoning and can make good moral judgments (Step b), it does not mean the person necessarily possesses a propensity to act morally (Step c).

Jones (1991) builds on Rest's work and proposes a widely cited model of ethical decision-making. For Jones, the process starts with environmental factors (such as the organisation, culture and society) where ethical issues emanate from. Being mindful that an issue has ethical implications

moves the person(s) concerned with the issue to a state of Ethical Awareness. Once an ethical issue is recognized as such, the next step is for the ethical decision maker to form an Ethical Judgment. An Ethical judgment is a cognitive process where individuals assess which course of action is morally right. After the judgment has been made, individuals consider which course of action to take. This is known as the Ethical Intention, and gives priority to what is right over all other considerations. Finally, the ethical decision maker needs to engage in the chosen behaviour. Once this action is undertaken, the final stage of the process, Ethical Behaviour, is entered. This behaviour needs to be legal and morally acceptable to the greater society.

Jones' model includes moderators, which originate from individual and situational spheres. Moderators originating from individual characteristics includes personality, locus of control, significant others, values, and opportunities. Moderators emanating from situation characteristics include organisational culture and job context. According to Jones (1991), it is these moderators that cause actual behaviour to be inconsistent with ethical intentions and ethical judgment. In Jones' model, these moderators impact in two areas, namely when moving from ethical judgment to ethical intention and when moving from ethical intention to ethical behaviour.

Jones' work is widely regarded as the primary force currently driving research on the ethical decision-making process in business (Haines et al., 2008). Jones' issue-contingent model of ethical decision-making provided the business ethics literature with a much-needed sense of order and a dominant framework that could guide future research. As valuable as this contribution has been, perhaps the most important aspect of his work is the introduction of the moral intensity (MI) construct into the ethical decision-making literature. It captures, in essence, the intensity inherent in a moral issue and, thus, plays a critical role in the individual's decision-making process. According to Jones, issues high in moral intensity are expected to have a greater impact on the ethical decision-making process than are issues low in moral intensity (Leonard, Cronan & Kreie, 2004).

## **RATIONALE FOR THE STUDY AND METHODOLOGY EMPLOYED**

From the preceding literature it is apparent that ethical decision-making in business is under the spotlight, especially in the wake of numerous corporate scandals and the 2008 global economic crisis. Many of these scandals, as well as the crisis, are associated with questionable business dealings, especially as far as the morality of business is concerned. Within the realm of the ethical decision-making process, it is recognized that inconsistencies exist between ethical judgment (or belief), ethical intention and ethical behaviour. Also, issues high in moral intensity are expected to have a greater impact on the ethical decision-making process than are issues low in moral intensity. In the midst of morally questionable business dealings, scholars need to scrutinise how students view (or define) ethical practices, especially as these students are likely to be the business leaders and business decision makers of the future

In line with the problem statement presented above, the primary objective of this paper is to analyse the differences that exist between ethical beliefs and ethical intentions of commerce students. Forthcoming thus from literature, the following research question can be formulated:

Are there discrepancies between the ethical beliefs and ethical intentions of male and female commerce students at a University in Johannesburg?

To answer this question the following null-hypotheses have been formulated:

- **(H0)1:** The intent (would) to report a cheating incident will not differ from the belief (should) that the incident should be reported between males and females.
- **(H0)2:** The intent (would) to report giving out free food at a restaurant will not differ from the belief (should) that the incident should be reported between males and females.

- **(H0)3:** The intent (would) to report a R200 theft from an employer will not differ from the belief (should) that the theft should be reported between males and females.
- **(H0)4:** The intent (would) to report an erroneous R1500 credit to the student's account will not differ from the belief (should) that the error should be reported between males and females.
- **(H0)5:** The intent (would) to report a mark increase error to one's own final marks will not differ from the belief (should) that the error should be reported between males and females.
- **(H0)6:** The intent (would) to report a company that is illegally dumping hazardous materials will not differ from the belief (should) that the incident should be reported between males and females.
- **(H0)7:** The intent (would) to report a company that is hiring undocumented workers will not differ from the belief (should) that the hiring practice should be reported between males and females.

The empirical investigation was exploratory, quantitative in nature and employed a cross-sectional survey design. The population for this study included all the full time undergraduate and post graduate students in business sciences at a public university in South Africa. The target population for this study was 15 000 students of which 500 participated in the study. Students were selected through the application of a non-probability sampling approach and the convenience sampling technique. To ensure a measure of representivity, only commerce students were targeted for this study as the study was interested in surveying business practitioners of the future. The questionnaires were distributed in the lecture hall environment and care was taken to select a popular major subject in commerce students' curriculum to distribute the questionnaire to ensure an equitable spread of different fields of study. The measuring instrument used was an adaptation of a structured questionnaire and was developed and validated by Kiser, Rauschhuber and Parker (2011). The measuring instrument was a self-administered questionnaire which presented seven ethical scenarios to respondents.

Data was collected through the use of questions measuring nominal data (yes/no questions) pertaining to each scenario. A total of 500 questionnaires were distributed. The data obtained from the questionnaires was coded, captured and edited by the Statistical Consultation Service of the University of Johannesburg. The Statistical Package for Social Sciences (SPSS) was used to analyse the results. Chi-Squared analysis was performed on the data to test the stated null-hypotheses at a 95% confidence level.

## FINDINGS AND RESULTANT DISCUSSION

Of the 500 questionnaires distributed, 471 were/ returned, all of which were usable. This represents a 94.2% response rate. Table 1 reflects the demographic data applicable to the sample:

**TABLE 1: DEMOGRAPHIC DATA**

Variable		Relative frequency (%)
Gender	Male	49.0
	Female	51.0
Level of study	Undergraduate	65.4
	Postgraduate	34.6
Ethnicity	African	44.0
	White	32.0
	Indian	19.0
	Coloured	5.0



As can be seen from Table 1, the majority of respondents were female, undergraduate students of African descent.

The scenarios presented in the questionnaire will now be analysed in turn according to gender and ethnicity. The scenarios will not be analysed against level of study, as it is felt that this demographic variable will have no bearing on the outcome of the findings. A Phi coefficient was calculated for each of the scenarios below since it was based on a 2x2 table of results. The following parameters were used for the Phi-coefficients, namely:

- A value of less than 1 indicates no effect;
- A value between 0.1 and 0.3 indicated a small effect;
- A value between 0.3 to 0.5 indicated a moderate effect; and
- A value larger than 0.5 indicated a large effect.

**Scenario 1:** You discover that one of your fellow students cheated on a test.

**TABLE 2:** SCENARIO ONE CHI-SQUARED ANALYSIS

Association between	X <sup>2</sup>	df	p value	Phi
Gender differences and ethical belief ("should")	4.111	1	0.043	-0.094
Gender differences and ethical intent ("would")	12.700	1	0.000	-0.165

Thirty five per cent (35%) of male respondents and 51% of female respondents indicated that they would report the incident while 65% of male respondents and 49% of female respondents would not report the incident, indicative of people's ethical intent on the issue. The results of the Pearson Chi Square Test ( $\chi^2$ ), conducted to determine whether a significant association exist between the variables, indicates that a statistically significant association exists between students' gender and whether they would report the above-mentioned incident or not, as  $p=0.000$ , thus  $p<0.05$ . A phi of  $-0.165$ , however, indicates that there is no effect. Furthermore, 83% of male respondents and 89% of female respondents indicated that one should report the incident (indicative of ethical belief) while 17% of male respondents and 11% of female respondents indicated the one should not report the incident. The Pearson Chi Square Test ( $\chi^2$ ) indicates that a statistically significant association exists between students' gender and whether one should report the incident or not, with  $p=0.043$ , thus  $p<0.05$ ). A phi of  $-0.094$  indicates no effect.

**Scenario 2:** You work at a fast food restaurant and regularly observe one of your fellow employees giving out free food to friends.

**TABLE 3:** SCENARIO TWO CHI-SQUARED ANALYSIS

Association between	X <sup>2</sup>	df	p value	Phi
Gender differences and ethical belief ("should")	2.239	1	0.135	No value
Gender differences and ethical intent ("would")	23.374	1	0.000	-0.223

Regarding scenario 2, it was found that 45 % of the male respondents and 67% of the female respondents would report the incident, while 55% of male respondents and 33% of female respondents would not report the incident. The results of the Pearson Chi Square Test ( $\chi^2$ ) indicates that a statistically significant association exists between students' gender and whether they would report the above-mentioned incident or not, as  $p=0.000$ , thus  $p<0.05$ . A phi of  $-0.223$ , however, indicates that there is no effect. Furthermore, 84% of male respondents and 88% of female respondents indicated that one should report the incident (indicative of ethical belief) while 16% of

male respondents and 12% of female respondents indicated the one should not report the incident. The results of the Pearson Chi Square Test ( $\chi^2$ ) indicates that a statistically significant association does not exist between students' gender and whether one should report the incident or not, as  $p=0.135$ , thus  $p>0.05$ .

**Scenario 3:** You find out that someone you know has stolen R200 from his/her employer.

**TABLE 4:** SCENARIO THREE CHI-SQUARED ANALYSIS

Association between	X <sup>2</sup>	df	p value	(Phi)
Gender differences and ethical belief ("should")	2.215	1	0.137	No value
Gender differences and ethical intent ("would")	17.232	1	0.000	-0.191

For scenario three, 51 % of male respondents and 70% of female respondents indicated that they would report the incident, while 49% of male respondents and 30% of female respondents would not report the incident (indicative of ethical intent). The results of the Pearson Chi Square Test ( $\chi^2$ ) indicates that a statistically significant association exists between students' gender and whether they would report the above-mentioned incident or not, as  $p=0.000$ , thus  $p<0.05$ . A phi of  $-0.191$  indicates that there is no effect. 87% of male respondents and 92% of female respondents indicated that one should report the incident while 13% of male respondents and 8% of female respondents indicated the one should not report the incident. The results of the Pearson Chi Square Test indicates that no statistically significant association exists between students' gender and whether one should report the incident or not, as  $p=0.137$ , thus  $p>0.05$ .

**Scenario 4:** You realise that your university has mistakenly credited your account with R1500-00.

**TABLE 5:** SCENARIO FOUR CHI-SQUARED ANALYSIS

Association between	X <sup>2</sup>	df	p value	(Phi)
Gender differences and ethical belief ("should")	13.354	1	0.000	-0.169
Gender differences and ethical intent ("would")	19.501	1	0.000	-0.204

A total of 41% of male respondents and 62% of female respondents indicated that they would report the incident while 59% of male respondents and 38% of female respondents would not report the incident. The results of the Pearson Chi Square Test ( $\chi^2$ ) indicates that a statistically significant association exists between students' gender and whether they would report the above-mentioned incident or not, with  $p=0.000$ , thus  $p<0.05$ . A phi of  $-0.204$  indicates that there is no effect. Furthermore, 75% of male respondents and 88% of female respondents indicated that one should report the incident (indicative of ethical belief) while 25% of male respondents and 12% of female respondents indicated the one should not report the incident. The results of the Pearson Chi Square Test ( $\chi^2$ ) indicates a statistically significant association between students' gender and whether one should report the incident or not, with  $p=0.000$ ; thus  $p<0.05$ . A phi of  $-0.169$  indicates that the effect is small.

**Scenario 5:** At the end of the semester, you study your marks online and notice that the module for which you know you should have received a mark of 65% is allocated a mark of 80%.

**TABLE 6:** SCENARIO FIVE CHI-SQUARED ANALYSIS

Association between	X <sup>2</sup>	df	p value	(Phi)
Gender differences and ethical belief ("should")	11.323	1	0.001	-0.155
Gender differences and ethical intent ("would")	11.709	1	0.001	-0.158

Scenario 5 found that 31% of male respondents and 46% of female respondents indicated that they would report the incident while 69% of male respondents and 54% of female respondents would not report the incident. The results of the Pearson Chi Square Test ( $\chi^2$ ) indicates a statistically significant association between students' gender and whether they would report the incident or not, as  $p=0.001$ , thus  $p<0.05$  (indicative of ethical intent). A phi of  $-0.158$  indicates that there is no effect. Furthermore, 66% of male respondents and 80% of female respondents indicated that one should report the incident (indicative of ethical belief) while 34% of male respondents and 20% of female respondents indicated the one should not report the incident. The results of the Pearson Chi Square Test ( $\chi^2$ ) indicates that a statistically significant association exists between students' gender and whether one should report the incident or not, with  $p=0.001$ , thus  $p<0.05$ . A phi of  $-0.155$  indicates that there is no effect.

**Scenario 6:** You discover that the organisation you are employed at, is dumping hazardous material in public trash bins.

**TABLE 7:** SCENARIO SIX CHI-SQUARED ANALYSIS

Association between	X <sup>2</sup>	df	p value	(Phi)
Gender differences and ethical belief ("should")	0.046	1	0.830	No value
Gender differences and ethical intent ("would")	1.016	1	0.313	No value

A total of 71% of male respondents and 75.0% of female respondents indicated that they would report the incident while 29% of male respondents and 25% of female respondents would not report the incident. The results of the Pearson Chi Square Test ( $\chi^2$ ) indicates no statistically significant association between students' gender and whether they would report the above-mentioned incident or not, as  $p=0.313$ , thus  $p>0.05$ . Furthermore, 92% of male respondents and 92% of female respondents indicated that one should report the incident (indicating ethical belief) while 8% of male respondents and 8% of female respondents indicated the one should not report the incident. The results of the Pearson Chi Square Test ( $\chi^2$ ) indicates no statistically significant association between students' gender and whether one should report the incident or not, as  $p=0.830$ , thus  $p>0.05$ .

**Scenario 7:** You discover that the organisation you work for is hiring illegal immigrant workers.

**TABLE 8:** SCENARIO SEVEN CHI-SQUARED ANALYSIS

Association between	X <sup>2</sup>	df	p value	(Phi)
Gender differences and ethical belief ("should")	5.144	1	0.023	-0.105
Gender differences and ethical intent ("would")	6.500	1	0.011	-0.118

In total, 51% of male respondents and 63% of female respondents indicated that they would report the incident while 49% of male respondents and 37% of female respondents would not report the incident (indicative of ethical intent). The results of the Pearson Chi Square Test ( $\chi^2$ ) indicates a statistically significant association between students' gender and whether they would report the above-mentioned incident or not, with  $p=0.011$ , thus  $p<0.05$ . A phi of  $-0.118$  indicates that there is no effect. Furthermore, 81% of male respondents and 89% of female respondents indicated that one should report the incident (indicating ethical belief) while 19% of male respondents and 11% of female respondents indicated the one should not report the incident. The results of the Pearson Chi Square Test ( $\chi^2$ ) indicates that a statistically significant association exists between students' gender and whether one should report the incident or not, as  $p=0.023$ , thus  $p<0.05$ . A phi of  $-0.105$  indicates that there is no effect.

## IMMINENT CONCLUSIONS

Based on the findings presented above, conclusions drawn regarding the stated hypotheses will now be presented:

**Ho1:** The intent (would) to report a cheating incident will not differ from the belief (should) that the incident should be reported between males and females:

- There was a statistically significant association between gender differences and ethical belief as well as a statistically significant association between gender differences and ethical intent to report the incident,
- $\chi^2 >$  critical value for both associations
- The difference between ethical belief and ethical intent is greater with male students, with a 49% difference between belief and intent, as opposed to a 39% difference amongst female respondents.
- Thus the null-hypothesis Ho1 is rejected.

**Ho2:** The intent (would) to report giving out free food at a restaurant will not differ from the belief (should) that the incident should be reported between males and females.

- There was no statistically significant association between gender differences and ethical belief but there was a statistically significant association between gender differences and ethical intent to report the incident,
- $\chi^2 >$  critical value for association between gender differences and ethical intent
- The difference between ethical belief and ethical intent is greater with male students, with a 39% difference between belief and intent, as opposed to a 21% difference amongst female respondents.
- Thus the null-hypothesis Ho2 cannot be rejected.

**Ho3:** The intent (would) to report a R200 theft from an employer will not differ from the belief (should) that the theft should be reported between males and females.

- There was no statistically significant difference between gender differences and ethical belief but there was a statistically significant difference between gender differences and ethical intent to report the incident,
- $\chi^2 >$  critical value for association between gender differences and ethical intent
- The difference between ethical belief and ethical intent is greater with male students, with a 36% difference between belief and intent, as opposed to a 22% difference amongst female respondents.
- Thus the null-hypothesis Ho3 cannot be rejected.

**Ho4:** The intent (would) to report an erroneous R1500 credit to the student's account will not differ from the belief (should) that the error should be reported between males and females.

- There was a statistically significant difference between gender differences and ethical belief as well as a statistically significant difference between gender differences and ethical intent to report the incident,
- $\chi^2 >$  critical value for both associations

- The difference between ethical belief and ethical intent is greater with male students, with a 34% difference between belief and intent, as opposed to a 27% difference amongst female respondents.
- Thus the null-hypothesis Ho4 is rejected.

**Ho5:** The intent (would) to report a mark increase error to one's own final marks will not differ from the belief (should) that the error should be reported between males and females.

- There was a statistically significant difference between gender differences and ethical belief as well as a statistically significant difference between gender differences and ethical intent to report the incident,
- $\chi^2 >$  critical value for both associations
- The difference between ethical belief and ethical intent is only slightly greater with male students, with a 35% difference between belief and intent, as opposed to a 33% difference amongst female respondents.
- Thus the null-hypothesis Ho5 is rejected.

**Ho6:** The intent (would) to report a company that is illegally dumping hazardous materials will not differ from the belief (should) that the incident should be reported between males and females.

- There was no statistically significant difference between gender differences and ethical belief, nor was there a statistically significant difference between gender differences and ethical intent to report the incident,
- The difference between ethical belief and ethical intent is only slightly greater with male students, with a 21% difference between belief and intent, as opposed to a 17% difference amongst female respondents.
- Thus the null-hypothesis Ho6 cannot be rejected.

**Ho7:** The intent (would) to report a company that is hiring undocumented workers will not differ from the belief (should) that the hiring practice should be reported between males and females.

- There was a statistically significant difference between gender differences and ethical belief as well as a statistically significant difference between gender differences and ethical intent to report the incident,
- $\chi^2 >$  critical value for both associations
- The difference between ethical belief and ethical intent is only slightly greater with male students, with a 30% difference between belief and intent, as opposed to a 26% difference amongst female respondents.
- Thus the null-hypothesis Ho6 is rejected.

As is evident, four of the seven stated null-hypotheses can be rejected. Thus, as a whole, it would seem that the evidence forthcoming from this study supports literature in terms of observing a discrepancy between ethical judgment (or belief), ethical intent and ethical behaviour (Rest, 1986; Jones, 1991). In all instances, respondents indicated a higher likelihood that one should report these incidents (thus, the ethical belief that it should be reported), as opposed to whether one would report these incidents (the ethical intent to report the incident). In fact, closer scrutiny reveals that

difference between “should report” and “would report” ranges from 17% to as much as 49%. Furthermore, it is interesting that in terms of all scenarios, females exhibited a greater propensity for being ethical, both in terms of belief and in terms of intent.

The research question of this study sought to ascertain whether differences existed between male and female students at a University in Johannesburg regarding both ethical belief and ethical intent. Based on the evidence presented, differences do exist between ethical belief and ethical intent of males and ethical belief and ethical intent of females

## **IMPLICATIONS**

Baxter & Boblin (2007) state that moral development theory provides a theoretical basis for understanding the reasons for unethical behaviour among students and for developing strategies to address this issue. Considering that the students in the study are the business leaders of tomorrow, it is concerning that there is a large discrepancy between ethical belief and ethical intent (ranges between 17% and almost 49%). The implication of this is that future decision makers could be easily swayed in their ethical approach to decision making, eroding on the ethical value of the decision made. The discrepancy further indicates that business students could be easily influenced to make decisions that do not support their ethical beliefs, but rather that enhance their personal intentions, promoting a culture of personal gain. Considering the reality of corrupt decisions made in the post-1994 democratic South Africa, the results of this study paints a bleak future as far as decision making in business is concerned. In the wake of the 2008 economic crisis, ethical decision making has become more topical, not only in the South African business environment, but globally. Therefore, it is imperative to create standards of ethical integrity, not only in the workplace, but also in the classroom. This will empower students, as future business leaders, to develop a greater awareness for ethical behaviour.

This study has furthermore also provided evidence that female business management students reflect a greater propensity for being ethical, both in terms of belief and in terms of intent. This creates hope for the future leadership potential for South Africa. Considering further the strong drive in South Africa towards female empowerment at managerial level within South African business organisations, the indication of a strong ethical inclination amongst female business students, could result in a stronger drive towards ethical decision making amongst female business decision makers of the future. It is not argued at all that the reality of unethical behaviour is not eroded from possibility or potential for existence. However, the greater inclination amongst female students to be both ethically more aware in terms of their belief and intent, provides hope for future business leadership in South Africa. The future business leaders of tomorrow are developed and educated in the classroom. Therefore, the basis of ethical values and its importance to decision making, is developed in the lecture venue, by lecturers. Universities can play an important role in the shaping of ethical thinking and debate by providing, for example, training and development in corporate codes of ethics and conduct.

## **LIMITATIONS AND AVENUES FOR FUTURE RESEARCH**

A limitation of this study was the use of students from only one public university in South Africa. Students were furthermore also not requested to motivate their beliefs and intentions. This information would assist university lecturers in creating and implementing a stronger ethics program. A future study could extrapolate the reasoning information so that the intended issues are addressed within the university classrooms. Future research should also include comparisons of business ethics views between business management students from different South African universities. Lastly, future research should also include a measurement of the aspect of moral intensity and the effect this has on ethical belief, ethical intent and ethical behaviour.



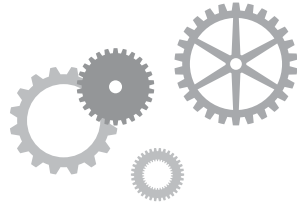


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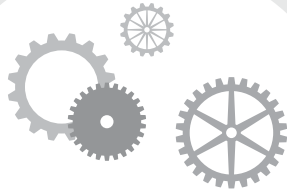
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## Section 4: Tourism Management Resilience

# THE MANAGEMENT OF ESTUARINE RECREATIONAL SERVICES IN SOUTH AFRICA: THE SUNDAYS RIVER ESTUARY

44



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## ABSTRACT

A lack of information on recreation values, especially non-market values, has contributed to estuary degradation in South Africa. This paper uses a choice experiment to estimate recreation values of the Sundays River Estuary, a popular estuary along South Africa's coast. This methodology allows for the effective management of recreational services provided at this estuary through the implementation of preferred management strategies as revealed by estuarine recreational users. The results show that recreational fishing is the most important predictor of choice and thus deserves immediate attention as far as management is concerned. The findings of this study can provide the relevant authorities and other stakeholders with information about trade-offs that could be used to enhance the future management of South African estuaries.

## KEYWORDS

Estuary, Choice experiment, Recreational services, Implicit prices, Conditional logit

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## INTRODUCTION

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It is generally accepted that estuaries are among the world's most productive resources, providing a number of different services to the public, especially in the form of recreational areas (Birol & Cox, 2007; Gurluk, 2012). Increases in the population, however, have led to an escalation in the demand for access to these recreational areas. Increases in recreational demand at an estuary will not necessarily reduce the recreational appeal of that estuary. However, certain types of recreational activity are prone to negative crowding effects. Estuaries thus face a trade-off between motorised boat use and also between motorised boat users and other categories of users, for example, residents and owners of other craft (Hay, Hosking & McKenzie, 2008). They also face a trade-off between the short-run human recreational predation demands for targeted fish stocks, and the need for sustainability of recreational fishing into the long-run.

A large part of the overall recreational appeal of estuaries is their public good characteristic of open access. Economically speaking, because these estuarine recreational goods and services are not traded in markets, they face possible degradation and exploitation (Birol & Cox, 2007). High levels of population growth, immigration and mass tourism have exacerbated this problem (Skourtos, Troumbis, Kontogianni, Langford, Bateman & Georgiou, 2003). The increased number of recreational estuary users has led to the development of several externalities regarding estuarine use, most notably congestion and overfishing. Congestion externalities occur when a large number of users attempt to share a limited amount of recreational open space. The space available to each person decreases, there is restriction on movement and the overall recreational experience is dampened. Recreational over-fishing in estuaries has led to a decline in fish stock populations during the last decade, making certain fish species particularly vulnerable, jeopardising the sustainability of their populations in the long-run (Cowley, Childs & Bennett, 2009).

Although South African estuaries have been quite well buffered from these impacts until only very recently, their use and pressures have escalated faster than what conservation authorities and policy makers have been prepared for over the last couple of decades (Turpie & Clarke, 2007). In addition, there is often insufficient information regarding the recreational user's wants and preferences when it comes to the recreational use and efficient management of these public estuarine areas. The estimation of economic values for public good characteristics, using non-market valuation techniques, is thus crucial for the efficient and sustainable management of these estuaries.

The primary objective of this paper is to inform management to optimise special use of a public estuary through a case study in the Eastern Cape (EC) province of South Africa. The aims of the paper are to (1) estimate the economic value that users attach to selected estuarine characteristics (attributes) through the use of non-market valuation technique, and (2) recommend the use of these values as inputs to a user charge structure. It is envisaged that this user charge structure will inform the management process as proposed in the National Estuarine Management Protocol (NEMP) (National Environmental Management: Integrated Coastal Management Act (ICMA), 2008).

### THE DEVELOPMENT OF AN ESTUARINE MANAGEMENT PLAN

<b>Estuarine management in South Africa</b>	
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South African policies for wetland management and conservation are mainly governed by the National Water Act (Act 36 of 1998), and the National Environmental Management: Integrated Coastal Management Act (Act 24 of 2008). 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 (ICMA, 2008). The ICMA is in the process of developing a NEMP, which will be responsible for establishing individual estuarine management plans (ICMA, 2008). The generation of an estuarine management plan involves the application of the following steps, namely (1) developing a strategic vision and setting relevant objectives, (2) deriving management strategies in order to achieve these objectives, (3) implementing these objectives and strategies within planning and operational estuary management activities, (4) monitoring the effectiveness of these strategies, and (5) assessing and evaluating the results. This study provides management with inputs to stage two of the NEMP.

### **An estuarine management strategy for the Sundays River Estuary**

A South African estuary system currently facing high demand competition is the Sundays River Estuary (see Figure 1). It is situated in the EC, approximately 40 kilometres (km) northeast of Port Elizabeth. The estuary is 20km long, is permanently open and discharges into Algoa Bay, in the Indian Ocean (MacKay & Schumann, 1990). The estuary's average depth and width, respectively, are 2 metres (m) and 50m. The overall surface area covers approximately 156 hectares (Scharler & Baird, 2003). Over time, the lower reaches of the Sundays River Estuary have been significantly developed for residential purposes. These developments, coupled with the popularity of the estuary as a fishing destination, have resulted in the over-exploitation of fish stocks and high boat use during peak holiday seasons. In addition to over-fishing and boat congestion, the estuary's overall recreational appeal as a tourist destination is also negatively affected due to a lack of public access.



**FIGURE 1:** An aerial photograph of the Kromme River Estuary (CMS45)  
(Source: Whitfield, Bate, Colloty & Taylor (2011))

### **Recreational over-fishing**

The Sundays River Estuary fishery is a major tourist asset (Cowley et al., 2009). Three fish species are actively targeted by recreational fishers in this estuary, namely spotted grunter (*Pomadasys*

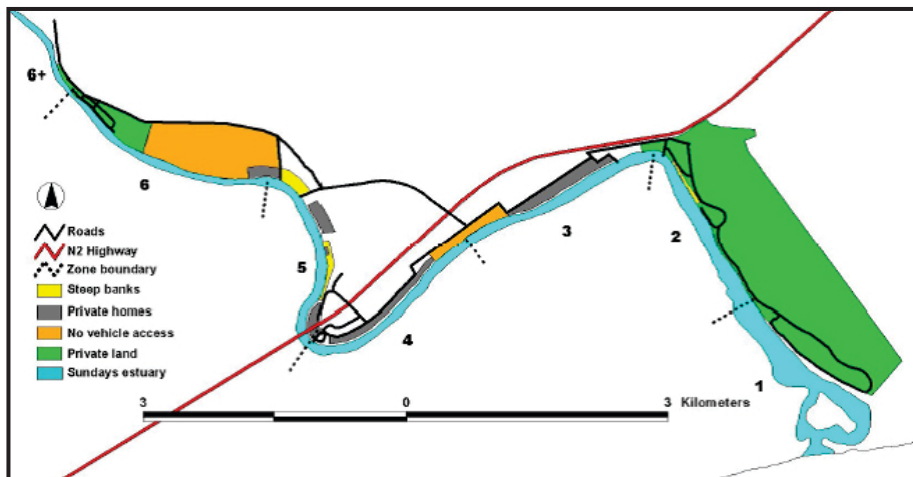


commersonnii), dusky kob (*Argyrosomus japonicas*) and white steenbras (*Lithognathus lithognathus*) (Wooldridge, 2010). These fish species are not being allowed to reach their adult size, due to over-fishing and high retention rates of undersized fish. The stock status is collapsed of two of these species, namely dusky kob and white steenbras (Cowley et al., 2009). The stock status is over-exploited of spotted grunter (Cowley et al., 2009).

Most fishery management initiatives are aimed at controlling effort levels through the use of command-and-control restrictions, the imposition of catch limits or the implementation of transferable catch quotas (Field, 2001). These initiatives relate to the management of a commercial fishery and not a recreational one. Initiatives specifically aimed at managing a recreational fishery are limited, and thus an alternative management approach is necessary. It was found that the only available instrument with which to control recreational fishing effort is the boat license fee structure. The piece of information that is needed to adjust the existing instrument is the increment in its size that will induce a decrease in effort levels in the fishery toward the optimum.

### Motorised boat congestion

Fishing and non-fishing motorised boating activities constitute a large part of all activities that occur in the Sundays River Estuary (Cowley et al., 2009; Lee, 2012). The Cowley et al. (2009) study divided the recreational boating area of the Sundays River Estuary into six zones (see Figure 2 below). These zones stretch for 12km, starting at the mouth of the estuary and ending approximately 4.5km beyond the N2 Bridge.



**FIGURE 2: SPATIAL ZONES OF THE SUNDAYS RIVER ESTUARY**  
(Source: Cowley et al. (2009))

The Sundays River is controlled by the Sundays River Municipality. The area between the Pearson Park slipway and the public slipway adjacent to the Mackay Bridge (zones 3 and 4) is zoned for jet skiing and water skiing. Apart from this zoning regulation, there are no other access restrictions limiting the movement of boats, and hence, motorised boating activity is widely spread throughout the Sundays River Estuary (Cowley et al., 2009). Table 1 below summarises the spatial distribution of recreational motorised boating activities (as described by Cowley et al., 2009).

**TABLE 1: SPATIAL DISTRIBUTION OF RECREATIONAL MOTORISED BOATING ACTIVITIES**

Boating Activity	Zone	Zone(s) with most Activity
Recreational Boat Angling	1 – 6	2
Other Motorised Boating*	1 – 6	2, 3, 4, 5
Water Skiing	1 – 5	3, 4
Jet Skiing	2 and 4	2 and 4

(Source: Cowley et al. (2009))

\*This type of boating includes leisure cruises, 'booze' cruises, ferry trips and family outings.

A status quo assessment report of the Sundays River Estuary conducted by Afri-Coast engineers in 2004 argued that the recreational users at this estuary show a lower tolerance towards motorised activities than non-motorised and shore-based activities (Afri-Coast Engineers, 2004). A survey of recreational users showed that, with respect to motorised activities: the noise generated and the danger associated with the high speed of the craft, were considered problematic; the neglect of regulations governing motorised craft use and reckless behaviour were problematic; and the high number of boats was a major problem (Afri-Coast Engineers, 2004). The Sowman and Fuggle (1987) recreational space standards for water-related activities (see Table 2) and the zonal areas defined by Cowley et al. (2009) above provide insight into the boat carrying potential of the estuary.

**TABLE 2: SPACE STANDARDS FOR RECREATIONAL WATER ACTIVITIES**

Recreational Activity	Crafts per Hectare (ha)
Boat Angling	0.25
Leisure Cruising	0.83
Water Skiing and Speed Boating	0.06 – 0.13 (avg. = 0.095)
Jet Skiing	Same as Water Skiing
Hobie Cats	1 - 3 (avg. = 2)
Dinghies	1 – 3 (avg. = 2)
Canoeing	Not Defined
Windsurfing	10
Bait Collecting	Not Defined
Swimming	Not Defined
Average	2.18

(Sources: Sowman & Fuggle (1987))

If one takes the length of the Cowley et al. (2009) study area (12km) and averages estuary width (75m), approximately 90ha are available for recreational activities. Based on the abovementioned space standards and the total number of hectares available, the maximum number of motorised recreational angling boats using the Sundays River Estuary at any one time should not exceed 23. There should also be no more than 75 leisure cruises taking place at any one time, or 9 water skiers or speed boaters on the water, and 9 jet skiers or wet bikers (Lee, 2012). These standards assume that only one of these recreational activities is taking place at any one time. The policy challenge at the Sundays River Estuary is to determine a simultaneous capacity limit covering all these activities. When this determination is done by weighting each of these boating activities proportionally, the capacity limit at any one time for the whole Sundays River Estuary is 55 boats (Lee, 2012). Within any given zone, however, the capacity limit is less.

Methods available to authorities for managing motorised boat congestion on estuaries include (1) the use of zoning regulations, (2) spacing standards to generate safety guidelines, and (3) access to the estuary on a 'first-come-first-served' basis (Sowman & Fuggle, 1987; Field, 2001). The merit of these management approaches is that they indicate the maximum quantity of boats that can safely be accommodated on the estuary at any one time. The disadvantage of these approaches is

that they have a high associated cost, with no compensating income inflow. They require extra enforcement personnel and they may arbitrarily place the estuary users' recreational experience in jeopardy if access is limited or denied when the user arrives at the estuary (for example, on a first-come first-served basis). A more market driven option for managing congestion is to adjust access cost to a level that regulates demand to the desired level automatically. This price rationing mechanism not only limits the use of the estuary, but it also yields a revenue flow that can be used to manage recreation in the area. As the external congestion cost is only typically incurred during peak demand periods, it is only necessary to implement an allocation mechanism (in the form of a supplementary tariff) during peak use periods.

## Public access

Public access at the Sundays River Estuary is subject to a number of restrictions – some are natural barriers and others are man-made. The former includes steep, inaccessible banks. The latter includes private residential properties on land adjacent to the banks of the estuary, private ownership of land adjacent to the estuary's banks and the paucity of roads to the estuary's banks (Cowley et al., 2009; Integrated Environmental and Coastal Management (IECM), 2010).

Public access to the west bank of the estuary is limited by privately-owned farms (no public access save for agricultural staff only), the N2 national highway (this permits access to pedestrians only), and the Mackay Rail Bridge, that is currently closed, permits bicycle and pedestrian access only (Cowley et al., 2009). Access to the east bank of the estuary, from the mouth of the estuary up to the Pearson Park caravan park, is restricted due to the presence of privately-owned land. The north bank of the estuary, between the N2 Bridge and the Pearson Park caravan park, is largely residential. The estuary banks and riparian zone on this bank are frequented mostly by residents, but the area is accessible to the general public via a wide open grass space between the residential dwellings and the estuary. Vehicle access to the estuary is restricted to two distinct points: one near the petrol station in the north-east corner of the estuary, and the other at the slipway located adjacent to the N2. Except for these two access points, there are virtually no other vehicle access points along this stretch of the estuary (Cowley et al., 2009).

In their status quo assessment report, Afri-Coast Engineers recommended that "... a continuous strip of green open space be preserved along the river banks (of the Sundays River Estuary) to form an aesthetic nature trail providing a valuable asset to the area for both local residents and tourists" (Afri-Coast Engineers, 2004). The green open space must constitute a sufficiently wide river frontage to allow for safe public access. It was further recommended that "... negotiations should be initiated with the private land owners who own private land along the river edges (of the Sundays River Estuary) to investigate a mutually beneficial partnership to conserve this ecologically valuable land" (Afri-Coast Engineers, 2004). It was also suggested that other privately-owned land be incorporated into conservancies, or bought by the NMBM, in order to conserve these areas and to incorporate them into the Nelson Mandela Metropolitan Open Space System (Afri-Coast Engineers, 2004).

The introduction of a nature trail fronting the banks of the Sundays River Estuary would improve the quality of the public land fronting the water's edge, and make it more appealing for recreational shore fishing, as well as provide further areas for other recreational activities, such as bird watching or walking. To determine whether this project is efficient, information is required on users' willingness-to-pay (WTP), in the form of boat license fees, for the project, and costs involved for the projects implementation.

Overall, recreational demand at the Sundays River Estuary is minimally regulated through the use of registration fees, permits and levies, and mainly with rules for use. Should this balance be changed to mainly regulation through charges for use? The changes in these pricing instruments can be informed through the use of stated preference techniques, such as the choice experiment (CE) method.

The literature that exists on the valuation of estuaries is largely focussed on valuing specific attributes of interest within each estuary site. Studies that make use of the CE methodology to value these attributes include Opaluch, Grigalunas, Diamantides, Mazotta and Johnson (1999), Heberling, Shortle and Fisher (2000), Economics for the Environment Consultancy (EFTEC) (2002), Hanley, Adamowicz and Wright (2002), Landry, Keeler and Kriesel (2003), Windle and Rolfe (2004), Bateman, Cole, Georgiou and Hadley (2005), Birol, Karousakis and Koundouri (2006), Huang, Poor and Zhao (2007), Smyth, Watzin and Manning (2009), and Beharry-Borg and Scarpa (2010). In South Africa, there have only been a few studies reported that make use of the CE technique to value environmental attributes. Most notably, it was applied in order to value improvements in freshwater inflows into the Kruger National Park catchment areas (Turpie & Joubert, 2004), and the Bushmans River Estuary (Oliver, 2010).

#### **Previous studies on managing the Sundays River Estuary attributes**

The value of improving recreational fishing conditions through the application of CE's has not been extensively covered in the literature. In Sweden, Eggert and Olsson (2004) studied the economic benefits of improving coastal water quality from a fishing, bathing water quality and biodiversity perspective. Their calculated marginal WTP values revealed that respondents prioritised improvements in fishing stocks, and wanted increased efforts aimed at preventing biodiversity loss. Another study by Paulrud and Laitila (2004) attempted to value recreational fishing in Sweden in order to develop effective and dynamic fish management policies. They found that the marginal value of trophy fish is high. In Victoria, Australia, a CE was applied by Kragt, Bennett, Lloyd and Dumsday (2007) to estimate benefits associated with improved health of the Goulburn River. Individual preferences were modelled with regards to marginal changes in different environmental attributes, including native fish species. Results indicated that individuals were willing to pay for increased protection of fish species for recreational fishing.

The issue of congestion has been addressed in the literature but largely through the application of contingent valuations and other revealed preference techniques. Some of the earliest studies on measuring congestion through estimating WTP included Anderson and Bonsor (1974), as well as Cicchetti and Smith (1976). The optimal capacity of beaches was first investigated by McConnell (1977) through the use of WTP functions. More recently, Gurluk (2012), investigated respondents' WTP values for different levels of congestion within the Ataturk recreational area in Bursa City, Turkey.

The value of improved public path access has not been addressed by many empirical studies. Kline and Swallow (1998) estimated WTP values for public access to Gooseberry Island, Massachusetts, USA. They did this through the use of the contingent valuation method (CVM). A study by Dyack, Rolfe, Harvey, O'Connell and Abel (2007) estimated the impact of different public access situations on recreational value in the Murray River Basin, Australia. This study made use of both revealed and stated preference techniques to estimate non-market recreational values.

The conclusion drawn is that the CE method is an appropriate technique for analysing choice to exploit the Sundays River Estuary and generate values on this basis. The method has already been successfully applied in many different wetland settings and has the advantage of being able to generate multiple value estimates from a single application.

## THE CE METHODOLOGY

### Conceptual framework

The CE method is a choice modelling technique that is used to measure user preferences for goods where goods are described in terms of attributes and levels (Hanley, Koop, Alvarez-Farizo, Wright & Nevin, 2001). Respondents are presented with a number of different options made up of differing attributes and levels and asked to choose their most preferred. The theoretical background to the CE method dates back to Lancaster's model of consumer choice (Lancaster, 1966) and random utility theory (Thurstone, 1927). It is argued that consumers enjoy utility not from the good as a whole, but rather from the attributes or characteristics that comprise this good (Lancaster, 1966). Random utility theory is the basis for analysing respondent behaviour within the context of a CE. It is based on the assumption that individuals make their choices based on the good's observable attributes, together with a random element. Indirect utility for individual  $i$  in choice scenario  $q$  can be defined as:

$$U_{iq} = V_{iq}(\beta x_{iq}) + \varepsilon_{iq} \quad (1)$$

where,  $x_{iq}$  is a vector of observed attributes, and  $\beta$  is a vector of the parameters to be estimated (Hanley et al., 2001). This indirect utility function comprises one observable component of utility,  $V_{iq}$ , and a random component,  $\varepsilon_{iq}$ . It is assumed that individuals make choices in order to maximise their utility. An individual ( $i$ ) will select alternative  $q$  if and only if (iff)  $U_{iq}$  is greater than the utility derived from any other alternative facing person  $i$  in the choice set  $C$ . This probability is formulated by:

$$P_i(q) = \Pr(U_{iq} \geq U_{ij}, \forall j \in C_i, q \neq j) \quad (2)$$

The utility of each alternative ( $q$  and  $j$ ) is divided into two parts, namely an observable component and a random element. Equation 2 is rewritten to include this information:

$$P_i(q) = \Pr(V_{iq}(\beta x_{iq}) + \varepsilon_{iq} \geq V_{ij}(\beta x_{ij}) + \varepsilon_{ij}, \forall j \in C_i, q \neq j) \quad (3)$$

Choice can be predicted by estimating the probability of individual ( $i$ ) ranking alternative  $q$  higher than any other alternative  $j$  in the set of choices available (Louviere, Hensher & Swait, 2000; Nam Do & Bennett, 2007). In order to derive this probability expression, an assumption needs to be made with regards to the distribution of the error term (Hanley et al., 2001). The error term is typically assumed to be independently and identically distributed (IID) with an extreme-value (EV) type 1 distribution. This implies that the probability of any option  $q$  being chosen can be expressed in terms of a logistic distribution (McFadden, 1974). This logistic distribution is known as the conditional logit (CL) model:

$$P(U_{iq} > U_{ij}, \forall j \neq q) = \frac{\exp(\mu V_{iq})}{\sum_{j \in C} \exp(\mu V_{ij})} \quad (4)$$

including  $a$  different alternatives in choice set  $C$ . The scale parameter,  $\mu$ , is typically assumed to be one (Ben-Akiva & Lerman, 1985). This model can be restrictive in terms of its underlying assumptions. In addition to the IID assumption of the error term, it assumes that random components do not exhibit serial correlation, i.e. they are independent of irrelevant alternatives (IIA), that utility parameters are set, and that homogeneity of preferences across respondents is maintained (Bhat, Eluru & Copperman, 2000). Despite these assumptions, however, the CL model is still considered the 'work horse' of discrete choice analysis (Hensher, Rose & Greene, 2005).

## Designing the Sundays River Estuary CE

The design phase of the CE began with interviews and meetings in order to select the most policy relevant recreational attributes and their choice levels. The attributes and their levels found to be most relevant to the Sundays River Estuary residents in 2010 are presented in Table 3 below. The three non-monetary attributes were each stated at two relative levels of magnitude. Focus group discussions revealed that the use of relative levels was more intuitive as opposed to percentages or absolute numbers. Each respondent was presented with an introductory letter and a questionnaire. The development of the questionnaire followed the design steps proposed by Hasler, Lundhede, Martinsen, Neye and Schou (2005). These steps include (1) collecting of introductory information from the respondent through the use of an introductory section, (2) setting out of the CE with relevant descriptions of the attributes and levels, (3) provision of follow-up questions, which allow for reliability and validity checks, and (4) collection of socio-demographic information from the respondent.

In order to make sure that the respondent is aware of their budgetary commitments, some CE studies include “cheap talk” (see for example, Abou-Ali & Carlsson, 2004; Nam Do & Bennett, 2007). Even though the effects of “cheap talk” within a CE context are inconclusive, it was decided to include a short “cheap talk” section in the design of the questionnaire.

A full factorial design was generated using SPSS, yielding 32 different treatment combinations or alternatives. For the purposes of this study, two alternatives per choice set were adopted, namely ‘Option A’ and ‘Option B’ (see Appendix 1). These alternatives were randomly allocated to 32 different questionnaires containing four choice sets each. For each of the four choice sets in the questionnaire, the respondent had to choose between ‘Option A’ and ‘Option B’ where both of these options included a price.

**TABLE 3: THE ATTRIBUTES OF INTEREST AND THEIR LEVELS**

Indicator/attribute	Levels	Description of levels
Physical size of fish stocks caught	Mostly small fish now	Catch and retain whatever fish species you want ‘today’
	None now but bigger and more fish next year	Keep no undersize fish now but more and bigger fish next year
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
More public access	Yes	Establish a path access along the banks of the estuary
	No	Do not establish a path access along the banks of the estuary
Cost	R0	A fixed annual sum added to the existing boat license fee. This sum will be directed back to the Sundays River Estuary for appropriate allocation
	R45	
	R90	
	R120	

A ‘status quo’ or ‘opt-out’ option was not included in this study, as it can lead to ‘status quo’ bias. A large number of valuation studies advocate the inclusion of a status quo or ‘opt-out’ alternative (Mallawaarachchi, Blamey, Morrison, Johnson & Bennett, 2001; Morrison & Bennett, 2004; Nam Do & Bennett, 2007), however, the inclusion of a status quo or ‘opt-out’ option is not always recommended (Qin, 2008). It can create new biases (Scarpa, Willis, Acutt & Ferrini, 2004). It also provides an ‘easy way out’ for respondents if they want to avoid the choice task (Dhar & Simonson, 2001; Kontoleon & Yabe, 2003).



The target population included all individuals who, at the time of the survey, made use of the Sundays River Estuary for recreational purposes. A sample frame for the estuary could not be compiled, as the population does not reveal itself until it visits the estuary. For this reason, the sample selection process that was followed used 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, Carson, Day, Hanemann, Hanley, Hett, Jones-Lee, Loomes, Mourato, Ozdemiroglu & Pearce, 2002; Dillman, Smyth & Christian, 2009). On-site sampling also known as an intercept survey was employed and estuary users were identified when they were actually engaged in carrying out their recreational activities (Bateman et al., 2002).

Sample size was determined through the use of a non-probabilistic sampling technique, known as the rule of thumb (Hensher et al., 2005). A 'rule of thumb' guideline commonly applied is a sample of 50 respondents, 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, 175 completed questionnaires were collected; below the recommended sample size but still adequate for estimating 'robust' models (Hensher et al., 2005). 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 (Mitchell & Carson, 1989). The questionnaire was administered on-site by four trained interviewers during August, 2010. Every nth recreational user encountered was approached and asked to participate in the study.

## RESULTS

### Socio-economic characteristics

Selected, socio-economic results of this Sundays River Estuary study are summarised as follows:

- The largest percentage (91 percent) of visitors came from areas less than 50km away from the estuary.
- The largest percentage (55 percent) of recreational users surveyed were over the age of 35.
- The majority (84 percent) of recreational users surveyed were male.
- The average gross annual income for the sample was R184 000.
- Of the respondents sampled, 35 percent had a matric qualification with university exemption.

### CE results

A CL model specification was estimated using the LIMDEP NLOGIT Version 4.0 programme. The model estimated showed the importance of choice set attributes in explaining respondents' choices across two different options: option A and option B. The model provides an estimate of the effect of a change in any of these attributes on the probability that one of these options will be chosen. Table 3 gives the estimated model results.

**TABLE 3: ESTIMATION RESULTS OF THE CE<sup>1</sup>**

Variables	CL	
	Coefficient	Std Error
Physical Size of Fish	1.59225259*	.14157877
Congestion	-.34136177*	.13044418
Public Access	.34253510*	.12461801
Cost	-.01033063*	.00144555
No. of Respondents	175	
No. of Choice Sets	700	
Pseudo R <sup>2</sup>	.22091	

\* indicates significance at the 1 percent level

All the coefficients have the correct signs, a priori, and all 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 physical size of the fish stock, the higher the amount of boat congestion; the lower the amount of public access available and the higher the cost. The significant coefficients of the model can be interpreted by estimating their odds ratios. This is done by calculating the antilog<sup>2</sup> of the various coefficients. The 'Physical size of fish' coefficient can be interpreted as follows – an increase in the physical size of the fish stock will result in an increase in the probability of a respondent choosing this option by 39 percent. An increase in boat congestion will result in a decrease in the probability of a respondent choosing this option by 2 percent. An increase in public access will result in an increase in the probability of a respondent choosing this option by 2 percent.

The explanatory power of the model is measured by the Pseudo R2. At 22 percent this is a good fit for CE-type studies – Louviere et al. (2000) suggested that anything between 0.2 and 0.4 can be considered very good.

### Estimation of WTP values

From the estimated CL model, the marginal WTP values (implicit prices) can be estimated. The ratios of the attribute in question to the cost coefficient can be interpreted as the marginal WTP for a change in each of the attribute values (Hanemann, 1984). More specifically, the marginal WTP value represents: a change from catching small fish now to catching bigger and more fish next year, a change from seeing and hearing few boats to seeing and hearing many boats, and a change from limited recreational appeal to an improvement in the recreational appeal of estuary banks. Table 4 reports the implicit prices, or marginal WTP, for each of the Sundays River Estuary's recreational attributes estimated using the Delta method (Wald procedure) in LIMDEP NLOGIT Version 4.0 (Greene, 2007).

**TABLE 4: MARGINAL WTP (MWTP) FOR ATTRIBUTES (RANDS) AND 95 PERCENT CONFIDENCE INTERVALS (CI)\***

Attributes	Marginal WTP
Physical Size of Fish Stock	154; (109; 200)
Congestion	-33; (-60; -6)
Public Access	33; (8; 59)

\* Confidence intervals in parentheses

<sup>1</sup> The number of iterations taken to fit a model is an important aspect of interpreting LIMDEP NLOGIT Version 4.0 output (Hensher et al. 2005). It is argued that if more than 25 iterations have occurred in estimating a CL model the researcher should question the final model produced (Hensher et al. 2005). In this case, the number of iterations taken for the CL model was 6.

<sup>2</sup> Finding the antilog entails calculating the value of 10 to the power of the coefficient's value.

These values indicate that the maximum amount, on average, that a person is willing to pay in order to improve the physical size of fish stocks in the Sundays River Estuary is R154 per annum (2010 prices). Users are also willing to pay R33 per annum to reduce the level of boat congestion (2010 price level). Lastly, in order to improve the recreational appeal of the estuary banks, users are willing to pay R33 per annum (2010 prices).

## **POLICY ANALYSIS AND CONCLUSIONS**

The stocks of the fish targeted by recreational users in the Sundays River Estuary are over-exploited and face potential collapse. Most fishery management initiatives aim at controlling fishing effort levels through restricting access, implementing catch limits, and using transferable catch quotas. These initiatives relate to the management of a commercial fishery and not a recreational one. Management options are limited in the case of a recreational fishery and thus an alternative approach is proposed. In the case of an exploited recreational fishery, such as the Sundays River Estuary fishery, falling stock sizes, falling stock levels, and a decrease in overall fishing quality will not necessarily reduce the demand for angling licenses, as recreational fishing is driven by utility and not by revenue yield. In order to decrease fishing effort and restore stock levels, in the absence of revenue maximising behaviour by recreational anglers, some mechanism must be implemented to force anglers to decrease their demand for licenses per day, i.e. decrease quantity demanded. In order to get quantity demanded to drop to a point where harvest levels are at their maximum sustainable yield, the price i.e. the license fee structure will have to increase. The CE method indicates what type of increase would induce this demand trade-off (effort reduction) - the WTP for increased physical size of fish stocks was estimated to be R154 (at 2010 price levels) per annum.

Increased human recreational demand at any estuary can lead to negative crowding effects. Rationing boat use through the implementation of a quota, or relying on self-regulation (automatic market resolution), are not generally considered as the most appropriate options for reducing boat congestion (Field, 2001; Flaaten, 2010). Quotas can be difficult to implement due to practical considerations, for example, prohibitively high costs and the need for competent physical enforcement (Field, 2001). Self-regulation will not work if one or a few of the boat users act selfishly and do not take other boat users into account. The use of peak load pricing has been effective, however, as (1) it provides users with economic incentives to use the resource during off-peak periods, and (2) it guarantees that the users that place the highest value on using this resource for boating purposes during peak periods are the individuals that are actually willing to pay for it (Van Kooten & Bulte, 2000). Under these circumstances, the management option considered most feasible was the use of prices to ration use. The price adjustment proposed for the Sundays River Estuary 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. Using the CE method to estimate the value for this particular estuarine characteristic, it was found that users are willing to pay an additional R33 to reduce congestion on the estuary during peak periods of the year (2010 prices).

As proposed by Afri-Coast Engineers (2004), in their status quo assessment, the introduction of a nature trail fronting the banks of the Sundays River Estuary would be an attractive complementary investment for both local residents and tourists. This investment would improve the recreational appeal of the estuary's banks and open up further areas for other recreational activities, such as bird watching and walking. The marginal WTP for an investment in a nature trail was estimated to be R33 per user per annum. As no project cost information was available for the development of this trail, it is unknown whether this project is efficient or not.

## RECOMMENDATIONS FOR MANAGEMENT

The primary objective of this paper was to estimate the economic value that users attach to selected estuarine characteristics (attributes) through the use of a CE, and use these values as inputs to a user charge structure for inclusion in the National Estuarine Management Protocol. Various management alternatives have been investigated that have the potential to control estuarine use from a recreational perspective by decreasing recreational demand at estuaries that currently face demand induced pressures. With respect to the selected attributes, the following management alternatives were investigated – increasing the existing license fee structure in order to decrease fishing level efforts, the imposition of a supplementary tariff during times of peak demand (the price rationing instrument) to discourage congestion, and improving public access at the Sundays River Estuary through the development of a nature trail along the banks of the estuary. The application of the CE has facilitated the calculation of these values. The following recommendations are made:

- It is recommended that the boat license fee structure for the Sundays River Estuary be increased by R154 per annum to decrease fishing efforts towards the optimum.
- It is recommended that there be increased efforts made to enforce fishing regulations, funded through increased license fee collection.
- It is recommended that more effort be put into increasing public awareness of the sustainability issues facing the Sundays River Estuary fishery, funded through increased license fee collection.
- It is recommended that, in addition to the standard boat license fee, a once-off per annum peak period supplementary tariff payable by peak period boat users, covering the months of November to February, should be implemented in order to discourage congestion during this peak period. The supplementary tariffs recommended for immediate imposition is R33.
- In order to improve the recreational appeal of the banks of the Sundays River Estuary, a nature trail fronting the banks of the estuary was considered in the choice modelling. Although users are willing to pay R33 per user per annum to implement such a project, it cannot be determined whether this investment is efficient as project cost information was not collected. It is recommended that a cost-benefit analysis be conducted on the feasibility of this project at a later date.

These CE results also allow policy makers to develop specific management 'packages' inclusive of all the attributes' preferred management strategies. When these marginal WTP values are added together, the overall additional levy recommended for boat users of the Sundays River Estuary is R187. This takes the annual levy up from R94 to R281 (2010 price levels). It is important to note that R33 of that levy will only be payable by those boat users that access the estuary during peak periods of the year i.e. November to February.

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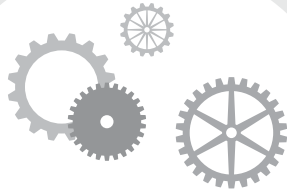
## APPENDIX

### AN EXAMPLE OF A COMPLETED CHOICE SET

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):	√	?

# THE IMPACT OF PRIVATE GAME FARMS ON LOCAL COMMUNITY DEVELOPMENT

45



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## ABSTRACT

Nature-based and wildlife tourism is a growing economic sector with associated increases in privately protected areas. The history of South Africa suggests a conflicting relationship between privately-owned game farms (PGFs) and their surrounding communities. There is an increased recognition of the contribution of PGFs to issues such as biodiversity and community development. However, few investigations, if any, on the relation between PGFs and community development can be discovered. The aim of this paper is to investigate and understand the current role and contribution of PGFs to community development, using a South African case study. To investigate the topic, telephonic interviews were conducted. The study suggests that PGFs are active in local community development albeit that their involvement is still in its early stages and could be enhanced. The present scarcity of research on the topic posits this investigation as a channel towards further research. The paper will suggest various strategies and projects that could help to facilitate the intervention of PGFs in community development.

## KEYWORDS

Community development, Private game farm, South Africa, Wildlife tourism.

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## INTRODUCTION

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Tourism is one of the largest economic sectors in the world and it is linked to issues of socio-economic development (Frey & George, 2010: 622). South Africa does not differ from this trend. In the country, both the Government and the private sector have recognised the potential of tourism for the South African economy indicating tourism as one of the fastest growing and key sectors of the economy (George, 2010: 1; South Africa Yearbook, 2008/2009: 499). However, the generally positive economic impact of tourism needs to be scrutinised. It is important to understand the impact of tourism on local people as it reflects on issues such as employment and other community development opportunities. In fact, despite its growing importance to the South African economy, various challenges still exist and tourism remains as a sector that is not “truly representative” of the South African population (Frey & George, 2010: 622). In addition, despite tourism growth, “the number of tourism jobs (direct and indirect) decreased by 7.4 % from 993,400 in 2008 to 919,800 in 2009” (South African Tourism, 2010: 5).

Coupled with the overall growth of the tourism sector, tourism in natural areas is growing rapidly worldwide (Kepe, 2001: 155). According to Saayman, van der Merwe and Rossouw (2011: 120), nature-based tourism “is attracting increasing interest from governments, the tourism industry and researchers alike”. In the South African context, the natural resources and conservation areas should, through tourism, contribute to economic development (Hill, Nel & Trotter, 2006: 163). According to Geldenhuys and Saayman (2009: 30), “privately protected areas are proliferating throughout the world”. South Africa has followed this trend where Private Game Reserves (PGRs) or Game Farms (PGFs) form key features in the wildlife tourism sector. PGRs can be private reserves that are: “(1) larger than 5 ha, (2) not owned by a government entity, (3) visitors permitted, either as tourists or students, and (4) managed with the intent of preserving the land in a mostly undeveloped state” (Langholz, 1996: 272). Game farms can be defined “as land that is adequately fenced, with a variety of game species that can be used for hunting, photographic opportunities, environmental education, meat production, live game sales and which provides infrastructure and superstructures for ecotourists. It includes both consumptive and non-consumptive utilization of wildlife” (van der Merwe & Saayman, 2005: 1).

### **Purpose/objectives of the article**

The aim of this paper is to investigate and understand the current role and contribution of PGFs to community development, using a South African case study.

### **The problem investigated**

It has been proposed that Private Protected Areas (PPAs) serve as a vehicle to enhance sustainable development and indications are present that they play a positive role in protecting biodiversity, facilitating development and being financially successful (Langholz & Kerley, 2006: 2). It is therefore important to determine how well privately owned reserves are managed for nature conservation and community benefits (Mitchell, 2005: 4). The problem that this research investigates is to determine the impact of PGFs on local community development.

### **Research objectives**

This research intends to verify if, and how, PGFs contribute to community development. The historical context of South Africa marks possible hesitation and conflict concerning the relationship between PGFs and their surrounding communities. The objective of this paper is to shed some light on this issue and to verify the current role of PGFs in community development.

## LITERATURE BACKGROUND AND PROBLEM STATEMENT

Conservation strategies, for a long time, have somewhat down-played any concern for the well-being of the local community as nature conservation strategies have to date displayed an historical Western ideological bias and dominance concerning the establishment and management of National Parks (Rosa & Joubert, 2009: 176; West, Igoe, & Brockington, 2006: 14: 6; Ramutsindela, 2004: 2). In most African countries the establishment of protected areas has often led to a conflict-relationship with local community thus leading to the so-called “fortress conservation” (Brockington, 2002). However, and more productively, “the main approach to recent wildlife management schemes has been to include the local people to gain their cooperation and support” (Johannesen & Skonhoft, 2005: 209). In South Africa, between 1948 and 1990, tourism was ‘non-developmental’ and most indigenous communities were not involved in the tourism sector (Frey & George, 2010: 622; Faasen & Watts, 2007: 36). However, various entities are moving, albeit with many difficulties and contradictions, away from these historical approaches and legacies. South Africa National Parks Board (SANParks), for example, now also promotes involvement in, capacity building of, and benefits to communities surrounding the parks in its approach to park management (Saayman & Saayman, 2006: 619; see also Saayman, 2009: 80). Research carried out on South African Game farms as a sustainable ecotourism attraction by van der Merwe and Saayman (2005: 9) suggests that, amongst other factors identified as being neglected by farmers, community involvement is crucial.

Since 1994, and thanks to the re-opening of South African tourism through the elimination of economic sanctions, a very positive outcome of the development of consumptive wildlife tourism has been achieved (Mbaiwa, 2008: 148). The reintegration of South Africa into the global market underpins its tourism growth and favours the shift from commercial farming to game farms or to a mixed solution. This conversion has also altered labour requirements (Luck & Vena, 2003: 85). Quantitative data regarding the number of South African game farms, as well as the extension and economic values are, unfortunately, both scarce and confusing. The relevance of the PGR tourism sector’s contribution is however evident. Yet, while the relevance of the hunting sector is, according to Damm (2005: 1), well-recognised, available statistics on the sector “lack accuracy and depth”.

The issue linking conservation with community participation and development has long been recognised. In 1996, Shackely (1996: 82) stated that the success of tourism and conservation projects “depends on local community participation”. Even so, within this understanding was the caveat that “wildlife management (exists) within the ambit of the development of poor, communal rural communities and, as a consequence, it inherits all the problems related to rural development. The game farms cannot escape from or ignore this situation” (Els, 2002a: 650). It is this view that issues of conservation (in this case, the role of PGFs) and community development have to be investigated.

The meaning of the concept of development has also changed. Initially, development was mostly linked to economic issues but has since become more holistic in perspective. Saayman (2009: 79) also considers the concept of economic benefit to be inadequate, thus “development must not only benefit communities economically, but also socially. The quality of life of the local community must be improved”.

In addition, because PGFs can differ greatly in size and resources, it is unrealistic to believe that each PGF can elaborate and facilitate the same level of community development projects; thus each PGF contribution to community development should proportionately represent its capabilities and resources. To exert a greater impact, smaller PGFs could work together to conduct specific community development projects. In this study, the local community is identified as comprising people belonging to the previously disadvantaged groups of South African society.



Tourism, especially ecotourism or nature based tourism, has been linked to issues of development and conservation (Stone & Wall, 2003: 12). In South Africa, the link between tourism development, PGRs and community development has also been recognised (Viljoen & Tlabela, 2007: 13); this approval is also followed by the North-West Park and Tourism Board (Saayman, 2009: 81). In addition, community development supported by government protected areas and privately conserved areas can include a wide range of benefits such as jobs and general welfare activities (Jones, Stolton & Dudley, 2005: 73). Within the PGR context, ecotourism is more profitable and offers the potential for significant community development spin-off when compared to other land usage (Sims-Castley, Kerley, Geach & Langholz, 2005: 6).

An almost reverse understanding of the relationship between conservation and community development is considered to be possible, where “conservation is not the primary stated objective. Nonetheless, it will emerge as a powerful secondary objective, either as a stated management plan or as a natural spin-off” (Els, 2002b: 673). Conservation, therefore, becomes a consequential spin-off from the community development; “(i)f local communities and the region as a whole can benefit through jobs and business opportunities that are created or generated, then firm support for protected areas will be achieved and important conservation objectives will be met as a secondary or spin-off benefit” (Saayman, 2009: 83). At the same time, the implementation of specific strategies has to favour community development; therefore, community empowerment should be promoted through a facilitative process (Giampiccoli & Mtapuri, 2012: 35; Cernea, 1985: 10). The facilitative process or at least aspects of it should also be recognised by game farmers. Accordingly, game farmers “should always facilitate rather than conduct projects on their own, then any projects that fail will not reflect poorly on them” (Els, 2002c: 684). A facilitator (or development officer) could be useful. In this context, a facilitator can be defined as “a person whose objective is to help individuals or groups in achieving their goals. The role of a facilitator is limited to providing proper methods and tools to the people he/she is facilitating in order to make it is easier for them to reach their goals” (Lecup & Nicholson, 2000: 11). Such a development officer or facilitator could be employed by a PGF alone or by a number of PGFs in order to facilitate better linkages with the local communities.

The practical impact of PGRs on community development is difficult to establish, as very few studies have been conducted in this regard and it appears that more studies that would yield more in-depth data are necessary. However, some data is available. In South Africa, it has been estimated that “approximately 49,000 jobs are created on privately owned game reserves in the country, with an average of 7 employees per reserve” (Porter, Ferrer & Aylwards, 2003: 297). Van der Merwe and Saayman (2003: 111) suggest that game farms “employ approximately 63,000 people”. Direct jobs are not the only sources of income nor do they offer the only possibilities for employment and benefits. Even if most game farm operations occur on private land, “benefits do spread to other sectors of society. Between 5,000 and 6,000 jobs are provided by the (hunting) industry and an estimated 63,000 jobs are provided by secondary industries such as tourism. Other benefits occurring include tips, revenue for conservation authorities and communal landowners, education/training/capacity building, conservation levies, meat, and eco-tourism opportunities” (Patterson & Khosa, 2005: 4). The multiplier effects of tourism services on PGRs must also be borne in mind in order to obtain a more holistic view. For example, a study carried out in KwaZulu-Natal suggests that high-end tourism facilities favour more job creation compared to low budget facilities and that wages in the public sector are much higher in comparison to those in the private sector as a reflection of specific legislation and policies that parastatal bodies should seek to follow (Aylwards, 2003: 24). Conversion issues regarding the use of land have also been relevant in promoting additional employment. In the case of the Eastern Cape, “changing from farming to wildlife-based ecotourism, employment numbers increased by a factor of 3.5” (Sims-Castley et al., 2005: 10). Finally, in a study carried out on PGRs in the Eastern Cape (South Africa), an improvement in workers’ living and contractual conditions was noted after the conversion of the

farm into a game farm (Sims-Castley et al., 2005: 10). Importantly, the same study also suggests that “there is an urgent need for national and provincial governments to acknowledge the important contribution this industry is making towards the country’s economy, and to provide assistance and support in both the establishment and management of private reserves” (Sims-Castley et al., 2005: 14). Ultimately, the continued existence of protected areas is directly linked to the benefit that the local community can reap from the protected areas (van der Merwe & Saayman, 2002: 7).

## METHOD OF RESEARCH AND LIMITATIONS

As this research could be considered to be the first investigation related to the specific topic, the result should be viewed as a channel towards further research. This research must be understood to constitute an entry point investigation into this topic. A mix of close-ended and open-ended questions (although with short answers) were completed during telephonic interviews held during August 2011 by a total of 21 respondents. The phone calls were made during the evening when the farmers were expected to be more available. The PGF owners to be interviewed were selected randomly amongst the owners found in the database of the South Africa Game Farm Association. Telephonic interviews (quantitative and qualitative research) were conducted across all nine provinces of South Africa in order to yield nationwide results, even though the number of respondents was limited. Restrictions of time and resources limited the scope of the paper, but it must be noted that the aim of the research was to open the topic. While the sample size could be amplified so as to make generalised assumptions, it is sufficient for the aim of the research, that is, to initiate debate with regards to a previously generally neglected topic.

The questionnaires were divided into four sections: (1) owner demographic profile; (2) PGF profile; (3) PGFs and tourism, and (4) PGFs and local community development. The first two sections of the questionnaire were more structured so as to understand the basic profiles of the PGFs and their owners. The third and, in particular, the fourth sections have to be viewed as the core sections of this study, that is, the questions investigating the relation between PGFs and the local community. These parts were more semi-structured in nature with a mix of close and open ended questions so as to gain a better understanding of the investigated issue. These sections were developed by extrapolating issues from the study carried out by Els (2002a,b,c), Sims-Castley et al. (2005), and van der Merwe (2004), as well as including questions concerning such issues as employment, training, food purchase, management of tourism activities, and PGF involvement in community projects.

## RESULTS AND ANALYSIS

### PGF data

The profile of the PGF owners indicates that they are mostly male (80.95 %) and Afrikaans-speaking (76.19 %), have a good educational level (diploma/degree, 57.14 %; postgraduate qualification 23.81 %; lower qualification 19.05 %), with an average age of almost 52 years, ranging between 36 and 66 years. The majority (76.19 %) of the owners live on the farm whereas only 28.57 % do not. While most of the owners living off the farm state that they live in South African urban centres; in one case, the owner records living overseas in New Zealand.

The results register a variety of different types of business (Trust, 19.05 %; sole proprietorship, 19.05 %; close corporation and partnership, 14.29 % respectively; private company, 9.52 %). From a tourism perspective, it is noteworthy that more than a quarter (28.57 %) of the PGF owners

categorised their facilities as a lodge, and 14.29 % as offering bed and breakfast accommodation; guest house (4.76 %), self-catering (4.76 %), and other tourism categories (4.76 %) were also recorded. Almost one-fifth (19.05 %) is not registered under any of the tourism categories.

Most PGFs have been transformed from a commercial farm which prioritised types of business other than that of a game farm (see also Van der Merwe, 2004:103). Van der Merwe (2004:67) points out that while earlier game farms were viewed as having “NO value in South Africa”, they later became valuable ecotourism and conservation products. In particular, the majority (54 %) of farms were livestock farms prior to becoming a PGF, whilst the PGFs practising crop farming as their former main activities amount to almost a quarter (23 %) of the respondents. Two PGFs of the other 23 % previously prioritised hunting, that is, already within a PGF context. The high level of conversion agree with other studies (see van der Merwe and Saayman, 2005; and Luck and Vena, 2003). A large majority (80.95 %) of the PGFs are member of some or other form of association such as a hunting association, a wildlife association, or Wildlife Ranching South Africa.

### **PGFs and community development**

The focus of this research falls on PGFs and community development as discussed in this section. Figure 1 depicts the level of community involvement in providing services for the PGFs. The result indicates a low level of involvement of the local communities in PGF services as only four sectors report community involvement (only in one instance each). The sectors in which the communities are involved are game viewing, hunting, music, and arts and craft. Game viewing and hunting are managed together with the community by one PGF while music as well as arts and craft are managed with the community associated with a PGF in one case each. For example, only 4.75 % of respondents (that is, one PGF) promotes community involvement in the music sector, and the same is true for arts and craft, while the same PGF involves the community in game viewing and hunting. For the rest, all the activities fall under the full control of the PGFs themselves. In the case of game viewing, 13 PGFs offer this activity (61.9 %) with only one (4.75 %) stating that the community is involved in its delivery, while all other PGFs who offer game viewing (57.14 %) do not involve the community in this activity. However, once again, it must be remembered that the size and resources of a PGF could influence the capacity of the owner to involve community members in the PGF activities or to be involved in community projects.

Figure 2 examines the food supply of PGFs. In this specific case study, the purchase of food from the local community could have a tangible positive impact on the community if PGFs, especially the ones more involved in tourism, purchase food from them (especially fruit and vegetables that could be linked to a small garden development in the community). Instead, the results indicate a minimal, almost negligible, link between the PGF food requirements and their local community. Figure 2 also illustrates that most of the food is purchased in nearby towns or shops. In this context, PGF owners support the local community in the sense that they buy their food requirements in the formal shops in the local town, which might be owned by anyone; often they are not owned or managed by members of the local community. In relation to this case study, formal shop owners are not viewed as being disadvantaged community members (the communities under scrutiny here) therefore their impact on community development is minimal. However, in small rural farming towns, there is often little choice or variety in the shops available. This, therefore, leaves the farmers with little, if any, choice. In this instance, a solution could be to favour new entrants (people from disadvantaged communities) in the formal trade through projects and policies. The results also reveal that the purchase of fruit and vegetables have a visible, although very small, presence in relation to local community involvement. PGFs acquire almost 10 % (9.52 %) of their fruit and vegetables from local communities. Acquiring meat from the local community is even less relevant to PGFs; only a

meagre 4.76 % do so. Meat, however, is a specific product that needs greater attention concerning hygiene and safety; therefore consumers and tourism businesses that buy meat for the tourists may well search for accredited and formal butcheries.

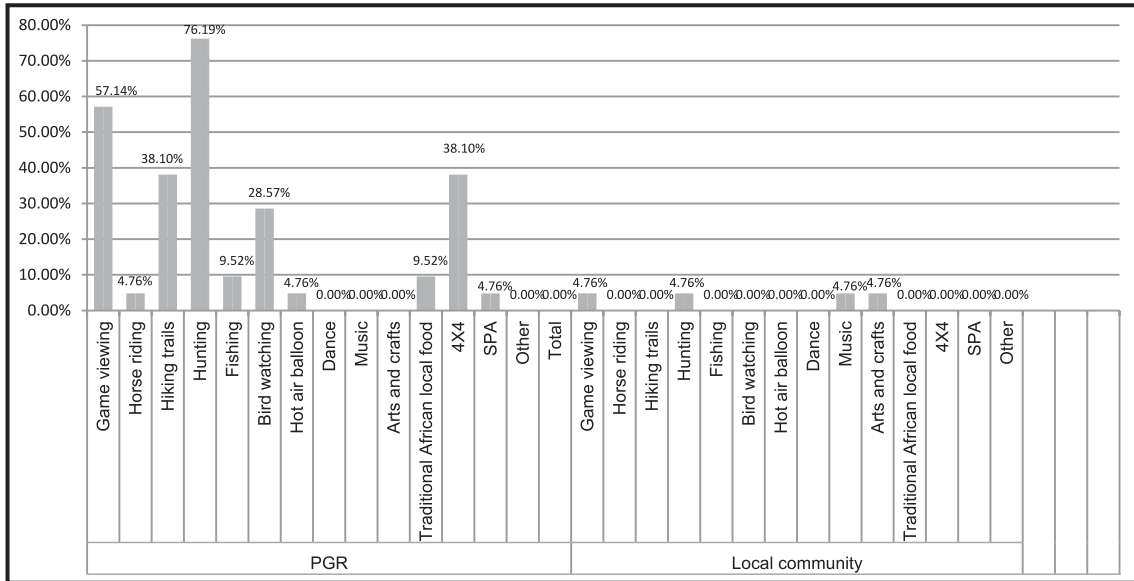


FIGURE 1: TOURISM ACTIVITIES MANAGEMENT FACTORS IN PGFS

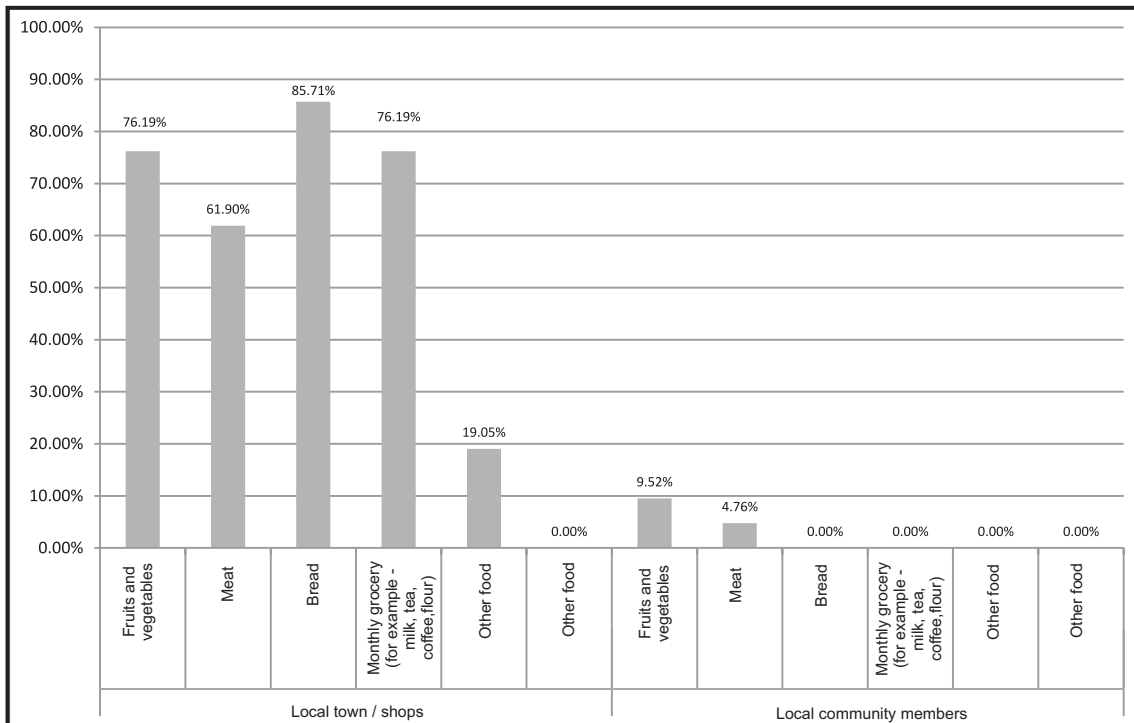
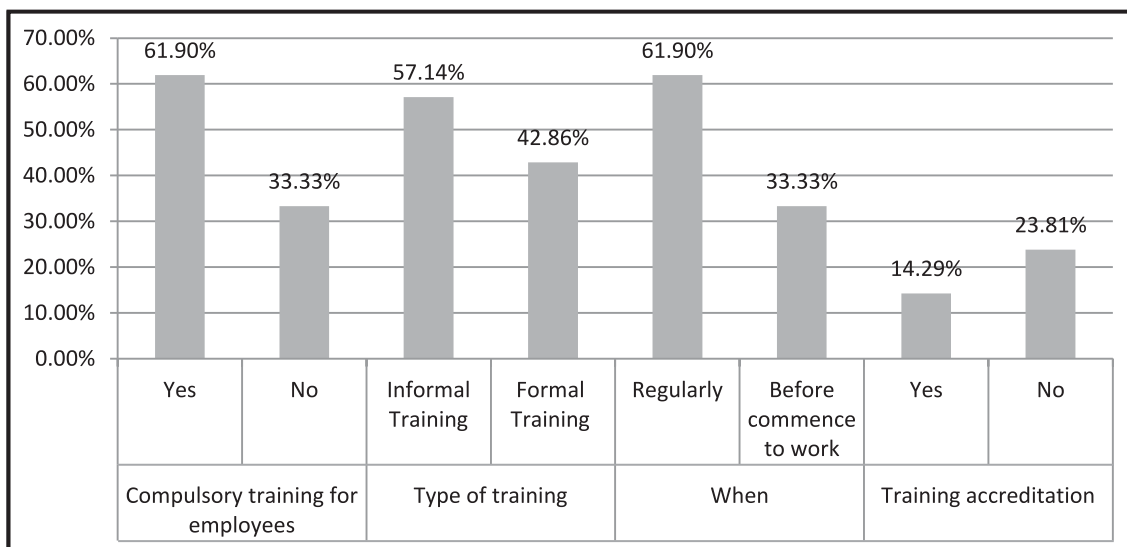


FIGURE 2: PGFS FOOD PURCHASE

Training and education are key empowerment factors concerning comprehensive community development. Therefore, it is crucial that the quantity and quality of training/educational opportunities that can be offered by PGFs to their workers and/or community members in general (see next section related to community projects) is appropriate. The results (see Figure 3) of this case study clearly reveal that a high percentage (61.9 %) of PGFs indicated that some form of training is compulsory. Therefore, from a quantitative perspective, even though not ideal, it appears that the training is surely heading in a very positive direction. However, the quality of the training appears to be less positive if it is considered that it should be formal and accredited. The gaining of accredited formal training empowers the trainee by not only giving them a more official, and often, greater technical skill (thus being able to work more skilfully on the farms), but would also offer greater gains from a psychological perspective. Achieving an official form of qualification offers the trainee gaining the qualification self-confidence and self-esteem. Formal training/education is supported by less than half (42.86 %) of the respondents against the informal training that does occur for more than half (57.14 %). The result is even more negative when only 14.29 % of the PGFs declare that they support training that is accredited against the 23.81 % who state that the training forms part of in-house training and non-accredited external training.



**FIGURE 3: PGFS' WORKERS TRAINING**

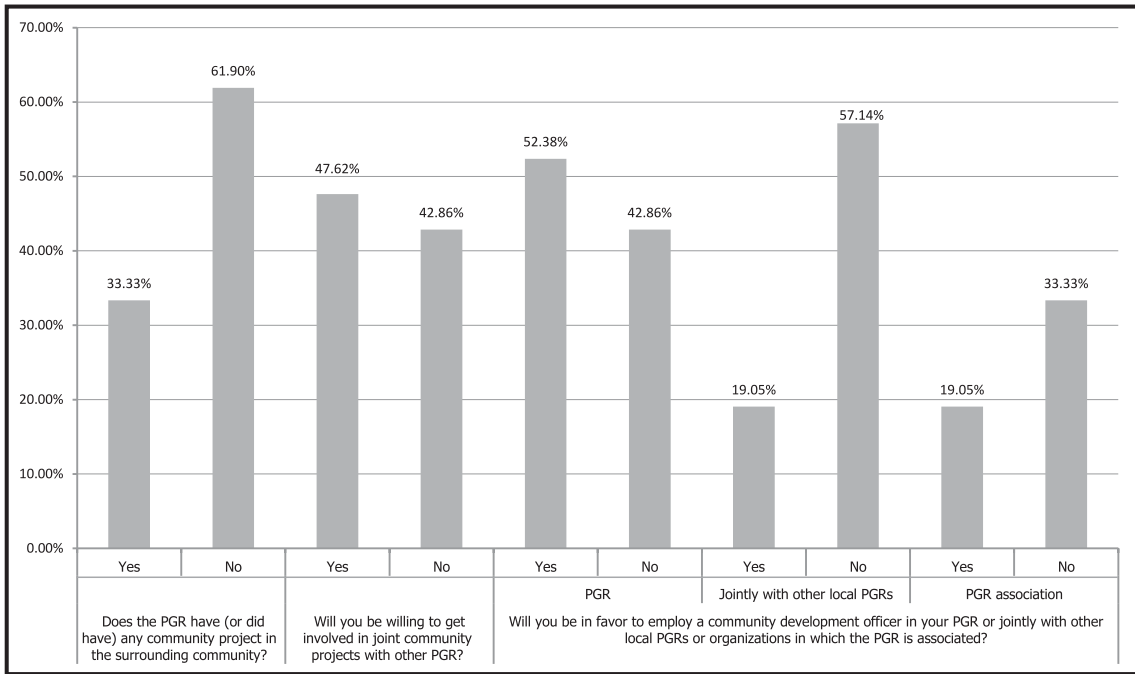
However, it is important to remember that formal training can be useful only if the persons involved possess a sufficient educational background. As many workers on PGFs hail from rural communities, many of them, particularly the older workers, often possess very low levels of formal education background or are illiterate. In this case, informal training might well be the only option. Nonetheless, training that is more formal could, and should, be offered to younger people. The issue is to provide (possibly on a regular basis in order to foster long-term improvement) the workers with the best possible training in proportion to each workers capacity and ability at the specific point in time. This will contribute to a better relationship between the worker and employer, will improve worker capacity and self-confidence, and will further advance the PGF in its management and image as tasks would be completed more professionally.

Training and educational support, as already mooted, can be promoted through community projects for the employees of PGFs or to other community members. A good and often encountered example is the helping of a local school. PGFs can therefore contribute to community development, not only in respect of the people directly involved in the PGF such as its workers, but also by means

of development projects for the broader community. This type of strategy can also develop and maintain better relationships between a PGF and the local community in general. The results in Figure 4 indicate that a third (33.33 %) of the PGFs is already involved in some form of community project. These projects include the support of a school, school sport teams, a soccer tournament or a local church. Interestingly, the response to the question concerning a willingness to be jointly involved in community projects with other PGFs, the number of positive responses increased from 14 % to 47.62 % when compared to those already involved. However, from a more comprehensive perspective, this percentage remains low as it represents less than half of the PGFs. There is ample space for further improvement. In addition, and very importantly, the reasons behind the unwillingness to be involved in community projects, as expressed by 42.86 % of the PGFs, urgently need investigation.

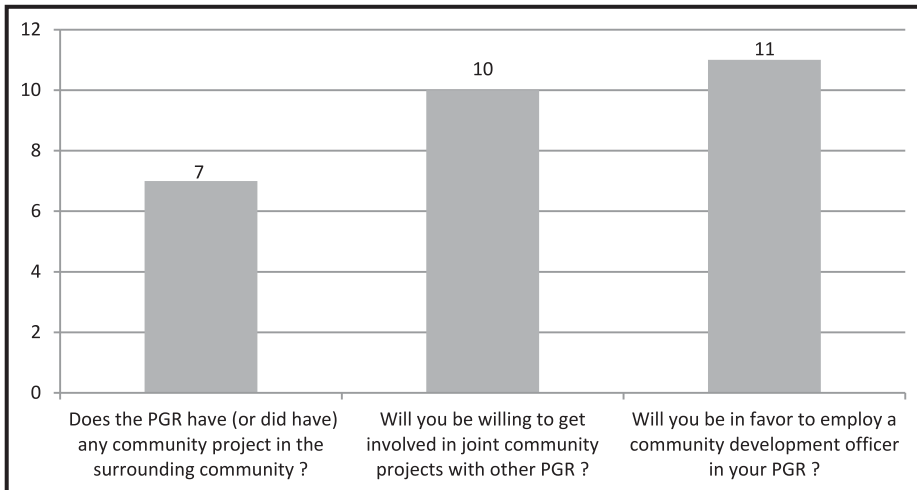
In this latter context, answers concerning the reasons determining the willingness of PGFs to be involved or not with collaborative community projects are largely favourably oriented with responses such as 'Good things, positive', 'must contribute to game industry, development/training education about nature', 'would be interested but very dependent on the time it will take', 'do not have a problem, want to help with projects' and 'too far from the local community'. On the other hand, the negatively oriented answers are: 'Not near any community that could benefit', 'do not spend much time on the farm', 'not sure', 'afraid of poaching', and 'Livestock theft'. While some negative answers seem very radical concerning an unwillingness to be involved in community projects, others seem unwilling because of lack of knowledge about community issues/problems (or perhaps being unaware of how to approach them). Poaching (as determined from a questionnaire specific to rhinos – therefore a broader look at the problem seeking an increased understanding of the reasons and dynamics behind the problem was required) and livestock theft are viewed as a major and critical factors in building an antagonistic barrier between PGFs and the local community. In the latter cases, a development officer could fill the gap. Development officers who work with the community would be viewed positively inasmuch as such advisers are properly equipped for the job. Development officers in this context could also aim at educating the farmers. Most PGF owners have become involved in tourism only recently owing to the conversion of their farms from traditional farming (crop and livestock) to game farming and ecotourism. As a consequence, most farmers are not adequately informed regarding issues relating to community development. This does not mean that normal (crop and livestock) farmers should not be involved in community development, but it does emphasise that the nature of the tourism business and the new direction of the farms should enhance the probability that the PGF owners would become involved in community development. Tourism, in fact, relies very much on local community support; therefore people need to learn different and very specific skills. On a positive note, a great number (52.38 %) of PGFs (compared to the ones willing to be involved with others PGFs) appear to be in favour of employing a community development officer to deal with community relationship issues and projects. This fact should be viewed positively. On the other hand, while the study found that almost half (47.62 %) of the PGFs declared a willingness to operate community projects in association with other PGFs, a much smaller number (19.05 %) would like to employ a development officer in association with other PGFs.





**FIGURE 4: PGFSAND COMMUNITY PROJECTS**

Figure 5 in particular illustrates the increase in the number of owners of PGFs from those who are already active in community development projects (7 PGFs), those who are in favour of employing a community development officer (11 PGFs), and those who would be willing to participate together with other PGFs (10 PGFs). Although still weak, this trend should be viewed positively in the long term as it reveals a declared interest (although it remains yet to be verified if the declaration will be translated practically on the ground) of PGFs to be involved in local community development and, possibly, to formalise such involvement by employing a development officer.



**FIGURE 5: TREND OF ON THE RELATION OF INVOLVEMENT OF PGFS IN COMMUNITY DEVELOPMENT**

## IMPLICATIONS AND RECOMMENDATIONS

As noted, “there is a real need for all game ranchers and managers to foster a new social consciousness regarding the life prospects of all the rural communities in their vicinity whose survival potential directly influences the livelihood and environmental sustainability of the game

ranches” (Els, 2002c: 676). In addition, and perhaps because of the very difficult conditions in which rural communities exist, the issue “is no longer whether game ranch owners or managers should become involved in the development of their rural communal neighbours. Rather, it is more a question of where and how quickly and effectively they can become involved” (Els, 2002c: 679). In this context, a series of strategies that take into consideration both traditional and new ways for PGFs to foster community development should be initiated and developed. Implementing new strategies, in parallel with the reinvigoration of old ones, is paramount, because “(a)s the situation in each rural community and game ranch is different, the development and implementation of effective strategies require innovative ideas” (Els, 2002c: 680). In the final outcome, community development, although it requires considerable effort and beneficence on both sides, offers many advantages to the PGFs (Els, 2002c: 680).

Firstly, it is important to understand the type of ‘working strategies’ that PGFs could adopt in community development. Various issues are relevant here: facilitation versus participation; fostering joint local knowledge of the PGFs and community knowledge; honouring local knowledge of community needs; improving game rancher skills and knowledge; and developing communication and trust.

It is recognised that community development should remain the responsibility of the community itself once proper facilitative support has been given; however, game ranchers should facilitate rather than directly implement projects so that a possible failed project “will not reflect poorly on them” (Els, 2002c: 684). Ultimately, while much facilitation could (and should) occur, “people cannot be developed; they can only develop themselves” (Nyerere cited in Graham, 1976: 70).

A second issue is to decide what appropriate knowledge should be used for both conservation and community development. In both these matters, the knowledge held by the local community and the game farmers should be taken into consideration equally. The IUCN World parks Congress has consistently proposed that local knowledge should be appreciated and considered valuable (Figgis, Humann, & Looker, 2005: 20). With respect to community development, it seems redundant to state that it is the community that best knows its specific needs and often game farmers are unaware of the specific needs of each community. Existing community development committees (often communities have some form of committee in charge of the broad development issues) could be approached in this regard. The help “should be based on the needs of the community”; not imposed from outside the community (Els, 2002c: 681). For instance, projects should fall in line with needs that are recognised by the community in order to achieve good results; thus “programs that have responded to people's felt needs, that have brought out people's initiative, and that have been genuinely participatory, have been successful” (Bhattacharyya, 1995: 64). At the same time, the PGF owners, as most of the staff in conservation entities are usually and understandably not expert in community capacity-building and development approaches. Nonetheless, “this deficiency must be addressed” (Els, 2002c: 677) at least in part in order to ameliorate the relationship between PGFs and their neighbouring communities for their mutual benefit. In this case, the employment of specifically-qualified development officer could assist. Finally, to be able to facilitate proper community development projects to foster mutual benefits, there is the need for proper, accurate and fluent communication amongst the actors involved, thus leading to an acceptable level of trust. Problems in the PGFs cannot be resolved without proper communication with the neighbouring community. At the same time, a community needs to be able to contact the PGF owners in case of needs. In other words “effective two-way communication is a key to success” (Els, 2002c: 680). Besides effective communication, trust amongst the parties is fundamental. It is necessary to recognise that to build mutual trust is a long and difficult process and is fundamental to promote good relationships, especially in view of the recent history of South Africa where “many groups of people formed negative perceptions of one another” (Els, 2002c: 681). Establishing regular meetings between the PGF management and the community committee should be viewed as a priority.

Help and support should not be denied to anyone in society if the person is honestly in need. However, in specific circumstances, such as a crime-ridden social context, help and support can be difficult and specific skills and resources may be required to improve the situation. In such cases where criminality could hamper community development, PGF farmers, even if genuine, could face difficulties and obstacles beyond their control in promoting community development. In these specific cases, it is of fundamental importance that PGF farmers are not left alone in their efforts. The state institutions should (must) step in and become involved (more so than in other less difficult communities) with the farmers in the process of community development. Farmers and state institutions should both be involved, each in proportion to their capacities and resources. This is especially true in crime-ridden communities where PGF farmers cannot engage in community development alone. PGF farmers can play a coadjutant role of state institutions in these plans. The need is to understand the cause of the criminal activities and, thereafter, promote collaboration between PGF farmers and state institutions with regards to plans in order to eliminate the causes of the problem. For example, when social conditions of poverty constitute the initiator of specific forms of crime such as livestock theft or poaching for meat, the need is to work towards the eradication of poverty to eliminate the possible consequential fraudulent acts. In this study, the unwillingness to be involved in community projects by two PGFs appears to stem from the fact that in one case, the community members 'steal sheep', and in the other case, the community members 'poach animals' (probably rhino, as the same PGF is a member of the South African Rhino Association). The two examples indicate that antagonism will not lead to anyone's long-term success, whereas to start a process (although it can be slow and difficult) to rebuild trust, respect and understanding of one another's circumstances could lead to an improvement of the conditions of both parties. In addition, the specific case of poaching (assumably rhino poaching) should not be necessarily directly associated with the local community as the problem is internationally related and much more complex in nature (however, this does not justify their actions). Experience in matters of stealing and poaching shows that good relationships between the parties involved lead to fewer poaching activities and a decrease in the number of cattle straying into protected areas (Els, 2002c: 680). Examples of how greater local community engagement could serve to decrease poverty and promote conservation exist (see Timmer & Juma, 2005: 30; Thomas & Brooks, 2003: 10).

Importantly, as much as the game farmers should strive to be involved in community development projects, the community should not play a passive role. To work properly in the mutual benefits process, both players (game ranchers and communities) need to be involved; for as much as the PGF owners should facilitate the development of poor neighbouring communities, the communities should be also active, dedicated and honest in the process. The process of mutual benefit requires the contribution of both sides (PGFs and communities), each party with own resources, capabilities, limits and responsibilities. Communities should not take the assistance of the PGFs for granted, but should rather view it as a game rancher's voluntary contribution towards better relations and community improvement. Communities should not be merely passive receivers that maintain a dependent mentality. As noted previously, farmers and state institutions should be collaborative (especially in more difficult social contexts) in order to facilitate the desired community development. For example, farmers should be able to apply for funding from government agencies to use in community development projects.

Based on these premises and on the fact that the contributions of PGFs will depend on each PGF's specific circumstances and capabilities (such as level of availability of financial resources), various possible 'practical projects' on how PGFs could contribute to community development are illustrated below (also from van der Merwe & Saayman, 2005; Els, 2002c).

Creating employment and development of local expertise;
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Facilitation of the acquisition of funding and procurement of possible needed expertise;
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Working closely with the local community to develop new products;

Developing partnerships and joint ventures in which the community has a significant stake;

Fostering the development of community-based tourism products by providing marketing and mentoring support;

Using local entrepreneurs in developing community initiatives;

Encouraging tour operators to be more innovative in their itineraries by, for example, including shebeens, local museums and arts and craft shops in their tour itineraries;

Identifying projects that can support entrepreneurial activities;

Specific environmental education;

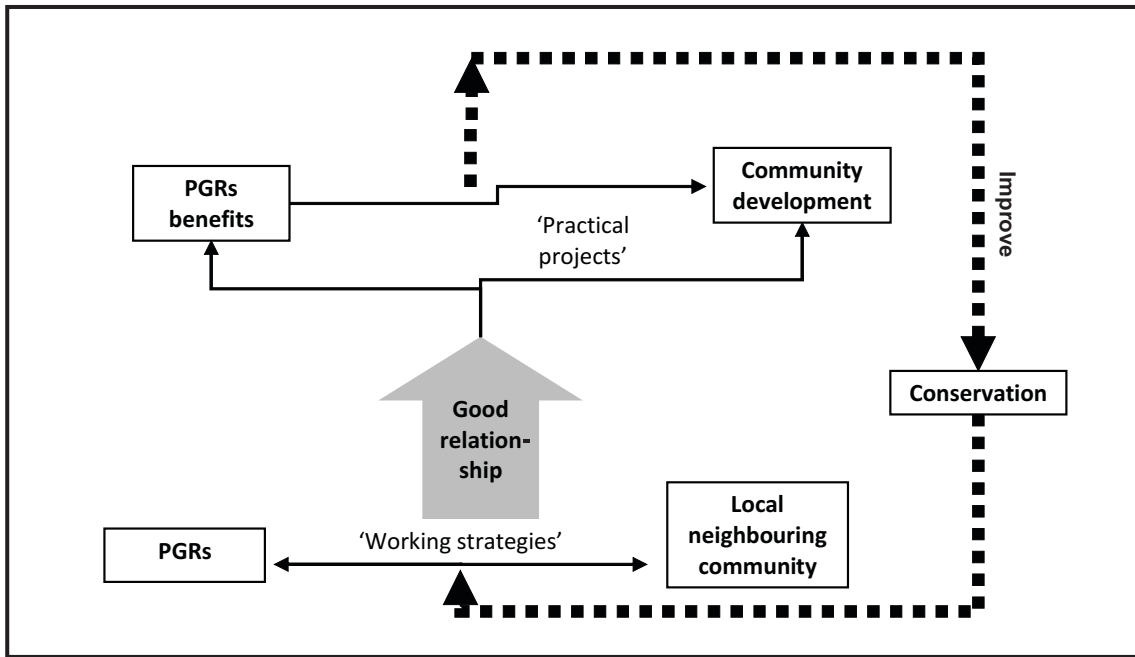
Community project development that benefits the wider community (example, support a local school, drilling a borehole, and so on). Focus on education in schools should be seen as a long term beneficial strategy (if possible, sponsor higher education for children from the community);

Establish more linkages between PGFs and community – especially PGFs that are well established in tourism (for example, the supply of certain foods);

Reinforcement and enlargement of already established linkages such as community involvement in already existing tourism services such as music, dance and so on); and

Agreement of traditional use of the PGFs natural environment (for example, controlled use of traditional food and medicine or provision of a nursery).

A schematic representation of the correlation between PGF benefits, community development and nature conservation is proposed in Figure 6, beginning with improved mutual trust and communication. The 'working strategies' approaches (outlined above) could begin to build good relationships between the two parties (the PGF and the community). It is only when good relationships and mutual trust and understanding are achieved that practical matters and projects can be proposed, planned and executed. That is, the mutual respect and good working relationships will increase the chances of proceeding towards 'practical projects' facilitated by the PGFs in order to promote community development. The type and speed of the project will depend very much on community specific needs and the combined capacities of the farmers and communities and the resources for the project should be carried out collaboratively. The above list of possible projects is therefore merely indicative, as specific circumstances could promote alternative solutions or restrain the current proposed ones. As much as the process can be slow, once good collaborative projects are started and are properly and honestly managed, positive results will begin to occur with regard to both parties. As a 'spin-off', the mutual benefits of the good relationship will, in turn, improve nature conservation, especially if the farmer and the local community have agreed on its use and management. Since nature conservation, as a fundamental concern of the PGF business itself, is a major goal of the PGF farmers, it is optimal for the farmers to involve the local community as much as possible in nature conservation management and specifically, for the PGF to reach agreement with the local community on matters related to the traditional use of natural resources. This collaboration regarding natural resources, together, with other possible projects, will contribute to and further strengthen the mutual trust ('working strategies') between the two parties, consequently allowing still further progress in collaboration, community development projects and nature conservation.



**FIGURE 6:** CORRELATION BETWEEN PGFS BENEFITS, COMMUNITY DEVELOPMENT AND NATURE CONSERVATION.

## CONCLUSION

Relationships between PGFs and their surrounding local communities have been historically difficult and contradictory, if not antagonistic. However, in order to foster mutual benefits, good relationships, mutual trust, and understanding need to be built even though this may take time and the process might be difficult. PGFs can benefit greatly by maintaining good relations with their neighbouring communities. Different processes and strategies need to be implemented within the specific context of each PGF and community. This study, although limited in its scope, indicates that the situation is varied and, arguably, has moved some way along a positive, although slow, course. While some PGFs are already involved in community development, others are not yet involved but are willing to commit to this even though, unfortunately, there still remains a group opposed to this task.

The paper is limited in its scope. Its aim is to begin to disclose a topic which is to date has mostly not been-researched. Therefore, the results of this study, while they should not allow for any generalisation, they should be used as a starting point or baseline data to conduct further research. Amplification of the sample size and an increase in the variety of questions should be performed in order to advance more conclusive generalisation on similar issues and to facilitate better understandings of the matter investigated.



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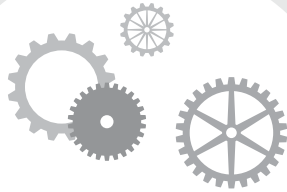
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# AN ECOTOURISM MODEL FOR SOUTH AFRICAN NATIONAL PARKS

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## ABSTRACT

Ecotourism products form the core of South Africa's tourism industry with almost 80% of all tourism products depending on nature and wildlife. South African National Parks are a key role-player in providing nature-based experiences. From analysing the current literature on ecotourism management strategies used by South African National Parks it was found that no model exists for the development and management of ecotourism in South Africa National Parks. Therefore the primary objective of this study is to develop an ecotourism model for South African National Parks. An explorative research approach was followed with the aim of determining the perceptions of both the demand side (visitors to South Africa National Parks) and the supply side (managers of South African National Parks) on the subject of ecotourism. Six factors were identified from the exploratory factor analysis: product development; local community involvement; environmentally friendly practices; ethics; food and activities; policies. These six factors, together with the literature studied were used to develop an ecotourism model for South Africa National Parks.

## KEYWORDS

Ecotourism, National parks, Sustainable tourism, Policies, Model

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## INTRODUCTION

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The rapid growth of environmental awareness in the late twentieth century significantly influenced the tourism industry. Tourism businesses, as well as tourists, have become increasingly more conscious of the need for environmental protection (Chan & Baum, 2007: 574; Andereck, 2009: 489). This, together with the discontent of conventional (mass) tourism, has led to a higher demand for nature-based experiences of a sustainable nature (Blamey, 2001: 5; Fennell, 2002: 12). Sustainable forms of tourism differ from conventional tourism in the sense that it follows an approach that aims to sustain the environment and to improve the quality of life of the local community, whilst simultaneously creating a quality experience for the tourist (Diamantis, 2004: 4; Fennell, 2006: 5; Saayman, 2009: 12). Ecotourism has become one of the world's major economic sectors with the capability of playing a significant role in sustainable development in those areas where the environment attracts tourism (Powell & Ham, 2008: 467; Tsuar, Lin & Lin, 2006: 640; Fennell, 2002: 12).

In the case of South Africa, a large percentage (80%) of the tourism products on offer is based on wildlife and nature, of which South African National Parks (SANParks) is one of the largest single ecotourism providers (Saayman, 2009: 346; SANParks, 2008: 2). Hence the aim of this research is to develop an ecotourism model for SANParks. The paper will give an overview of the problem investigated and research objectives, followed by a literature review, a discussion of the research methodology, results and finally the construction of an ecotourism model for SANParks.

### PROBLEM INVESTIGATED

The World Tourism Organisation (WTO) estimated that ecotourism was growing three times faster than the tourism industry as a whole (Honey, 2008: 7). This dramatic increase in visitor numbers to natural areas will undeniably have impacts, both positive, and regrettably, negative ones. Björk (2007: 25) states that the challenge of ecotourism is to put its principles into practice. Offering some of the most important ecotourism attractions in South Africa, SANParks has a vital role to play in setting the pace regarding ecotourism product offering (SANParks, 2006: 13). Buckley (2001: 25) suggested that ecotourism product owners (in this case, SANParks) need a model or framework for judging ecotourism performance and for assisting in planning new ecotourism products responsibly.

In order to establish the status quo in SANParks regarding ecotourism management, the Coordinated Policy Framework (hereafter referred to as CPF) that governs SANParks operations was analysed. The CPF document consists of policies applicable to all the national parks and serves as an overall guideline for the park management plans. The CPF states that SANParks' business operations are based on three core pillars, namely: conservation (it is the primary mandate of SANParks to conserve South Africa's biodiversity, landscapes and associated heritage assets); nature-based tourism (SANParks depend on its ecotourism pillar for revenue that is necessary to supplement government funding for conservation) and constituency building (SANParks, 2006: 13). According to Saayman (2009: 358), the management of national parks covers three areas; general management (finance, marketing), conservation management (game counting, game sales) and ecotourism management (camps, game drives and picnic areas). From the CPF's second pillar, namely nature-based tourism, it is clear that ecotourism is a key aspect of SANParks' management operations. As one of the key aspects of park management and as one of SANParks' core pillars, the question that arises is: Which strategies and policies are in place in order to provide tourists with an ecotourism experience within South African National Parks?

To find an answer to this question, the CPF was further analysed to determine the management of SANParks' current status in providing tourists with an ecotourism experience. It was found that some key principles of ecotourism (sustainability, community involvement, local culture and heritage support, promotion of mutual benefits, and the development of neighbouring communities) are covered in SANParks' CPF. The CPF provides guidelines to set the strategic objectives of what must be achieved in terms of tourism development and management in SANParks. The problem is, however, that although the principles, objectives and strategies are valuable for the development and management of tourism products, they do not necessarily lend themselves to easy adherence, and lack a cohesive, unified ecotourism model. The fact that ecotourism tends to occur in sensitive ecological and human communities, makes the need for an appropriate and comprehensive ecotourism model imperative. Without a clear model, management, planning and monitoring of ecotourism cannot possibly take place (Honey, 2008: 447; Boyd & Butler, 1996: 565; Davis, 1999: 520). This was echoed by Dr Hector Magome, head of SANParks, at the 7th Wildlife Ranching Symposium in Kimberley in October 2011 (Magome & Davies, 2011). Therefore the problem this research will address is the development of an ecotourism model for SANParks.

## RESEARCH OBJECTIVES

The following section will outline the primary and secondary objectives of the study:

### Primary Objective

The primary objective of this study is to develop an ecotourism model for SANParks.

### Secondary Objectives

The following, secondary objectives were identified:

#### Objective one:

To carry out a literature study based on key words such as ecotourism, national parks, models and sustainable tourism development.

#### Objective two:

To conduct a factor analysis on sustainable and ecotourism principles identified from the literature, in order to reduce the variables to a smaller set of key aspects.

## LITERATURE REVIEW

Although ecotourism has, for decades, been represented in the form of tourism programmes which contained many of the practical and philosophical elements that today are attributed to ecotourism, the growth of this industry has led to great controversy surrounding the term. Hertzler, a Mexican ecologist, first used the term ecotourism in the 1960's. However, academic interest and research into ecotourism has only grown noticeably since the 1980's (Weaver & Lawton, 2007: 116; Orams, 2001: 23; Pforr, 2001: 68; Björk, 2007: 26; Wearing & Neil, 2009: 1; Gale & Hill, 2009: 5). It is well known in ecotourism literature that the term itself was first formally defined by the father of ecotourism, Ceballos-Lascurain, in 1987. Since the first definition by Ceballos-Lascurain, a number of researchers and academics have also attempted to define the term ecotourism.

From the definitions of ecotourism, there is an emerging consensus that ecotourism products must contribute to the conservation and enhancement of the natural and cultural environment; must provide environmental education opportunities; should be planned and managed in a sustainable manner; and should provide the tourist with an enlightening experience. These four aspects form the four pillars on which, by definition, ecotourism is based (Geldenhuys, 2009: 3; Diamantis, 2004: 5; Van der Merwe, 2004: 19; Weaver, 2005: 440; Blamey, 2001: 6).

## **Pillar 1: Enhancement of the natural and cultural environment**

Attractions are the key motivators for tourists to visit an area and therefore play a significant part in the success of a destination (Leask, 2010: 155; Reinus & Fredman, 2007: 842). Concerning ecotourism, individuals are drawn to scenically appealing environments that incorporate aspects such as fauna, flora, geographical distinctiveness and historical/cultural importance (Fennell, 2002: 100; Deng, King & Bauer, 2002: 426). The development of ecotourism in such areas will lead to the advancement of activities such as hiking, climbing and mountaineering, interaction with nature and learning experiences concerning the local natural and cultural environment (Arabatzis & Grigoroudis, 2010: 163).

These natural areas largely owe their attractiveness and continuing existence to conservation reserves such as national parks. It is for this reason that national parks have become popular ecotourism attractions, and because they usually contain extraordinary features such as remarkable natural scenery, topography; rare fauna and/or flora, unusual geological features and cultural heritage (Hearne & Salinas, 2002: 153-154; Lawton, 2001: 290; Saayman, 2009: 346). Sustaining immaculate natural and cultural resources while offering high-quality ecotourism experiences are extremely important goals for managers of national parks (Hearne & Salinas, 2002: 154; Marion & Reid, 2007: 5-6; Beunen, Regnerus & Jaarsma, 2008: 138; Arabatzis & Grigoroudis, 2010: 165).

## **Pillar 2: Environmental education**

It is irrefutable that visitors to natural areas have an impact on the environment, from vegetation trampling and trail erosion to degrading cultural resources and allowing visitor crowding. Left unmanaged, these impacts can lead to unwanted changes in resource- or social conditions, such as the loss of sensitive or rare plants and animals, or declines in visitor satisfaction. A challenge for protected area managers therefore is to prevent avoidable impacts such as litter, tree damage or noisy/rude behaviour of tourists, and reduce unavoidable impacts such as trampled vegetation and wildlife disturbance (Marion & Reid, 2007: 5; Shaw & Williams, 2002: 305). These impacts are most commonly addressed through education (Powell & Ham, 2008: 468; Fennell & Weaver, 2005: 375; Littlefair, 2004: 297).

A fundamental principle of ecotourism is that it must foster learning opportunities and, although all nature-based tourism includes learning to some extent, education and interpretation serves as one of the main facets when defining ecotourism experiences (Blamey, 2001: 9; Fennell & Weaver, 2005: 374). Protected-area managers have long used education and interpretation as a tool for the two main purposes of satisfying tourists' need for knowledge, as well as for influencing both visitor and community behaviour towards fragile resources in order to minimise negative impacts (Powell & Ham, 2008: 468; Fennell & Weaver, 2005: 375; Littlefair, 2004: 297). Learning opportunities can take different forms. For example, it may be formal product interpretation through signage and lectures, or it may be informal opportunities that aim at maintaining conditions and at assisting in personal interactions with nature (Weaver, 2005: 441).

According to Fennell (2002: 125), the United Nations Educational, Scientific and Cultural Organisation and the United Nations Environment Programme (UNESCO-UNEP) mandated that environmental education objectives should include: awareness (awareness of and sensitivity to the total environment and allied problems); knowledge (basic understanding of the environment and its



associated problems); attitudes (acquire a set of values and feelings of concern for the environment); and skills (acquire the skills to identify and solve environmental problems).

### **Pillar 3: Sustainable development of the physical, economic and social environment**

Ecotourism is inextricably associated with sustainable tourism and should therefore comply with the basic principle of sustainable development, which is balancing economic, ecological, and social aspects as an integrated whole (Pforr, 2001: 69). Conservationists often see ecotourism as a “win-win” situation where tourist spending serves as a tool for capitalising on biodiversity and natural sites and can thus be a vital contributor to nature conservation (Wunder, 2000: 466). Community involvement is also considered an essential aspect of sustainable tourism development. The foundational reasons for this are to gain the support for and favourable reception to tourism development projects and to ensure that the benefits complement the local community needs (Cole, 2006: 630). The involvement of the local community can lead to a situation where not only the local community benefits, but the quality of the tourists’ experience also improves, as tourism is an industry that is greatly reliant on the goodwill, hospitality and helpfulness of host communities (Van der Merwe, 2004: 29; Cole, 2006: 630; Wight, 2003: 51). It has been argued that tourism can only be sustainable if appropriate planning, monitoring, evaluation and management is carried out and if the attitudes and behaviour of managers, stakeholders and tourists are ecologically, economically and ethically responsible (Deng, King & Bauer, 2002: 424; Wunder, 2000: 51).

### **Pillar 4: Tourist experience**

Eco-tourist experiences are created by integrating a number of factors. The purpose of creating these experiences is to satisfy the needs and wants of current and potential tourists (Chan & Baum, 2007: 586). Eco-tourists are often motivated to visit areas where they can experience remoteness, tranquillity and closeness to nature; have the opportunity to learn about wildlife, nature and local cultures; and also may have the opportunity of a physical challenge (Chan & Baum, 2007: 575, Backman, Petrick & Wright, 2001: 458; Wight 1997: 218). When the four pillars of ecotourism are matched to the triple-bottom line aspects of sustainable tourism it is evident that sustainable tourism and ecotourism adhere to a similar foundation. Sustainable tourism is based on three aspects, namely; improve quality of life (social-cultural justice); creation of a high-quality experience (economic efficiency) for the tourist; and sustaining the quality of the environment (environmental integrity) (Diamantis, 2004: 4; Geldenhuys, 2009: 9,3; Keyser, 2009: 25). These aspects are therefore in line with the four pillars of ecotourism, namely; enhancement of the natural and cultural environment, environmental education, sustainable development of the physical, economic and social environment and tourist experience.

Although sustainable and ecotourism have attracted a large amount of attention, little progress has been made to put these principles into practice (Wight, 2003: 51; Fennell, 2002: 26; Björk 2007: 25; Telfer & Sharpley, 2008: 42). As a way forward in achieving sustainable ecotourism, it must be recognised that there is a need for a multi-stakeholder process in which all role-players (government, private sector and NGO’s) take responsibility for the future of ecotourism at a destination (UNEP, 2002: 7).

The role-players in the ecotourism phenomenon include: the government, which has a role to play in terms of planning and coordination, regulation, policy making, marketing, funding, and investment in research. SANParks themselves play a role in terms of managing national parks based on three pillars, those of conservation, of nature-based tourism and of constituency building.

The private sector and SANParks should engage in partnerships concerning the provision of additional and supporting tourism products. The local community must be involved by being informed about the local park, taking ownership of the health of the environment, becoming involved in tourism and in the provision of supporting products. Tourists are the guests and should be respectful of the environment and local culture, must support local businesses, should be informed about the environment, and respect the laws and regulations of the area. Non-government organisations (NGOs) can play a supporting role in terms of the overall economic, social and environmental upliftment of an area and should work in cooperation with relevant stakeholders.

Due to the array of stakeholders involved in ecotourism development, it is vital to find a way in which the multidimensional qualities of ecotourism may be integrated (Honey, 2008: 33). Wallace (as quoted by Zografos & Oglethorpe, 2004: 23) points out that a model is a helpful tool for achieving this, as it is an abstract of reality that provides a platform for decision making and projections for planning and implementation. A number of planning and management models have been developed to manage the negative impacts of tourism in natural areas. Two of these, for example, are the Recreation Opportunity Spectrum (hereafter referred to as ROS) and Limits of Acceptable Change (hereafter referred to as LAC). Although these models were not explicitly developed for ecotourism planning and management, they provided important aspects such as land use management; on-site management; visitor management and multi-stakeholder participation that can be used in an ecotourism model. The ROS was one of the first models to be adopted for the management of recreational activities in natural areas. The purpose of this model is to determine carrying capacities of recreation activities and thereafter to manage the impacts of recreational activities in the natural environment (Geldenhuys, 2004: 31; Wearing & Neil, 2009: 79; Boyd & Butler, 1996: 559). Fennell (2008: 66) argues that although the ROS has been relatively successful in the sphere of outdoor recreation management, it has not been widely accepted by tourism researchers because this model lacks a tourism-specific approach.

The Limits of Acceptable Change (LAC) model was developed to shift the focus from addressing the problem of identifying maximum levels of use before an area starts to deteriorate (carrying capacity) to determining what type of conditions are desirable. The LAC model is used to determine the acceptable conditions of an area by incorporating social, economic and environmental dimensions. The LAC model involves the adoption of a set of indicators that are indicative of the area's desirable conditions (Holden, 2008: 191). The emphasis of the model is therefore to determine how much change in a certain area is acceptable to maintain desirable conditions, and how to manage it accordingly (Hall & Page, 2005: 186). However, a limitation of the LAC, in terms of tourism development, is that critical dimensions such as visitor characteristics and economic activities associated with tourism are not included in the model (Hall & Page, 2005: 187). A further limitation of the LAC model is that it places a considerable degree of accountability on managers and does not necessarily allow for multi-stakeholder participation (Fennell, 2008: 66; Fennell, Butler & Boyd, 2004: 117; Boyd & Butler, 1996: 559).

The need for a more comprehensive approach that considers a variety of tourism opportunities led to the Tourism Opportunity Spectrum (hereafter referred to as TOS) being developed as a modification of the ROS (Fennell, 2008: 66; Geldenhuys, 2004: 33). The appeal of TOS lies in the fact that it provides a model that incorporates accessibility, other non-recreational resource uses, on-site management, social interaction, acceptability of visitor impacts and regulations in the context of tourism development. TOS can be seen as a tool that assists in decision making regarding the type of tourism activities that should be permitted or prohibited (Fennell, 2008: 66; Butler & Waldbrook, 2003: 26; Boyd & Butler, 1996: 559). The TOS model, however, does not specifically address conditions under which ecotourism development should take place, for

example availability of natural and cultural attractions, community involvement, opportunities for interpretation and environmental education. Boyd and Butler (1996: 558), in response to the just-mentioned limitation, developed a model that concentrates specifically on opportunities for ecotourism at destinations, the Ecotourism Opportunity Spectrum (hereafter referred to as ECOS). It is based on existing models such as the ROS and the TOS. The ECOS model was developed to analyse the factors that affect and imply multi-stakeholder participation in managing an area as an ecotourism site (Neth, 2008: 51). The limitation of this model is that it is not site or destination specific. Boyd and Butler (1996: 565) caution that although all the mentioned models provide valuable strategies for planning and managing tourism in natural areas, each includes a considerable degree of generality. Account must be taken of the fact that ecotourism destinations comprise unique and complex social and environmental systems, and differ in terms of sensitivity to impacts (Buckley, 2003: 239). This once again indicates the importance of an ecotourism model specifically developed for SANParks.

Tourism planning should be integral to the entire resource analysis and development of an area. Without proper regulations, problems of over-exploitation and ecological degradation may actually be intensified by the development of ecotourism (Wearing & Neil, 2009: 37; Fennell & Dowling, 2003: 7). Governance therefore is needed in tourism planning to ensure that development takes place in an ethical manner. In turn, this means that the social and ecological spheres benefit from tourism development and are exposed to minimised negative impacts (Fennell & Dowling, 2003: 10). Governance refers to a 'set of regulation mechanisms in a sphere of activity' (Fennell, 2006: 209) and, according to Glasbergen (1998: 2), is an opportunity for goal-oriented and intentional intervention in society.

## **METHODOLOGY**

The research design was of a quantitative nature. An explorative research approach was followed by means of a self-administered questionnaire with the aim of determining the perceptions, of both the demand side (visitors to South Africa National Parks) and the supply side (managers of SANParks) on the subject of ecotourism. Fifty-five (55) constructs pertaining to aspects of ecotourism were measured on a five-point Likert scale. The constructs were based on a literature review regarding sustainable and ecotourism. Sources used to a large extent to develop the questionnaire include the works of Frey and George (2010); Saayman (2009); Fennell (2008); Geldenhuys (2009); Keyser (2009); Spenceley (2008); Björk (2007); Diamantis (2004); DEAT (2003); Weaver (2001) and Blamey (2001). The questionnaire for the visitor survey was launched on the website of South Africa National Parks during March 2011 and ran for one month. During this period, 993 respondents completed the questionnaire (Demand side). The same questionnaire was sent via electronic mail to the managers of SANParks, namely regional and general managers, hospitality services managers and managing executives. Twenty five questionnaires were completed (Supply side). Both surveys (demand and supply side) results were used for the analysis.

The results of the empirical research were processed by the North-West University's Statistical Consultation Services (Potchefstroom Campus). The data was analysed by means of the SPSS (Statistical Package for Social Sciences) software programme. An exploratory factor analysis was conducted. A pattern matrix with the principal axis factoring extraction method and Oblimin rotation method was used in which six factors were extracted by Kaiser's criterion explaining 61.95% of the total variance. This is seen as appropriate, since more than 50% of the variance is thus explained (SPSS, Inc., 2009). A Cronbach Alpha (1 = very reliable) and inter-item correlation reliability tests were conducted and all the factors proved to be reliable. Factor loadings named component loadings in PCA, are the correlation coefficients between the variables (rows) and factors

(columns). Analogous to Pearson's  $r$ , the squared factor loading is the percent of variance in that indicator variable explained by the factor (Maree, 2007). For the current research factor loadings lower than 0.2 were suppressed.

## RESULTS

Ecotourism principles such as development aspects, eco-efficiency, environmental education opportunities, local community upliftment, ecotourism activities and ecotourism policies were identified, based on the literature review of sustainable ecotourism. These principles were measured using a scale consisting of 55 constructs. A five-point Likert scale (where 1 = not at all important, 2 = slightly important, 3 = important, 4 = very important, 5 = extremely important) was applied in order to express the significance of that particular construct. A factor analysis was conducted from which six factors were extracted. These were: product development, local community involvement, environmentally friendly practices, ethics, food and activities and policies. This section will discuss the above-mentioned factors (Table 1).

**TABLE 1: FACTOR ANALYSIS BASED ON ECOTOURISM PRINCIPLES**

Factors	Mean Value	Cronbach Alpha	Factor Loading	Key constructs
Factor 1: Product Development	4.46	0.91	0.545 0.449 0.446 0.320 0.319 0.305 0.290 0.226	Promote environmental awareness and ethics Development should be on appropriate scale Reduce carbon footprint Staff should be trained Sustainable in the long run Invite customer feedback and take corrective steps In support of conservation Implement practices to reduce pollution and litter
Factor 2: Local community involvement	3.98	0.92	0.884 0.741  0.715 0.640 0.639  0.610 0.570 0.491 0.439  0.416 0.311  0.213	Economic benefits Equitable access to natural and cultural heritage sites Economic benefits Involvement of community in planning Fair trade goods and service providers should be supported. Environmental education programmes Literacy and HIV awareness programmes Constituency building Tourists should be informed/educated about local culture. Support local suppliers Tourists should be informed about local community/conservation projects Commitment to fair labour practices Access for universally challenged (e.g. blind or those with other physical needs)

Factor 3: Eco-friendly practices	4.37	0.94	0.884 0.835 0.795 0.749  0.733 0.664 0.645 0.620  0.555 0.522 0.383 0.354 0.327  0.292  0.259 0.201	Energy-saving techniques Make use of renewable energy sources Water-saving techniques Environmentally friendly design (e.g. optimise natural heating/cooling) Collecting rainwater Environmentally friendly purchasing policies Reduce, re-use, recycle Environmentally friendly consumer products (soap, pesticides, recycled paper) Arrange with suppliers to minimise packaging Solid waste management Natural building materials Inform visitors about eco-friendly practices Use of low impact promotional mechanisms, e.g. brochures in electronic format or on recycled paper Tourism offerings should provide an enlightening experience with minimal disturbance to nature. Eradicate invasive alien species Facilities should blend in with natural environment
Factor 4: Ethics	4.71	0.93	0.797 0.789 0.777 0.771 0.756 0.714 0.676 0.650  0.364	No feeding of animals Remain inside the vehicles No loud talking at sightings No speeding in parks No littering No collecting of specimens Obey road signs and rules Responsible use of resources such as water and electricity Reduce negative impacts such as noise, lighting and erosion
Factor 5: Food and activities	3.46	0.79	0.721 0.548 0.462 0.451  0.363	Venison dishes and game products must be available Traditional cuisine Variety of activities in usage zones Use of free-range and/or fresh organic foods where possible Interpretation and education Variety of activities in usage zones Use of free-range and/or fresh organic foods where possible Traditional cuisine Venison dishes and game products must be available
Factor 6: Policies	4.48	0.81	0.605 0.503  0.387 0.336 0.221	Transparency and accessibility Policies should be informed by relevant international provincial and local policies and legislation Involvement of all stakeholders Transparency and accessibility Credibility

(Author's own creation)

### Factor 1: Product development

This factor consists of the following constructs: create awareness for promoting environmental awareness and ethics, development should take place at an appropriate scale, actions must be implemented for reducing carbon footprint, staff should be trained, tourism products must be sustainable, it is important to get feedback from customers and conservation and to implement

practices to reduce pollution and litter. These aspects are supported by the principles of ecotourism (Geldenhuys, 2009: 5; Fennell, 2008: 23; Reid 1999: 33; Blamey, 2001: 12). If planned and developed in a responsible manner, ecotourism can add value to the local area by achieving local economic benefits, increased quality of life, and an improved quality of the environment (Edgell, 2006: 122; Keyser, 2009: 34; Saarinen, 2009: 275).

### **Factor 2: Local community involvement**

This factor includes the following constructs: empowerment of communities and economic benefits, equitable access to parks for communities and people with universally challenged needs, involvement of community in planning, support local suppliers, fair labour practices, educational and awareness programmes such as HIV awareness and environmental education and provide information concerning community and conservation projects. The local community is an important role-player in the successful development of responsible ecotourism and the aspects listed are essential for creating a sustainable situation (Van der Merwe, 2004: 29; Cole, 2006: 630; Wight, 2003: 51; Hall & Richards, 2003: 1).

### **Factor 3: Environmentally friendly practices**

This factor includes the following constructs: responsible use of resources such as water and energy, waste management, the use of environmentally friendly products, environmentally friendly purchasing policies and the use of natural building materials for facilities. Environmentally friendly practices are becoming increasingly important in the tourism industry due to environmental problems such as global warming (Coetzee & Saayman, 2009: 131 and DEAT, 2003: 19). Ecotourism must maximise positive impacts and minimise negative impacts on the environment. By implementing environmentally friendly practices, it can contribute greatly to the latter being achieved (Page & Dowling, 2002: 1; George, 2008: 306; Holden, 2008: 18; Diamantis, 2004: 15; 2003: 386; Hudman & Jackson, 2003: 39).

### **Factor 4: Ethics**

This factor includes the following constructs: the tourists and staff should behave in an ethical manner and adhere to the rules of the park such as no feeding of animals, remaining inside the car, not talking loudly at sightings, using resources such as water and electricity responsibly, not littering, obeying road signs and rules and not collecting specimens. Not only are these principles important for minimising negative impacts on the environment, but also for enhancing the quality of experience for the visitor, as found in a study done by Du Plessis (2010: 41).

### **Factor 5: Food and activities**

This factor includes the following: restaurants should include venison dishes on the menu, make use of free-range and/or fresh organic foods where possible, provide facilities for interpretation, and provide a variety of activities within usage zones. The eco-tourist has become more sophisticated nowadays and is interested in more than merely viewing game. Part of the ecotourism experience is that it should include authentic experiences such as opportunities to experiencing the local culture and learning about it (Chan & Baum, 2007: 570; Backman et al., 2001: 458; Beh & Bruyere, 2007: 1467).

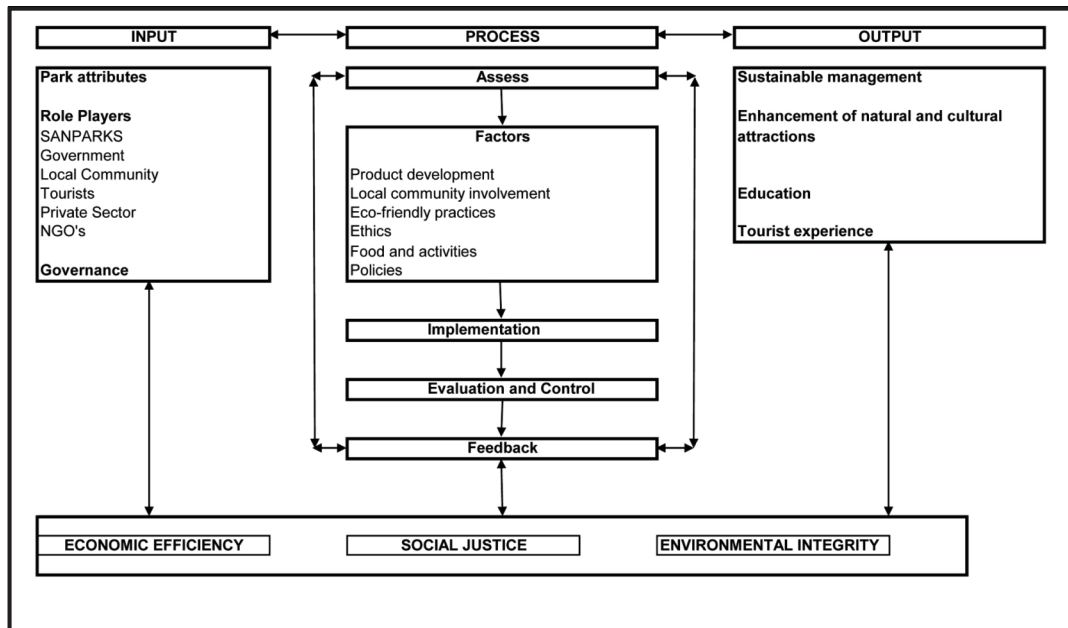


## Factor 6: Policies

This factor includes the following constructs that should be considered in policy development for ecotourism: transparency and accessibility by all stakeholders, compliance with legislation, credibility, the involvement of stakeholders and adherence to policies. It is important that ecotourism policy does not occur in a vacuum, but should be the outcome of all stakeholders' interests and values that influence the development and management processes of ecotourism (Hall, 2003: 21). SANParks is governed by national legislation and policies as well as by international agreements signed by the South African government (SANParks, 2006: 5). SANParks' Coordinated Policy Framework is available on their website for all stakeholders to view.

## MODEL CONSTRUCTION AND DISCUSSION

From the literature conducted on ecotourism, sustainable tourism and the empirical analysis of the principles of ecotourism, the following model was constructed for managing ecotourism within SANParks (Figure 1). The model consists of three core phases, namely the Input category, the Process and an Output category.



**FIGURE 1: AN ECOTOURISM MODEL FOR SOUTH AFRICAN NATIONAL PARKS**

(Author's own creation)

### Input

Ecotourism should take place in an environment with sufficient natural attractions and unique features such as topography, fauna and flora, geological features and cultural heritage to sustain the ecotourism operations in the long term. It is therefore important that an analysis of park attributes (for determining the unique ecotourism features of each park) be conducted as part of the planning phase.

Ecotourism cannot occur in isolation, but should be a result of a range of stakeholders' (role-players) interests and values that influence the development and management processes of ecotourism. Consequently, there is a need for a multi-stakeholder process in which all role-players take responsibility for the future of ecotourism at a destination. Role-players include the government (local and provincial tourism authorities, ministers), tourism providers (in this case SANParks), the local community, tourists and non-government organisations (NGO's). Furthermore, to ensure that development takes place in an ethical manner, proper governance is needed (Hall, 2003: 21). This guidance comes from the national government, such as the Ministry of Tourism and needs to be in line with global trends, legislation and international policies to guide government with the planning process of ecotourism.

## Process

The research also highlights implications in terms of the process of ecotourism development. It is necessary to determine the current status of ecotourism in each national park by conducting an assessment of the current ecotourism product to determine shortcomings. Part of the assessment will include economic aspects (such as the financial contribution of ecotourism in terms of conservation and improvement of the environment; financial benefits accruing to the local community; economic impact of ecotourism in terms of job creation, leakages and numbers of visitors, their length of stay, and their spending); social aspects (such as preservation of the local culture's authenticity; quality of life; impact of visitors on community) and environmental aspects (contribution to conservation of biodiversity; impact on wildlife; impact on local resource supplies; visitor behaviour; awareness of environmentally friendly behaviour). Once these aspects have been identified, they can be corrected to adhere to principles of sustainable ecotourism.

The factors identified have further implications, as these serve as important guidelines for the management and development of ecotourism in SANParks. In terms of ecotourism product development, aspects such as creating awareness to promote environmental awareness and ethics; developing on an appropriate scale; reducing the carbon footprint; and training the staff should be taken into account. Local community involvement includes aspects such as the empowerment of communities and economic benefits; equitable access to parks for communities and people with universally challenged needs; involvement of community in planning; supporting local suppliers; fair labour practices; and offering educational and awareness programmes. Environmentally friendly practices, for example responsible use of resources such as water and energy; waste management; the use of environmentally friendly products; environmentally friendly purchasing policies and the use of natural building materials for facilities should be implemented. Respondents placed a high value on ethics, as it was the factor with the highest mean value. Among the most important behavioural problems are the feeding of animals, remaining in vehicles, adhering to the speed limit, the collection of species, and talking loudly at animal sightings. These aspects impact on the sustainability of parks as well as on the tourist experience, since a bad experience could lead to poor recommendations, and consequently, a decline in future visits by potential tourists. Therefore it is evident that the behaviour of people plays an important role in ecotourism. As a means to manage tourist behaviour, respondents felt that severe penalties should be applied to staff and tourists in the case of non-compliance with the required ethical behaviour. Food and activities has a direct impact on the visitors' experiences and includes aspects such as restaurants that should include local food, venison dishes on the menu, make use of free-range and/or fresh organic foods where possible, provide facilities for interpretation, and provide a variety of activities within usage zones. Policies should be transparent and accessible to all stakeholders and compliant with legislation; and stakeholders should be involved in the policy-making process. The implementation of the process should be subjected to continuous evaluation and control methods should be in place to ensure that ecotourism products are developed and managed in an appropriate manner and according to the model. Information gathered in the evaluation and control

stage, regarding the implementation status needs to be communicated to management (feedback) for use in further planning and decision making. Information also needs to be communicated to other relevant role-players.

## Output

From the literature discussed it is evident that in order to create sustainable ecotourism products (Output), the four pillars on which ecotourism is based need to be achieved in SANParks. These pillars are conservation and enhancement of natural and cultural attractions, environmental education, sustainable management and the tourist experience. This can only be achieved if the principles, as stipulated in the input and process phases of the model, are being implemented. This in turn will lead to ecotourism development in SANParks adhering to the triple bottom line aspects of sustainable tourism and can therefore play a valuable role in achieving local economic benefits, increased quality of life and an improved quality of the environment. The importance of comprehensive, holistic, long-term planning is an aspect stressed by several authors as being vital to ensure the success of sustainable ecotourism.

The ecotourism model for SANParks was developed in order to address the limitations of ROS, TOS, LAC and ECOS (Table 2), by providing a holistic, ecotourism-specific approach. The ecotourism model implies multi-stakeholder participation; takes into account visitor perceptions/characteristics and is destination- (South Africa) specific. Furthermore, ecotourism principles (measured from both a supply and demand side) were grouped together by means of a factor analysis to serve as criteria for developing ecotourism in SANParks.

**TABLE 2: ADDRESSING THE MAIN LIMITATIONS OF ROS, TOS, LAC AND ECOS**

Model	Limitations	Ecotourism model for South African National Parks
ROS	Lacks a tourism-specific approach	Provides an ecotourism-specific approach, based on the four ecotourism pillars, namely enhancement and conservation of natural and cultural resources; environmental education; sustainable management and an enlightening tourist experience
TOS	It does not specifically address conditions under which ecotourism development should take place,	The model provides criteria for ecotourism development in terms of product development; local community involvement; eco-friendly practices; food and activities to enhance the visitor experience and lastly policies.
LAC	Critical dimensions such as visitor characteristics and economic activities associated with tourism are not included in the model. Considerable degree of accountability on managers and does not necessarily allow for multi-stakeholder participation	The model includes an assessment of economic, social and environmental impacts. The model implies a multi-stakeholder process, recognising South African National Parks, the government, local communities, tourists, private sector and NGO's as important role-players. Visitor preferences and perceptions were taken into account when the model was developed in terms of the criteria for ecotourism development in South African National Parks.
ECOS	The limitation of this model is that it is not site or destination specific.	The model provides a framework for ecotourism development in the context of South Africa and more specifically South African National Parks.

(Author's own creation)

## CONCLUSION

The purpose of this article was to develop an ecotourism model for SANParks. SANParks' current ecotourism/tourism management strategies were analysed and it was found that there are no clearly identified guidelines for the implementation and management of South Africa National Parks.

The model consists of three phases, namely an input, process and output phase. The input phase outlines the aspects that are critical for ecotourism planning (park attributes, role-players and governance). The output phase outlines conditions for developing ecotourism (an assessment of the positive and negative economic, social and environmental impacts; factors as guidelines for developing ecotourism; implementation; evaluation and control, and feedback). The output phase is the desired outcome of ecotourism development and includes the four ecotourism pillars (conservation and enhancement of natural and cultural attractions, environmental education, sustainable management and the tourist's experience). Lastly, ecotourism products must be sustainable and therefore adhere to the triple bottom line aspects (economic efficiency, social justice and environmental integrity).

The research made the following contributions to the discipline of tourism and specifically ecotourism: This research presents the first ecotourism model for SANParks which can assist park management in creating ecotourism products that provide a sustainable ecotourism experience and secure the future of ecotourism in national parks. It was the first time that the perception of ecotourism was determined in South Africa National Parks, which assisted in identifying the key factors for ecotourism products. This model can also assist in future policy development regarding ecotourism. Such a policy can then be applied to provincial parks, private game reserves and game farms in South Africa.

A recommendation for further studies is in addition to the supply and demand side perceptions of ecotourism, also to determine the perceptions of communities' adjacent national parks.



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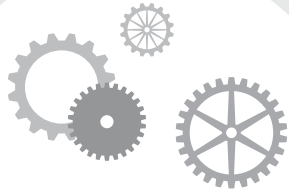
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## DETERMINANTS OF SPENDING AT A LIVE MUSIC PERFORMANCE IN SOUTH AFRICA

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### ABSTRACT

Live concert performances by bands are important places for popular music consumption and occupy an important place on the tourism and events calendar. These shows are held all over the world mostly due to their considerable economic and job creation benefits. However, few artists/bands from the developed world include South Africa in their world tours and performances of these artists/bands are therefore sought after by the South Africa public. Live music performances and concerts are therefore well promoted in the country and attract a variety of visitors. Neil Diamond was one of the most anticipated live music events ever witnessed in South Africa where he performed for the first time in the country in 2011 at the age of 70.

### KEYWORDS

Music tourism, Live music performances, South Africa, Neil Diamond, Regression analysis, Determinants of spending, Music attendees

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## INTRODUCTION

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Music events have become a significant motivator of tourism and feature highly in the development and marketing plans of most destinations (Getz, 2008: 403). South Africa is no exception. Live music performances and concerts are generally well promoted in the country and attract a variety of visitors. Over the years, the various international artists/bands/performers that have performed in selected South African cities and venues include Queen, Elton John, The Rolling Stones, The Bee Gees, Robbie Williams, the Black Eyed Peas, The Killers, Chris de Burgh, UB40, U2 and Roxette. However, Kruger and Saayman (2012c) assert that although performances of these artists/bands are sought after by the South African public, understanding the visitors to these live performance events is difficult: (1) few artists from the developed world include South Africa in their world tours. When they do, performances are few and far between in what is regarded as a 'once-in-a-lifetime' experience. These live performances are also usually held in the major metropolitan cities such as Johannesburg and Cape Town, and tickets are very expensive; (2) competition is fierce, as throughout the year numerous music festivals and events showcase the best South African bands and artists on one stage at a more affordable price (for example Joburg Day, Oppikoppi Music Festival and Splashy Fen); (3) little is known about the needs, preferences and motives of attendees at these live performances (Deighton, 1992; Hausman, 2000; Kruger & Saayman, 2012b, c, d,e), as research has focused mainly on attendees at music festivals and not at live music performances; (4) the variety of music genres (pop, rock, classical, jazz, country and rap to name but a few) attract significantly different attendees and artists, and create diverse visitor experiences (Kruger & Saayman, 2012d).

With these challenges in mind, Neil Diamond was one of the most anticipated live music events ever seen in the country where he performed four concerts for the first time in the country in 2011 at the age of 70. The four concerts generated over R150 million, making it the highest earning live music performance of 2011 (Kruger, Saayman, Wait & Manners, 2011: 41). Given the economic value of the Neil Diamond concerts, an understanding of expenditure patterns and the determinants influencing the spending behaviour of visitors is vital to the event marketers/organisers – especially from a sustainability point of view (Kruger & Saayman, 2012a). The Neil Diamond concerts in South Africa were however unique occurrences with two important aspects to consider: The first aspect to consider is the performing artist. Research indicates that the impact of a renowned international artist such as Neil Diamond is much larger and could extend to neighbouring towns and regions which indicates that more attendees would be prepared to travel further to attend the performance (Saayman, 2007; Kruger & Saayman, 2012d). Another aspect to consider is location. In contrast to the usual two concerts performed by international artists typically held in the major metropolitan cities such as Johannesburg and Cape Town, Neil Diamond performed four concerts in four different provinces in the country; in Johannesburg (Gauteng), Durban (KwaZulu-Natal), Port Elizabeth (Eastern Cape) and Cape Town (Western Cape). The Durban concert generated the greatest revenue based on visitors from outside the area while the concert in Johannesburg generated the greatest amount based on both local and visitors from outside the area (Kruger, Saayman, Wait & Manners, 2011: 41). This indicates that the spending behaviour by visitors at the four concerts differed significantly from one another.

Since the total economic impact of an event is a function of both the direct and indirect expenditures of attendees (Lee, Lee, Lee & Babin, 2008: 56), it is important to understand their spending behaviour at the event and the underlying determinants affecting such behaviour (Mok & Iverson, 2000: 300). Saayman and Saayman (2011) indicate that understanding these determinants will give organisers a more comprehensive view of the variables that influence attendee spending, and organisers can use the information for various purposes, including planning and marketing. The aim of this research is therefore to investigate the socio-demographic and behavioural

determinants that influence attendee expenditure at the four Neil Diamond concerts in South Africa. This is the first time that a live music performance of this magnitude held in South Africa will be analysed in terms of attendee expenditure. This research will answer questions such as:

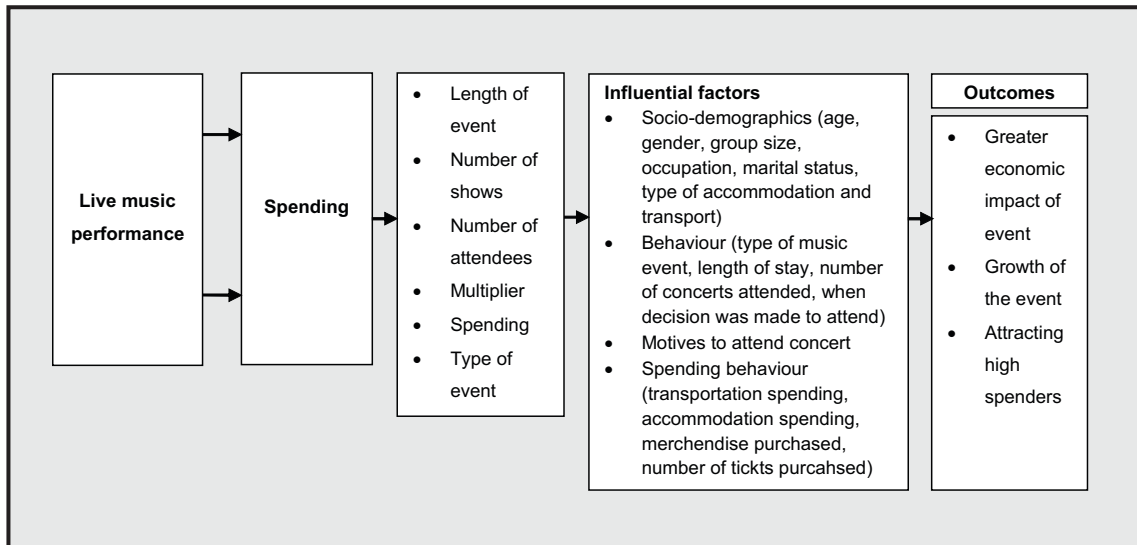
- Who is the Neil Diamond concert attendee?
- What are the influential socio-demographic, behavioural and travel motive determinants of attendee spending at the concerts?
- Are there more significant socio-demographic than behavioural determinants?
- Does the physical location of an event have an impact on attendees spending during an event?
- Do different determinants influence attendee spending at the four different locations and concerts?

These findings will give organisers a more comprehensive view of the variables that influence attendee spending at live music performances and organisers can use the information to increase attendee spending which could ultimately lead to a greater economic impact of live music performances in the country. These findings will furthermore narrow the gap in current literature regarding live music performance and the variables that influence the spending behaviour of attendees. This is especially invaluable to the South African events industry since little research focuses on the needs, wants and expenditure patterns of live music attendees.

## LITERATURE REVIEW

The economic impact of live music performances is considerable, as consumers spend substantially on everything, from parking to refreshments to souvenirs, as well as ancillary retail products (such as t-shirts, posters, and programmes) outside the concert venue (Hausman, 2000: 211). In some cases, live performances also generate revenue from hotel accommodation, restaurants and transport costs, while the live music performances contribute to recorded music purchases, further enhancing the financial impact of these events (Earl, 2001: 345; Hausman, 2000: 211; Fredman, 2008). While attending concerts does have significant costs compared to listening to pre-recorded music, including reduced sound quality (Earl, 2001), for many the benefits of attending concerts outweigh these costs (Black, Fox & Kochanowski, 2007: 150). Such benefits include fulfilment of curiosity, experience of joy and entertainment, social interaction and the chance to get physically close to famous and cherished artists (Earl, 2001: 345-353). It is these unique experiences that make live music performances and concerts such an economic success for the artist, the organiser/promoter, and the host city/community.

Saayman and Saayman (1997: 162) indicate that the economic impact of attendees at an event is influenced by the magnitude of attendee spending, the number of attendees attending the event, the number of days spent in the host city, and the circulation (multiplier) of attendee spending through the economy of the host city and community (see Figure 1). The spending by attendees to an event is furthermore the first input in the economic impact assessment and a true understanding of attendee spending and the factors that influence the amounts that certain attendees spend are therefore an essential input in any economic impact study (Saayman, Saayman & du Plessis, 2005: 212). According to Craggs and Schofield (2006), a wide range of socio-demographic and behavioural determinants influence attendee expenditure and the latter can be used to identify the important determinants affecting attendee spending as shown in Figure 1. However, not all of these factors are applicable or significant for all live music performances or in the case of Neil Diamond, for all four concerts held at four different locations. This emphasises the need to understand and separately determine the most influential factors for attendee spending at the different concerts.



**FIGURE 1: FACTORS INFLUENCING ATTENDEE SPENDING – FACTORS OF POSSIBLE IMPORTANCE**  
 (Source: Adapted from Craggs and Schofield (2006), Kruger and Saayman (2012a) and Marcussen (2011))

With this in mind, Spotts and Mahoney (1991: 24) and Legohérel and Wong (2006: 16) indicate that visitor expenditure is an important factor for comprehensive tourism segmentation and can be used to determine the high spenders in addition to the determinants that positively influence higher spending. This is because travel (event) marketers seek visitors who will spend money, and not just time, on their tourism products (in this case, live music events) (Mok & Iverson, 2000: 299). Bouchet, Bernache-Assolant and Kada (2010: 2) add that this specific knowledge is crucial for event managers and organisers, as it would help them to categorise their demand accurately which, in turn, would allow them to target and satisfy the appropriate market segments. Tourist/visitor spending is furthermore one of the most critical variables of analysis for tourist destinations (live music events) since it directly determines the tourism (live music event) sector’s profitability (Frechtling, 2006: 1). It is therefore important to determine which attendees spend most at a live music event and which variables are most influential in determining their expenditure levels (Kastenholz, 2005: 557). Previous research on individual visitor expenditure levels are summarised in Table 1.

Based on the findings reflected in Table 1, it is clear that previous research on individual visitor expenditure levels has been viewed as being dependent on socio-demographics. It is furthermore evident that different socio-demographic and behavioural determinants influence visitor spending on different tourism products, attractions and events. The influential determinants of attendee expenditure at live music performances has however to date received limited attention. Studies of live music performances and concerts mostly focused on concert tour successes (Black et al., 2007), acquiring performance data (Goebel, De Poli, Friberg, Bresin & Widmer, 2005), demographics of attendees at music festivals (Oakes, 2003) and creating attendee experience (Minor, Wagner, Brewerton & Hausman, 2004; Kubacki, 2008; Manners, Kruger & Saayman, 2012).



**TABLE 1: SOCIO-DEMOGRAPHIC AND BEHAVIOURAL DETERMINANTS OF VISITOR SPENDING**

Spending determinant	Finding(s)	Author(s)
<b>Socio-demographic determinants</b>		
Nationality	The influence of nationality on higher spending is inconclusive. German tourists tend to be lower spenders while tourists from Great Britain tend to be higher spenders.	Svensson, Moreno and Martin (2011) Alegre, Cladera and Sard (2011), Barquet, Brida, Osti and Schubert (2011)
Age	The role of age is inconclusive.	Cai <i>et al.</i> (1995), Lee (2001) and Streicher and Saaman (2009)
	A positive correlation between age and total expenditure levels.	Mak <i>et al.</i> (1977), Perez and Sampol (2000), Saayman and Saayman (2006), Kastenholz (2005), Thrane (2002) and Saayman and Saayman (2011)
	Older visitors tend to spend less than younger visitors.	Mudambi and Baum (1997), Mehmetoglu (2007), Pouta <i>et al.</i> (2006) and Kruger <i>et al.</i> (2010), Barquet, Brida, Osti and Schubert (2011)
	Younger visitors spend less on accommodation and transport.	Marcussen (2011)
Gender	Male visitors spent more than females.	Thrane (2002) and Kruger <i>et al.</i> (2011), Saayman and Saayman (2011), Marcussen (2011), Svensson, Moreno and Martin (2011)
	Female visitors tend to spend more.	Craggs and Schofield (2006) and Letho <i>et al.</i> (2004), Saayman and Saayman (2011)
Language	English-speaking spectators to the Old Mutual Two Oceans Marathon and Pick n Pay Cage Argus Cycle Tour tend to spend more than Afrikaans-speaking visitors.	Kruger, Saayman and Ellis (2012) and Saayman and Saayman (2011)
Income	Spending behaviour is positively associated with higher household income.	Fish and Waggle (1996), Cannon and Ford (2002), Crouch (1994), Legohérel (1998), Mak, Moncur and Yonamine (1977), Mehmetoglu (2007), Taylor, Fletcher and Clabaug (1993), Thrane (2002), Kruger (2009), Kruger <i>et al.</i> (2010), Marcussen (2011), Alegre, Cladera and Sard (2011), Barquet, Brida, Osti and Schubert (2011)
Occupation	Self-employed visitors tend to be higher spenders while being unemployed reduces the probability of belonging to a higher expenditure segment.	Alegre, Cladera and Sard (2011)
Marital status	The effect of marital status on expenditure is inconclusive.	Saayman <i>et al.</i> (2007)
	Married visitors stay fewer days and spend significantly less per person per day than non-marrieds.	Mak <i>et al.</i> (1977)
	Married swimmers participating in the Telkom Midmar Mile in South Africa also tend to spend less per person than non-marrieds.	Saayman and Saayman (2011)
	Married cyclists at the Pick n Pay Cape Argus Cycle Tour and in South Africa spend more on average than those not married.	Streicher and Saayman (2009)
Level of education	Visitors with a higher education level do not stay significantly longer, and spend less per day on average than less educated visitors.	Gokovali <i>et al.</i> (2007) and Mak <i>et al.</i> (1977)
	Cyclists at the Pick n Pay Cape Argus Cycle Tour and swimmers participating in the Telkom Midmar Mile in South Africa with post-graduate and professional education spend significantly more than people with only school education.	Saayman and Saayman (2011)
Place of residence / Distance travelled	Spending by visitors increase for visitors from out-of-state.	Cannon and Ford (2002)
	Province of origin (location) plays an important role in the spending of visitors at arts festivals, national parks and sports events in South Africa with visitors travelling from richer provinces such as Gauteng and the Western Cape spending the most.	Saayman and Saayman (2008), Saayman <i>et al.</i> (2007), Slabbert <i>et al.</i> (2008), Kruger (2009) and Streicher and Saayman (2009)
	Spectators originating from the Western Cape Province spend less than those travelling from other provinces.	Kruger <i>et al.</i> (2012)
	Athletes in Old Mutual Two Oceans Marathon in South Africa originating from Gauteng Province spend more per person compared to those travelling from the Western Cape Province.	Saayman and Saayman (2011)
	Swimmers participating in the Telkom Midmar Mile in South Africa originating from the Gauteng Province spend more than participants travelling from other provinces.	Saayman and Saayman (2011)
	The distance travelled to visit tourist attractions affects expenditures positively.	Lee (2001), Long and Perdue (1990), Saayman <i>et al.</i> (2007), Marcussen (2011)
<b>Behavioural determinants</b>		
Children in travel party	The inclusion of children in the travel party results in decreased spending per day.	Cannon and Ford (2002), Cai, Hong and Morrison (1995) and Saayman and Saayman (2006), Alegre, Cladera and Sard (2011)
	The presence of children has no significant effect on expenditure.	Lee (2001)

Group size	A larger group size is positively correlated with overall expenditure levels.	Seiler <i>et al.</i> (2002), Lee (2001:663), Marcussen (2011), Thrane and Farstad (2011)
	An increase in the number of people in the travel party leads to a decrease in spending per person.	Saayman and Saayman (2008), Kruger <i>et al.</i> (2012), Saayman and Saayman (2011), Svensson, Moreno and Martin (2011), Alegre, Cladera and Sard (2011), Barquet, Brida, Osti and Schubert (2011)
Financial responsibility (number of people paid for)	Visitors who pay for fewer people at the Aardklop National Arts Festival in South Africa tend to spend more per person.	Kruger <i>et al.</i> (2010)
Travel season	Visitors tend to stay longer and spend more during peak holiday seasons.	Marcussen (2011)
Travel purpose	Business travellers exhibit the highest spending patterns and the most expensive travel style.	Mok and Iverson (2000), Letho <i>et al.</i> (2004), Marcussen (2011)
Travel behaviour	Visitors who mainly travel to attend an arts festival in South Africa spend more money than those who attend the festival for other reasons.	Thrane (2002), Kruger (2009), Saayman <i>et al.</i> (2009) and Kruger and Saayman (2009)
	Visitors who have attended other festivals in South Africa are more inclined to fall into the 'high-spender' category.	Saayman and Saayman (2006); Kruger (2009:28)
Travel motives	Specific leisure travel motives (nature, culture, sun and beach tourism, etc.) or benefits sought have rarely been studied in this context and, generally, no relevant impact on expenditure levels has been found.	Downward and Lumsdon (2003), Uysal <i>et al.</i> (1994), Beh and Bruyere (2007); Saayman and Saayman (2008); Lee <i>et al.</i> (2004); Schneider and Backman (1996), De Guzman <i>et al.</i> (2006) and Kruger <i>et al.</i> (2009b)
	Visitors interested in culture and art spend significantly more.	Marcussen (2011)
	Visitors who are motivated more by cultural and sports events as well as business meetings and conferences spend more.	Svensson, Moreno and Martin (2011)
	Athletes competing in the Old Mutual Two Oceans Marathon in South Africa motivated to explore the area tend to be higher spenders.	Saayman and Saayman (2011)
	Cyclists at the Pick n Pay Cape Argus Cycle Tour in South Africa who attend the event as a family outing or an opportunity to visit and tour the area tend to spend more per person.	Saayman and Saayman (2011)
	Swimmers participating in the Telkom Midmar Mile in South Africa who are motivated more by personal motives such as achievement tend to be higher spenders.	Saayman and Saayman (2011)
Length of stay	A longer duration of stay is positively correlated with overall expenditure levels.	Saayman, Krugell and Van der Merwe (2007), Streicher and Saayman (2009), Seiler <i>et al.</i> (2002), Saayman and Saayman (2011); Marcussen (2011)
	Decreased spending per day is related to longer duration of stay.	Downward and Lumsdon (2003), Cannon and Ford (2002), Sun and Stynes (2006), Mehmetoglu (2007), Svensson, Moreno and Martin (2011), Alegre, Cladera and Sard (2011)
Preferred accommodation	Visitors with more elaborate catering needs and who prefer a combination of self-catering and other types of catering tend to spend more.	Saayman <i>et al.</i> (2007)
	Cyclists making use of paid accommodation (for example hotels, bed & breakfasts and guesthouses) spend more.	Streicher and Saayman (2009)
	Visitors who stay in hotels tend to spend more.	Marcussen (2011), Svensson, Moreno and Martin (2011), Alegre, Cladera and Sard (2011)
Number of visits	Repeat visitors tend to spend more than first time visitors.	Gyte and Phelps (1989), Long and Perdue (1990), Marcussen (2011)
	Repeat visitors stay longer than first time visitors, but do not spend significantly more or less.	Mak <i>et al.</i> (1977), Svensson, Moreno and Martin (2011)
	First time visitors spend more than repeat visitors despite their shorter length of stay.	Jang <i>et al.</i> (2004), Oppermann (1997), Alegre and Juaneda (2006), Petrick (2004) and Pouta, Neuvonen and Sievänen (2006), Barquet, Brida, Osti and Schubert (2011)
Mode of transport	Visitors who make use of air travel tend to be higher spenders.	Marcussen (2011)
	Visitors who use a car or motorbike tend to be higher spenders.	Svensson, Moreno and Martin (2011)
	Those who utilise bus, train or ship tend to be lower spenders.	
Information sources	The use of the internet as a source of information positively influences higher spending.	Marcussen (2011), Svensson, Moreno and Martin (2011)
	Visitors who have heard about an event/destination from word-of-mouth recommendations by friends or relatives tend to be lower spenders.	Svensson, Moreno and Martin (2011)
Initiator/organiser of trip/attendance	High spenders usually plan and organise the trip themselves.	Svensson, Moreno and Martin (2011)
	The use of travel agents decreases spending.	
	The involvement of travel agents leads to higher per person spending.	Marcussen (2011)
Travel package	Tourists who book an all inclusive holiday package tend to be lower spenders.	Alegre, Cladera and Sard (2011)
	Tourists who book only transport and accommodation tend to be higher spenders.	

In a South African context, Kruger and Saayman (2012b) identified the differences between male and female concert attendees at the U2 360° Concert held in 2011. The results showed that men and women should be treated as two separate market segments, as they have significantly different socio-demographics, travel behaviour and motives. In another study, Kruger and Saayman (2012c) identified the travel motives of attendees at a live performance of Roxette in South Africa in 2011 as: artist affiliation and unique experience, socialisation and event novelty, fun and group affiliation, enjoyment and entertainment and nostalgia. The results also showed that, although these attendees have different travel motives and behavioural variables, they have homogeneous socio-demographic characteristics. Kruger and Saayman (2012d) further determined whether the type of music genre had an influence on the type of attendee and their behaviour. Their findings confirmed that the performing band and type of music genre influence the characteristics of visitors attending live music concerts and that the type performing band can be identified by the characteristics of their fans. Manners, Kruger and Saayman (2012) determined the influence of different locations on the profile, motives and behaviour of attendees at the four Neil Diamond performances. Attendees at the four locations were found to have significantly different socio-economic profiles, motives and behaviour. In a similar study, Kruger and Saayman (2012e) also determined the influence of location on the profile, motives and behaviour of attendees at two different live music performances, namely that of James Blunt and Josh Groban and the findings proved that visitors to each location have different expectations and needs that must be considered. Therefore, a performance at one location should not be regarded as being the same as the performances held in other locations. This finding is especially relevant in the present study as this may also apply to attendee expenditure behaviour.

## METHOD OF RESEARCH

As this was a quantitative research study, a structured questionnaire was used to collect the data. This section describes the questionnaire, the sampling method, the survey, and the statistical analysis conducted.

### The questionnaire

The questionnaire used in the survey was divided into three sections: Section A determined the socio-demographic information of visitors to the music event and included questions to determine their gender, age, home language, marital status, and province or residence. Section B determined critical management factors for a memorable visitor experience and the statements measured were based on the work of Erasmus (2011) and Marais (2009). Various aspects relating to general management, human resource management, layout, parking, security, accessibility, ticket sales and food and beverages were adapted to relate more specifically to a major music event. This resulted in 50 management aspects pertaining to the creation of a visitor experience. The importance of a major music event was measured on a 5-point Likert scale, where 1 indicated not at all important, 2 slightly important, 3 important, 4 very important and 5 extremely important. Section C determined the visitors' behaviour and musical interests, where 22 questions concerning the reasons that visitors attended concerts such as those of Neil Diamond were evaluated on a 5-point Likert scale. This section also established the importance to the visitors of seeing their favourite artist, whether they saw the concert as value for money, whether or not they had fun, had they enjoyed the music and had they experienced new things. This section also contained questions to determine how many music events visitors were likely to attend in a year, the type of accommodation they used, the mode of transport, the type of music they preferred, their all-time favourite artist/band and whether or not they had attended other music events and festivals, and others.

## Sampling Method and Survey applied at the four Neil Diamond concerts

Surveys were conducted at the Neil Diamond concerts in Johannesburg (1 April, 2011), at Durban (5 April, 2011), at Port Elizabeth (8 April, 2011) and at Cape Town (11 April, 2011). The various stadia had been divided into blocks determined by the value of the different tickets purchased. For example, the seats on the field and close to the stage were more expensive than the seating further away. Each block had its own entrance. A stratified sampling method was therefore used and in order to limit bias, a simple random sampling method was used within the stratified method where the trained fieldworkers followed specific guidelines as questionnaires were distributed to different, non-homogeneous age groups, gender groups and ticket holders. Visitors at the various stadia were also asked to complete questionnaires at the gates as they waited to enter the venue and as they were seated. Willing participants completed the questionnaire prior to the event as fieldworkers explained the purpose of the survey before any questionnaires were completed. A total of 2 000 questionnaires were administered and 1 820 completed questionnaires were included in the analysis. According to Israel (2009:6), in a population of 100 000 (N), 398 respondents (n) are seen as representative. Since approximately 52 000 visitors attended Neil Diamond at the FNB stadium in Johannesburg, 613 questionnaires were completed, 21 000 attended the Nelson Mandela Bay stadium in Port Elizabeth and 443 questionnaires were completed and 37 000 attended the Green Point stadium in Cape Town where 522 questionnaires were completed. However, in the case of Durban, a total of 288 questionnaires were completed with 25 000 visitors attending the concert at the Moses Mabhida stadium. In this case, a sampling error of 7% was permitted due to adverse weather conditions that hindered the survey at the event. The total number of questionnaires received back (n = 1866) was therefore more than adequate, and, 1 820 completed questionnaires were included in further analysis.

## Statistical analysis

Microsoft Excel was used to capture data and SPSS (SPSS Inc, 2012) to analyse it. The data from all four concerts were pooled and the analysis was performed in five stages. First, a general profile of the Neil Diamond attendees at the different concerts were compiled. Second, two principal axis factor analyses, using an Oblimin rotation with Kaiser normalisation, were performed on respectively the 50 key management aspects and 22 motivation items to explain the variance-covariance structure of a set of variables through a few linear combinations of these variables. The Kaiser-Meyer-Olkin measure of sampling adequacy was also used to determine whether the covariance matrix was suitable for factor analysis. Kaiser's criteria for the extraction of all the factors with eigenvalues larger than unity were used because they were considered to explain a significant number of variation in the data. In addition, all items with a factor loading above 0.3 were considered as contributing to a factor, and all with loadings lower than 0.3 as not correlating significantly with this factor (Steyn, 2000). In addition, any item that cross-loaded on two factors with factor loadings greater than 0.3 was categorised in the factor where interpretability was best. A reliability coefficient (Cronbach's alpha) was computed to estimate the internal consistency of each factor. All factors with a reliability coefficient above 0.6 were considered to be acceptable in this study. The average inter-item correlations were also computed as another measure of reliability – these, according to Clark and Watson (1995), should lie between 0.15 and 0.55.

Third, the dependent (predicted) variable is spending per person, which was calculated by adding the spending of the respondent on the various components asked. This yielded the total spending, which was then divided by the number of people for whom the respondent was paying in the trip, to

calculate the spending per person. The dummy variables (socio-demographic and behavioural variables) were coded 1 and 0 to be included in the correlation as well as the regression analysis. Fourth, Spearman's Rank Order Correlation ( $\rho$ ) was used to explore the interrelationship between the independent variables and the dependent variable (spending per person). According to Pallant (2010:134), a correlation of 0 indicates no relationship, a correlation of 1.0 indicates a perfect positive correlation, and a value of -1.0 indicates a perfect negative correlation. Cohen (1988:79-81) suggests the following guidelines to interpret the values between 0 and 1: small effect:  $r=0.1$  medium effect:  $r=0.3$  and a large effect:  $r=0.5$ .

Fifth, based on the results of the correlation analysis, the best predictors for the dependent variable were selected and backward linear regression analyses were performed to identify the determinants of attendee spending at the four Neil Diamond concerts. In the regression analysis,  $R^2$  gives the proportion of variance in spending that is explained by the predictors included in the model. An  $R^2$  of 0.25 or larger can be considered as practically significant (Ellis & Steyn, 2003: 53). The adjusted  $R^2$  indicates how much variance in the outcome would be accounted for if the model had been derived from the population from which the sample was taken and also takes into account the number of explanatory variables in the model (Field, 2005: 723). The adjusted  $R^2$  therefore gives an idea of how well the regression model generalises and, ideally, its value needs to be the same or very close to the value of  $R^2$  (Field, 2005: 188). The results from the statistical analysis are discussed in the next section.

## RESULTS

This section provides an overview of the profile of the respondents, discusses the results of the factor analyses (motives and key management aspects) as well as the correlation analyses and presents the results of the linear regression analyses.

### Profile of respondents

As shown in Table 2, the profile of the Neil Diamond attendees at the four different concerts are very similar. Attendees were mostly female, married, Afrikaans-speaking, originating from the host province, with a diploma or degree and in a professional line of occupation. Attendees travelled in groups of three or four and were financially responsible for only two people during the show and purchased an average of three tickets. There are however also differences between the attendees. The Johannesburg concert attracted the youngest attendees (an average age of 44 years) while Durban attracted the oldest attendees (an average of 51 years). Attendees to the Johannesburg concert preferred to travel by bus while the attendees at the other three concerts preferred to travel by car. Johannesburg attendees also had the shortest length of stay (an average of 1 night in the area) compared to the other three concerts whose attendees stayed an average of two nights in the area. Consequently, the Johannesburg attendees had the lowest average spending (R1936.64 per group). Local residents made up a large percentage of respondents; however it seems that the Durban concert attracted the most attendees from surrounding areas.

**TABLE 2: PROFILE OF RESPONDENTS AT THE FOUR NEIL DIAMOND CONCERTS**

Demographic profile	Johannesburg	Durban	Port Elizabeth	Cape Town
Gender	Male (42%); Female (58%)	Male (42%); Female (58%)	Male (40%); Female (60%)	Male (36%); Female (64%)
Age	Average age: 44 years	Average age: 50.7 years	Average age: 47.4 Years	Average age: 47.9 years
Marital status	Married (64%)	Married (77%)	Married (68%)	Married (65%)
Language	Afrikaans (62%); English (38%)	Afrikaans (48%); English (52%)	Afrikaans (51%); English (49%)	Afrikaans (67%); English (33%)
Province of residence	Gauteng (76%), Outside RSA borders (2%)	KwaZulu-Natal (72%), Outside RSA borders (1%)	Eastern Cape (72%), Outside RSA borders (2%)	Western Cape (83%), Outside RSA borders (3%)
Level of education	Diploma, degree (37%)	Diploma, degree (38%)	Diploma, degree (40%)	Diploma, degree (39%)
Occupation	Professional (45%)	Professional (43%)	Professional (35%)	Professional (39%)
Number of people in travelling group	Average of 4.2 people	Average of 3.4 people	Average of 4 people	Average of 3.6 people
Number of people paid for	Average of 2.6 persons	Average of 2.3 persons	Average of 2.3 persons	Average of 2.2 persons
Mode of transport	Bus – 50%	Car – 92%	Car – 94%	Car – 82%
Length of stay in Johannesburg /Pretoria	An average of 1 night	An average of 3.9 nights	An average of 2 nights	An average of 2.7 nights
Type of accommodation	Local Resident (71%)	Local Resident (49%)	Local Resident (40%)	Local Resident (66%)
Expenditure per group	R 1 936.64	R 2 994.89	R 2 538.76	R 2 642.12
Number of tickets purchased	Average of 3.1 tickets	Average of 2.6 tickets	Average of 2.6 tickets	Average of 2.6 tickets

### Results from the factor analyses

The pattern matrix of the principal axis factor analyses using an Oblimin rotation with Kaiser normalisation identified four motivational factors and six key management factors for a memorable experience that were labelled according to similar characteristics (Table 3 and Table 4). These factors accounted for 59 % of the total variance. All had relatively high reliability coefficients, ranging from 0.79 (the lowest) to 0.83 (the highest) for the motivational factors and 0.84 (the lowest) to 0.94 (the highest) for the key management aspects. The average inter-item correlation coefficients, with values between 0.39 and 0.57 for the motives and 0.35 and 0.84 for the key management factors, also imply internal consistency for all the factors. Moreover, all items loaded on a factor with a loading greater than 0.3 and the relatively high factor loadings indicate a reasonably high correlation between the factors and their component items (Steyn, 2000). The Kaiser-Meyer-Olkin measures of sampling adequacy of 0.92 and 0.97 also indicate that the patterns of correlation are relatively compact and yield distinct and reliable factors (Field, 2005: 640). Barlett's test of sphericity also reached statistical significance ( $p < 0.001$ ) in both cases, supporting the factorability of the correlation matrix (Pallant, 2007: 197).

Factor scores were calculated as the average of all items contributing to a specific factor (mean value) in order to interpret them on the original 5-point Likert scale of measurement. As Table 3 shows, the following travel motives for visitors attending the various Neil Diamond concerts were identified: Excitement and group affiliation (Factor 1), Socialisation (Factor 2), Artist affiliation and unique experience (Factor 3), and Entertainment (Factor 4). With a mean value of 4.36, Artist affiliation and unique experience was considered the most important motive to attend the Neil Diamond concerts, followed by Entertainment (4.20), Excitement and group affiliation (3.81) and Socialisation (2.78).



**TABLE 3: MOTIVES FOR VISITORS ATTENDING THE NEIL DIAMOND CONCERT**

Motivation factors and items	Factor loading	Mean value	Reliability coefficient	Average inter-item correlation
<b>Factor 1: Excitement and group affiliation</b>		<b>3.81</b>	<b>0.83</b>	<b>0.49</b>
To experience new things	0.68			
For a chance to be with people who are enjoying themselves	0.64			
To have fun	0.61			
To share the event with someone special	0.52			
It is an exciting thing to do	0.41			
<b>Factor 2: Socialisation</b>		<b>2.78</b>	<b>0.81</b>	<b>0.41</b>
To meet new people	0.88			
It is a social event	0.63			
Because I got tickets for free or as a present	0.57			
Out of curiosity	0.49			
To spend time with family and friends	0.47			
I try to attend as many of these music events as possible	0.41			
<b>Factor 3: Artist affiliation and unique experience</b>		<b>4.36</b>	<b>0.82</b>	<b>0.39</b>
It is a once-in-a-lifetime experience	0.84			
Neil Diamond is a well-known international artist	0.75			
I always wanted to see Neil Diamond perform live	0.75			
The concert is a unique experience	0.60			
To see my favourite artist	0.52			
To be part of this unique and exciting event	0.44			
The concert is value for money	0.32			
For nostalgic reasons/memories	0.32			
<b>Factor 4: Entertainment</b>		<b>4.20</b>	<b>0.79</b>	<b>0.57</b>
Because I enjoy these types of special events	0.80			
These concerts are entertainment at its best	0.66			
To enjoy the music	0.35			
<b>TOTAL VARIANCE EXPLAINED</b>	<b>59%</b>			

As indicated in Table 4, the following key management factors for visitors attending the various Neil Diamond concerts were identified: General Management (Factor 1), Souvenirs (Factor 2), Marketing (Factor 3), Venue and Technical aspects (Factor 4), Accessibility and Parking (Factor 5), and Amenities and Catering (Factor 6). Management (4.44) was considered the most important management factor to enhance the visitor experience at the Neil Diamond concerts, followed by Venue and Technical aspects (4.43), Marketing (4.36), Accessibility and Parking (4.30), as well as Amenities and catering (3.94). Souvenirs (3.27) obtained the lowest mean value and was regarded as the least important management aspect.

**TABLE 4: FACTOR ANALYSIS FOR THE CRITICAL SUCCESS FACTORS FOR MANAGING THE VISITOR EXPERIENCE AT A MAJOR MUSIC EVENT**

CSFs and items	Factor loading	Mean value	Reliability coefficient	Average inter-item correlation
<b>Factor 1: General Management</b>		<b>4.44</b>	<b>0.93</b>	<b>0.51</b>
Clean and hygienic ablution facilities	0.45			
Effective traffic control to and from the event	0.45			
Visibility of security on stadium terrain	0.42			
Friendly and professional personnel in and around the stadium	0.40			
Appropriate gate opening time prior to event	0.39			
Personnel that are trained to handle any concert/event enquiries	0.39			
Adequate ablution facilities inside/outside the stadium	0.38			
Correct information on the tickets (e.g. seat numbering, date, time)	0.37			
Visibility of emergency personnel	0.37			
Concert/Event personnel that are easily noticeable	0.33			
Adequate safety measures/precautions in place during the concert	0.32			
High quality service at ticket sales	0.27			
Adequate control over alcohol use	0.26			
<b>Factor 2: Souvenirs</b>		<b>3.27</b>	<b>0.94</b>	<b>0.84</b>
Availability of a variety of souvenirs	0.99			
Affordable souvenirs (e.g. caps, t-shirts, posters)	0.90			
Adequate stalls available for the purchasing of souvenirs	0.85			
<b>Factor 3: Marketing</b>		<b>4.36</b>	<b>0.91</b>	<b>0.63</b>
User friendly and accessible website	0.92			
User friendly website with adequate information on Big Concert's website	0.84			
Effective ticket sales prior to the concert via the internet	0.77			
Adequate information regarding the concert/event	0.76			
Effective marketing prior to the concert regarding date, time, venue, transport etc.	0.56			
Correct information given through marketing (e.g. date, time, venue, transport options)	0.53			
<b>Factor 4: Venue and Technical aspects</b>		<b>4.43</b>	<b>0.93</b>	<b>0.46</b>
Good quality acoustics in the stadium	0.62			
Good visibility of the stage from all viewpoints in the stadium	0.60			
Good layout of the stadium	0.43			
Accessibility of the stadium entry points	0.41			
Effective technical aspects during shows (lights, sound)	0.40			
Comfortable seating	0.37			
Effective and fast service at the entrance gates of the	0.33			
Adequate seats in the stadium	0.30			
Adequate information boards on the stadium's terrain and effective signage and directions to the stadium	0.29			
Punctuality of the concert programme	0.27			

<b>Factor 5: Accessibility and Parking</b>		<b>4.30</b>	<b>0.88</b>	<b>0.35</b>
Effective communication on parking options	0.83			
Effective signage and directions to the stadium	0.76			
Effective communication on the day of the event with regard to road closures	0.62			
Adequate security at parking areas	0.57			
Adequate parking arrangements (e.g. park'n'ride, park'n'walk)	0.53			
Adequate information kiosks at the stadium	0.39			
Fast and effective services at the token exchange outlets	0.30			
<b>Factor 6: Amenities and Catering</b>		<b>3.94</b>	<b>0.84</b>	<b>0.35</b>
Concert programme that caters for all ages	0.59			
Variety of food and beverage availability (e.g. Halaal, vegetarian)	0.56			
Affordable food and beverages at the stadium	0.48			
Adequate ATM facilities at the stadium	0.46			
Well-known pre-concert artists prior to the main event	0.45			
Affordable prices of transport services	0.39			
Affordable tickets	0.37			
Adequate variety of national and international artists performing	0.32			
Accessibility for the disabled	0.29			
<b>TOTAL VARIANCE EXPLAINED</b>	<b>59%</b>			

### Results from the correlation analysis and Spearman's rho

Most questions had multiple choice responses or were answered on a 5-point Likert scale and the dummy variables were coded 1 and 0 according to Table 5. These variables were included in the correlation analyses to determine the variables that had the greatest influence on spending per person at the four different Neil Diamond concerts. The relationship between the variables indicated in Table 5 and spending per person was investigated by using Spearman's Rank Order Correlation (rho).

**TABLE 5: QUESTIONS USED AND THEIR DESCRIPTIONS FOR ALL FOUR NEIL DIAMOND CONCERTS**

Category	Question description	Coding	Variable
<b>Socio-demographics</b>	<b>Home language</b>	Afrikaans = 1; English = 0	LANGUAGE
	<b>Gender</b>	Female = 1; Male = 0	GENDER
	<b>Age</b>	Open question	AGE
	<b>Local resident</b>	Yes = 1; No = 0	LOCAL RESIDENT
	<b>Level of education*</b>	High level = 1; Other = 0	LEVEL OF EDUCATION
	<b>Marital status</b>	Married = 1; Not married = 0	MARITAL STATUS
<b>Behavioural</b>	<b>Group size</b>	Open question	GROUP
	<b>Number of people paid for</b>	Open question	PEOPLE PAID FOR
	<b>Number of nights</b>	Open question	DAYS
	<b>Number of tickets purchased</b>	Open question	TICKETS PURCHASED
	<b>Number of previous event attendance</b>	Open question	TIMES ATTENDED
	<b>Attendance of other music festivals</b>	Yes = 1; No = 0	OTHER MUSIC FESTIVALS
<b>Media preferences</b>	<b>Television</b>	Yes = 1; No = 0	TV
	<b>Radio</b>	Yes = 1; No = 0	RADIO
	<b>Website</b>	Yes = 1; No = 0	WEBSITE
	<b>Magazines</b>	Yes = 1; No = 0	MAGAZINES
	<b>Newspapers</b>	Yes = 1; No = 0	NEWSPAPERS
	<b>Word-of-mouth</b>	Yes = 1; No = 0	WORD-OF-MOUTH

<b>Preferred music genres</b>	<b>Pop</b> <b>Punk rock</b> <b>Classical</b> <b>Instrumental</b> <b>Jazz</b> <b>Blues</b> <b>Heavy metal</b> <b>Rap</b> <b>Rock n roll</b> <b>R&amp;B</b> <b>Reggae</b> <b>Folk/Traditional music</b> <b>Country</b>	Yes = 1; No = 0 Yes = 1; No = 0 Yes = 1; No = 0 Yes = 1; No = 0 Yes = 1; No = 0 Yes = 1; No = 0 Yes = 1; No = 0 Yes = 1; No = 0 Yes = 1; No = 0 Yes = 1; No = 0 Yes = 1; No = 0 Yes = 1; No = 0	POP PUNK ROCK CLASSICAL INSTRUMENTAL JAZZ BLUES HEAVY METAL RAP ROCK N ROLL R&B REGGAE FOLK/TRADITIONAL MUSIC COUNTRY
<b>Motives to attend Neil Diamond concerts</b>	<b>Excitement and group affiliation</b>  <b>Socialisation</b> <b>Artist affiliation and unique experience</b> <b>Entertainment</b>	5-point Likert Scale  5-point Likert Scale 5-point Likert Scale  5-point Likert Scale	EXCITEMENT AND GROUP AFFILIATION  SOCIALISATION ARTIST AFFILIATION AND UNIQUE EXPERIENCE ENTERTAINMENT
<b>Critical success factors for managing the visitor experience</b>	<b>General management</b> <b>Souvenirs</b> <b>Marketing</b> <b>Venue and technical aspects</b> <b>Accessibility and parking</b> <b>Amenities and catering</b>	5-point Likert Scale 5-point Likert Scale 5-point Likert Scale 5-point Likert Scale 5-point Likert Scale 5-point Likert Scale	GENERAL MANAGEMENT SOUVENIRS MARKETING VENUE AND TECHNICAL ASPECTS ACCESSIBILITY AND PARKING AMENITIES AND CATERING

\*High level = Diploma, degree, Postgraduate, Professional; Other = No school, Matric

**The following variables had a small, medium and large relationship with spending per person at the Durban concert:**

Regarding socio-demographic variables, there are small, positive correlations between home language Afrikaans ( $\rho = .27, n=261, p = 0.001$ ) and level of education ( $\rho = .26, n=259, p = 0.001$ ) indicating that Afrikaans-speaking attendees with a high level of education tend to spend more at the concert. The variable local resident ( $\rho = -.64, n=263, p = 0.001$ ) has a large, negative correlation indicating that attendees who are local residents of Durban, tend to be lower spenders.

Regarding behavioural variables, there are small, positive correlations between group size ( $\rho = .13, n=261, p = 0.034$ ) and other music festivals attended ( $\rho = .14, n=245, p = 0.035$ ) indicating that attendees who travel in larger groups and who attend other music festivals spend more. Number of nights has a large, positive correlation ( $\rho = .55, n=117, p = 0.001$ ) with spending per person indicating that attendees who spend more nights in the area, tend to be higher spenders. Magazines, as the preferred type of media has a small, positive correlation with spending per person ( $\rho = .12, n=263, p = 0.059$ ) indicating that attendees who heard about the concert through this marketing medium tend to spend more.

Regarding preferred type of music genre, classical music has a small, positive correlation ( $\rho = .10, n=263, p = 0.104$ ) with spending per person, while R&B has a small, negative correlation ( $\rho = -.11, n=263, p = 0.078$ ), showing that attendees who prefer classical music tend to be higher spenders compared to attendees who prefer R&B music.

The travel motive, socialisation ( $\rho = -.20, n=239, p = 0.002$ ), has a small negative correlation with spending per person, showing that attendees who are motivated by this motive, tend to be lower spenders.

Small, positive correlations exist between the critical success factors general management ( $\rho = .12, n=245, p = 0.067$ ), marketing ( $\rho = .12, n=243, p = 0.066$ ) as well as accessibility and parking ( $\rho = .11, n=246, p = 0.085$ ) and spending per person, indicating that attendees who feel that these

factors are important for a memorable experience at the concert, tend to have higher levels of expenditure.

**The following variables revealed a small, medium and large relationship with spending per person at the Johannesburg concert:**

Local resident ( $\rho = -.15$ ,  $n=558$ ,  $p = 0.001$ ) has a small, negative correlation while level of education has a large, positive correlation ( $\rho = .87$ ,  $n=547$ ,  $p = 0.041$ ) indicating that attendees who are local residents tend to have lower levels of expenditure while attendees with a higher level of education tend to spend more.

Among the behavioural variables, number of people paid for ( $\rho = -.24$ ,  $n=553$ ,  $p = 0.001$ ) has a small, negative correlation and number of nights ( $\rho = .11$ ,  $n=284$ ,  $p = 0.054$ ) has a small, positive correlation. This indicates that attendees who are financially responsible for more people at the concert tend to be lower spenders while attendees who spend more nights in the area, tend to be higher spenders.

Similar to the results obtained for Durban, the travel motive, socialisation ( $\rho = -.10$ ,  $n=530$ ,  $p = 0.026$ ), has a small, negative correlation with spending per person, indicating that attendees who are motivated by this motive, tend to be lower spenders.

Regarding preferred music genre, rock and roll ( $\rho = .10$ ,  $n=558$ ,  $p = 0.017$ ) and country ( $\rho = -.10$ ,  $n=558$ ,  $p = 0.043$ ) have small, positive correlations with spending per person, indicating that attendees who prefer these types of music tend to spend more at the concert.

**The following variables had a small and medium relationship with spending per person at the Cape Town concert:**

Regarding socio-demographic variables, home language ( $\rho = .26$ ,  $n=443$ ,  $p = 0.001$ ) and marital status ( $\rho = .13$ ,  $n=447$ ,  $p = 0.005$ ) have small, positive correlations with spending per person while local resident ( $\rho = -.39$ ,  $n=558$ ,  $p = 0.043$ ) has a medium, negative correlation. This reveals that Afrikaans-speaking, married attendees tend to be higher spenders and local residents tend to be lower spenders.

Television as the preferred source of information has a small, positive correlation ( $\rho = .17$ ,  $n=447$ ,  $p = 0.001$ ) indicating that attendees who heard about the concert from this marketing medium, tend to have higher spending.

Classical music has a small, positive correlation with spending per person ( $\rho = .10$ ,  $n=447$ ,  $p = 0.049$ ) showing that attendees who prefer this music genre, spend more at the concert.

The travel motive, excitement and group affiliation ( $\rho = -.13$ ,  $n=414$ ,  $p = 0.010$ ) has a small, negative correlation with spending per person indicating that attendees who are motivated by this factor are lower spenders at the concert.

The critical success factor, amenities and catering has a small, negative correlation with spending per person ( $\rho = -.17$ ,  $n=432$ ,  $p = 0.001$ ) showing that attendees who feel that this factor is important for a memorable experience tend to be lower spenders.

The following variables had a small, medium and large relationship with spending per person at the Port Elizabeth concert:

Regarding socio-demographic variables, local resident ( $\rho = -.11$ ,  $n=389$ ,  $p = 0.025$ ) has a small, negative correlation indicating that local attendees tend to be lower spenders at the concert.

Regarding behavioural variables, number of people paid for ( $\rho = -.11$ ,  $n=389$ ,  $p = 0.025$ ) has a small, negative correlation while nights ( $\rho = 0.35$ ,  $n=217$ ,  $p = 0.001$ ) has a medium, positive

correlation indicating that attendees who are financially responsible for more people during the concert tend to be lower spenders and attendees who stay longer in the area, are higher spenders. The marketing media, website ( $\rho = .13, n=391, p = 0.010$ ) and word-of-mouth ( $\rho = .10, n=391, p = 0.059$ ) both have a small, positive correlation with spending per person indicating that attendees who heard about the concert from such media, tend to be higher spenders.

Pop as the preferred music genre ( $\rho = .12, n=391, p = 0.019$ ) has a small, positive correlation with spending per person, indicating that attendees who prefer this type of music tend to spend more.

Similar to the results obtained for Durban and Johannesburg, the travel motive, socialisation ( $\rho = -.19, n=367, p = 0.001$ ) has a small, negative correlation, showing that attendees who are motivated by this factor, tend to be lower spenders.

The critical success factors, venue and technical aspects ( $\rho = -.10, n=377, p = 0.067$ ), accessibility and parking ( $\rho = -.10, n=373, p = 0.088$ ) and amenities and catering ( $\rho = -.13, n=378, p = 0.015$ ) all have small, negative correlations with spending per person indicating that attendees who regard these factors as important for a memorable experience tend to have lower expenditure levels.

### Results of the backward linear regression analyses

Backward linear regression was performed to assess the impact of a number of factors on the likelihood that the per-person spending of attendees at the four different Neil Diamond concerts would increase. The model contained the independent variables indicated in Table 5 that were dummy coded as 1 and 0 which correlated most strongly with spending per person, as indicated in the discussion above. The significant variables for the attendees explained 40.1 % (Durban), only 4 % (Johannesburg), 24.7 % (Cape Town) and 23.1 % (Port Elizabeth) of the total variance, respectively. The significant results are discussed below.

### Determinants of attendee spending: Durban concert

In the case of the attendees at the Durban concert, nights in Durban is the only significant variable, explaining 40 % (contribution to  $R^2$ ) of the variance in spending per person,  $F(3, 102) = 24.420, p < 0.001$ . The results in Table 6 indicate that attendees who stay more nights in Durban ( $\beta=0.65, p=0.001$ ) are higher spenders at the concert.

**TABLE 6: RESULTS FROM THE STEPWISE LINEAR REGRESSION: DETERMINANTS OF DURBAN CONCERT ATTENDEE SPENDING**

Model		Unstandardised Coefficients		Standardised Coefficients	t	Sig.
		B	Std. Error	Beta		
	(Constant)	1230.32	639.90		1.923	.057
	NIGHTS	459.349	54.347	.651	8.452	.000
	OTHER MUSIC FESTIVALS	419.582	408.374	.080	1.027	.307
	SOCIALISATION	-322.793	249.250	-.103	-1.295	.198

### Determinants of attendee spending: Johannesburg concert

With regard to the determinants of attendee spending at the Johannesburg concert, as indicated in Table 7, nights and level of education were the only significant variables,  $F(2, 265) = 6.493, p < 0.002$ . Similar to Durban, attendees who spend more nights in Johannesburg tend to spend more while attendees with a high level of education also tend to spend more at the concert.



**TABLE 7: RESULTS FROM THE STEPWISE LINEAR REGRESSION: DETERMINANTS OF JOHANNESBURG CONCERT ATTENDEE SPENDING**

Model		Unstandardised Coefficients		Standardised Coefficients	t	Sig.
		B	Std. Error	Beta		
	(Constant)					
	NIGHTS	90.865	37.498	.146	2.423	.016
	LEVEL OF EDUCATION	249.937	104.430	.144	2.393	.017

**Determinants of attendee spending: Cape Town concert**

As indicated in Table 8, nights and language were the only significant variables for the Cape Town concert,  $F(2, 143) = 20.655$ ,  $p < 0.001$ . Similar to Durban and Johannesburg, attendees who spend more nights in Cape Town tend to be spend more while Afrikaans-speaking attendees also tend to spend more at the concert.

**TABLE 8: RESULTS FROM THE STEPWISE LINEAR REGRESSION: DETERMINANTS OF CAPE TOWN CONCERT ATTENDEE SPENDING**

Model		Unstandardised Coefficients		Standardised Coefficients	t	Sig.
		B	Std. Error	Beta		
	(Constant)	504.579	449.845		1.122	.264
	LANGUAGE	941.902	451.026	.156	2.088	.039
	NIGHTS	293.461	46.354	.472	6.331	.000

**Determinants of attendee spending: Port Elizabeth concert**

With regard to the determinants of attendee spending at the Port Elizabeth concert, as indicated in Table 9, nights, people paid for and word-of-mouth were the only significant variables,  $F(7, 199) = 8.795$ ,  $p < 0.001$ . Similar to the other three concerts, attendees who spend more nights in the Port Elizabeth area tend to be spend more while attendees who heard about the concert from word-of-mouth recommendations also tend to spend more at the concert. Based on the sign of the coefficient, attendees who are financially responsible for more people during the concert, tend to be lower spenders at the concert.

**TABLE 9: RESULTS FROM THE STEPWISE LINEAR REGRESSION: DETERMINANTS OF PORT ELIZABETH CONCERT ATTENDEE SPENDING**

Model		Unstandardised Coefficients		Standardised Coefficients	t	Sig.
		B	Std. Error	Beta		
	(Constant)	2451.543	582.221		4.211	.000
	LOCAL RESIDENT	-681.611	421.864	-.101	-1.616	.108
	NIGHTS	234.796	42.180	.350	5.567	.000
	AMENITIES AND CATERING	-274.091	149.156	-.179	-1.838	.068
	PEOPLE PAID FOR	-196.718	48.524	-.252	-4.054	.000
	VENUE AND TECHNICAL ASPECTS	-247.811	219.404	-.125	-1.129	.260
	ACCESSIBILITY AND PARKING	275.553	159.546	.195	1.727	.086
	WORD-OF-MOUTH	316.787	159.966	.124	1.980	.049

## FINDINGS AND IMPLICATIONS

The purpose of this article was to establish the determinants of spending by attendees at the four different Neil Diamond concerts. The results indicated that different determinants influence visitor spending at the four locations, nights stayed in the area being the only consistent variable, confirming that location influences visitor spending. Port Elizabeth had the most variables influencing visitor spending; however, the reason for this is unclear. This finding confirms the notion by Craggs and Schofield (2006) that a variety of socio-demographic and behavioural determinants influence expenditure. In the case of all four concerts, only one behavioural determinant (nights spent in the respective areas) was a significant variable compared to socio-demographic determinants (language and level of education) which were only significant variables at two of the four concerts.

### **The following socio-demographic variables were significant determinants:**

Corresponding with the research by Saayman and Saayman (2011), attendees at the Johannesburg concert with a higher level of education spend more. This finding contradicts the results by Gokovali et al. (2007) and Mak et al. (1977). Afrikaans-speaking attendees at the Cape Town concert tend to spend more; this result contradicts research conducted by Kruger et al. (2012) and Saayman and Saayman (2011) who found that English-speaking visitors tend to be higher spenders. Although local resident (province of origin) correlated with spending per person at the Port Elizabeth concert, the results of the regression analysis indicated that it had no additional influence on higher spending, which contradicts the findings by Kruger (2009); Saayman et al. (2007); Slabbert et al. (2008) and Saayman and Saayman (2008) who found significant results between province of origin (location) and spending in South Africa. This finding also contradicts the results by Marcussen (2011).

### **With regard to behavioural determinants, the following variables were significant:**

Corresponding with the research conducted by Seiler et al. (2002), Saayman et al. (2007), Streicher and Saayman (2009) and Saayman and Saayman (2011), length of stay exerted a significant influence on attendee spending at all four concerts. Attendees who stayed more nights in the respective areas where the concerts were held, tend to be higher spenders. This result contradicts the findings by Downward and Lumsdon (2003), Cannon and Ford (2002), Sun and Stynes (2006) and Mehmetoglu (2007) who found that decreasing spending per day is related to longer duration of stay.

Attendees at the Port Elizabeth concert who heard about the event by word-of-mouth recommendations, tend to be higher spenders. This contradicts the research carried out by Svensson et al. (2011) who found that visitors who heard about events by word-of-mouth recommendations tend to be lower spenders.

Although the number of people paid for negatively correlated with spending per person at the Port Elizabeth concert, the results of the regression analysis indicated that it had no additional influence on higher spending. This result, however, supports the findings by Kruger et al. (2010) who also found that visitors who pay for fewer people during an arts festival, tend to spend more.

Attendance of other music festivals and events also correlated with spending per person at the Durban concert; the results of the regression analysis however indicated that it had no additional

influence on higher spending. This supports the findings by Saayman and Saayman (2006) and Kruger (2009) who revealed that festival visitors who also attend other festivals tend to be higher spenders.

Regarding the influence of travel motives, the results of the regression analysis indicated no significant influence of any travel motives on higher spending. The travel motive socialisation however had a negative influence on spending per person at the Durban concert; somewhat supporting the findings by Downward and Lumsdon (2003), Uysal et al. (1994), Beh and Bruyere (2007); Saayman and Saayman (2008); Lee et al. (2004); Schneider and Backman (1996), De Guzman et al. (2006) and Kruger et al. (2009b) that travel motives have no relevant impact on expenditure levels.

None of the critical success factors for a memorable experience had a significant influence on higher spending at the four concerts. However, although the results of the regression analysis indicated no significant influence on higher spending, the factors amenities and catering and venue and technical aspects had a negative influence on spending while the factor accessibility and parking had a positive influence on higher spending at the Port Elizabeth concert.

With the questions raised in the introduction in mind, the results of this research confirm that (1) more behavioural than socio-demographic determinants influence attendee spending at live music performances; (2) different determinants influence spending at each of the four different locations and (3) the physical location of an event therefore has an impact on attendee spending. The results and findings imply that organisers of live music performances should find ways to increase attendee spending at these events. Marketing should focus on the international standing and popularity of the artist(s) performing in the country by citing, for example, their biography, number one hits and awards. Emphasis should also be placed on the unique, once-in-a-lifetime experience associated with attending live music performances. Afrikaans-speaking visitors tend to be higher spenders and marketing messages used to advertise these type events should therefore be bilingual (in Afrikaans and English) in order to reach this market. Afrikaans radio stations, magazines and newspapers as well as Afrikaans Facebook and Twitter messages can also be used more intensively. Since a longer length of stay is positively associated with higher spending, special packages could also be considered that include accommodation and discounts on for example parking fees or transport. This could encourage attendees to stay longer in the host city and travel further to attend the performances. Attendees who also attend other music festivals tend to be higher spenders and attending music events (festivals and live music performances) appear to be part of the attendees' lifestyle. This is an aspect that requires further research; however, live music performance organisers and marketers can use this to their advantage and market upcoming events at various music festivals held throughout the year. This can prove to be a cost-effective way to market these events and also potentially reach new market segments.

## **CONCLUSION**

The purpose of this research was to identify the determinants of spending at four live performances by Neil Diamond at different locations. The aim was based on several questions; these have been answered. Results indicated the nature of the profile of the visitor or attendees, which clearly revealed different determinants at each of the four locations. Only length of stay (nights) was evident in all four analyses with more behavioural than socio-demographic variables influencing spending. What makes this research unique is the addition of critical success factors and the role they play in spending. Interestingly none of the critical success factors played a role. This research has clear marketing and management implications and therefore makes an important contribution to an area that influences millions of people, namely live music performances.



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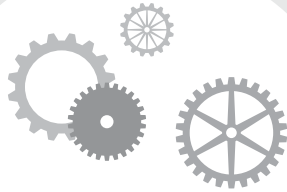




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## AN ASSESSMENT OF FOOD SAFETY KNOWLEDGE, BARRIERS AND PRACTICES OF GUESTHOUSE MANAGERS

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### ABSTRACT

Foodborne illnesses can add to public health problems in developed and developing countries. This paper looks at an assessment of food safety knowledge, barriers, and practices of guesthouse managers in the South African context. An interviewer-administered telephonic survey was used to collect data from 144 guesthouse managers who were listed in the Tourism Grading Council of South Africa's Star Guide. The study found that guesthouse managers answered negatively when asked whether food product samples are sent to a laboratory for bacterial testing and whether food swabs of food production equipment and counters are taken to determine bacterial count. The factor that obtained the highest mean was attitude of managers/employees towards Hazard Analysis Critical Control Point (HACCP). The study found a large statistically significant correlation between food safety training and hygiene/food contamination and between lack of knowledge about HACCP/food safety management systems and management role in implementing and maintaining HACCP.

### KEYWORDS

Guesthouse management, Food safety, Barriers, HACCP, Food safety knowledge, Hospitality management

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## INTRODUCTION

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The hospitality sector as part of the larger tourism industry, which contributed to a major role in the South African economy, has experienced a rapid growth in recent years (Statssa, 2013: 23-25; Horn, 2011: 3;). Accommodation and catering is one of the main components of the hospitality sector. Specialist accommodation (guesthouses) may provide personal services; various activities offered to guests in a range of settings while staying at the guesthouse, and accommodation that is mostly owner-managed (Van Niekerk, 2012; Henning 2008: 2; Slabbert & Saayman, 2003: 8). Many guesthouses serve a generous breakfast, with an optional lunch and dinner; therefore the guesthouse sector can also be viewed as a food service establishment. Guests often have a set of expectations, for example, the food served to them should be enjoyable, pleasing to the eye and safe (Payne-Palacio & Theis, 2012: 65).

Safe food practices in the operational areas of the hospitality sector such as guesthouses should be prioritised by managers and employees working in the sector. While it is often difficult to access the legislation that guides effective food safety practices, it is also very complex in nature (Gordon-Davis, 2011: viii). Every year many people in South Africa suffer from food borne illnesses such as diarrhoea, vomiting and stomach cramps. Few statistics are available on food poisoning in the South African context because such cases often are not reported to health authorities, unless the outbreaks of food poisoning are severe. There is currently a shortage of practical and applied knowledge of hygiene and food safety in South Africa, as few people know the principles and practices that guide hygiene and food safety and many do not know the laws applicable to the handling, preparation, transport and storage of food for safe public consumption (Fuller, 2013: 48; Gordon-Davis, 2011: 2). The goal of this article is to determine the extent of food safety knowledge, the barriers to practising food safety, and practices of guesthouse managers in the South African context.

## LITERATURE REVIEW

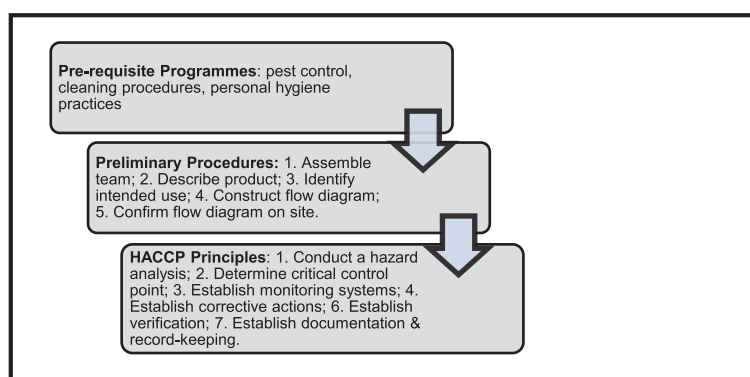
A noteworthy feature of the food service sector as a sub-sector of the larger hospitality sector is that many independent businesses are small and that most of the businesses are owner managed. Owners often enter this sector with little or no previous knowledge of food safety, industrial hygiene practices and food safety systems (Henning, 2008; Griffith, 2000). Thus, the lack of structured communication channels in food safety and the need to prepare a variety of food dishes in advance often contribute to a large proportion of foodborne illnesses. It is well acknowledged that traditional approaches to end-product testing, inspection and knowledge-based training do not provide the necessary controls required to cope with modern day food hazards in the workplace (Eves & Dervisi, 2005).

Food safety remains an important issue whereby foodborne illnesses could cause considerable cost to the commercial catering sector (in which guesthouses fall), individuals and the economy of a country. Poor food safety practices and food poisoning could be a consequence of increased global trade, travel, the impact of modern lifestyles, changes in modern food production methods, changes in food consumption, and new pathogens (Egan, Raats, Grubb, Eves, Lumbers, Dean & Adams, 2007: 1180; Hertzman & Barrash, 2007: 563). The World Health Organization (WHO) identified many factors associated with foodborne illnesses. The factors include: poor personal hygiene and sanitation; inadequate cooking; temperature abuse during the storage of foodstuffs; purchasing food from unsafe sources; cross-contamination from other foods; and the neglect to take swabs of food production equipment in order to determine bacterial count (WHO, 2013). Furthermore, food handlers of small businesses in the hospitality sector often contribute to

foodborne illnesses owing to a lack of training and knowledge (Walker, Pritchard and Forsythe, 2003). Studies conducted by scholars on knowledge of food safety confirmed that the challenges and problems mentioned by the WHO are prevalent among food handlers and certain owners of small and medium-sized businesses in the hospitality sector (Osaili, Jamous, Obeidat, Bawadi, Tayyem & Subih, 2013; Jianu & Chis, 2012; Bas, Ersun & Kivanc, 2006).

There is much consensus with regards to managing and controlling operational food safety hazards; in other words, the implementation of an appropriate food safety system. The HACCP is a system designed to manage food safety risks. The HACCP is a system based on seven theoretical risk management principles and is presented as a programme to monitor and adjust procedures to protect food from being contaminated before it is served to the travelling public (Taylor, 2008). The HACCP furthermore includes principles relating to food microbiology, quality control, and food risk assessment in managing food hygiene (Figure 1).

### Hazard Analytical Critical Control Point Principles



**FIGURE 1: SUMMARY OF THE 12-STEP METHOD OF APPLYING THE HACCP**  
(Taylor, 2008: 481)

An added obligation by the South African Government is to ensure that any establishment serving food to the travelling public should comply with the regulations. These regulations have been promulgated in the Health Act, No. 63 of 1977 (SA, 2003a) and the Foodstuffs, Cosmetics and Disinfectants Act, No. 54 of 1972 (SA, 2003b). In addition, standards have been developed to guide food service establishments regarding the provision of safe food for human consumption. The (HACCP) system has been publicised in the Government Gazette as part of the Foodstuffs, Cosmetics and Disinfectants Act. This legislation covers food handling, food preparation, catering establishments of the hospitality sector, and street-vended foods. Currently, no sub-sector in the broader hospitality sector of South Africa is obliged by law to introduce a fully functional HACCP system. In order for the Minister of Health to introduce a mandatory introduction of a HACCP system, submission by the Directorate of the Food Control of the Department of Health should be motivated to the Health Minister (SA, 2003b). As evident from the above, it will involve some prioritisation by Government to, by law; enforce the implementation of food safety systems in the broader accommodation sector that serves food to patrons, thus rendering adherence thereto a legal requirement for all hospitality businesses.

Practical experience of the author of this article and a review of literature on food safety suggest a variety of potential barriers to implementing food safety systems. The said barriers may vary between various geographical areas in the world and between various sub-sectors in the hospitality sector. These barriers could also include internal factors such as the level of knowledge about food safety systems, the attitude of managers and employees towards such systems, and management's role in implementing and maintaining them. Furthermore, an external barrier could stem from poor government support. Other potential difficulties in applying food safety systems in

small businesses are: lack of financial resources; purchasing power; complex food handling practices; lack of technical expertise, training of managers and employees; high staff turnover; workload; and part-time employees (Bas, Yüksel & Cavusoglu, 2007; Ward, 2001; Adams, 2000). In consulting further literature with regards to the said barriers (HACCP), additional problems were encountered as a result of the lack of leadership by managers, personal challenges such as old habits and attitudes towards food safety; lack of cooperation with government authorities; insufficient time for managers to implement the HACCP; lack of motivation and supervision of the HACCP in the workplace; and the administrative burden of maintaining it. From an operational point of view, obstacles to the implementation of the HACCP were inadequate equipment and the layout of the kitchen (Banati & Lakner, 2012; Panisello & Quantickb, 2001). Taylor (2001: 218-219) found similar obstacles: the barriers to the introduction of the HACCP in small businesses that serve food were the appropriate training in food safety using the HACCP methodology, limited access to technical expertise, as well as common resources of time and money. The research methodology of this study is discussed in the following section.

## RESEARCH METHODOLOGY

Research is a process of methods that results in the creation of knowledge, which serves as a blueprint for directing research towards achieving the objectives of a study (Horn, 2011: 88; Welman & Kruger, 2001: 2). A two-pronged approach was followed for this research. The research was conducted by means of an empirical survey, where primary data was captured by making use of telephonic interviews, and secondary data, drawn from an extensive literature review.

### Research design and data collection method

For the purposes of this article, a descriptive research design and a quantitative method were employed. An interviewer-administered telephonic survey was conducted for gathering data from guesthouse managers in South Africa. The sample population included guesthouse managers representing the South African guesthouse sector. The sampling frame included the contact information of the 220 guesthouses that were listed in the Tourism Grading Council of South Africa's Star Guide – the official guide to graded establishments in South Africa (Tourism Grading Council of South Africa, 2011-2012). A total of 144 telephonic interviews were completed during the period of 02 May to 31 May 2012. The remainder of the sample (76) was not included in the statistical calculations, as some guesthouse managers or owners did not wish to participate, or they were not available (Van Niekerk, 2012).

### Sampling method

A convenience sampling technique was employed to conduct the telephonic interview survey. Thus, the guesthouse managers who were on duty were selected based on their availability to participate in this research. According to Krejcie and Morgan (1970: 670), the sample size ( $S=144$ ) needs to be representative of the study population ( $N=220$ ). The total of 144 fully completed telephonic interviews was sufficient to be representative of the study population.

### Development of the questionnaire

The questionnaire was developed in Microsoft Word by including some of the measurements and work carried out by Bas et al. (2007: 124-130). The questionnaire was further developed based on the literature available on the research topic (Gordon-Davis, 2011; Bolton, Meally, Blair, McDowell & Cowan, 2008; Taylor, 2008). The questionnaire comprised four sections. Section A included questions on the demographic information of the guesthouse managers, for example, age, gender, star grading and number of employees; Section B contained 11 questions on the food practices that had been implemented; Section C asked guesthouse managers for suggestions and barriers

regarding food safety; and Section D consisted of questions related to food management systems. Likert scales are widely used by scholars in the social sciences, for example, for measuring attitudes, opinions and preferences (Göb, McCollin & Ramalhoto, 2007: 601). The following two 5-point Likert scales were used in the questionnaire: Section B, 1- Always, 2- Daily, 3- Sometimes, 4- Never, 5- Unsure; and in Section C and D, 1- Strongly Agree, 2- Agree, 3- Neutral, 4- Disagree, 5- Strongly Disagree.

### Data analysis

The data was captured and analysed by making use of the Statistical Package of Social Sciences version 20.0 (SPSS Inc., 2012). Descriptive statistics were compiled based on the demographic profile of guesthouse managers.

The purpose of exploratory factor analysis (EFA) is to assist scholars in identifying the nature of the smaller set of latent constructs underlying the larger set of variables of interest in the measurement set (Bandalos & Finney, 2010: 93). Furthermore, EFA is used as a data reduction technique (Pallant, 2010: 181). The three main steps that were employed in the EFA were performed in order to assess the suitability of the data to conduct an EFA. The strength of the inter-correlations amongst the set of variables was subsequently assessed. An inspection of the correlation matrix for evidence of coefficients  $< .3$  as suggested by Tabachnick and Fidell (2007) were performed, and all constructs in Tables 1, 2, 3 and 4 were suitable to conduct the EFAs. The statistical Bartlett's test of sphericity and the Kaiser-Meyer-Olkin (KMO) measure of sampling adequacy are generated by SPSS to assess the factorability of the data. The Bartlett's test of sphericity should be significant at  $p \leq .05$  for an EFA to be acceptable. The KMO should consist of values between .0 to .1 with .6 as the minimum value for an EFA to be satisfactory (Pallant, 2010; Tabachnick & Fidell, 2007).

Factors were extracted by making use of a principal component analysis to determine the smallest number of factors that can be used to present the interrelationship amongst the set of variables (Pallant, 2010: 183; Russell, 2002: 1630). Kaiser's criterion was used to retain factors with eigenvalues larger than 1.0 for further investigation. Eigenvalues represents the total variance explained by grouped factors (Pallant, 2010: 184; Henson & Roberts, 2006: 398). This research employed a direct Oblimin (Oblique rotation technique) with Kaiser Normalization in order to interpret the factors. The Cronbach's alpha coefficient ( $\alpha$ ) is one indicator that is used to show the internal consistency of a Likert scale used in research. Preferably, the  $\alpha$  of a scale should be above .7 (De Vellis, 2003: 32); however, with shorter scales less than ten items, it is common to find a low  $\alpha$  (Pallant, 2010: 97). Therefore, it is also good practice to report the mean inter-item correlation (MIC) for each factor. The MIC should fall between .2 and .5 (Briggs & Cheek, 1986).

Finally, a Spearman's correlation coefficient analysis ( $\rho$ ) was used to refer to the strength and direction of the linear relationship between the identified variables. To interpret the values of the Spearman correlation coefficient, the guidelines set by Cohen (1988: 79-81) were used: Small,  $r = .10$  to .29; medium,  $r = .30$  to .49 and large,  $r = .50$  to 1.0. The level of statistical significance indicates the confidence level of the results obtained (Pallant, 2010: 135).

## EMPIRICAL RESULTS AND FINDINGS

### Sample description

The majority of the respondents were female (73%), while (27%) were male guesthouse managers. The largest proportion of the guesthouse managers (27%) fell into the age category of fifty five and sixty four. Twenty two percent of the respondents were between the ages of twenty five and thirty four years of age. According to Henning (2008:3), most of the guesthouse managers in the South African context are either young graduates or much older, because they want to find something



entertaining to do. Most of the guesthouse managers had graduated from a college (46%), followed by those who were university graduates (28%) and those who obtained a high school qualification (26%). The majority of guesthouses (47%) had received a four-star grading, while (41%) had a three-star grading and only (10%) had obtained a five-star grading. The majority (24%) of guesthouse managers had been working in the guesthouse sector for less than five years. Most of the guesthouse managers (44%) employed less than five employees, followed by (36%) with five to nine employees.

**TABLE 1: DESCRIPTIVE STATISTICS OF FOOD PRACTICES IMPLEMENTED**

Question	Response	Percentage (%)
Food storage procedures are developed	Yes	90
	No	10
Personal hygiene procedures are developed	Yes	100
	No	0
Cleaning and disinfection procedures are developed	Yes	99
	No	1
Food product samples are sent to a laboratory for bacterial testing	Yes	2
	No	<b>98</b>
Swabs of food production equipment and counters are taken to determine bacterial count	Yes	0
	No	<b>100</b>

Table 1 summarises the descriptive statistics of the food practices that had been implemented by the guesthouse managers. The five questions in Table 1 that were posed to the participants, required a yes or no response. A large proportion of the guesthouse managers (90%) had developed food storage procedures. All (100%) of the participant guesthouse managers had developed personal hygiene procedures. However, a concern should be raised that 98% of the participants responded (no) to the question as to whether food product samples are sent to a laboratory for bacterial testing, and that a 100% of the respondents did not take swabs from food production equipment and counters for analysis in order to determine the bacterial count.

### Results of the factor analysis

**TABLE 2: EXPLORATORY FACTOR ANALYSES OF THE IMPLEMENTED FOOD PRACTICES**

Questionnaire Statements	Temperature control
Take and record of refrigerator/freezer units temperature is implemented	.728
Take and record food temperature upon receiving is implemented	.736
Take and record of dishwashing machine temperature is implemented	.559
Take and record temperature of food on the serving line is implemented	.855
Take and record end-point temperature of all cooked foods are implemented	.747
Cronbach Alpha	.77
Mean & Std. deviation	.329 ± .70

**Extraction Method:** Principal Component Analysis. **Rotation Method:** Oblimin with Kaiser Normalization.

The 36 items measured in the questionnaire regarding the assessment of food safety knowledge, barriers, and practices of guesthouse managers were subjected to a principle component analysis, using SPSS version 20.0. Prior to performing the principle component analysis, the suitability of the data to conduct an EFA was assessed. The inspection of the correlation matrix indicated the presence of many coefficients of above .3. All the factors in Tables 2, 3, 4 and 5 were suitable to conduct an EFA. In Table 2, the factor temperature control was identified and measured by means of five questions. The KMO value for food practices implemented was .63 and the Bartlett's Test of Sphericity was statistically significant ( $p < 0.05$ ), thus supporting the factorability of the correlation matrix. For temperature control, the total variance that was explained was 71.11%. A good internal consistency of the Likert scale for this factor was achieved ( $\alpha = .77$ ). The MIC for this factor was .41. The results of this factor are supported by De Oliveira et al. (2013: 243); Walker et al. (2003: 173). Managing and controlling food temperatures in the important stages of cooking, chilling cooked food and reheating are very important in accommodation establishments of the hospitality sector, as the correct temperature control of foodstuffs will reduce the risks of bacterial contamination which could cause proliferation or permanence of microbial hazards and food borne illnesses (Adams & Moss, 2008).

**TABLE 3: SUGGESTIONS OF GUESTHOUSE MANAGERS REGARDING FOOD SAFETY**

Questionnaire Statements	Food safety training	Hygiene / food contamination
Always being aware of new improvements	.821	
Carrying out routine checks	.755	
Have seminars and lectures for staff	.778	
Less staff turnover	.673	
Implementing basic hygiene procedures		.810
Make sure only good products are bought		.769
Avoid cross contamination		.692
Controlling temperature		.352
Simple guidelines		.781
Cronbach Alpha	.77	.74
Mean & Std. deviation	1.90 ± .59	1.47 ± .40

**Extraction Method:** Principal Component Analysis. **Rotation Method:** Oblimin with Kaiser Normalization.

Table 3 displays the items (questions) measuring the two factors food safety training and hygiene/food contamination. The KMO for the two factors in Table 3 was .85 and the Bartlett's Test of Sphericity was statistically significant ( $p \leq 0.05$ ). For these two factors, the total variance explained was 63.75%. The two factors achieved an acceptable  $\alpha$  for Food safety training (.77), and hygiene/food contamination (.74). These two factors obtained an MIC of .48. It is noteworthy that food safety training achieved the highest mean (1.90) of the two factors. According to Martins, Hogg and Otero (2012: 189), food handlers and managers should be well trained in food safety procedures in order to adequately perform their functions and duties in the workplace. Furthermore,

one of the key managerial aspects in food safety management systems is to develop effective control strategies between public health and food safety experts in order to ensure that food hygiene practices are carried out as a priority during the production and processing of food (Newell, Koopmans, Verhoef, Duizer, Aidara-Kane, Sprong, Opsteegh, Langelaar, Threfall, Scheutz, Van der Griessen & Kruse, 2011: 513).

The question as to whether they follow the HACCP system did not fit with the food safety system and hygiene/food contamination factors; hence this question was treated as a separate factor and was labelled as the HACCP system. A review of food safety literature indicated that the successful development and monitoring of the HACCP system is very dependent on a mix of managerial obstacles. Therefore, managers of accommodation establishments that serve food often face difficult challenges (Taylor, 2001: 217).

**TABLE 4:** SUGGESTIONS OF GUESTHOUSE MANAGERS REGARDING FOOD SAFETY BARRIERS

Questionnaire statements	Attitude of managers/employees towards HACCP	Management role/implementing & maintaining HACCP	HACCP maintained/knowledge	Cost/implications of HACCP
Lack of management	.945			
Lack of employee motivation	.847			
Lack of physical conditions	.790			
Lack of personal training	.660			
Staff turnover	.568			
Not enough support from the authorities		.772		
Lack of prerequisite programmes		.696		
Lack of knowledge about HACCP		.587		
Volume of paperwork			.266	
Need for simple guidelines			.796	
Complicated terminology			.791	
Cost				.868
Time				.858
Cronbach Alpha	.86	.64	.68	.76
Mean & Std. deviation	2.38 ± .90	2.09 ± .66	2.11 ± .78	2.18 ± .94

**Extraction Method:** Principal Component Analysis. **Rotation Method:** Oblimin with Kaiser Normalization.

In Table 4 it is evident that four factors (attitude of managers/employees towards HACCP, management role/implementing and maintaining HACCP, HACCP maintained/knowledge and Cost/implications of HACCP) were identified within the suggestions of guesthouse managers regarding food safety barriers. The KMO of sampling adequacy was .76 and the Bartlett's test of sphericity was statistically significant ( $p \leq 0.05$ ). The total variance for the factors in Table 4 was 68.96%. Two factors (attitude of managers/employees towards HACCP, .86 and cost/implications of HACCP, .76) obtained an acceptable  $\alpha$ . Although the following two factors, management role/implementing HACCP and HACCP, .64 maintenance/knowledge, .68 did not obtain a satisfactory  $\alpha$ , it is appropriate to report the MIC as suggested by Briggs and Cheek (1986). These four factors achieved an MIC of .55, as these questions (items) in Table 4 were measured on a short 5-point Likert scale. Attitude of managers/employees achieved the highest mean of 2.38. There is

some agreement among food service establishments with regards to reducing the risk of foodborne illnesses and diseases. Consumers of food are often expected to adhere to basic rules of food safety and it is therefore essentially the responsibility of managers and employees of servicing food to practice food safety (HACCP) (Heilm, Tuominen, Aarnisalo, Raaska & Majjala, 2006: 402).

**TABLE 5: FOOD MANAGEMENT SYSTEMS**

Questionnaire statements	Negative environmental factors	Lack of understanding
I do not have the time for food safety issues	.921	
Food safety is not really a business priority	.842	
Food safety is not really a major priority	.804	
I cannot see the benefits of HACCP/food safety management systems	.598	
There is no real incentive for having HACCP/food safety management systems		.868
HACCP/food safety management systems are too complicated		.757
Cronbach Alpha	.83	.63
Mean & Std. deviation	4.08 ± .72	2.80 ± .91

**Extraction Method:** Principal Component Analysis. **Rotation Method:** Oblimin with Kaiser Normalization

Two factors were identified in Table 5 under the heading food management systems. The two factors were labelled as negative environmental factors and lack of understanding. The KMO of sampling adequacy for these two factors was .67. The Bartlett's test of sphericity reached statistical significance and supported the factorability of the correlation matrix. The total variance explained by these two factors was 71.38%. One factor in Table 5, negative environmental factors obtained an acceptable  $\alpha$  (.83). Although lack of understanding did not achieve an acceptable  $\alpha$ , the MIC for these two factors was .50. Negative environmental factors achieved the highest mean of 4.08. The increase of successful food management systems around the world is reducing the incidence of hunger and therefore it is also contributing to better nutrition (Payne-Palacio & Theis, 2012). On the other hand, food safety management systems also add to the concerns regarding aspects (global environmental change, major environmental concerns, nutritional value, chronic dietary diseases) that pose threats to environmental and socio-economic goals, consequently undermining food management systems and food security (Ericksen, 2008).

One question, namely about the lack of knowledge about HACCP/food safety management systems, did not fit properly with the two factors identified in Table 5 and was regarded and treated as a separate factor. This factor is labelled lack of knowledge.

## Results of Spearman's correlation coefficient

Tables 6, 7, 8, 9 and 10 display the results of the relationship between the identified factors that were investigated using Spearman's rho. Preliminary analyses were performed, thus ensuring no violation of the assumptions of linearity and normality.

**TABLE 6: SPEARMAN RANK CORRELATION COEFFICIENT OF THE FOOD PRACTICES IMPLEMENTED**

Spearman's rho Factors	Temperature control
Food safety training	.314**
Hygiene/food contamination	.224**
Negative environmental factors	-.309**
Lack of understanding	-.327**
HACCP system	.411**

\*\* Correlation is significant at the 0.01 level (2-tailed), (Pallant, 2010)

Table 6 indicates a statistically significant relationship between food safety training  $r = .314$ , hygiene/food contamination,  $r = .224$  and HACCP system,  $r = .411$ ,  $p \leq 0.01$ . The three factors in Table 6 revealed a small to medium positive correlation with temperature control. Negative environmental factors ( $r = -.309$ ), lack of understanding ( $r = -.327$ ) had a medium negative correlation with temperature control,  $p \leq 0.01$ . The effect of temperature control on the growth of bacteria is an important consideration in effectively managing the correct temperature for all foodstuffs. By restricting the time that food remains in dangerous temperature zones, bacterial growth would be restricted and safe food would be served to guests (Gordon-Davis, 2011).

**TABLE 7: SPEARMAN RANK CORRELATION COEFFICIENT OF SUGGESTIONS REGARDING FOOD SAFETY**

Spearman's rho Factors	Food safety training	Hygiene/food contamination	HACCP system
Temperature control	.314**	.224**	-
Hygiene/food contamination	.625**	-	-
Attitude of managers/employees towards HACCP	.258**	.264**	-
Management role/implementing & maintaining HACCP	.258**	-	-
Negative environmental factors	-.309**	-.407**	-
Lack of understanding	-.206*	-	-
HACCP system	.356**	.307**	-
Food safety training	-	.625**	-
HACCP maintained/knowledge	-	.238**	-
Lack of knowledge	-	-	-.287

\*\* Correlation is significant at the 0.01 level (2-tailed), \* Correlation is significant at the 0.01 level (2-tailed), (Pallant, 2010)

Table 7 contains further analyses of the guesthouse managers' suggestions regarding food safety. Temperature control showed a medium positive correlation with food safety training ( $r = .314$ ), and a small positive correlation with hygiene/food contamination ( $r = .224$ ,  $p \leq 0.01$ ). Hygiene/food contamination had a large positive correlation with food safety training ( $r = .625$ ,  $p \leq 0.01$ ). There was a small positive correlation between attitude of managers/employees towards HACCP, food safety training ( $r = .258$ ) and hygiene/food contamination ( $r = .264$ ,  $p \leq 0.01$ ). Management role/implementing & maintaining HACCP correlates with food safety training ( $r = .258$ ,  $p \leq 0.01$ ). A medium negative correlation between negative environmental factors, food safety training ( $r = -.309$ ) and hygiene/food contamination ( $r = -.407$ ) was observed,  $p \leq 0.01$ .

Lack of understanding correlates with food safety training ( $r = .206$ ,  $p \leq 0.01$ ). HACCP system had a medium correlation with food safety training ( $r = .356$ ), and hygiene/food contamination ( $r = .307$ ,  $p \leq 0.01$ ). Food safety training had a large correlation with hygiene/food contamination ( $r = .625$ ,  $p \leq 0.01$ ). Lack of knowledge obtained a medium negative correlation with HACCP system ( $r = -.287$ ,  $p \leq 0.01$ ). In general, an effective food safety plan and the execution thereof require a team effort rather than merely the commitment of a manager (Demirbas and Karagozlu, 2008).

**TABLE 8: SPEARMAN RANK CORRELATION COEFFICIENT OF SUGGESTIONS REGARDING FOOD SAFETY BARRIERS**

Spearman's rho Factors	Attitude of managers/employees towards HACCP	Management role/implementing & maintaining HACCP	HACCP maintained/knowledge	Cost/implications of HACCP
Food safety training	.258**	.258**	-	-
Hygiene/food contamination	.264**	-	-	-
Management role/implementing & maintaining HACCP	.327**	-	-	-
HACCP maintained/knowledge	.434**	.373**	-	-
Cost/implications of HACCP	.301**	.389**	.428**	-
Negative environmental factors	-.285**	-	-	-
Lack of knowledge about HACCP/food safety management systems	.339**	.531**	.487**	.322**
Attitude of managers/employees towards HACCP	-	.327**	-	-
HACCP system		.225**	-	-
Lack of understanding			.322**	-

\*\* Correlation is significant at the 0.01 level (2-tailed), (Pallant, 2010)

The Spearman's rho in Table 8 reports on the suggestions made by the guesthouse managers regarding food safety barriers and indicates a correlation between food safety training and attitude of managers/employees towards HACCP ( $r = .258$ ) and management role/implementing & maintaining HACCP ( $r = .258$ ). Hygiene/food contamination correlates with attitude of managers/employees towards HACCP ( $r = .264$ ). Management role/implementing & maintaining HACCP shows a correlation with attitude of managers/employees towards HACCP ( $r = .327$ ). HACCP maintained/knowledge correlates with attitude of managers/employees towards HACCP ( $r = .434$ ) and management role/implementing & maintaining HACCP ( $r = .373$ ).



Cost/implications of HACCP correlates with attitude of managers/employees towards HACCP ( $r = .301$ ), management role/implementing & maintaining HACCP ( $r = .389$ ) and HACCP maintained/knowledge ( $r = .428$ ). Negative environmental factors shows a negative correlation with attitude of managers/employees towards HACCP ( $r = -.285$ ). Lack of knowledge about HACCP/food safety management systems correlates with attitude of managers/employees towards HACCP ( $r = -.339$ ), management role/implementing & maintaining HACCP ( $r = .531$ ), HACCP maintained/knowledge ( $r = .487$ ) and cost/implications of HACCP ( $r = .322$ ).

Attitude of managers/employees towards HACCP correlates with management role/implementing & maintaining HACCP ( $r = .327$ ). HACCP system showed a correlation with management role/implementing & maintaining HACCP ( $r = .225$ ) and lack of understanding correlates with HACCP maintained/knowledge ( $r = .322$ ). All the factors displayed in Table 8 revealed a medium to large correlation, except for the two factors lack of knowledge about HACCP/food safety management systems and management role/implementing & maintaining HACCP, which obtained a large positive correlation. All the correlations between the factors in Table 8 were statistically significant with a  $p \leq 0.01$ . The principles of controlling food risks are well researched in larger businesses that serve food to potential guests. However, research on the implementation of food safety systems in small businesses that serve food to guests is limited, with little success, and in many instances, the managers or owners rather reject the approach to food safety systems as this might be too bureaucratic or unsuitable for small businesses. Thus small businesses that serve food to guests are often accused of lacking knowledge, understanding, and money regarding the implementation of food safety systems (Taylor, 2008; Taylor & Taylor, 2004).

**TABLE 9: SPEARMAN RANK CORRELATION COEFFICIENT OF FOOD MANAGEMENT SYSTEMS**

Spearman's rho Factors	Negative environmental factors	Lack of understanding
Lack of understanding	.264**	-
HACCP system	-.256**	-.282**
Lack of knowledge		.239**

\*\* Correlation is significant at the 0.01 level (2-tailed), (Pallant, 2010)

Table 9 presents the correlations between the factors of food management systems. Lack of understanding correlates with negative environmental factors ( $r = .264$ ,  $p \leq 0.01$ ). HACCP system correlates with negative environmental factors ( $r = .264$ ) and lack of understanding ( $r = .282$ ). Lack of knowledge correlates with lack of understanding ( $r = .239$ ). The factors in Table 9 indicate small correlations between the factors. All of the factors were statistically significant with a  $p \leq 0.01$ . Technical expertise is necessary to identify potential food hazards, especially in small businesses that serve food. Often the manager/owner fulfils multiple functions in the day to day operations, where conflict of interests and lack of expertise in the key areas of successfully implementing a food management system might play a role (Seward, 2000).

**TABLE 10: SPEARMAN RANK CORRELATION COEFFICIENT OF GUESTHOUSE MANAGER'S KNOWLEDGE OF HACCP**

Spearman's rho Factors	HACCP System	Lack of knowledge
Lack of understanding	-.287**	.254**

\*\* Correlation is significant at the 0.01 level (2-tailed), (Pallant, 2010)

Table 10 reports on the correlations between the factors of guesthouse manager's knowledge of HACCP. Lack of knowledge reveals a negative correlation with HACCP system ( $r = -.287$ ) and a positive correlation with lack of knowledge ( $r = .254$ ,  $p \leq 0.01$ ). This suggests that guesthouse manager's knowledge of a HACCP system in an operational kitchen is either intermediary to basic.

## CONCLUSIONS AND RECOMMENDATIONS

This study explored an assessment of food safety knowledge, barriers and practices, specifically that of guesthouse managers in the South African context. This exploratory research contributes empirically to the literature, research and studying of guesthouse management, food safety management, and hospitality management. This study could be beneficial to guesthouse managers and owners as it offers valuable information on identified factors such as temperature control, food safety training, hygiene/food contamination, the HACCP system, attitude of managers/employees towards HACCP, management role/implementing and maintaining HACCP, HACCP maintained/knowledge, cost/implications of HACCP, negative environmental factors, lack of understanding and lack of knowledge. Below, further conclusions are drawn from the empirical results (descriptive statistics, exploratory factor analysis, Spearman correlation coefficient) of this study.

In response to two questions (descriptive results), guesthouse managers indicated that they do not send food samples to a laboratory for bacterial testing, nor do they take swabs of their food production equipment and counters in order to determine bacterial counts. This finding suggests that guesthouse managers either lack the understanding (knowledge) of these procedures or it might be too costly (expensive) to conduct such procedures. Because guesthouses are small businesses, it can be presumed that additional costs incurred by managers or owners of the business might not be viable. Guesthouse managers and their employees should be educated about good food safety practices; this could be achieved by introducing various short courses at tertiary education level to guesthouse managers and students who might become future managers of such establishments. Some of the major problems identified in food service establishments are lack of knowledge or understanding about food safety procedures by the managers and employees with regards to the high costs involved in maintaining food safety procedures and regulations (Raspor, 2008; Grohn, Taver & Wiedmann, 2004).

The factor attitude of managers/employees towards HACCP obtained the highest mean. This finding is attributed to the findings that guesthouse managers might not practise management by objectives with regard to food safety practices, employees are not motivated by guesthouse managers to engage in food safety practices, a lack of physical conditions in the guesthouse business, a lack of personal training and the cost involved of high staff turnover associated with this sector. Guesthouse managers should make an effort to obtain a food hygiene qualification, either through the British Retail Consortium in Global Standards for food safety (BRC) or the South African

Bureau of Standards (SABS) with regards to the requirements for the inclusion of a HACCP system in the guesthouse workplace. This would create a positive attitude towards food safety practices in the work environment. Guesthouse managers could also engage in on-the-job-training with employees regarding food safety standards, which would be beneficial to the guesthouse sector in the South African environment in the long term. Empowering employees, and equipping them with knowledge with respect to food safety procedures, could also reduce the turnover of employees in this sector. Often, managers of small food service businesses might find it difficult to implement the HACCP because they lack the appropriate resources and technical knowledge to put this system into practice (Mortlock, Peters & Griffith, 1999).

Large statistically significant correlations were found between food safety training and hygiene/food contamination and between lack of knowledge about HACCP/food safety management systems and management role (in) implementing and maintaining HACCP. These findings suggest that within any business, however large or small, which serves food to consumers (tourists), food safety should be viewed as a cross-functional responsibility of kitchen-, food service employees and managers or owners of these businesses (BRC, 2008). Effective food safety management should not only extend beyond the technical areas of food preparation and service, but also customer feedback and human resources activities such as training. The starting point of an effective food safety plan should involve the commitment of guesthouse managers and owners in the development of a policy that guides and assures food safety. The Tourism Grading Council of South Africa could further include a food safety rating category in their star rating. Small businesses such as guesthouses that adhere to food safety standards could also display this accreditation at their check-in counters. This notion is supported by Cole (2010) in the drive to raise South Africa's food safety standards.

## **LIMITATIONS AND FUTURE RESEARCH**

This work has a limitation that should be taken into account, and which could constitute potential avenues of research in the future. The results are based only on the selected sample of guesthouses portrayed in the Tourism Grading Council of South Africa's Star Guide – The official guide to graded establishments in South Africa due to limited cost constraints. This means that further research involving more guesthouse managers who would participate in the assessment of food safety knowledge, barriers and practices, specifically that of guesthouse managers in the South African context, should be further investigated.

The author proposes a series of research possibilities on this topic. These include conducting further research on attitudes towards food safety knowledge, practices and training of industrial caterers, food safety and quality systems in South Africa, training on food safety and food hygiene in the broader hospitality sector, and food safety knowledge and management of various departmental managers (chefs, food and beverage managers and restaurant managers) of the hospitality sector. Lastly, research could also be carried out on festival attendee segment regarding their knowledge of food safety. The possibilities of research in this field are endless. The author hopes that this will stimulate further debates on this topic as well as the need for greater interdisciplinary dialogue and research in management studies.



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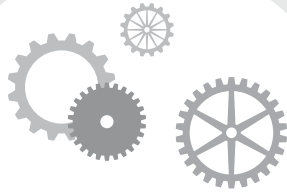


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# A VISITOR PROFILE OF MAPUNGUBWE NATIONAL PARK AND WORLD HERITAGE SITE

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## ABSTRACT

Mapungubwe National Park and World Heritage Site (MNP) is a unique national park in South African in that it includes a World Heritage Site of significant importance for the people of southern Africa. MNP is a relatively new national park with low visitor numbers and occupancy rates which threaten the sustainable management of the park. This study aimed to develop a general visitor profile and to describe the motivator factors for visitation to the park in order to support the development of tourism at MNP. A literature study relating to previous studies on visitor profiling at national parks in South Africa identified common visitor characteristics and motivator factors. The study both confirmed and contradicted previous findings from other national parks in terms of visitor profiles and motivations. In addition, this study identified a new motivator factor for national park visitation.

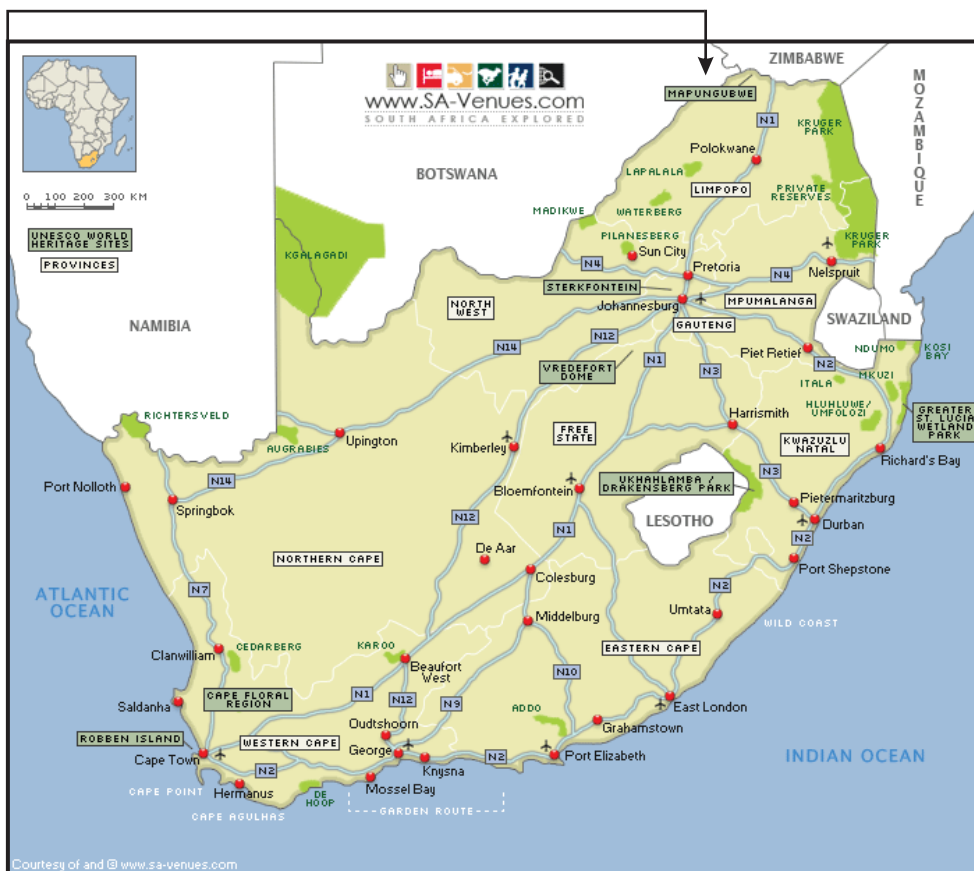
## KEYWORDS

South African National Parks, Mapungubwe, Visitor profiling, World Heritage Site.

# INTRODUCTION

Tourism is seen as the world's largest industry (George, 2007; Hall, 2008) and it is predicted by the World Travel and Tourism Council (WTTC) that tourism will contribute 9.6% of the world's gross domestic product (GDP) and will employ over 120 million people by 2021 (WTTC, 2011a). The WTTC further predicts that in South Africa tourism will contribute 11.5% of GDP and employ over 1.7 million people by 2021 (WTTC, 2011b). One of South Africa's best selling features is its natural beauty and wildlife and numerous tourists visit the region in order to appreciate the natural environment including the dynamic ecosystems and landscapes that are on offer (Parker & Khare, 2005). Of South Africa's nature-based products South African National Parks (SANParks) is the custodian conserving unique and sensitive ecosystems in the country. At present SANParks manage over 4 million hectares of protected land, consisting of 21 national parks each responsible for protecting different biodiversities (SANParks, 2011). One such park is Mapungubwe National Park and World Heritage Site (hereafter referred to as MNP) situated in the Limpopo Province close to Alldays and Musina (Messina).

The MNP is relatively small in size compared to other national parks, just under 20 000 ha (SANParks, 2010), and lies on the South African side of the confluence of the Limpopo and Shashe Rivers (see Map 1). Although the park is small, it comprises significant national and international heritage resources, predominantly those associated with the ruins of the ancient Kingdom of Mapungubwe.



**MAP 1: LOCATION OF MAPUNGUBWE NATIONAL PARK**  
(Source: SA Venues)

The park started as Vhembe-Dongola National Park and was proclaimed in 1995 to protect this unique area. The Mapungubwe Cultural Landscape was inscribed as a World Heritage site by the 27th session of the World Heritage Committee of the United Nations Educational, Scientific and Cultural Organisation (UNESCO) in 2003 (UNESCO, 2003). Mapungubwe was the capital of a stone-age kingdom and is considered to be the first sophisticated southern African civilization that had a structured hierarchy, practiced agriculture and possessed trading routes as far as China (Huffman, 2008).

This park may be considered a relatively new national park; it was only officially established in the mid 1990's and the park was only opened to visitors in 2006. Although the park showcases a significant world heritage attraction, tourism numbers are relatively low, coupled with management, and developmental challenges as well as threats to the site's world heritage status (Biyase, 2011). These factors may play an important role in the sustainability of the park.

This paper is divided into four main parts. Firstly, a literature review is provided which describes visitor profiles and motivators for national parks in South Africa. Secondly, the research methodology is provided followed by the research results. Finally, the conclusions and implications of the research are presented.

## LITERATURE REVIEW

Tourism to World Heritage Sites and protected areas is increasing which brings with it potential challenges such as overcrowding, overuse and marketing problems (Cochrane & Tapper, 2006). Although MNP has relatively low visitor numbers, these numbers are slowly increasing (SANParks, 2010; SANParks, 2012). These increased visitor numbers could bring along numerous challenges and for this reason it is imperative that management has sufficient knowledge of their market-base. In order to counter these challenges management, at the park, need to make informed decisions in order to reduce the risk and uncertainty in the decision-making process (Robbins & Coulter, 2012). Taking this into account data on visitor profiling at World Heritage Sites within South African National Parks is minimal. Research relating to visitor profiles and travel motivations at national parks in South Africa have been conducted by numerous authors.

One such study by Van der Merwe, Saayman, Du Plessis and Kruger (2009) conducted a study shortly after the establishment of MNP (2007-2009) revealed that visitors to the park were primarily Afrikaans and English speaking, married and have post-matric qualifications. These visitors were in the age bracket 39-49 years and originated from South Africa (primarily Gauteng and Limpopo). These visitors additionally stayed 3-5 nights, spent on average R2300-R3300 and travelled in groups of 2 people.

In terms of other national parks, Saayman and Slabbert (2004) found that visitors to the Kruger National Park were primarily married, Afrikaans-speaking tourists, visiting the park in average groups of three and they have professional occupations. In addition, Saayman and Slabbert (2004) found that these visitors are mainly South African, originating mainly from Gauteng followed by Limpopo and the Western Cape. The findings of Saayman and Slabbert (2004) are to a large extent similar to those encountered by Van der Merwe and Saayman (2008) and Bothma (2009) in another study at the Kruger National Park. Van der Merwe and Saayman (2008) and Du Plessis, Van der Merwe and Saayman (2012) found that in the period after the Saayman and Slabbert (2004) study that visitors to the park are primarily South Africans who speak Afrikaans, they are predominantly married and travel in groups of 3-4 people. In addition, Van der Merwe and Saayman (2008) found that these visitors have professional educational qualifications and that they originate mainly from the province of Gauteng, followed by the Western Cape and Mpumalanga.

Kruger and Saayman (2010) conducted a comparative study on visitor profiles of the Kruger and Tsitsikamma National Parks. They found that both visitor groups to these parks were Afrikaans speaking, were married, and held university qualifications. However visitors to Kruger spent more than visitors to Tsitsikamma (KNP, R6200; TSK, R3290) and stayed longer. The findings of Saayman, Saayman and Ferreira, (2009) mirror the results above by indicating that visitors to the Karoo National Park are mainly South African, originating from Gauteng and the Western Cape. In terms of age, these visitors are in their late 40's and have post high school qualifications.

As can be seen, the demographic profile of visitors to South African National Parks over the last 10 years is generally homogeneous in terms of language, origin, age, education, marital status and group size.

In addition to literature on visitor profiles, Van der Merwe and Saayman (2008) and Kruger and Saayman (2010) have identified a gap in literature which focuses on travel motivations to national parks. It is essential for a destination to assess the motivational factors that lead to the decision to visit in order to inform an effective marketing strategy and sustainable management plan (Pan & Ryan, 2007). An increased understanding of tourist behaviours and travel motivations could ultimately be beneficial in marketing plans in order to attract more tourists to the area (Fodness, 1994). Some authors have strived to breach the research gap in the understanding of visitor motivations to national parks in South Africa. Table 1 provides an overview of some of these studies.

**TABLE 1: TRAVEL MOTIVATIONS TO SOUTH AFRICAN NATIONAL PARKS**

Park	Travel motivations	Authors
<b>Kruger</b>	To relax To get away from routine To learn about animals	Saayman & Slabbert (2004)
<b>Kruger</b>	Nature (to see animals & plants) Activities (Attend events & hiking) Attractions (Accommodation, brand & climate) Nostalgia (Childhood experience & family time) Novelty (New destination & socialisation) Escape from routine (relaxation)	Van der Merwe and Saayman (2008)
<b>Kruger</b>	Knowledge seeking Activities Park attributes Nostalgia Novelty Relaxation	Kruger and Saayman (2010)
<b>Tsitsikamma</b>	Knowledge seeking Nature experience Photography Relaxation Park attributes Nostalgia	Kruger and Saayman (2010)
<b>Karoo</b>	Relaxation	Saayman, <i>et al.</i> (2009)
<b>Mapungubwe</b>	To explore a new destination To get away from my routine To relax For family recreation For educational reasons	Van der Merwe <i>et al.</i> (2009)

As indicated in Table 1, only a limited number of studies have been published relating to travel motivations to national parks in South Africa. These studies have identified a number of key and comparable travel motivations. In all these studies getting closer with nature nostalgia and particularly the need for relaxation have been found to be the main motivators to visit national parks.

Although Van der Merwe et al. (2009) were able to generate a profile of visitors to MNP, this study was conducted in the early establishment phase of the park and visitor numbers and occupancy rates were low, their study also included a small sample (151 respondents over 3 years). MNP is a relatively young national park which has shown a notable growth in visitor numbers over the last few years since the study by Van der Merwe et al. (2009) was conducted. Over the past three years, occupancy rates for accommodation in the park have improved from 25% to just under 52% (SANParks, 2010; SANParks, 2012) and the park has been the focus of numerous marketing campaigns and has received increased publicity in the media. For this reason, this study aimed at generating an updated profile of visitors to MNP incorporating the demographic and motivational factors of visitors.

## **METHODOLOGY**

This paper draws on data collected from visitors to MNP over the period March-April 2013. A data base of 2400 email addresses was obtained from SANParks of people who had visited MNP over the period 1 March 2012 to 31 March 2013. An invitation to the study and an electronic link to a structured online questionnaire were distributed to all these e-mail addresses. In addition, questionnaires were physically distributed to day visitors and overnight visitors at MNP during three weekends in March and April 2013 and some were left at the reception area of the park. This was done in order to obtain a representative sample of both day-visitors and overnight visitors and to include visitors that had made online reservations through SANParks and those that used other channels. At the end of the survey period a total of 486 responses were received. The questionnaire was designed to gather data on A) demographic data, B), an assessment of management performance, C), issues relating to sustainable tourism management D), challenges facing MNP and E) visitor motivations. For the purpose of this paper the data from section A and E were utilised.

Microsoft Excel was used for basic data capturing and data analysis was conducted utilising IBM SPSS. The demographic profile of respondents was analysed utilising descriptive statistics through frequencies and means. Motivator factors were analysis utilising a factor analysis. This factor analysis incorporated a principal component analysis utilising Oblimin rotation with Kaiser Normalisation. The aim of such an analysis is to reduce data and to assist with the interpretation of the data.

## **RESULTS**

The results of the study will be discussed in two sections. The first section will provide an analysis of the basic demographic profile of respondents while the second section will provide a description of the motivator factors for visitation.

**TABLE 2: DEMOGRAPHIC PROFILE OF VISITORS TO MNP**

Category	Profile	
<b>Age</b>	18-30 years	5%
	31-40 years	17.3%
	41-50 years	20.5%
	51-60 years	31.2%
	61-70 years	18.7%
	71-80 years	7.3%
<b>Place of residence</b>	Limpopo	12.5%
	Gauteng	52.8%
	North West, Free State and Northern Cape	3.9%
	Mpumalanga	5%
	KwaZulu-Natal	3.8%
	Eastern Cape	1.5%
	Western Cape	7.9%
	Botswana and Zimbabwe	0.8%
	Germany	3.1%
	United Kingdom	1.7%
	United States of America	1.5%
	Other Europe	3.3%
	Rest of world	2.1%
<b>Number of times visited MNP in past year</b>	Once	83.9%
	Twice	10.4%
	3 Times	3.4%
	4 Times	1.5%
	5 and more times	0.8%
<b>Education</b>	Below Grade 11	1.2%
	Matric (Grade 12)	14.8%
	3-year diploma/degree	27%
	4-year degree	15.6%
	Postgraduate degree	41.4%
<b>Length of stay</b>	4 nights	32.4%
<b>Number of people in group</b>	2 people	47.8%
<b>Possession of Wild Card?</b>	Yes	70%
	No	30%

Based on the results presented in Table 2, visitors to MNP are predominantly in the age bracket of 51-60 years (average age, 51.7 years), they originate primarily from Gauteng followed by Limpopo and the Western Cape. Visitors to the park are primarily first-time visitors who are well educated as they possess primarily postgraduate qualifications. The visitors to the park stay mainly for four nights, consisting of couples or groups of two and they are loyal South African National Park visitors as 70% of visitors possess Wild Cards.

These findings show a change from the previous study by Van der Merwe et al. (2009) in terms of origin, length of stay and education. Since the Van der Merwe et al. (2009) study more visitors from



Gauteng are visiting MNP, length of stay has increased by an average of 1 night and average age has increased by 11 years. The profile additionally indicates that visitors to MNP are older and have higher educational qualifications compared to visitors to other South African national parks (Van der Merwe & Saayman, 2008; Saayman & Slabbert, 2004; Bothma, 2009; Du Plessis et al., 2012).

The study found that visitors to MNP spent an average of R6 997, per group of two people, during their trip. This spending included average spending on the following; entrance fees (R397), accommodation (R3 435), restaurants at the park (R397), food (R1 091), beverages (R699), clothes (R500), transport to and at the park (R2 732), souvenirs (R415) and other spending (R1054). This visitor spending is at MNP is therefore higher than that of the KNP and TSK (Kruger & Saayman, 2010).

In terms of visitor motivations, a principal components factor analysis was conducted on 18 motivator constructs. The factors analysis, described in the pattern matrix in Table 3, indicates four main motivator factors for visitors to MNP. These factors were measured on a Likert scale of 1 to 5, where 1 represented extremely unimportant, while 5 represented extremely important. These factors include the heritage attributes of the park, escape, natural attributes and general park attributes.

**TABLE 3: PATTERN MATRIX OF VISITOR MOTIVATIONS**

Travel Motivation	Component			
	Heritage attributes	Escape	Natural attributes	Park attributes
<b>Mean values</b>	<b>3.47</b>	<b>3.64</b>	<b>3.87</b>	<b>3.15</b>
To learn about culture	.887			
To learn about history	.874			
To experience a World Heritage Site	.793			
To spend time with family and friends		.885		
For recreation		.839		
To relax		.739		
To escape my daily routine		.718		
To do bird spotting			-.849	
To do photography			-.762	
To experience endangered species			-.676	
To experience Wildlife			-.609	
To experience plants			-.548	
For conferences and events				.686
To do 4x4 routes				.669
To experience three countries in one place				.664
Great climate				.583
Good accommodation facilities				.498
Explore a new destination				.337

- **Factor 1: Heritage attributes**

The factor of heritage attributes, with a mean of 3.47, relates to the heritage features of MNP. These included; learning about culture, to learn about history and to experience a World Heritage Site. This factor may be considered a newly identified motivator factor for national park visitation in South Africa, as the previous studies as listed in Table 1, had not identified these motivators as significant.

- **Factor 2: Escape**

The motivator factor of escape was identified which included the motivator themes of; spending time with family and friends, for purposes of recreation, to relax and to escape from ones daily routine. This factor scored a mean of 3.64, which is the second highest mean. This factor was also identified by Saayman & Slabbert (2004), Van der Merwe and Saayman (2008), Kruger and Saayman (2010), Ferreira et al. (2009) and Van der Merwe et al. (2009) as a major motivator for visitor motivation to national parks in South Africa.

- **Factor 3: Natural attributes**

This factor received the highest mean (3.87) and is thus the main motivator for visitors to MNP. This factor included the themes of; visitors wanting to do bird spotting, to do photography, to experience endangered species, to experience Wildlife and to experience plants. This motivator was also identified in a number of previous studies to be a critical motivator for national parks in South Africa including Saayman & Slabbert (2004), Van der Merwe and Saayman (2008) and Kruger and Saayman (2010).

- **Factor 4: Park attributes**

The final factor that was identified as a main motivator included themes relating to the general park attributes of MNP, it however scored the lowest mean of 3.15. The main themes identified within this factor included; for conferencing and events, to do 4x4 routes, to experience three countries at one place, the areas great climate, good accommodation facilities and to explore a new destination. This factor has also been identified by Van der Merwe and Saayman (2008), Kruger and Saayman (2010) and partly by Van der Merwe et al. (2009) in the previous study at MNP.

TABLE 4: COMPONENT CORRELATION MATRIX OF MOTIVATOR FACTORS

Component	Heritage attributes	Escape	Natural attributes	Park attributes
Heritage attributes	1.000	.129	-.225	.204
Escape	.129	1.000	-.298	.374
Natural attributes	-.225	-.298	1.000	-.305
Park attributes	.204	.374	-.305	1.000

Based on the results of the component correlation matrix, Table 4, a very low correlation between the four factors is encountered. This describes relatively specific and well defined motivators. Based on the results of the study presented above, concluding remarks and recommendations will be made in the next section.

## CONCLUSION AND IMPLICATIONS

The aim of this paper was to generate an updated profile of visitors to MNP incorporating demographic and motivational characteristics of visitors. This was done as visitors numbers have increased remarkably over the last few years. The results of the study confirm a number of results encountered in previous studies at national parks in South Africa. The study has developed an updated profile of a general visitor to MNP. Visitors to MNP are predominantly in the age range of 51-60, originate from Gauteng and are first-time visitors to the park. These visitors have postgraduate degrees and prefer to travel in pairs. They stay an average of four nights and are loyal visitors to South African National Parks. The findings of this study additionally have built on the previous study by Van der Merwe et al. (2009) as this study shows that the profile of visitors have become older in terms of age and that the average spending per group has almost doubled in value.

Visitors to MNP are motivated by four main factors namely, the heritage attributes of the park, the need for escape, the natural attributes of the park and the general attributes of the park. This study has identified heritage attributes as a new factor for national park visitation. This may be as a result of the World Heritage Site status and cultural importance of the park for southern Africa.

The latter finding is important for the continued marketing of the park. MNP is experiencing high numbers of first-time visitors, which generates market growth for the park; this may also explain why nostalgia is not considered a major motivator as experienced at other national parks. Although the park is experiencing low occupancy rates, these are slowly increasing. For MNP to retain these first-time visitors and to entice repeat visitation, a better understanding of market characteristics are needed. In order to improve the marketing of MNP, the following recommendations are provided.

Visitors to the park are loyal to South African National Parks and are well educated and possibly well travelled. In order to grow the market base, it is recommended that management strive to attract increased numbers of younger travellers and youth as this park is a strategic heritage asset for the whole country. Although the factor of natural attributes is seen as the most influential factor for visitation, MNP is not a Big 5 park and visitors may potentially be disappointed with their visit should their natural experience not match their expectations. It is recommended that park management ensure that visitors are aware of this fact, this can be achieved through the improved provision of information on the park on the SANParks website and public relations campaigns. The heritage attributes of the park should be enhanced in order to attract a different customer base compared to other national parks, namely heritage tourists. It is recommended that marketing campaigns heighten their portrayal of the park as a cultural landscape and World Heritage Site. Visitors note the need for escape as important; therefore management should ensure the provision of sufficient leisure and recreation facilities at the park without disturbing the integrity of the park.

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## EXPLORING THE METHODOLOGY FOR EVALUATING INTANGIBLE VALUE CREATED AT BUSINESS EVENTS

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### ABSTRACT

Business events are categorised as being part of the business tourism sector of the tourism industry. In much tourism research the financial, tangible benefit of business tourism events has been used to qualify the tourism industry value accrued from holding business events. This paper presents an argument for broader value creation recognition of business events in a role where tangible outcomes defined in organisational strategy rely for optimised value on intangible inputs many of which can be influenced within a business event. This research explores the current use by organisations of a balanced scorecard model in planning interdependent and conjoined outcomes for intangible and tangible resources. A key finding is that respondents support the concept of planning a business event to create intangible value that can influence other areas of value creation. Respondents further indicate that business event attendance is a top-down process that should ensure specific attendee knowledge improvements set in event objectives which in turn are contributing to attaining organisational strategic goals. This finding is shown as statistically significantly at  $p > 0.05$ . This argues for business events being uniquely placed as the vehicle to deliver the conjoined planning of tangible and intangible value creation in focused 'value creation mix' strategies.

### KEYWORDS

Intangible value, Business events, Tourism



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## INTRODUCTION

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Business tourism creates business events that bring together members of business organisations (Getz, 2007: 38; ICCA, 2012). Business events are of several genre including exhibitions, training seminars, conferences, congresses and trade shows. The goal of each event is to enhance personal professional knowledge commuting this into the organisation in terms of improved employee performance and thus influencing and improving organisational performance (Scholtes, 1998: 30; Morosini, 2000: 250-253; Peters, 2003: 74-83). Supplier activities to business events (delegate package charges, hotels, car hire, air travel, leisure side trips) are recognised to contribute directly to a nation's gross domestic product in tangible terms (Lee, 2006: 73-74; Pearlman, 2008: 113; Hanly, 2012: 172). Authors such as Jago and Deery and others argue however that business tourism has another contribution in terms of the intangible value of knowledge gained from event attendance. These authors note that new knowledge can firstly underwrite improving an individual organisation's performance, secondly create GDP gains by this improvement acting throughout the particular industry as improved overall industry performance and thirdly, knowledge gathered by one organisation's attending delegate may influence improved productivity in aligned industries that the delegate comes into contact with during and post-event (Davies, 1991: 148; Galankis, 2006: 1230; Jago & Deery, 2009: 8-10; Reyachav, 2009: 143-158; Walters & Raj, 2010: 489-501).

### **Business events as value creators**

The business event is a work process taking inputs and transforming them to outputs that customers want (Scholtes, 1998: 59). Intangible inputs include speakers and peers with knowledge, the business attendees themselves with knowledge. Event attendance should endow an employee/event attendee with new knowledge that enhances their work place capabilities (Yorks, 2005: 5). Additionally new knowledge can enhance the design of strategic responses to a range of environmental change by improving the knowledge accessible to the organisation for review and consideration when choosing the right strategy to deal with change (Porter, 2004: 183; Thompson, Strickland & Gamble, 2010: 43; Jiménez-Jiménez & Sanz-Valle, 2011: 416). Managing organisational risk in taking these decisions is one of the key responsibilities leaders and managers have to carry out for their stakeholders. Business events produce knowledge and are argued to create opportunities to reduce the risk of making inappropriate or uninformed decisions (Von Krogh, Nonaka & Aben, 2001: 430-436; Boisot & McKelvey, 2010: 420-428).

The importance of recognising an organisation's intangible resource value is reflected in changes currently underway to include both tangible and intangible organisational assets with financial reporting methodology. Rodgers (2007: 213) in reviewing financial accounting procedures over past decades concludes that a knowledge-intensive world is driving a change in asset valuation with "an evolutionary change from industrial age financial reporting to an information age financial and knowledge-based asset reporting". Radebaugh, Gray and Black suggest the influence of knowledge workers, business internal repository knowledge and organisational intellectual property if left unmanaged is an influencing variable on future business value creation that may well contribute to "volatility and uncertain capital markets" (Radebaugh et al., 2006: 202). Other authors concur noting that intangible asset management and growth aligned to a strategy for monitoring and evaluation contributes to ensuring an organisation's future productivity and viability (Bose & Thomas, 2007: 654; Rodgers, 2007: 207; Sriram, 2008: 353). This evidence suggests that organisations should actively manage the optimising of their intangible assets as careful as they do their tangible assets with a management task being that of planning the replenishment and storage of intangible resources. Information and knowledge is described in management practice as underpinning decisions taken for future organisational viability (Drucker, 1968: 75; Kakabadse,

Ludlow & Vinnicomber, 1988: 28; Wickens, 1995: 219-237; Handy, 1999: 325-330; Getz, 2007: 91). Recent legislative changes to organisational management such as the Sarbanes-Oxley act of 2002 drive the need for proof of internal organisational control that assures both tangible and intangible asset creation. The act requires a risk assessment of all value chain activities associated with strategies by applying monitoring and evaluation methodologies that help ensure organisational objectives are met (Ramos, 2004: 33). Warren (2008: 193-195) argues for managerial awareness of three critical aspects to organisational performance planning when considering options available to the organisation (strategies) to manage change: "improving performance depends on resources; resources accumulate and deplete; resource growth depends on the current level of existing resources and management decisions". The authors seek to present an overview of a complex system of tangible and intangible interactions and dependencies

Business events focus on adding organisational value by promising to improve the value of a multitude of intangible, organisational resources variables such as: the ability to make informed decisions; influencing policies and procedures; developing skills and capabilities appropriate to the current work environment; enhancing collaborative relationships that encourage creativity and innovation (Jiménez- Jiménez, Sanz-Valle & Hernandez-Espallardo, 2008: 45). Hilbert, Preskill and Russ-Eft (1997: 127) describe the purpose of a training event [business event] as one that can "help people develop skills which when applied at work will enhance their average job performance". Other authors note that a collaboration process such as takes place at business events, builds trust and mutual understanding in a group and information sharing follows (Nonaka, Umemoto & Senoo, 1996: 205-206; Gorelick, Milton & April, 2004: 11-13; Masqood, Walker & Fibegan, 2007: 124). Group sharing is a manner of multiplying the value created from the knowledge over that created by a solitary individual holding it (Sveiby, 2007: 1649-1652). Collaboration and the knowledge that is created and expanded through collaborative relationships has performance implications recognised by many global corporations of the 21st century and demonstrated later in this literature review (Bahra, 2001: 201; Serenko, Bontis & Hardie, 2007: 613; Evers & Knight, 2008: 553-555; Huff, Floyd, Sherman & Terjesen, 2009: 29; Reychav, 2009: 143-155).

### **The intangible measurement dilemma**

While there is a body of research that supports the role of business events as creators of intangible value for organisations the processes that assure the appropriateness of and value of new knowledge that arises will be shown often to be tenuously evaluated. Some evidence of awareness of the importance of intangible resource replenishment opportunities at business events on future organisational performance is shown in research by Reychav (2009: 153) corroborating the important role that trade shows play in future performance by cementing relationships between suppliers and customers (collaboration), as opportunities to study market trends through studying what competitors and global industries are doing and as forums to leverage future sales opportunities. However he also observed that knowledge flows at these events are often "hasty and dynamic in nature" suggesting that they are not part of a predefined strategy but more of an opportunistic nature (Reychav, 2009: 143).

Kline and Harris comment that their research found "a haphazard approach" to evaluating corporate spend on training in the hotel industry (Kline & Harris, 2008: 45). These authors also found that several organisations evaluated the value of their training spend by asking the attendees their opinions of the training which is obviously open to subjective interpretation (Kline & Harris, 2008: 54-57). Bersin, Kline and Harris note that many organisations are aware of return on investment (ROI) models for evaluating intangible returns but either do not use them or use them poorly. They note that most managers preferred to extrapolate training success from the fact the current sales and profit remain good compared to previous years' organisational performance. The authors believe that this negligence is, in part, because managers find the tracking required to

ascertain learning value, has to take place over extended periods (several months after the event in the workplace by peers and managers). The time and effort required to do this is considered by managers as wasteful of their human resources. The authors note that managers also extrapolate that if profits remain good the investment in training must be working. Additionally, most of the companies reviewed by the authors had no high level managerial directive or policy that a return on knowledge investment was a defined return on a strategic objective (ROO). There was no policy/process for many managers to follow to ensure optimisation of the value created by a business event (Bersin, 2004: 166; Kline & Harris, 2008: 45).

Holton argues that the ROI models commonly used to measure learning often inadequately deal with how to both identify and then monitor the intangible variables. The author suggests that this has considerable impact on the true valuation of a learning intervention in terms of ROI. Holton contends that unexpected results in ROI outcomes are often due to not initially identifying - as part of the knowledge strategy - as many of the variables as possible, both tangible and intangible, acting in the organisational systems before the learning transfer takes place. These variables, once recognised, can be anticipated by stating their possible outcomes and stating their outcome values as objectives (Holton, cited by Yorks, 2005: 214).

In contrast to the relatively unsuccessful attempts to rationalise knowledge strategies just described, some of the larger organisations in the world are found to be seeking and using knowledge in a pro-active strategic manner. Woiceshyn and Falkenberg's (2008: 92) research establishes that future strategy and therefore future performance value for global petroleum companies lay in how well these companies matched their future use of knowledge resources to problems when solving dilemmas. Each problem required a unique knowledge (content) framework that supported the knowledge flow needed by this problem. This framework included a knowledge base, a value attached to the knowledge (by policy declaration and managerial vision), peer networks, technical systems and managerial systems. Woiceshyn and Falkenberg term the knowledge network of people inside and outside the organisation whom the organisation drew on for knowledge to drive up potential organisational performance value as "value constellations" (Woiceshyn & Falkenberg, 2008: 94). These were specialist, focused teams optimising all the knowledge the organisation could access for competitive advantage creation.

Dóós et al. report a similar knowledge framework for focused problem solving by the multi-national Ericsson (Dóós, Wilhelmson, Backland, & Dixon, 2005: 481-483). In Ericsson's case the value constellation was called the "tiger teams" but the point the author notes is that large companies who have the funding see value in setting up business events frameworks to guide the requisite variety of knowledge arising from these events (Dóós et al., 2005: 486). Dalkir mentions the Honda Corporation placing great value on information-generating meetings called "knowledge days" or "knowledge cafes" (Dalkir, 2005: 54). Toyota sets meetings schedules by types, frequency and length (time of meeting) and the meeting planning is a sub-system in a bigger system of a communication strategy designed to support key performance areas such as safety, KPIs, and process improvement. The communication strategy is tied to higher strategic objectives. The organisation has established a hierarchical set of strategies top-down to gain the knowledge outcomes they define (Liker & Hoseus, 2006: 296). Toyota schedules meetings specifically to allow people who might never get to talk to meet and talk face-to-face. These business events are formal in that they are scheduled and the participants are specifically invited to attend but the meeting purpose is "a time to build relationships and identity and resolve issues" (Liker & Hoseus, 2006: 297). The meetings also build opportunity for collaboration, innovation and creativity. These organisations that are more successful at knowledge management are those who use a strategy to drive knowledge inflows and subsequent embedding and dispersion. The literature review has also highlighted that the knowledge strategies do not stand alone but should be part of larger,

organisational strategies that knowingly create tangible and intangible resources mixes to gain specific outcomes. Based on this evidence it is reasonable to claim that organisations that are successful at leveraging knowledge to create competitive advantages are those who pro-actively use new employee knowledge to influence improved financial performance, to adapt internal business processes and to stay abreast of how well the customer is being served. All of these variables have the ability to influence how much market share the organisation will hold. The literature reviewed suggests that a business event should be part of a defined strategy for knowledge. To this end the role of a model such as the Kaplan and Norton balanced scorecard model seems relevant to solving the problem of defining the variables in a knowledge system strategy presenting the knowledge strategy as part of a larger, overall organisational strategy that encompasses all other performance areas of the organisation. This model presents methodology to ensure mindfulness by managers of creating value creation mixes of both tangible and intangible to attain future desired organisational performance improvements.

### **The relevance of using the balanced scorecard**

Bose and Thomas (2007: 653) state that the balanced scorecard “is a strategic performance management framework and methodology based on a series of performance measures. The scorecard has been developed as a response to criticisms of traditional accounting reports [used] for knowledge-based firms”. The balanced scorecard specifically refers to intangible resource influences on the overall strategic intentions of all organisational functions. The balanced scorecard model of Kaplan and Norton argues for the organisation seeking a perspective of its performance by uniquely planning and evaluating four areas simultaneously including that of the intangible - knowledge. The four areas are: the financial as a perspective of the organisation's vitality and viability; the internal business-process perspective to identify the success with which the organisation's processes and policies contribute to success; the customer perspective which identifies how well the customer is being served and as such how much market share the organisation will benefit from serving these customers; and finally that of knowledge with the employee learning and growth perspective influencing the overall design, operations and outcomes of organisational knowledge repositories which in turn can influence the value creation potential of the other three areas (Kaplan & Norton quoted by Yorks, 2005: 31; Stam, 2007: 656).

A strategy map of future intentions (strategic objectives) to be undertaken in a specific time period by the organisation for each of the four areas is individually defined and linked to key performance indicators (KPI) but the authors recognise the interrelatedness and dependencies by stating the areas value creation potentials and contributions need to be balanced and rebalanced, viewed as a whole. To do this, KPI are set for both overall outcomes and individual outcomes from each area. The individual outcomes contribute value upwards to attaining the overall outcomes. At every round of new strategy created to manage changes in the operating environment, the balance of what each area needs as inputs to create its own value, needs to be re-defined pertinent to managing the change from an overall perspective (Kaplan & Norton, 2001a: 96). Yorks (2005: 35) agrees noting that creating and maintaining a strategy using methodology such as the balanced scorecard requires constant reflection on the changes in the environment of the organisation and what knowledge is required to deal effectively with change. This infers that the strategy must evolve as the conditions of the organisation change. The four performance drivers of the balanced scorecard are applied in an integrated approach to deliver an overall strategy and are therefore interlinked by causal relationships.

The KPI are defined by three groups of stakeholders as to what satisfaction with the organisation in delivering these strategic intentions, would look like to them. The three stakeholder groups are defined by Kaplan and Norton as customers, shareholders and employees. Customers want products/services they need; shareholders want profits in terms of profit and brand equity from serving customers successfully; employees want to be equipped to deliver to the customer need.

The inclusion of employees in defining value creation expectation infers that employees must understand what their purpose is in delivering to the strategic objectives and have the skills, capability and knowledge to fill the customer need. The authors note that each area's strategy map will define 'how' to practically contribute value by defining the processes to do this. Scorecard objectives can only be achieved by finding a methodology or process to deliver the 'how'. Organisational function levels (human resources, finance, marketing and so on) have individual goals that support those of the organisation. So the success of the functions is inter-related and to lesser and greater extents dependent on what the overall strategy demands of them. Thus lower systems/functions contribute value to the overall goals of the organisation (Kaplan & Norton, 2001a: 96). Kaplan and Norton emphasise the one factor- as did Drucker (1968: 75) and mentioned earlier- common to all functions, but unique in its ability to create competitive advantages – are the employees. Achieving competitive advantage is realised by “a motivated and prepared workforce” underpinning all organisational activities if organisational performance and shareholder value are to improve (Kaplan & Norton, 2001a: 92). In other words, the learning and knowledge leg of the balanced scorecard influences outcomes in finance, business advantage creation, internal organisational process quality and finally market-share (Kaplan & Norton, 2001b: 150; Stam, 2007: 662). Kaplan and Norton advocate that managers are involved in defining employee learning and knowledge requirements because managers look across organisational functions to deliver this overall strategy. Managers need to allow new knowledge to flow in innovative ways to create both expected and unexpected value (Kaplan & Norton, 2001a: 94).

Kaplan and Norton explain that the learning and knowledge requirements have three focuses to be enabling in achieving competitive advantages: an organisational climate that encourages personal employee growth; employee competency displayed through functional excellence; and tools represented by standardised processes that ensure quality in employee performance. The authors note that as the “learning and adapting strategy” evolves, so what begins as hypotheses on the balanced scorecard to deliver the organisation's strategy must become managed cause and effect relationships (Kaplan & Norton, 2001b: 154). They note that the balanced scorecard is, in fact, a highly integrated information flow system (Kaplan & Norton, 2001b: 155). The strategy map concept proposed by the authors deliberately links intangible or typically non-financial processes (as in processes that generate value not measurable in terms of money) to overall key performance goals because of the emphasis in recent years of creating intangible assets in addition to traditional tangible assets (Kaplan & Norton, 2001a: 88).

This research explores the level of usage of an overall strategy for knowledge by organisations like the balanced scorecard for knowledge strategy. The business event is seen as the vehicle through which employees can gain the knowledge required to deliver to strategic outcomes. The business event in turn requires a process that links its outcomes to the overall plan. To provide this lower level functional monitoring and evaluation for the scorecard learning leg, the Phillips™ return on investment (ROI) model is reviewed because it is already applied in the business tourism industry endorsed as a business event ROI tool by the largest association of business event planners in the world.

#### **A model to monitor and evaluate business events**

The ROI model by Phillips derived from the Kirkpatrick ROI model is promoted to more than 20 000 members of the Meeting Professionals International Association (MPI) (Phillips, Myhill & McDonough, 2007: xix-xxiii). The model is termed a 'solution concept' because its application can be broadly applied across many environments such as varied industries, event types and organisation types (Phillips et al., 2007: 1). The model recommends using six levels of evaluation described in Table 1 for the business events sector.



**TABLE 1: THE SIX LEVELS OF EVALUATION IN AN ROI PROCESS**

<b>LEVEL 0</b>	<b>Statistics, Scope and Volume</b> – collect data on meeting statistics for instance: web site traffic; budget; attendance; press coverage.
<b>LEVEL 1</b>	<b>Reaction, Satisfaction and Planned Action</b> - collect reactions to the event and asks what the attendee intends to do after the meeting.
<b>LEVEL 2</b>	<b>Learning</b> – measurement of the degree to which knowledge acquisition has occurred during the meeting. Types of learning include: <b>Information Learning:</b> about customers, suppliers, assets ; <b>Skills Learning:</b> new capabilities and skills; <b>Attitudes Learning:</b> changing perceptions about brand and products/services; <b>Relationships Learning:</b> building new relationships and strengthening old.
<b>LEVEL 3</b>	<b>Application</b> – measurement of the degree to which knowledge acquired at the meeting is used by attendee.
<b>LEVEL 4</b>	<b>Business Impact</b> – evaluation of improvements in organisational performance.
<b>LEVEL 5</b>	<b>ROI</b> – ROI calculation of the net meeting benefits to total meeting costs giving a benefit/cost ratio.

(Source: Adapted from Myhill and Phillips (2006:693-694))

The model shows a high degree of awareness of the necessity to measure the knowledge and learning accruing from business event attendance. It would seem appropriate to argue that the Phillips ROI model would be usefully applied at business events by individual organisations to rate the business event in terms of learning for the learning leg of the balanced score-card.

### Research question

The organisation has been shown in the literature reviewed to be a complex system but with employee knowledge is the one element that can change the value creation potential of all inputs and all systems that guide transformations from inputs to required outputs. Research directly related to managing knowledge value arising from the business events sector is limited so the purpose of this research is to add to this body of knowledge by reviewing the current application of methodologies that can create the ‘how’ that ensures employee attendance reaps value pertinent to improving future organisational performance. MPI teach event organisers to apply Phillips ROI evaluation methodology. It is reasonable to assume that event attendees and their organisations are aware that event organisers design business events to deliver specific knowledge improvements for them and organisations pick attendance at an event in line with their organisational goals. It is reasonable to extrapolate that attendees are aware that the value they derive from a business event – as with any expenditure made by the organisation – is reaped as a resource that ensures the future organisational viability. Measurement of the value created is suggested by the literature reviewed to be managed with a tool such as the Phillips ROI but only if the need to measure value created is firstly recognised and secondly a tool to do the measurement is integrated to established strategic goals – the latter being a tool such as the balanced score-card.

Business events become tools in the organisation’s strategy to create unique, competitive advantages. The research question to be answered in this exploratory research and which defines the scope of the research strategy is, “How do business event attendees perceive business events as influencing the organisation’s opportunity for value creation?”

### Research objectives

To answer this question two specific objectives to define the scope of the research have been stated. The primary objective of the research is to establish what the business event attendees’ perspective of the reason for their attendance is in relation to their knowledge/learning gains being integral to delivering an overall, organisational strategy. This objective seeks to establish to what practical extent the concept of a balanced scorecard type model is understood by event attendees to be able to direct how their new knowledge will flow back into other areas that need this input to



refresh and revitalise their own ability to create value. A secondary objective is to establish if the attendees consider business events as a process tied to the delivery of higher-level objectives set in the scorecard and that evaluating the benefit from the business event depends on applying a process such as the Phillips ROI methodology.

## RESEARCH METHODOLOGY

A quantitative survey instrument was designed using a 5 point Lickert scale. The Lickert scale rated agreement or not, on statements relating to an attendees' personal experience of business events. The centre point of the Lickert scale was set as a neutral point (neither agree nor disagree). The rationale for this was that the literature suggests that ROI measurement of intangible concepts may not be used by some respondents' organisation meaning the respondents understanding of knowledge strategies might be limited and the researcher did not want to force an answer (Ratray & Jones, 2007: 236). Further statements sought responses on attendee perceptions on the importance of post-event strategies by their organisation to capture and apply attendee business event generated knowledge. A section of statements related to the gaining an understanding of an attendee's perception of the requirement for a tool (such as balanced scorecard) that helps to define intangible variables to be replenished (knowledge specific to future performance expectations) in organisational level strategic planning.

The online survey (SurveyMonkey™) was designed based on variables drawn for the literature review using the SurveyMonkey 'select' plan version. The survey locked out attempted repeat survey form completions by storing a respondent's unique computer identification code on first completion. The online survey was initially completed by a small group of 7 business event attendees to establish its user-friendliness. The length of the survey in the pilot run of the survey for online completion was 8-15 minutes per survey. This was considered a reasonable time by the pilot group to expect a respondent to give when completing the survey. The survey captured a total of 354 usable responses over a period of three months ending early February 2012. The survey was actively promoted by the researcher by sending individual emails requesting survey participation and by exposure on Linked-in business websites. The 'gate keepers' of the various associations were asked for permission to promote the survey link on the website while personal email invites to the researcher's business network had an option to opt out. Business websites used to promote the survey of which the researcher had membership included Meetings Africa (South Africa – SA), AllAboutXpert (SA project management), Institute of People Management (SA and USA), SAP HR/HCM linked-in, SHRM India, Oxford Brookes Alumni, University of Cape Town graduate school of business alumni, City of Cape Town, Exhibition Association of Southern Africa, Southern African Association for the Conference Industry, Certified Meetings Professional (SA), Public Relations Institute of South Africa, Meeting Professionals International (USA). These groups had a combined membership in excess of 4000 members in addition to the fact that the invitation email could virally reach respondents outside of these groups by referral from members. Each potential survey respondent was initially asked to agree that they had attended a business event defined as a conference, meeting, seminar, trade show, and exhibition or training session. If the respondent disagreed with this statement the survey was complete as this individual did not represent a respondent of interest in this survey.

### Demographic findings

The number of respondents was 334 (94%) who work in service-orientated organisations and 20 (6%) worked in manufacturing organisations. This suggests that 334 of the respondents have work environments (service) that produce intangible value through service creation based on employee knowledge. Kaplan and Norton (2001a) advocate that intangible value (recognised as organisational performance improvements) in their strategy maps can only be activated through motivated, prepared workforces. This would infer that a specific strategy for defined knowledge replenishment through business events would be especially valuable to a service organisation.

### Finding on managers giving objectives for event attendance

A survey question therefore sought to establish who of event attendees had typically been given objectives of event attendance before they went to the event. In response, 15% of respondents said no-one gave them objectives for attendance, 15% said that the event organiser gave them the objectives of attendance, 5% said HR gave them the objectives, 65% said a manager other than HR gave them objectives. Thus, 70% of attendees say they have managerial objectives for attendance before they go to a business event. The literature review indicates however that the objectives may not be specifically related to a particular strategy but rather a hastier, opportunistic manner of keeping up with competitors and trends while at the event (Kline & Harris, 2008; Reychav, 2009).

### Findings related to use of an ROI process

The literature has shown that new knowledge such as that arising at a business event has the potential to influence value generation throughout an organisation if tied to specific objectives for event attendance. The Phillips ROI methodology is a widely promoted business event evaluation tool. Several survey questions investigated variables that could be 'how' learning from an event is evaluated by predefining strategic objectives and associated KPI. Table 2 presents findings of interest in establishing KPI for event attendance objectives within a process such as the Phillips ROI (research objective 2).

TABLE 2: THE VALUE IN KNOWLEDGE FLOW STRATEGY

Survey statement	Survey responses (n = 334)
1. "Informal meetings within the event are important for me to learn (collaboration)".	87% important to very important 5 % not very important to not important 8% no opinion
2. "I quickly forget what I learn [at a business event] if I do not use it at work".	59% agreed 29% disagreed 12% no opinion
3. "My organisation encourages me to share my learning".	60% agreed 28% disagreed 12% had no opinion

(Source: Thomas (2013))

Statement 1 responses suggest collaboration is important to 87% of delegates as a learning opportunity so business events that actively create these opportunities would be more valuable than those that don't. In turn the number of collaboration opportunities and the value created by these are an example of a KPI that could be specified and evaluated by the Phillips ROI. Statement 2 reflects responses about opportunities to embed new knowledge by applying it within the organisation. Respondents indicate (59%) that they will forget the knowledge if it is not used. Lack of opportunity to embed the knowledge erodes the purpose of event attendance and has direct implications for a reduced ROI potential. Again this could be a KPI indicator to ensure and measure planned 'embedding opportunities' in the ROI process to facilitate this post event activity. For statement 3, 28% of respondents disagreed inferring that these organisations do not realise the extended potential of this knowledge as value to other areas. This in turn may highlight a lack of understanding integrated, tangible and intangible strategic goal creation. The 60% that agreed have organisations that have in some manner recognised that value is generated for higher strategic goal attainment through post-event sharing opportunities. Again a KPI could be tied to the ROI process for this factor. All the findings support the need for a process to plan actions to flow knowledge through the organisation. Finding 2 (forgetfulness) and 3 (workplace sharing) indicate gaps where the potential of new knowledge could be lost to the organisation. Such findings support

the argument that an organisational policy about the role of an ROI process in defining specific outcomes within that of a higher level strategy that itself defines how the ROI process, will add to ensuring delivery of these higher goals. Several authors in the literature review (Woiceshyn & Falkenberg, 2008; Dalkir, 2005; Liker & Hoseus, 2006) and others have argued that their research has shown the value of a top-down strategic hierarchy to planned actions to get as much value out of new knowledge as possible.

### Findings about the value of an integrated top-down strategy

The balanced scorecard sets the goals to be achieved by using new knowledge defined in the ROI process to leverage more value from the other three related areas. This would be a top-down approach of the 'how' that Kaplan and Norton define in their strategy mapping. The results of the business event attendees ranking on a Lickert scale of strongly disagree (1) to strongly agree (5) are shown in Table 3 with regards to an ROI tool being part of the methodology of 'how' to apply the learning strategy leg of the balanced score card. The literature infers that that an intervention for 'how' should have ROI objectives measurable with an ROI model (such as Phillips) in their value contribution to the organisation's overall strategic plan.

**TABLE 3: OVERALL STRATEGY MAP AND ROI RELATIONSHIP: BUSINESS EVENT ATTENDEES**

n =351		16.1 Event organisers should use an events evaluation model for every event (e.g. Phillips ROI model)					Total	
		1	2	3	4	5		
19.1 My organisation uses a performance management tool (like the Balanced Scorecard)	1	Count	0	2	20	62	52	136
		Agreed (1)	0.0%	1.5%	14.7%	45.6%	38.2%	100.0%
	2	Count	4	4	31	71	36	146
		Disagreed (2)	2.7%	2.7%	21.2%	48.6%	24.7%	100.0%
	3	Count	0	1	17	36	15	69
		Did not know (3)	0.0%	1.4%	24.6%	52.2%	21.7%	100.0%

(Source: Thomas (2013))

The Chi squared result in Table 4 indicated a result of 0.048 which is significant at probability  $p > 0.05$ . Respondents whose organisations used a balanced scorecard methodology to guide future organisational performance agreed with the ROI of a business event should be evaluated. Even respondents who disagreed that their organisation used a balanced scorecard or didn't know whether their organisation used a balanced scorecard thought it important that there should be an ROI evaluation of a business event and that this tied into a higher strategic purpose.

**TABLE 4: OVERALL STRATEGY MAP AND ROI RELATIONSHIP: CHI SQUARED RESULT**

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	15.631	8	.048
Likelihood Ratio	16.946	8	.031
Linear-by-Linear Association	7.112	1	.008
N of Valid Cases	351		

(Source: Thomas (2013))

To attain specific outcomes from a business event that would contribute to the overall value anticipated by a strategy map, it is reasonable to argue that the event attendees should be aware of the objective(s) of their event attendance. The statement that investigated whether managers brief attendees on the objectives of attendance (above) should have a relationship with an understanding of higher level organisational objectives (Table 5). Evaluating whether the respondent knew if their organisation used a performance management tool (balanced scorecard) is claimed as indicative of managers and employees understanding this relationship in terms of the importance of a pre-event briefing by management of event attendance objectives (Table 5).

**TABLE 5: OVERALL STRATEGY MAP AND EVENT ATTENDANCE OBJECTIVES: BUSINESS EVENT ATTENDEES**

			16.2 My manager briefs me on the event objectives before I attend					Total
			1	2	3	4	5	
19.1 My organisation uses a performance management tool (like the Balanced Scorecard)	1	Count	7	19	15	56	39	136
		Agreed (1)	5.1%	14.0%	11.0%	41.2%	28.7%	100.0%
	2	Count	8	32	25	53	28	146
		Disagreed (2)	5.5%	21.9%	17.1%	36.3%	19.2%	100.0%
	3	Count	5	16	8	24	17	70
		Did not know (3)	7.1%	22.9%	11.4%	34.3%	24.3%	100.0%

(Source: Thomas (2013))

Table 6 indicates that the Chi-squared results are not significant at probability  $p > 0.05$ . So, although 70% of all respondents agreed that it was important that their managers brief them on event objectives before attendance, there seems to be a gap in manager and employee understanding of attendance tying to higher-level, conjoined intangible and tangible value creation mixing opportunities. Several authors including Sveiby (2007) and Gorelick et al. (2004) draw attention to the fact that some managers perceive no point in sharing financial results, vision, mission and strategy feeling it has little to do with an employee's daily job of work but also meaning that the employee is not fully aware of the implications of value creation possible for knowledge garnered from the event.

**TABLE 6: OVERALL STRATEGY MAP AND EVENT ATTENDANCE OBJECTIVES CHI-SQUARED RESULT**

	Value	df	Asymp. Sig. (2-sided)
<b>Pearson Chi-Square</b>	8.973	8	.345
<b>Likelihood Ratio</b>	9.059	8	.337
<b>Linear-by-Linear Association</b>	3.790	1	.052
<b>N of Valid Cases</b>	352		

(Source: Thomas (2013))

This could be argued as indicating an uncoupling or lack of clarity by business event attendee or their managers in their perceptions of linkages in a knowledge value chain flowing top-down from a balanced scorecard to ROI objectives for event attendance. Further, when considering the result of

the previous section where measuring the ROI value from an event and the use of a balanced scorecard was significant as expected, it raises an area for further research as to whether it is clear to the respondents that they, as individuals, are responsible for gathering the value required to fulfil their managers' objectives for their event attendance. Myhill and Phillips (2006) emphasise that business objectives have to underpin event ROI measurement criteria. Understanding this lack of relationship may further be enhanced by considering the response of attendees to a statement posed as to whether employees have found their manager fears sending them to an event as it may mean they (the attendee) will then know more than the manager. The result was that 49% of respondents agreed with this statement, 15% neither agree nor disagree and 36% disagreed. This suggests a managerial influence that may also be negatively affecting creation of a complete top-down value chain process.

**Finding of exploratory factor analysis: factor one knowledge embedding**

Embedding would be a defined part of a Kaplan and Norton 'how' process to retain new knowledge for use in other scorecard areas. The value a business event adds to organisational future performance and a national economy is argued as dependent on the degree to which the organisation recognises the business event as an organisational work process with outcomes that contribute to overall outcomes. Table 7 represents a measure of sampling adequacy from survey results of business event attendee perspectives of the relationship of post-event knowledge embedding activities undertaken by their organisation. This gives the Kaiser-Meyer-Olkin measure of sampling adequacy as 0.876 showing that a portion of the variance in this sample is caused by underlying variables. The Bartlett's test of sphericity at 0.00 is < 0.05 with the Chi-square statistic at 1150.102 at 10 degrees of freedom is not significant which indicates that this correlation matrix is significantly different from an identity matrix and the variables relate to one another sufficiently to carry out an exploratory factor analysis (EFA).

**TABLE 7: KMO AND BARTLETT'S TEST – KNOWLEDGE EMBEDDING**

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.876
Bartlett's Test of Sphericity	Approx. Chi-Square	1150.102
	df	10
	Sig.	.000

(Source: Thomas (2013))

The determinant at 0.038 is > 0.00001 indicating the variables are fairly independent in their behaviour from each other. In Table 8, Factor 1 has an eigenvalue > 1.0 so is acceptable and Factor 1 (unrotated) explains 73% of the total variance.

**TABLE 8: TOTAL VARIANCE EXPLAINED – KNOWLEDGE EMBEDDING**

Factor	Initial Eigenvalues			Extraction Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	3.671	73.419	73.419	3.349	66.979	66.979
2	.440	8.806	82.225			
3	.395	7.892	90.117			
4	.293	5.864	95.981			
5	.201	4.019	100.000			

(Source: Thomas (2013))

The Factor 1 is named knowledge embedding (Table 9).

**TABLE 9: FACTOR MATRIX FOR FACTOR 1 KNOWLEDGE EMBEDDING**

	Factor 1
20.3 Encouraging me to 'flow' the new knowledge myself through the organisation (e.g. collaboration, communication, updating others if I am an expert)	.865
20.4 Integrating my new knowledge into existing information normative management systems (e.g. databases, policies, processes)	.855
20.2 Using my new knowledge to improve organisational functions (e.g. analysis, decision making, planning)	.853
20.5 Aligning my business event attendance to improving my workplace performance	.776
20.1 Having a formal knowledge management system (e.g. this standardises the capture of my new knowledge making it available to others)	.735

(Source: Thomas (2013))

The internal consistency represented by Cronbach's Alpha in Table 10 is > 0.90 at 0.909 indicating a high degree of reliability about the interrelatedness with which this set of five variables (items) represents the effect of the latent factor.

**TABLE 10: CRONBACH'S ALPHA FOR KNOWLEDGE EMBEDDING FROM THE PERSPECTIVE OF THE BUSINESS EVENT ATTENDEE**

Cronbach's Alpha	Cronbach's Alpha Based on Standardised Items	N of Items
.909	.909	5

(Source: Thomas (2013))

Table 11 shows that the items have an inter-item correlation of between 0.584 and 0.785 which indicates no redundancy of any of the five items. Embedding ensures new knowledge is available for many to share and co-create with.

**TABLE 11: INTER-ITEM CORRELATIONS OF KNOWLEDGE EMBEDDING VARIABLES: BUSINESS EVENT ATTENDEES**

	Mean	Minimum	Maximum	Range	Maximum / Minimum	Variance	N of Items
Inter-Item Correlations	.666	.584	.785	.201	1.344	.004	5

(Source: Thomas (2013))

### Overall contribution of findings

The findings suggest that business event attendees recognise the need for integrated top-down strategy guiding new knowledge application in delivering value to tangible-intangible value mixes set in higher-level or functional level strategies, but that confusion arises as to how this is in practise ensured. ROI measurements with the Phillips model have been found by Kline & Harris (2008),



Bersin (2004) and other authors to be difficult to apply in practice. The authors note that this is partly because most of the companies reviewed had no high level managerial directive (policy) on how a knowledge strategy should be implemented. It is argued here that a high level policy with associated practical processes would support an integrated approach to intangible-tangible value mix realisation. A balanced scorecard sets the overall organisational objectives with the Phillips model practically delivering the 'how' of a top-down approach. Phillips KPI then becomes easier to define (first finding). Further, the EFA highlights the practicality of processes aligned to policies that ensure the stored potential of newly gained intangible value as influencers in intangible-tangible value creation – predefined mixes set in strategic organisational objectives. Phillips et al. (2007) draw attention to this criterion of ensuring the organisation's strategies are well understood before the event is planned as these are the bases for all ROI evaluations that follow while Yorks (2005) notes that the Phillips model assumes that the organisation supports an environment for knowledge transfer.

## **LIMITATION AND RECOMMENDATION**

A limitation of the study is that the best known and promoted model for measuring return on investment from a business event, Phillips ROI methodology, is not popular in practical terms with organisations because to-date managers have struggled to establish KPI easily manageable in terms of time and HR costs. Management needs to know how to set attainable business event ROI-KPI aligned within top-down strategies to assurance the value business events contribute to organisational performance. To deal with this limitation a recommendation would be for more in-depth research as to the typical challenges organisations have with ROI methodology for business events and to propose practical solutions that provide content for policy and processes that guide standardised application of integrated top-down strategy supported with bottom-up monitoring and evaluation.

## **CONCLUSION**

This research findings and literature review have indicated practical management of intangible value arising from business events as tenuous due to a variety of practical application hurdles. The hurdles include how to firstly acknowledge and define a standardised value creation mix/mixer strategy that influences from top-down but delivers value from bottom-up and then secondly to overcome challenges in ensuring and monitoring where and how this new value releases its potential for multiple value creation across different areas of the organisation. This research's findings suggest that tangible and intangible mixes can be pre-defined and practically attained if 'value creation mixes' (top-down value scope) and their KPI (bottom-up monitoring and evaluation) are established when setting overall strategic objectives of desired, future organisational performance. The literature review evidence argues strongly for the utility in evaluating and controlling the degree of alignment between strategy and business event intangible value creation. The findings indicate a possible practical methodology shown as intuitively acceptable to many survey respondents. Business tourism activities are argued as unique in that they have the ability to contribute value to many areas if their potential for organisations, industries and national economies is defined in value creation mixes.



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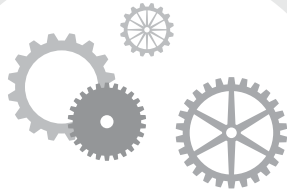
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## PERCEIVED VS. ACTUAL CONTRIBUTION TO THE ARTS AT TWO SOUTH AFRICAN ARTS FESTIVALS

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### ABSTRACT

It is evident that arts festivals offer additional benefits to the arts and that the visitors attending these festivals play a great deal in the realisation of these benefits when they are personally involved. The purpose of this paper is to examine the contributions of two Afrikaans arts festivals to the arts and to determine whether preference for a particular type of art might influence personal arts involvement. Surveys were conducted at Innibos and Vryfees. Separate Exploratory factor analyses and two-way frequency tables were conducted to determine the contributing factors of the festivals, followed by independent t-tests to investigate any statistical differences between the visitors preferring the performing arts and those preferring the visual arts and their personal arts involvement. The results show some moderate differences between preference and personal involvement in the arts. These results should be taken into consideration when marketing and planning arts festivals in order to better their contribution to the arts and to personal arts involvement.

### KEYWORDS

Arts contribution, Arts festival, Arts involvement

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## INTRODUCTION

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The knowledge base regarding arts festivals is increasing as the event subject develops and matures, especially information relating to arts festivals in South Africa (Snowball, 2010; Dunjic, 2011; Allen, O'Toole, Harris & McDonnell, 2012: 50;). However, to date, there appears to be a dearth of research into the arts festivals' full contribution to the arts (Getz, Andersson & Carlsen, 2010: 34; Williams & Bowdin, 2007: 305). In literature, the arts festival is commonly seen as the place where performing and visual art forms, are positioned for the public to celebrate and enjoy (Williams & Bowdin, 2007: 306; Kruger & Petzer, 2008: 113). The arts present at these festivals are composed of autonomous objects or activities (Phillips & Steiner, 1999: 14). Arts activities can be thought of as performing arts, for example, music-, dance and theatre performances (Zijlmans & Van Damme, 2008; Heilbrun & Gray, 2001: 4), whereas arts products are the visual arts, for example, painting, sculpting and ceramics (Zijlmans & Van Damme, 2008: 15; Edginton, Hudson, Dieser & Edginton, 2004: 219).

In order for an arts festival to contribute to the arts, it is important to know the visitors' perception of the arts, and so be able to offer unique arts products to sell to these visitors as an aid for the arts themselves. Satisfactory experiences might be formed at the festival according to the visitor's perception of the performing and the visual arts on display (Page & Connell, 2009: 150), where these perceptions are based on visitors' needs, wants, values, personal experiences (Page & Connell, 2009: 150) and preferences. The individual's consumption actions are influenced by a combination of opportunities and constraints, including available finance, time and perception (Page & Connell, 2009: 75, 150). Because individuals make decisions and take actions based on what they perceive, it is critical for managers to understand the whole notion of perception and its related concepts in order to more readily determine what factors influence visitors to become personally involved in the arts. In this instance, it is vital to understand what influences the visitor at festivals to be personally involved in the consumption and/or participation in the performing and visual arts, goods and activities when they prefer a certain type of art. Ultimately, when visitors are exposed to or are experiencing first-hand the arts at the festival, it may lead to the potential involvement of these arts products and activities on offer (Bonus & Ronte, 1997: 104; Uusitalo, Simola & Kuisma, 2009: 6). Arts involvement can then be seen as either active art-making, organisational volunteering or audience participation at the festivals (Guetzkow, 2002: 12). Festival visitors then form, in a sense, part of the festivals' contribution to the arts when they are personally involved in participating, consuming or even volunteering in the arts (Guetzkow, 2002: 2). Therefore, the perceptions of visitors are important to the festival managers, because in reality, it is not what actually is so that affects their actions, but what visitors think is so, that effects their actions. This is equally true for the visitors' buying habits, their leisure habits and their holistic involvement in the performing arts and visual arts at the festivals.

A seemingly simple question remains one of the principle challenges facing festivals and research: what is the role of the festival visitor in the festivals' contribution to the product or activity provided or celebrated? This is also true when placed in an arts festival context: what is the festival visitors' personal involvement in the arts that are displayed at the festival and in the festival's contribution to the arts? The role of the visitor, consciously or not, is to aid the arts festival in its contribution to the arts.

This paper examines the significance of contributions in terms of visitors' personal involvement in the arts at art festivals. The primary aim is to determine the perceived contribution of arts festivals to the arts and to analyse possible differences regarding festival visitors' involvement in the arts at these festivals in relation to their arts preference. Twenty thousand visitors may attend a festival and



spend thousands, and knowing 'how many' and 'how much' can give an indication to their personal involvement in the arts.

The paper commences with a brief overview of two Afrikaans arts festivals in South Africa, namely, the Innibos Lowveld National Arts Festival (Innibos) and the Vryfees Arts Festival (Vryfees). According to the individual arts programs of these festivals, Innibos was chosen for its large provision of visual arts products when compared to Vryfees, while Vryfees was chosen for its greater focus on performing arts such as theatre productions (InnibosKunstefees, 2012; Vryfees, 2012). These ever-popular and large arts festivals (in terms of ticket sales and visitor attendance) are known to contribute to the arts when an investigation is made into their mission and goal statements, respectively. Innibos, held in Mbombela (Nelspruit), Mpumalanga, attracts almost 90,000 visitors (Kruger & Saayman, 2012: 148), with more than 60 theatre and music productions and art exhibitions, in and around the town. The Vryfees Arts Festival, formally known as the Volksblad National Arts Festival, held in Bloemfontein, Free State, has an annual attendance of more than 30,000 visitors (Vryfees, 2012) and was established to develop local talent, create opportunities for artists to perform together and to create work in all disciplines in the arts industry and promoting the love for reading and literature among locals and tourists (Vryfees, 2012).

This study explores contribution, perception and involvement literature and research to place the study in context. It then moves on to the results and findings to aid management in setting up a strategy to ensure greater, personal involvement in the performing and visual arts at the festivals, for more effective and fuller contribution to the arts and its forms.

## LITERATURE REVIEW

### Perception towards the arts

The contributions of an arts festival to the arts can be linked to how the visitors at the festival perceive these arts and festival contributions. Perceptions can be defined as a process which refers to an individual's ability to gather, organise and interpret information received from the environment in which s/he finds him/herself (Schiffman & Kanuk, 2009: 152; Strydom, 2011: 61). Perceptions of visitors are based on a complex and interrelated set of personal (for example, motivation, attitudes and personality), social (for example, social class, reference group and cultural background), environmental (for example, the direct surroundings such as the production hall on the festival grounds) and psychological factors (for example, beliefs and learning) (Saayman, 2006: 89; Fridgen, 1996: 31), all of which influences a visitors' decision on involvement in the arts (Fridgen, 1996: 32). When a visitor purchases an art work, for example, there can be stated motivations and reasons that might have influenced the visitor's perception towards the work of art and to actually buying the product (thus being personally involved). These motivations or reasons might be due to quality, interesting uses of colour, technique preference, or because it is the work of a famous painter (Throsby, 1994: 4). Perception is also influenced by learning and past experience. Over time, a person develops ways of perceiving the arts. As a perceiver learns more about a person, a situation or product (such as artistic activities), perceptions become keener (Tobias, 2004: 110). With more experience, people are able to differentiate quality from merely average products and services (Tobias, 2004: 110; Fridgen, 1996: 33). For example, people explore festivals, and the arts present at these festivals, together with other types of entertainment for new and different information.

Perceptions can be either positive or negative (Reisinger & Turner, 2012: 151). Perception can also vary in intensity depending on the personal, social, environmental and psychological influences on

judgement concerning the arts product (Reisinger & Turner, 2012: 151; Schimp, 2010: 122). Positive perceptions need to be formulated in the minds of the festival visitor. These positive perceptions are important role-players, as they can be seen as the motivating factor in the purchase of any arts product or activity (Reisinger & Turner, 2012: 151). For example, the visitors' positive perceptions will determine the selection of the arts they prefer (Uusitalo, Simola & Kuisma, 2009: 7). The more favourable these perceptions, the greater the possibilities of future purchase behaviour and personal involvement in the arts.

According to Fridgen (1996: 34), there are some general principles that operate during the perception process. The first of these principles is sensory adaption. Arts festivals and artists are constantly seeking new ways, techniques and ideas to represent arts forms, and for their development (Schiffman & Kanuk, 2009: 153). Through learning and experience, a person develops expectations about what things go together (Fridgen, 1996: 34). At a festival, the visitor expects to see a theatre production and craft markets, but not with the same level of service (that is, quality) as would be experienced at a local flea market or school concert. Certain things are expected to go together. This is the so-called figure-ground principle (Fridgen, 1996: 35). Selective perception principle implies to festivals also (Fridgen, 1996: 35). For example, as Fridgen (1996: 35) states, "the situation in which a visitor attends a less-than-perfect music production must be considered". After the commitment is made, the visitor may ignore the negative side of the production, such as lighting and technical difficulties through the process of selective perception. In this way, the production may be seen as successful in the mind of the perceiver (Fridgen, 1996: 35).

### **Preference in the arts**

The role of personal involvement and perceptions of visitors to their preferred art forms play a great role in the arts festival's contribution to the arts. The differences in perception might be due to the level of exposure to the arts of the visitors in their childhood (or perhaps to current exposure) (Heilbrun & Gray, 2001: 399; Hughes, 2012: 62). Exposure to the arts can lead to a preference for a particular type of art (studies have shown that performing arts are likely to be more preferred than the visual arts). The arts can further be distinguished as being addictive, in the sense that an increase in an individual's present consumption of the arts will increase his/her future consumption (Throsby, 1994: 3). Taste (or preference) for example, for a style of music, is an acquired taste that will increase over time with exposure (Keaney, 2008: 108; Swami, Stieger, Pietsching & Voracek, 2010: 855). It is thought that the relative consumption of the arts will rise over time, not just because of a shift in taste, but because of experience (Swami et al., 2010: 855; Throsby, 1994: 3). Arts consumption can be interpreted as a process leading both to present satisfaction and to the accumulation of knowledge and experience affecting future consumption and involvement (Throsby, 1994: 3). Whether it is referred to as an addiction or as the cultivation of taste, the most relevant first step when developing a taste for the arts is dependent upon past consumption and involvement.

### **Contribution to the arts**

Learning about the arts (in instances where the festival visitor is watching a music, dance, or theatre production, or merely strolling on the festival grounds between the craft markets) can be enjoyable experiences (Fridgen, 1996: 53). Human behaviour is largely the result of a learning process (Saayman, 2006: 89). This leads to the different contributions the arts festival makes to the arts, not just for the enhancement and life-keeping of the arts, but also for participation, appreciation and involvement (in terms of purchasing) in the arts. The contributions that are key to involvement in the

arts is mentioned in literature and in the studies of many researchers such as Heilbrun & Gray (2001), Jackson & O'Sullivan (2002: 327), Nieman (2003), Richardt & Wilson (2004), Holden (2004), Visser (2005: 160-162), Van Der Vyver & Du Plooy-Cilliers (2006: 192), Quinn (2006: 301), Anheier & Isar (2008: 3), Winner & Hetland (2008), Finkel (2009:13), Hutter & Throsby (2008) and of Hughes (2012).

Six major contributions are identifiable. The first contribution is the educational contribution (Allen et al., 2012: 50; Finkel, 2009; Dunjic, 2011; Page & Connell, 2012: 352), where visitors learn about the arts, and can make an informed decision regarding the purchase thereof (in terms of ticket sales or the selling of art work). Secondly, the arts festival contributes economically to the arts (Anheier & Isar, 2008: 3; Allen et al., 2012: 61; Snowball, 2010; Jonker, Saayman & De Klerk, 2009: 383; Finkel, 2009:12; Goeldner & Ritchie, 2009: 81) where the arts sell for high prices. The visitor may also be surprised with a bargain at these events, thus further influencing the visitor's involvement. Thirdly, the visitor can be emotionally inspired by the arts at the festival (Hughes, 2012: 13; Reeves, 2002: 29,30,37; Axelsen, 2006; Finkel, 2009:13), not only enhancing the visitor's enjoyment, but also stimulating involvement (for example, if the visitor perceived the production positively, it might motivate the individual to purchase the book on which the play's script was based.

Fourthly, quality at the arts festival is perceived to be a contribution (Korza & Magie, 1989: 12,36; Finkel, 2009: 20; Liburd & Derkzen, 2009: 137). The festival aims to provide high quality productions and art work. If the production is perceived by the visitor of a high standard, s/he might be motivated to attend the production or even the festival the following year. Fifthly, the arts festival has a marketing contribution (Van der Vyver & Du Plooy-Cilliers, 2006: 192; Hutter & Throsby, 2008; Anheier & Isar, 2008: 264; Jonker et al., 2009: 383; Koopman, 2012), where awareness and exposure to the arts are of utmost importance for the visitor. If the visitor is not aware of the arts present at the festival, no positive perceptions can be formulated, leading to lesser involvement to these arts. Sixthly and finally, the growth and development contribution (Anheier & Isar, 2008: 263; Saayman & Rossouw, 2011: 611; Koopman, 2012; Hughes, 2012: 153) of an arts festival plays a great deal in the preservation of these arts.

In order to determine the personal involvement of visitors in the arts (their actual contribution), and not just how they perceive the two arts festivals as contributing to the arts, the paper will take the following structure. Firstly, the method of research will be discussed, followed by the results where recommendations and productive measures based on the research will be recommended for arts festival managers to use to ensure the on-going contribution of the festival to the arts.

## **METHOD OF RESEARCH**

This was a quantitative research study, where a structured questionnaire was used to collect the data. The following section describes the questionnaire, the sampling method used for the survey, and the subsequent statistical analysis conducted.

### **Questionnaire**

The questionnaire used in both surveys was based on the works of Heilbrun & Gray (2001), Jackson & O'Sullivan (2002: 327), Nieman (2003), Richardt & Wilson (2004), Holden (2004), Visser (2005: 160-162), Van Der Vyver & Du Plooy-Cilliers (2006: 192), Quinn (2006: 301), Anheier & Isar (2008: 3), Winner & Hetland (2008), Hutter & Throsby (2008) and Hughes (2012). It was divided into three sections. Section A captured the contribution factors, measuring 23 items on a five-point Likert scale, where 1 = not important at all, 2 = less important, 3 = important, 4 = very important and 5 = extremely important. This section sought the visitors' perception of the arts festivals' contribution to

the arts, firstly on items concerning the performing arts, followed by items concerning the visual arts. Section B captured the perceptions of respondents according to their contribution to the arts when attending these events, thereafter determining their actual personal involvement in the arts (for example, perhaps they first indicated that they perceived themselves as art lovers, but subsequently indicated they had purchased only a few tickets, if any at all). Section C then sought to capture demographic details, such as gender, age, home province, favourite type of art form (dance, music, theatre, film, painting, sculpting, photography, literature), favourite type of arts (performing arts or visual arts), and level of exposure to the arts during childhood.

### Survey and sampling

A destination-based survey was undertaken at Innibos in Mbombela, Mpumalanga, from the 27 June to 1 July 2012, and at Vryfees, Bloemfontein, Free State, from the 10 to 14 July 2012. The festival grounds are divided into sections to facilitate and coordinate distribution of the questionnaires. For example, distribution of the questionnaires took place at the production venues, socialisation points and stall grounds. A stratified sampling method was therefore used, where trained fieldworkers followed specific guidelines when handing out questionnaires to different visitors. Fieldworkers approached the respondents and explained the goal of the survey and the questionnaire to ensure that visitors participated willingly and responded frankly and honestly. A total of 450 questionnaires were administered at Innibos, subsequently collecting 407 completed questionnaires. Six hundred (600) were distributed at Vryfees, and 575 completed questionnaires collected, whereafter further analyses were conducted. In a population of 100 000 (N), 398 respondents (n) would be seen as representative and result in a 95% level of confidence (Krejcie & Morgan, 1970: 608). Therefore, since approximately a total of 90 000 (N) visitors attended Innibos and 30 000 (N) attended Vryfees, the number of completed questionnaires (n = 407 for Innibos and n = 575 for Vryfees) was more than adequate for further analysis.

### Statistical analysis

The data was captured using Microsoft® Excel® and analysed using SPSS (SPSS Inc, 2012). The data of the two festivals were kept separate. The analysis of data of the two festivals (Innibos and Vryfees) was done in four stages. Firstly, the profiles of the festival visitors at Innibos and Vryfees were determined. Secondly, a principal axis factor analysis, using an Oblimin rotation with Kaiser normalisation, was performed on the 23 contribution items, to explain the variance/covariance structure of a set of variables through a few linear combinations of these variables. The Kaiser-Meyer-Olkin measure of sampling adequacy was used to determine whether the covariance matrix was suitable for factor analysis. Kaiser's criteria for the extraction of all factors with eigenvalues larger than one (1) were used because they were considered to explain a significant amount of variation in the data. All items with a factor loading greater than 3.00 were considered as contributing to a factor, and items with loadings less than 3.00 as not correlating significantly with this factor (Steyn, 2000). Items that cross-loaded on two factors, and where both had factor loadings greater than 3.00, were categorised in the factor where interpretability was best. A reliability coefficient (Cronbach's Alpha) was computed for each factor to estimate its internal consistency. All factors with a reliability coefficient above 0.6 were considered as acceptable in this study. Thirdly, t-tests were conducted to determine any statistical significant differences between preference for performing arts and visual arts based on personal involvement of the festivals visitors. Fourthly, frequencies of perceptual contribution of Innibos and Vryfees to the arts were analysed.

## RESULTS

The following section provides an overview of the profile of visitors who attend Innibos and Vryfees, discusses the results of the factor analysis (arts festival contribution) and presents the results of the t-tests that were conducted on the preference for performing arts and visual arts, based on personal involvement and the frequencies of perceptual contribution of Innibos and Vryfees to the arts.

### Profile of respondents surveyed at Innibos and Vryfees

Table 1 shows that 28% of respondents at Innibos are in the age group 45 to 54. Twenty-four percent (24%) of respondents at the Vryfees indicated that they were in the age group 25 to 34 years. The average age at Innibos was 45 years, with the average age of respondents at Vryfees, 42 years. The favourite type of art as recorded by respondents at Innibos is music (45%) and theatre (38%). This was similar to the results at Vryfees, where respondents indicated that their favourite type of art is theatre (44%) and music (42%). This correlates with the most preferred arts of the respondents at both these festivals, where 79% of the respondents preferred the performing arts at Innibos and 81% at Vryfees (Table 1). As recorded in Table 1, 41% of respondents at Innibos had moderate exposure to the arts during childhood, (45% at Vryfees), while 37% had little exposure at Innibos with 29% of respondents at Vryfees. The majority of the respondents at Innibos are from Mpumalanga (54%). The majority of respondents (82%) at Vryfees are from the Free State (Table 1).

An average of 0.52 books was purchased per person at Innibos, while an average of 0.72 books was purchased at Vryfees, followed by 1.07 CDs and/or DVDs and 0.36 paintings at Innibos, with 0.6 CDs and/or DVDs and 0.28 paintings at Vryfees. The respondents saw an average of 2.61 new performing artists (paid and unpaid performances) at Innibos, with 2.17 new artists being seen at Vryfees. Respondents at Innibos attended an average of 0.51 dance productions and purchased an average of 4.24 tickets per person. At Vryfees, respondents attended an average of 0.3 dance productions, purchasing an average of 5.04 tickets per person. At Innibos, respondents indicated that they are currently involved in 0.24 art associations/clubs, where respondents at Vryfees indicated that they were involved in 0.26 art associations/clubs. Only a small number of respondents visit other arts festivals during the year (1.29), while they have visited Innibos, over its 9 years of existence, 3.69 times. Respondents at Vryfees visited 1.2 other festivals and have attended the Vryfees, since it was first hosted in 2001, 4.88 times.

**TABLE 1: PROFILE OF VISITORS TO INNIBOS AND VRYFEES**

VARIABLE	INNIBOS (n=407)	VRYFEES (n=575)
Age	Percentage (%)	Percentage (%)
<19	3%	3%
20-24	5%	10%
25-34	15%	24%
35-44	23%	20%
45-54	28%	17%
55-64	16%	16%
65>	10%	10%
<b>Average age:</b>	<b>45 years</b>	<b>42 years</b>

Province of origin	Percentage (%)	Percentage (%)
Western Cape	2%	3%
Gauteng	28%	4%
Eastern Cape	1%	2%
<b>Free State</b>	3%	<b>82%</b>
Kwazulu-Natal	2%	1%
<b>Mpumalanga</b>	<b>54%</b>	-
Northern Cape	0%	3%
North West	5%	3%
Limpopo	4%	1%
Type of arts preferred	Percentage (%)	Percentage (%)
<b>Performing arts</b>	<b>79%</b>	<b>81%</b>
Visual arts	21%	19%
Degree of arts exposure	Percentage (%)	Percentage (%)
Little	37%	29%
<b>Moderate</b>	<b>41%</b>	<b>45%</b>
A great deal	22%	26%
Favourite type of arts	Percentage (%)	Percentage (%)
<b>Theatre</b>	<b>38%</b>	<b>44%</b>
Dance	5%	3%
<b>Music</b>	<b>45%</b>	<b>42%</b>
Painting	5%	4%
Literature	2%	5%
Photography	2%	3%
Films	2%	1%
Sculpting	1%	-
Personal involvement	Averages	Averages
Average books purchased	0.52 books	0.72 books
Average CDs, DVDs purchased	1.07 CDs / DVDs	0.6 CDs / DVDs
Average paintings, sculptures purchased	0.36 paintings	0.28 paintings
Average new artists see perform	2.61 artists	2.17 artists
Number of dance productions attended	0.51 productions	0.3 productions
Average number of tickets purchased for productions, shows	4.24 tickets	5.04 tickets
Number of arts associations/clubs currently involved	0.24 art associations/clubs	0.26 art associations/clubs
Average visits to the KKNK festival	3.69 times	4.88 times
Average visits to other arts festivals	1.29 times	1.2 times

## Results from Innibos

This section explores the perceived contribution of Innibos to the arts.

### Results from the factor analyses (Innibos)

In the case of Innibos, using an Oblimin rotation with Kaiser Normalisation, the pattern matrix of the principal axis factor analysis identified five factors that were labelled according to similar characteristics (Table 2). All factors have relatively high reliability coefficients, ranging from 0.834



(the lowest) to 0.966 (the highest). Moreover, all items loaded on a factor had a loading greater than 0.3, and the relatively high factor loadings indicate a reasonably high correlation between the factors and their component items. The correlation patterns are relatively compact and yield distinct and reliable factors (Field, 2005: 640). Bartlett's test of sphericity reached statistical significance ( $p < 0.001$ ), supporting the factorability of the correlation matrix (Pallant, 2007: 197).

**TABLE 2: FACTOR ANALYSIS (INNIBOS)**

<b>FACTOR LABEL</b>	<b>Factor 1: Visual arts enhancement</b>	<b>Factor 2: Performing arts enhancement</b>	<b>Factor 3: Emotional inspiration</b>	<b>Factor 4: Performing arts exposure</b>	<b>Factor 5: Visual arts involvement</b>
Innibos markets known and new artists in the visual arts	0.872				
Marketing of Innibos makes people more aware of the South African art and literature in general	0.843				
Due to Innibos, there is a growth in the number of painters, sculptors, photographers and writers who enter the market	0.777				
Innibos promotes the image of the visual arts (paintings, sculptures, photo art, books) in South Africa	0.764				
Innibos brings networking opportunities for visual artists	0.752				
Innibos's financial support contributes to growth in visual arts	0.749				
Innibos promotes research in the visual arts	0.746				
Due to Innibos, the number and variety of works increased in South Africa	0.740				
Due to Innibos, there is a growth in the number of paintings, sculptures, photo art and literature	0.708				
Innibos improves people's knowledge about the visual arts	0.669				
Innibos develops infrastructure for the exhibition of visual art	0.588				
Innibos creates a platform for the availability of quality paintings, sculpture, photo and art books	0.561				
Painters, sculptors and writers at Innibos create a quality experience of visual art during the festival	0.535				
Innibos enhances the quality of painters, sculptors, photographers and writers	0.501				
Innibos contributes to developing the skills of painters, sculptors, photographers and writers	0.462				
Innibos contributes to more employment opportunities for individuals within the theatre, dance and music industry		0.786			
The singers / actors / dancers at Innibos create a quality experience of performing arts during the festival		0.778			
Innibos contributes to an increase in ticket sales of dance, theatre and music productions		0.769			
Innibos motivates people to attend more music, dance and theatre productions		0.739			
Due to Innibos, there is a growth in CD /DVD sales of music, dance and theatre productions		0.738			
The marketing of Innibos makes people more aware of productions in the country in general		0.687			
Innibos contributes to a more stable income for individuals within the theatre, dance and music industry		0.682			
Innibos improves people's knowledge about the performing arts		0.651			

Innibos contributes to the development of actors, dancers and singers' skills		0.631			
Innibos promotes the image of the performing arts (music, dance, theatre) in South Africa		0.664			
Innibos's selection criteria contributes to quality music, dance and theatre productions		0.648			
Innibos markets known and new artists in the performing arts		0.598			
Innibos brings about network opportunities for performing artists		0.597			
Innibos betters the quality of actors, singers and dancers		0.549			
Innibos's financial support contributes to the growth in productions		0.436			
Innibos develops infrastructure for theatre, dance and music productions		0.403			
Innibos influences people to join arts associations (for example, dance and theatre groups)			0.756		
Innibos inspires people to become actors, dancers and singers			0.695		
Innibos inspires people to become painters, sculptures, photographers and writers			0.532		
The existence of Innibos leads to the development of other arts festivals				0.788	
Due to Innibos, there is a growth in the number of artists, dancers and singers that entre the market				0.634	
Innibos contributes to a growth in the production of theatre/music CDs and DVDs				0.605	
Due to Innibos, the number and variety of productions in South Africa increased				0.537	
Innibos motivates people to buy more paintings /sculptures/photo art					0.758
Innibos creates more work opportunities for visual artists (sculptures/painters/photographers/writers)					0.739
Innibos contributes to a sustainable income for painters, sculptures, photographers and writers					0.728
Due to Innibos, more people has a financial input in the visual arts					0.693
Innibos motivates people to buy more books					0.525
Innibos influences people to join art associations (for example, book clubs, photography clubs)					0.464
<b>Cronbach's Alpha</b>	0.966	0.954	0.834	0.838	0.913
<b>Mean Value</b>	3.65	<b>4.03</b>	<b>3.28</b>	3.75	3.43

Factor scores were calculated as the average of all items contributing to a specific factor in order to interpret them on the original five-point Likert scale of measurement. As Table 2 shows, the following contributions were identified: Visual arts enhancement (Factor 1), Performing arts enhancement (Factor 2), Emotional inspiration (Factor 3), Performing arts exposure (Factor 4) and Visual arts involvement (Factor 5). Performing arts enhancement (Factor 2) obtained the highest mean score (4.03), and was considered the most important contribution of respondents attending Innibos, with a reliability coefficient of 0.954. Performing arts exposure (Factor 4) had the second highest mean score (3.75), followed by Visual arts enhancement (Factor 1) (mean = 3.65) and Visual arts involvement (Factor 5) (mean = 3.43). Emotional inspiration (Factor 3) had the lowest mean score (3.28) and was rated as the least important contribution.

## Perceived contribution of Innibos's contribution to the arts

Respondents at Innibos perceived that the festival contributes to the arts in certain areas more than it does to others. According to Table 3, the respondents perceived that Innibos makes the arts more accessible (98%), that the festival creates a greater awareness of the arts (86%), that it promotes all forms of art to an equal degree (84%) and that the general quality of art at the festival has improved (83%)

**TABLE 3: PERCEPTION OF INNIBOS'S CONTRIBUTION TO THE ARTS**

<b>VISITORS' PERCEPTION OF INNIBOS' CONTRIBUTION TO THE ARTS</b>	<b>YES</b>	<b>NO</b>
Innibos promotes all art forms on an equal level	84%	16%
Innibos makes the arts more accessible	98%	2%
Innibos inspires visitors to practise some form of the arts	55%	45%
Innibos improves visitors' knowledge about the arts	81%	19%
The quality of art at Innibos improved	83%	17%
Innibos creates a greater awareness to the arts	86%	14%
Visitors experiences a greater variety of arts at this year's festival compared to previous festivals	73%	27%
Visitors specifically spend money on the arts at this year's festival	67%	33%
Visitors consider themselves to be art lovers	81%	19%

Unfortunately, respondents indicated in Table 3, that they perceived Innibos as contributing less effectively to some of the aspects concerning the arts. They perceived Innibos as contributing in lesser extent to the inspiration of visitors to participate in the arts (45%), that the respondents did not spend money on art specifically during their visit at the festival (33%), and that the festival contributed less effectively to providing a larger amount of art at this year's festival when compared to previous years (27%).

## Comparison of personal arts involvement to preference for the performing arts or the visual arts of respondents at Innibos

T-tests were conducted to test for significant statistical differences in the mean values of different arts products and activities purchased, comparing those respondents preferring the performing arts and those preferring the visual arts. Although Table 4 indicates no significant statistical differences between the mean values of personal involvement between the visitors preferring the performing arts and those preferring the visual arts. However, there was a moderate statistical significant difference in terms of ticket purchase in arts involvement, with a P-value of .007.

**TABLE 4: T-TEST BETWEEN PREFERENCES FOR PERFORMING OR VISUAL ARTS BASED ON PERSONAL INVOLVEMENT**

<b>Arts</b>	<b>INNIBOS</b>				<b>F-value</b>	<b>P-value</b>
	<b>Performing arts (n=284)</b>		<b>Visual arts (n=78)</b>			
	<b>Means</b>	<b>Std Dev</b>	<b>Means</b>	<b>Std Dev</b>		
Books	0.482	1.24	0.449	1.04	0.244	0.622
CDs DVDs	1.039	1.24	0.821	1.826	1.076	0.300
Paintings	0.275	2.281	0.397	1.121	3.549	0.060
New artists	2.916	0.926	2.641	4.39	0.115	0.735
Dance	0.556	4.486	0.449	1.664	0.560	0.455
Tickets	4.954	1.7	2.256	3.54	7.432	0.007
Clubs	0.342	5.659	0.115	0.322	6.306	0.012
Attended	3.824	3.197	3.462	3.202	0.007	0.934
Other	1.183	1.676	1.577	2.948	5.598	0.019

### 4.3 Results from Vryfees

The following section explores the contribution of Vryfees to the arts.

Results from the factor analyses (Vryfees)

The factor analysis (Pattern Matrix) identified five contribution factors (Table 5) that were labelled according to similar characteristics. All contribution factors had relatively high reliability coefficients ranging, respectively, from 0.44 (the lowest) to 0.82 (the highest). Moreover, all items loaded on a factor with loadings greater than 3.00. Relatively high factor loadings indicate a reasonably high correlation between the delineated factors and their individual items. Any items that cross-loaded on two factors with factor loadings greater than 3.00 were categorised in the factor where interpretability was best.

**TABLE 5: FACTOR ANALYSIS (VRYFEES)**

FACTOR LABEL	Factor 1: Visual arts enhancement	Factor 2: Performing arts enhancement	Factor 3: Performing arts exposure	Factor 5: Visual arts employment inspiration
Vryfees markets known and new artists in the visual arts	0.818			
Vryfees brings networking opportunities for visual artists	0.793			
Due to Vryfees, the number and variety of works increased in South Africa	0.791			
Vryfees develops infrastructure for the exhibition of visual art	0.760			
Due to Vryfees, there is a growth in the number of painters, sculptors, photographers and writers who enter the market	0.756			
Due to Vryfees, there is a growth in the number of paintings, sculptures, photo art and literature	0.755			
Vryfees's financial support contributes to growth in visual arts	0.739			
Marketing of Vryfees makes people more aware of the South African art and literature in general	0.721			
Vryfees promotes the image of the visual arts (paintings, sculptures, photo art, books) in South Africa	0.690			
Vryfees improves people's knowledge about the visual arts	0.646			
Vryfees contribute to developing the skills of painters, sculptors, photographers and writers	0.622			
Vryfees enhances the quality of painters, sculptors, photographers and writers	0.606			
Vryfees motivates people to attend more music, dance and theatre productions		0.749		
Vryfees contribute to an increase in ticket sales of dance, theatre and music productions		0.745		
The singers / actors / dancers at Vryfees create a quality experience of performing arts during the festival		0.730		
The marketing of Vryfees makes people more aware of productions in the country in general		0.692		
Vryfees markets known and new artists in the performing arts		0.669		
Vryfees promotes the image of the performing arts (music, dance, theatre) in South Africa		0.651		
Vryfees contributes to more employment opportunities for individuals within the theatre, dance and music industry		0.605		
Due to Vryfees, there is a growth in CD /DVD sales of music, dance and theatre productions		0.578		
Vryfees contributes to the development of actors, dancers and singers' skills		0.572		
Vryfees's selection criteria contributes to quality music, dance and theatre productions		0.566		
Vryfees improves people's knowledge about the performing arts		0.519		

Vryfees brings about network opportunities for performing artists		0.484			
Vryfees contributes to a more stable income for individuals within the theatre, dance and music industry		0.458			
Vryfees betters the quality of actors, singers and dancers		0.458			
The existence of Vryfees leads to the development of other arts festivals			0.735		
Vryfees contributes to a growth in the production of theatre/music CDs and DVDs			0.656		
Due to Vryfees, there is a growth in the number of artists, dancers and singers that entre the market			0.635		
Vryfees's financial support contributes to the growth in productions			0.551		
Vryfees develops infrastructure for theatre, dance and music productions			0.500		
Due to Vryfees, the number and variety of productions in South Africa increased			0.494		
Vryfees influences people to join arts associations (for example, dance and theatre groups)				0.698	
Vryfees inspires people to become actors, dancers and singers				0.683	
Vryfees influences people to join art associations (for example, book clubs, photography clubs)				0.638	
Vryfees inspires people to become painters, sculptures, photographers and writers				0.583	
Vryfees motivates people to buy more paintings /sculptures/photo art					0.606
Vryfees creates more work opportunities for visual artists (sculptures/painters/photographers/writers)					0.580
Vryfees contributes to a sustainable income for painters, sculptures, photographers and writers					0.574
Vryfees motivates people to buy more books					0.557
Painters, sculptors and writers at Vryfees create a quality experience of visual art during the festival					0.551
Due to Vryfees, more people has a financial input in the visual arts					0.463
Vryfees creates a platform for the availability of quality paintings, sculpture, photo and art books					0.435
<b>Cronbach's Alpha</b>	0.959	0.932	0.887	0.825	0.878
<b>Mean Value</b>	3.62	<b>4.08</b>	3.67	<b>3.23</b>	3.58

Factor scores for the contribution items were calculated as the averages of all items contributing to a specific factor so that mean scores can be interpreted on the original 5-point Likert scale of measurement (1 = totally disagree; 2 = do not agree; 3 = agree; 4 = agree to a more extent; and 5 = totally agree). As shown in Table 5, according to the mean, Performing arts enhancement (Factor 2) was perceived to have the highest contribution for visitors and had the highest mean value (4.08), with a reliability coefficient of 0.932. Performing arts exposure (Factor 3) had the second highest mean value of 3.67, with a reliability coefficient of 0.887, followed by Visual arts enhancement (Factor 1) with a mean value of 3.62 and a reliability coefficient of 0.959. Visual arts involvement (Factor 5) had a mean value of 3.58 and a reliability coefficient of 0.878. Emotional inspiration (Factor 4) received the lowest mean value of 3.23, with a reliability coefficient of 0.825. It is therefore clear that visitors to Vryfees consider the festival as contributing to the performing arts and the visual arts (Table 5).

### Perceived contribution of Vryfees's contribution to the arts

Respondents considered Vryfees to be contributing to the arts (Table 6) in the senses that the festival makes the arts more accessible to them (98%), that the festival creates a greater awareness to arts (88%), that the quality of arts at the festival improved (87%), that the festival promotes all art forms on an equal basis (84%), and that the festival improved the respondents knowledge about the arts (83%).

**TABLE 6: PERCEPTION OF VRYFEES'S CONTRIBUTION TO THE ARTS**

<b>VISITOR PERCEPTION OF VRYFEES CONTRIBUTION TO THE ARTS</b>	<b>YES</b>	<b>NO</b>
Vryfees promotes all art forms on an equal level	84%	16%
Vryfees makes the arts more accessible	98%	2%
Vryfees inspires the visitors to practise some form of the arts	52%	48%
Vryfees improves the visitors' knowledge about the arts	83%	17%
The quality of art at Vryfees improved	87%	13%
Vryfees creates a greater awareness to the arts	88%	12%
Visitors experienced a greater variety of the arts at this year's festival compared to previous festivals	75%	25%
Visitors specifically spend money on the arts at this year's festival	71%	29%
Visitors consider themselves to be arts lovers	78%	22%

Unfortunately, and as indicated in Table 6, the respondents viewed Vryfees as contributing to the arts to a smaller extent when it comes to inspiring the respondents themselves to practise some form of the arts (48%), to spend money specifically on the arts at this year's festival (29%), to experience a greater variety of the arts at this year's festival when compared to previous festivals (25%). These findings may be somewhat explained by noting that only 22% of respondents considered themselves to be arts lovers (22%).

#### **Comparison of personal arts involvement to preference for the performing arts or the visual arts of respondents at Vryfees**

T-tests were also employed to determine any significant statistical differences between the type of arts products and activities the respondents purchased at the festival in terms of their arts preference. The only significant, and quite surprising, statistical difference was found between the amount of paintings purchased between those who prefer the performing arts and those preferring the visual arts. Respondents who prefer performing arts purchased more paintings with a mean value of 0.309 than those preferring the visual arts, with a mean value of 0.140 (Table 7).

**TABLE 7: T-TEST BETWEEN PREFERENCES FOR PERFORMING OR VISUAL ARTS BASED ON PERSONAL INVOLVEMENT**

<b>VRYFEES</b>						
<b>Arts</b>	<b>Performing arts (n=408)</b>		<b>Visual arts (n=93)</b>		<b>F-value</b>	<b>P-value</b>
	<b>Means</b>	<b>Std Dev</b>	<b>Means</b>	<b>Std Dev</b>		
Books	0.814	1.764	0.495	1.265	5.687	0.017
CDs DVDs	0.667	1.345	0.505	1.316	1.804	0.180
Paintings	<b>0.309*</b>	2.813	<b>0.140*</b>	0.563	13.377	<b>0.000*</b>
New artists	2.315	3.196	1.742	2.111	6.229	0.013
Dance	0.324	1.051	0.207	0.719	3.182	0.075
Tickets	6.047	7.818	3.000	3.956	11.241	0.001
Clubs	0.255	0.948	0.301	1.699	0.790	0.374
Attended	5.248	3.836	4.204	3.792	0.920	0.338
Other	1.169	1.791	1.376	2.085	0.634	0.426



## FINDINGS

The following findings indicate the contributions of the festivals and personal involvement of the visitors to the arts. Firstly, the profiles of the visitors to Innibos and Vryfees are similar regarding their average ages, arts preferences, arts exposure and favourite type of arts. This confirms previous findings (Kruger, Scholtz, Saayman & Saayman, 2012: 5,23).

Secondly, visitors to Innibos and Vryfees considered the festivals as contributing to both the performing arts and the visual arts, as the mean values for all the contributing factors are above 3.00, as indicated on the 5-point Likert-scale. Studies done by Kruger et al. (2012: 5,23) also confirm this finding.

Thirdly, the visitors to Innibos perceived the festival as contributing the most to the Performing arts enhancement (Factor 2). Performing arts exposure (Factor 4) was perceived as the second highest, followed by Visual arts enhancement (Factor 1) and Visual arts involvement (Factor 5). The Emotional inspiration (Factor 3) contribution of Innibos was perceived to contribute the least to the arts. As in the case of Innibos, the visitors to Vryfees perceived the festival as contributing to a great extent to the Performing arts enhancement (Factor 2), followed by Performing arts exposure (Factor 3), Visual arts enhancement (Factor 1) and Visual arts involvement (Factor 5). Vryfees was also perceived to contribute the least to the Emotional inspiration (Factor 4) of the arts (Viviers, Botha, Slabbert, Seymour, Saayman & Saayman, 2012: 56). The five factors confirmed the findings of Page & Connell (2012: 352), Hughes (2012: 13), Koopman (2012), Jonker et al. (2009: 383), Finkel (2009: 13), Anheier & Isar (2008: 264), Kitshoff (2004: 238), Waterman (1998: 58) and of Mitchell & Wall (1989).

Fourthly, the results of the personal arts involvement of visitors to the festivals further confirm the results and factors from the factor analysis.

Fifthly, there were no statistically significant differences in terms of preferences for the performing arts and the visual arts at either of these festivals. This is in contrast to a study done by Heilbrun & Gray (2001: 74, 182, 399) which indicated that the way the festival visitor perceives the arts can be influenced by their preference or taste for a certain type of art. It can thus be said that the market for the arts at the two festivals is homogeneous in relation to their personal involvement in the arts (Kruger et al., 2012: 5,23).

Sixthly, a moderate statistically significant difference was noted for Innibos, where the number of tickets purchased by respondents preferring the performing arts was more than the respondents preferring the visual arts. This finding is somewhat confirmed by Swami et al. (2010: 855) who found that when a visitor prefers something, it might lead to future personal involvement. Performing arts are arts activities, usually where the purchase of tickets needs to be done in order to participate in the activity or to experience it (Zijlmans & Van Damme, 2008; Heilbrun & Gray, 2001: 4), thus leading to the higher ticket purchases of those who prefer the performing arts.

Seventhly, a statistically significant difference regarding the Vryfees visitors preferring the performing arts in that they purchased more paintings at the festival than did the visitors who preferred the visual arts was found. It can be said that with exposure comes knowledge and insight, leading to expert opinion (Tobias, 2004: 110). In the case where visitors preferring the visual arts purchased less paintings than those preferring the performing arts, it could possibly be ascribed to them being more exposed over the years to these arts, making them more knowledgeable, and having an expert opinion regarding the quality and type of arts work (Tobias, 2004: 110). Their decision to purchase a painting would then be influenced by previous experience or current information on the artists or on painting technique, leading to the purchase of, perhaps, greater quality and smaller quantity. This is in contrast to those who prefer the performing arts and have

decided to purchase a painting. With less expert opinion and information concerning the painting, the visitors can be influenced to be personally involved in purchasing more quantity rather than quality. It may also be due to the appreciation that the younger market may have for the arts (such as art work), but do not necessarily have the financial ability to purchase these products (DiMaggio & Mukhtar, 2004: 176,177,183; Silva, 2006: 150). Arts experts (Tobias, 2004: 110), such as those visitors in the older market or with more knowledge of the arts works are likely to be more selective in personal involvement in the sense that they purchase fewer but more expensive items (Hughes, 2012: 62,144; Tobias, 2004: 110; Keaney, 2008: 102; Dimaggio & Useem, 1978: 185).

Eighthly, it is found that the preference for a type of art (either performing arts or visual arts) does not influence the personal involvement of the visitors to the arts. This is in contrast to a previous study done by Swami et al. (2010: 855) which found that with preference comes involvement.

Lastly, there is room for further arts involvement by visitors as the averages are relatively low, especially in the case of involvement in arts associations and with arts product purchases such as books, CDs and art work.

## **IMPLICATIONS**

**From the results and findings, the following can be identified.**

Firstly, as the profiles of visitors to Innibos and Vryfees are similar, marketing efforts to the markets can be the same. Marketing can increase the exposure levels of the arts to visitors, which then can stimulate an arts preference for the performing arts, visual arts or both of them.

Secondly, although it is perceived by the respondents that both Innibos and Vryfees contribute to the performing and visual arts, there is room for improvement as none of the contribution factor loadings were above 4.00. In order to better the perceptions of these festival visitors, new ways of presenting the arts should be implemented. Stricter quality requirements for arts products and services need also be implemented. If productions and art works of high standard are provided at the festivals, it will stimulate the artists to be more creative and innovative, thus further contributing to the development and education of the arts. This might also lead to the potential involvement of the visitors to the arts, as they know they will receive quality arts products and services.

Thirdly, the visitors perceived both the festivals as contributing the most to the Performing arts enhancement of the arts. The festivals must foster this positive perception by providing quality music, dance and theatre production activities and visual arts products. This positive perception is a good thing, as it will enable the festival to grow in the performing arts, to present new and innovative ideas and activities to augment this positive perception.

Fourthly, emotional inspiration is perceived to be the lowest contribution of Innibos and Vryfees to both the performing and the visual arts. This perception can be improved by making the visitor's part of the festival and telling them what it provides. This could be encouraged by offering arts competitions to the visitors, as well as by giving them the opportunity to participate in theatre and street productions. Arts workshops can also be introduced to better the skill and knowledge of the visitors.

Fifthly, a preference for the performing arts or the visual arts had no influence on personal arts involvement. Marketing of these arts as an effort to make the visitors more aware of them or greater exposure to the visitor market at the festivals can be the same at both festivals as these markets are homogeneous. Personal arts involvement can be improved where the arts are more exposed to the visitors, for example, book and art work exhibitions can be placed in the centre of the festival

grounds or music, dance and theatre production CDs and DVDs can be present at the production site. Arts packages can be implemented for the festival. These packages can provide the visitors an extra arts benefit when they purchase a particular arts product. For example, with the purchase of a painting, the buyer can get a special offer when purchasing tickets for a theatre production or with the purchase of more than 10 production tickets, the buyer receives arts work by new artists.

Sixthly, festival visitors who purchased the most tickets at Innibos were those who preferred the performing arts. In order to improve personal involvement in ticket sales of those preferring the visual arts, the festival can market the performing arts at visual arts exhibition halls and venues by, for example, handing out posters and pamphlets or showing pre-recorded production extracts at these venues. This might stimulate performing arts ticket buying behaviour of visitors claiming to prefer the visual arts. As the visitors who prefer performing arts purchased the most paintings, more arts work can be brought to the performing arts venues and placed on sale. With more exposure to these visitors, it can lead to greater involvement. Quality arts work can be presented at these venues to stimulate future purchase involvement of those who prefer the visual arts when they attend a production.

Seventhly, festival visitors at Vryfees who purchased the most paintings were those who preferred the performing arts. Speeches and workshops on the visual arts at the festival can better the knowledge of visitors to these arts, so they can make future purchase decisions based on increased knowledge of, and exposure to, the arts, as in the case of visitors preferring visual arts who buy quality “arts works”.

Lastly, there are several ways in improving personal involvement in the arts. To augment personal involvement in the participation in arts associations, the festival can introduce programs or arts clubs/organisations to the festival program. Community members can take part in these associations. Arts festival associations can be responsible for the planning and development of the festival, for the quality selection of music, dance and theatre productions and for arts workshops during and outside the festival period. By improving the personal involvement in the purchase of books, CDs and artworks, the festival can market these art works and activities at the festival and position them where the most visitors, the visitors most likely to be buyers, are to be found on the festival grounds.

## **CONCLUSION**

This paper aimed to explore arts festival contribution through reviewing the literature base and presenting the findings of an exploratory study of arts contribution and personal involvement within two arts festivals. The literature review revealed previous festival contribution research, particularly in relation to personal involvement approaches through exploring the concept of perception.

The arts festivals in this paper are perceived to contribute to the arts, as they stimulate the personal involvement of festival visitors in the performing and visual arts, no matter their preferences. However, further research is required in order to investigate contribution practise relating to personal involvement in a wider sample of arts festivals, in other sizes and types of festivals and events, and to fully understand the effectiveness of involvement contribution evaluation.



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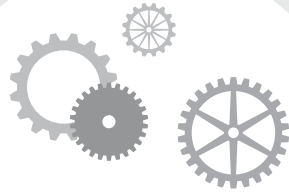


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# AN ANALYSIS OF COMMUNITY SUPPORT FOR TOURISM IN SWAZILAND: THE CASE OF EZULWINI VALLEY

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## ABSTRACT

The government of South Africa has indicated that sustainable and responsible tourism is key to the future development of the tourism industry. Sustainable tourism indicators have been used by numerous researchers and applied to various sectors of the industry but, little application can be found in involving the community and rural tourism on the Southern part of Africa. This study analysed the support of community residents for sustainable tourism development in Ezulwini Valley using latent variables of community attachment, community involvement and support for sustainable tourism development and elemental data of the residents of Ezulwini Valley which is located northwest Swaziland. The analytical results suggested that community attachment and community involvement are critical factors that affect the level of support for sustainable tourism development. Several managerial implications of this study were introduced, and recommendations for future research were presented.

## KEYWORDS

Sustainable tourism, Sustainable development, Rural tourism, Responsible tourism, Community support, Community involvement, Community participation, Strategy, Tourism impacts

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## INTRODUCTION

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Internationally tourism represents one of the world's largest economic industries (Godfrey & Clarke, 2002: 1). Lubbe (2003: 46) states that tourism is not only one the world's biggest industry, but also one of the fastest growing ones. It is a vibrant, fragmented, and multidimensional industry by nature. However, for tourism to succeed today it must be economically, socially and environmentally sustainable. To be sustainable it must be carefully planned and managed (Godfrey & Clarke, 2002: 1).

Although the development of the tourism industry creates new employment opportunities, critics contend that tourism employment provides predominantly low-paid and low-skilled demeaning jobs (Beech & Chadwick, 2006: 91). This clearly shows that this kind of tourism is not sustainable. In a similar vein, Holden (2000: 205) asserts that tourism is viewed by many local people not as a constructive force for development, but as a propagator of inequality because of the seasonal and low-skilled demeaning jobs (Beech & Chadwick, 2006: 91). Thus, as a multidisciplinary concept, tourism needs to be nurtured, managed, and directed at several fronts if the current and future growth impulses are to be sustained. It is therefore important that the process of tourism development incorporates community participation and support, a principle agreed to by the majority of the world's governments when they became signatories of Agenda 21 in 1992 (Beech & Chadwick, 2006: 91)

The concept of sustainable tourism has its roots in the founding theme of sustainable development first discussed in detail in the Brundtland report of the World Commission on Environment and Development (WCED) in 1987 (Hall, 2008). Hall (2008) describes the evolution of sustainable theory from the paradigm of sustainable development and the intrinsic links between the ecological, economic and social environments. Practically, sustainable and responsible tourism have several similarities (Keyser, 2008), but responsible tourism has more focus in the short-term on environmental, economic and socio-cultural protection and upliftment. One major weakness of the industry is its lack in attracting long-stay visitors since it lacks good tourist attractions facilities.

Swaziland is about the size of Wales and completely surrounded by the Republic of South Africa to the north, west, and south, and Mozambique to the east. It has a population estimated at slightly over a million with an annual average growth rate of 2.9%. Swaziland's location between South Africa and Mozambique, which have seen major political changes in the past decade, have led to a shift of investment and development opportunities for these countries. It appears that Swaziland has delayed the strategic re-positioning in the sub-regional economy, and has an economy that depends heavily on agricultural export products, a growing garment, apparel and textile sector, and less emphasis on developing services such as tourism. This unexploited potential in tourism is a result of analysing the community support for tourism in Ezulwini Valley (Port of Spain, Trinidad & Tobago 2004).

### BACKGROUND TO THE STUDY

According to Saarinen et al. (2009: 31) there has been a remarkable growth in the volume and significance of tourism across the Southern African region since 1990. According to research conducted by UNWTO 2006 in 1990, international tourism arrivals across the region were approximately 3 million; by 2005 the regional total was 13.2 million. Rogerson and Visser (2004) as quoted by (Saarinen et al 2009: 32), point out the main factor underpinning this trend in growth is the 1994 democratic transition in South Africa, which allowed the country's full re-entry into the

international tourism arena after many years of sanctions and boycotts. Thus, it can be argued that Swaziland stands to benefit from this growth due, to her proximity to South Africa which is the regional hub of tourism in the sub-continent.

Tourism is one of the sources of income earnings for Swaziland with an annual direct contribution of about 2.8% of total GDP in 2011, rising by 2.4% annually (Tourism Research, 2011), and can be exploited by the Swazi people as a means of combating intransigent problems and economic dependency on sugar cane. However, there are varying views as to the development path that Swaziland should take in order to improve its economic performance (Holden, 2001: 205). The development of tourism, particularly rural or community tourism is one such path. One major weakness of the industry is its lack in attracting long-stay visitors since it lacks good tourist attractions facilities.

With that view in mind, the purpose of this research was to analyse the community support for tourism with specific reference to Ezulwini Valley. This is in agreement with the Swaziland Biodiversity Conservation and Participatory Development Project, (BCPB), which has the objective to promote environmentally, economically and socially sustainable development in the rural areas of Swaziland based on conservation-led use of its rich biodiversity resources and local participation in resource management, with a particular emphasis on enhancing the country's participation in regional tourism markets.

However, despite the growing performance of the tourism sector in the Kingdom of Swaziland, there have been a number of factors limiting the effectiveness of the tourism industry to play a meaningful role in the economy, as well as the lives, of the citizens of the rural communities. Harrison (2002) states that some of these factors are: (1) Swaziland depends economically on the Republic of South Africa, (2) the rural communities are not involved in the development of rural projects and in decision-making of these projects, and (3) the rural communities are not actively encouraged and empowered.

Against the backdrop of limited development and involvement of rural communities in tourism due to the political changes in the Republic of South Africa, Harrison (2002) states that current growth can be witnessed particularly in the interest of cultural, ethnic as well as community-based attractions. This current growth can be attributed to the on-going strong cultural roots that Swaziland has maintained all these years, which has opened up access to, as well as created interests in, attractions and communities that were not prioritised (Harrison, 2002).

Despite these notable strides forward, the challenge to the country is the even distribution of rural tourism development, which shall result in meaningful/substantial economic rejuvenation of the concerned areas. Hence it is the purpose of this study to explore the support of the community for tourism in the Ezulwini Valley as the most ideal approach to economically empowering rural communities in the Ezulwini Valley. As stated by Myburgh and Saayman (2002: 89), the question that is often asked is "how can rural communities benefit from rural tourism?" However, a more important question is, how can one sustain community involvement to secure rural tourism?

For this particular survey the Ezulwini Valley was chosen as an area of focus because the tourist industry in central Swaziland is concentrated in the Ezulwini Valley, between Mbabane and Manzini. Lobamba is the heart of the Royal Ezulwini Valley where monuments, museums, culture and crafts are to be found, where King Mswati III lives and from where he rules the Kingdom (Readers Digest: 1996: 415).



**FIGURE 1: EZULWINI VALLEY-AERIAL VIEW**  
(Source: Swaziland Government- Surveyor general's office)

## **PROBLEM STATEMENT**

Having justified why community tourism should be an ideal economic diversification tool for the Ezulwini Valley and the best method to facilitate the inclusion and participation of the communities in rural tourism, the research question for this article therefore is: What is the state of community support and involvement of the community in tourism development in the Ezulwini Valley?

In order to adequately answer the aforementioned research question, the following sub-questions should first be answered:

1. What is the government's role in the development of rural tourism in the Ezulwini Valley?
2. What are the challenges that face the community of the Ezulwini Valley, with regard to rural tourism development?
3. What are the crucial areas that need improvement for rural tourism development to succeed?
4. What are the strategies that can be formulated for the involvement of the community of the Ezulwini valley?

With the abovementioned considerations in mind, the aim of this research is, therefore, to perform an analysis of the community support for tourism in the Ezulwini Valley.

The following objectives stem from the aim:

- To perform a literature review on community support for tourism in the Ezulwini Valley in Swaziland.
- To determine the role of the government of Swaziland in the development of rural tourism in the Ezulwini Valley.
- To determine the crucial areas that needs improvement for rural tourism development to succeed and to state the challenges faced by the community of the Ezulwini Valley.
- To determine strategies for the involvement of the community in the development of rural tourism in the Ezulwini Valley, as well as ways in which to sustain such strategies.

## **METHODOLOGY**

The study discussed here, forms part of a broader research project on the analysis of community support for tourism. The survey was conducted in the Ezulwini Valley. The target population in the study comprised of 200 questionnaires, and of these 177 or 88.5% completed the questionnaires.

To clarify uncertainties resulting from the questionnaires that were used in the survey, an interview was conducted by the researchers with one authoritative person. The interview was with the director of the Swaziland Environmental Authority, Mr. S.S. Vilakati. The objective of the interview was to prepare the questionnaire.

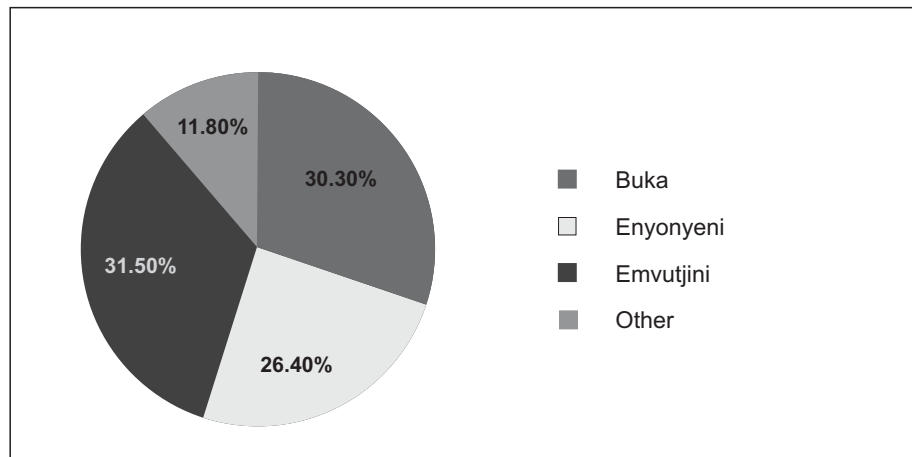
The literature study revealed a variety of possibilities that could contribute to both entrepreneurial and employment opportunities for the local rural tourism communities in South Africa, and similarly for communities in Swaziland, such as the Ezulwini Valley. Examples of these opportunities are handicraft, souvenir shops, and rural homestays, tourism infrastructure, service providers and suppliers to the industry, DEAT, (1996).

### Questionnaire design

The questionnaire was developed to identify unexploited rural tourism opportunities that could make a substantial contribution to the lives of the community members of the Ezulwini Valley. The target population in the study comprised of 200 questionnaires, the questionnaires were completed by residents from the Ezulwini Valley who have lived at the different communities for the past forty years. They had to be 1) residents of the Ezuwlini Valley for atleast 5 years or more, 2) Involved in tourism and or rural tourism. The reason why the researchers sampled 200 questionnaires is because the sample size of the area is about 400 residents.

### Data gathering and analysis

The respondents came from different areas in the Ezulwini Valley. Figure 1 indicates that 30.3% of the respondents were from Buka, 26.4% were from Enyonyeni, 31.5% were from Emtutjini, and 11.8% respondents were from other areas. The reason why Buka has the most residents is because the majority of women selling crafts in curios shops reside in this area.



**FIGURE 2:** YOUR COMMUNITY IN THE EZULWINI VALLEY

This section represents the results related to community attitude towards the economic benefits that tourism may bring to the area. Community members were asked to rate their attitude towards their attachment to the community. The respondents showed an interest in their community as their home as shown in Table 1 below. The majority of the respondents, 55.6%, agreed that they felt extremely at home in their communities in the Ezulwini Valley the remaining respondents did not really feel at home in this community. A total of 51.7% of the respondents stated that they were interested in what happens around their community, and they would want to know what happens

around them. A total of 45.5% felt they would feel extremely sorry if they had to relocate to other areas, as they have made Ezulwini Valley their home. This implies that the respondents are happy and satisfied with their community.

**TABLE 1: ATTITUDES TOWARDS COMMUNITY ATTACHMENT**

Attitudes towards community attachment	Not at all	Trivial amount	Slightly	Neutral	Slightly benefit	Moderately benefit	Extremely	Total %
How much do you feel at home in this community?	5%	0.6%	1.1%	13.5%	7.9%	16.3%	55.6%	100%
Interest in knowing what goes on in this community.	3.9%	2.4%	2.2%	11.2%	10.1%	18.5%	51.7%	100%
How sorry would you feel if you would leave this community?	3.9%	10.7%	5.1%	16.9%	6.7%	11.2%	45.5%	100%

In this section the researchers investigated the respondents' feelings about the community in which they live, whether they had positive or negative feelings. It was vital for the researcher to ask these questions to find out if the community was satisfied with the way in which the Ezulwini Valley was managed, particularly with the fact that the community is inactive when making decisions about their community. From the responses received 32.1 % of the respondents were extremely happy that they were residents in the Ezulwini Valley, 44.4% were quite happy to be residents of the Valley, 12.4% were slightly happy, 3.4% were neutral, neither happy nor unhappy as residents of the Ezulwini Valley A combined 7.8% were not happy about being in the Ezulwini Valley. One of the reasons could be that they are not involved in the activities of their community, as some of them have built homes to stay but do not get involved in what goes on within their community. It is important to note that a large percentage of the respondents were happy as residents of the Ezulwini Valley as indicated in Table 2, a total of 73.6% strongly indicated that government should help rural projects.

**TABLE 2: COMMUNITY SATISFACTION**

COMMUNITY SATISFACTION	Strongly disagree	Disagree	Neutral	Agree	Strongly Agree	Total %
I am satisfied with the community	5.5%	2.8%	3.8%	44.4%	43.5%	100%
Government should support rural projects	2.8%	2.2%	20.8%	0.6%	73.6%	100%
I'm willing to be involved in rural projects	5%	3.4%	27.0%	9%	55.6%	100%
Support rural projects	4.4%	6.2%	21.3%	8.5%	59.6%	100%
We need to do more rural projects	5.1%	6.2%	20.2%	6.7%	61.8%	100%
Ezulwini Valley community is competing with other communities	30.3%	10.1%	23.0%	3.5%	33.1%	100%

Table 3 indicates that a large percentage, 63.5% of the respondents stated that the community of the Ezulwini Valley does not get involved in decision-making in their community, while 17.4% stated that they were somewhat involved in managing the community. This percentage represents the respondents who make decisions, and who are the key role players in the Ezulwini Valley. Respondents were also asked about their involvement in rural tourism in the Ezulwini Valley, and 55.6% stated that they were not involved in rural tourism in the Ezulwini Valley, 44.4% were involved, while 0.6% were involved in decision-making about their community in the Ezulwini Valley.



This study clearly shows that residents of the Ezulwini Valley are not involved in making decisions about their community. According to Sharpley (2002: 156) resident participation in the benefits of tourism is reflected in economic, social and psychological empowerment, which assumes that residents will gain personally from tourism. This is supported by Keyser (2002: 236) who lists various factors that limit the involvement and growth of local communities in the tourism industry, including lack of information, limited training opportunities, and, where training programmes are provided, they are not backed up by mentoring programmes, lack of involvement in decision-making as well as development and promotion of tourism, limited access to finance, poor access to the market and negative attitudes in some sections of established tourism industry towards community tourism products which are viewed as inferior.

**TABLE 3: COMMUNITY INVOLVEMENT IN DECISION-MAKING**

<b>COMMUNITY INVOLVEMENT IN DECISION-MAKING</b>	<b>Not At All Involved</b>	<b>Not sure</b>	<b>Neutral</b>	<b>Somewhat Involved</b>	<b>Very Involved</b>	<b>Total %</b>
Involvement in the management of EZULWINI VALLEY	44.4%	18.5%	14.0%	22.5%	0.6%	100%
Involvement in rural tourism in the Ezulwini Valley	44.4%	18.5%	15.0%	21.5%	0.6%	100%
Involvement in the decision-making of the Ezulwini Valley	63.5%	14.6%	3.9%	17.4%	0.6%	100%

The tourism industry is growing quite quickly in the Ezulwini Valley and greatly supported, more so since the arrival of rural tourism. The study revealed that a total of 74.2% of the respondents indicated that they strongly supported limits to growth in tourism development. Environmental standards to reduce negative impacts of tourism were supported by 83.7% of the local community. Table 4 shows that, eighty five point eight percent stated that they would cooperate in -tourism planning and development and only 6.3% did not support this statement, possibly because residents are not united and supportive of each other. Cultural exchanges between local residents and visitors were strongly supported, as indicated in the table, with 87.1% stating that they support local participation in tourism planning and development, and 85.8% respondents stated that they support development of community-based tourism initiatives. However in spite of this support, it is worth noting that 1.6 % were opposed to environmental education, possibly because they felt that they know all there is to know about the environment, instead of further enhancing the knowledge they have.

**TABLE 4: SUPPORT FOR SUSTAINABLE RURAL TOURISM DEVELOPMENT**

<b>SUPPORT FOR SUSTAINABLE RURAL TOURISM DEVELOPMENT</b>	<b>Oppose</b>	<b>Neutral</b>	<b>Support</b>	<b>Total %</b>
Emphasis on limits to growth in tourism development in the EV	74.2%	6.2%	19.6%	100%
Regulatory environmental standards to reduce negative impacts of tourism	8.4%	7.9%	83.7%	100%
Cooperation and unity in tourism planning and development	6.3%	7.9%	85.8%	100%
Cultural exchanges between local residents and visitors	6.2%	6.7%	87.1%	100%
Local participation in tourism planning development	7.9%	5.6%	86.5%	100%
Development of community-based tourism initiatives	9.1%	5.1%	85.8%	100%
Promotion of environmental education and conservation	1.6%	45.3%	53.1%	100%

Variables indicated one factor in common, namely that respondents expected the impacts to become more accentuated as tourism grew in the area., Forty-eight point seven percent of the respondents stated that opportunities for shopping would increase, while 74.6% stated that crime would also increase, and 88.6% of respondents thought it would bring about an improvement in local services because tourism businesses thrive through tourists and to keep tourists happy services need to be improved tremendously. Eighty one point nine percent stated that the preservation of culture would also be enhanced, which is significant because Swaziland is a cultural country and tourists visit because of culture, particularly in the Ezulwini Valley where the King and Queen reside. It is important to note that a total of 86.3% stated that the relationship between residents and tourists would improve with the increase of rural tourism in the Ezulwini Valley, because tourists are mostly attracted by rural settings, since in rural settings they have the opportunity to learn how other people live, and through the learning there is improved interaction between the tourist and the resident.

**TABLE 5: SOCIAL IMPACTS**

<b>SOCIAL IMPACTS</b>	<b>Worsen</b>	<b>Neutral</b>	<b>Improve</b>	<b>Total %</b>
Opportunities for shopping	36.3%	15.0%	48.7%	100%
Opportunities for recreation	13.1%	7.9%	79.0%	100%
Increase in crime rate	18%	7.4%	74.6%	100%
Improvement of local services	5.1%	6.3%	88.6%	100%
Preservation of local culture	9.1%	9.0%	81.9%	100%
Relationships between residents and tourists	6.3%	7.4%	86.3%	100%

It is worth noting that some parts of the Ezulwini Valley are slowly changing into urban areas, particularly the areas around Sun International resorts, many respondents were particularly happy about the fast growing change of this area. Fifty seven point one percent of the respondents indicated that they prefer the Ezulwini Valley as opposed to other rural areas in the Kingdom, and 42.9% indicated that the Ezulwini Valley was not their favourite place to go during their free time. Sixty one point one percent stated that the Ezulwini Valley was a very important place for them, while 38.9% indicated that the Ezulwini Valley was not so important to them. Fifty seven point two percent stated that no place compares to the Ezulwini Valley for them, and 42.8% stated that there are other places they find more amusing than the Ezulwini Valley. Fifty six point five percent of the respondents also stated that being in the Ezulwini Valley was satisfying, 53.7% of the respondents wouldn't substitute the Ezulwini Valley for another place while 46.3% strongly disagree, and 46.9% defined and expressed themselves with the Ezulwini Valley while 53.1% disagreed.

A section in the questionnaire of community feelings showed that if the respondents of the Ezulwini Valley were generally happy staying at these homesteads as well as the surroundings of these homesteads. Seventy two point four percent of the respondents were happy in the Ezulwini Valley, particularly those who have been staying there for the past 20-25 years, the remaining 27.6% represent respondents who indicated that they have no particular feeling for the Ezulwini Valley. This could be the case because of the respondents who no longer live full-time in the Ezulwini Valley, but have left parents and relatives behind. A total of 54.3% of the respondents indicated that they think of themselves as being from the Ezulwini Valley, while 45.7% stated that they think of themselves as not being from the Ezulwini Valley. Seventy five point one percent indicated that what happens in the Ezulwini Valley is important to them, while 24.9% indicated that what happens in the Ezulwini Valley is not so important to them. Sixty six point one percent stated that they have an emotional attachment to the Ezulwini Valley, while 33.9% agreed that they have no emotional attachment.

Fifty one point three percent of the respondents would be willing to invest their time and money in the Ezulwini Valley, and 48.7% indicated that they would not be willing to invest their time and talent in developing the Ezulwini Valley.

### **Proposed Strategy for Community Involvement in Rural Tourism**

Rural tourism affects tourism-dominated communities directly and indirectly. Therefore, community tourism development should involve the whole community in the planning process (Reid, Mair, & Taylor, 2000). When this does not happen, problems such as poor management and planning arise. Rural tourism relies on the co-operation of the local people because they are part of the tourism product (Murphy, 1985). However Van Harsseel, 1994 (Quoted by Ramukumba 2009: 162) states that tourism development in rural communities is unplanned and driven by enthusiastic entrepreneurs who are concerned with individual benefits, not considering the needs of the local residents of the community. From Van Harsseel's 1994 (Quoted by Ramukumba 2009: 162) perspective the main goal of tourism should be to provide benefits to the local community, economically, socially as well as environmentally. Van Harsseel 1994 (Quoted by Ramukumba 2009: 162) further elaborates that tourism must be a total community effort for it to succeed; as individual citizens can either be the strongest or weakest link in this effort.

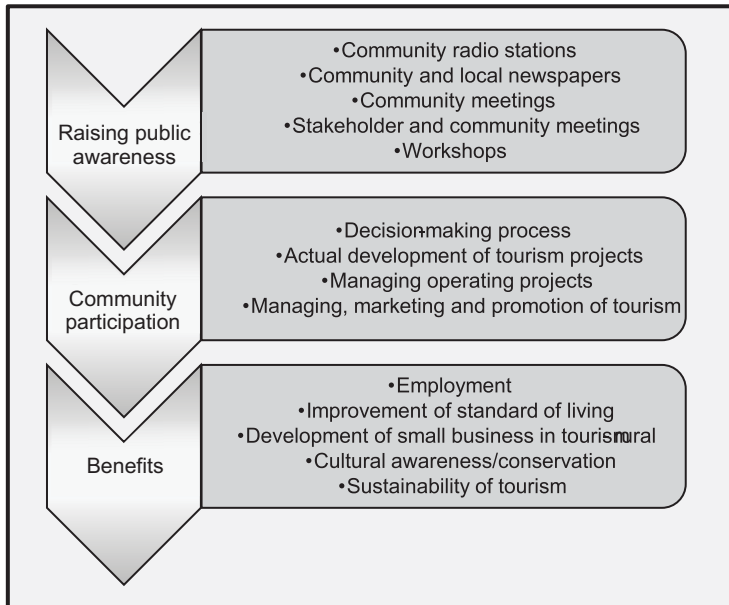
The tourist market is the main focus of planning with the assumption that when tourists' needs are met and satisfied, rural tourism will prosper and the community will benefit. However Murphy 1985, states that this concept is misleading, as the attainment of economic benefits results in social and environmental disadvantages. In rural tourism for example, businesses may gain profit from tourism activity, but some residents may lose privacy and security, and cultural and physical landscapes in the community may be destroyed.

It is therefore vital that when planning tourism, particularly rural tourism, that the needs, desires, goals and local capacities of the host community have to come first. Various authors (Blank, 1989; Gunn, 1988; Mathieson & Wall, 1989; Mill & Morrison, 1998; Pearce, 1996; Nickerson 1998; Reid, Mair, & Taylor, 2000; van Harsseel, 1994) argue that in spite of this generally agreed on principle, the traditional modes of planning are still dominant (top-down planning) allowing the local community very little input and control over their own destiny. This may be the lack of focus by researchers on the implementation of strategies to put into effect this principle. To avoid negative impacts, new planning processes for the community, such as discourse on community tourism development, should be implemented. Therefore it is critical that the entire community is involved and included in the planning process of rural tourism development (Reid, Taylor & Mair, 2000: 57).

Murphy (1985) states that the planning process should be based on the following criteria, namely that 1) the process should represent the whole community, 2) the process should be participatory, 3) the needs of the community should be the main focus and priority, and 4) rural tourism development should be based on the main goals of the community. In light of the importance of community involvement in rural tourism for rural tourism to succeed, an integrated strategy for community involvement in rural tourism is vital. Authors such as Cleverdon and Kalisch (2000); Ashley et al. (2001) state that community tourism should ensure that members of the local communities, have a high degree of control or even ownership over the tourism activities, its limitations, and resources used. Local people should receive a significant share of the economic benefits of tourism in the form of direct revenues and employment, upgraded infrastructures, environment and housing standards.etc.

The result of an integrated strategy for community involvement in tourism is illustrated in figure 2. The strategy can be used to ensure effective community involvement in the tourism industry by the local community members. The strategy is made up of three stages. The first stage is raising awareness on the impacts of the tourism industry, through many forms of communication mediums. These mediums should be used to educate and inform the people on impacts of tourism. It is in these mediums that the local community will be involved in tourism development.

In the second stage, there is a strong suggestion that the community members should be involved in decision-making (Wall & Mathieson, 2006: 307). Mann (2000: 25) agrees with the aforementioned authors that community members should act as decision leaders, opinion formers, managers and pursuing the right to ownership of local tourism related businesses. This stage is when the community members should realize the advantages and disadvantages of rural tourism development at the area.



**FIGURE 3: AN INTEGRATED STRATEGY FOR TOURISM IN THE EZULWINI VALLEY**

In the last stage the local community members should realize the benefits of tourism development. The benefits typically include job creation, cultural exchange and pride, improvement of standard of living, ownership of small enterprises, and entrepreneurship development, as well as the sustainability of the tourism industry. It is vital to monitor and manage negative tourism impacts. Figure 2 shows the stages of the strategy.

As stated in the Gauteng Tourism Responsible Tourism manual (2006: 62), the support and participation strategy must contain detailed information on issues that include;

- Roles of different stakeholders during the participation process, including councillors, the municipal-tourism forum, the MTS plan steering committee, other sectors of provincial and national government sectors, and so forth;
- Means of encouraging representation of groups that are not formally organised;
- Participation mechanisms for different phases of the planning process;
- Available resources for participation;
- Frequency of public meetings and workshops;
- Time frames that are sufficient to accommodate responses and comments from members of the public;
- Means of disseminating information;

- Means of eliciting and collecting community responses and comments, including documentation of participatory involvement; and
- Means of providing feedback to members of the public.

## **RECOMMENDATIONS**

Based on the outcome of the findings of the study, the following recommendations are made in order to fulfil the objectives of the study. These recommendations could contribute to the development of rural tourism and community involvement in the Ezulwini Valley.

- The literature review indicates that rural tourism in the Ezulwini Valley can only succeed if awareness is raised among the community in support of this form of tourism
- It is vital that the government of Swaziland injects more funds towards the tourism sector so that the destination can be promoted and marketed not only Ezulwini Valley but other regions as well.
- The government of Swaziland should have promotional strategies in place that will keep tourists within the destination, without making the kingdom a driveway during off-peak seasons.
- It is important for the government of Swaziland to recognise and improve the crucial areas in rural tourism that need development in the Ezulwini Valley.
- It is important that all stakeholders in the Ezulwini Valley are interested and educated in community support for tourism, and are involved in the development of tourism, as well as discussions regarding challenges that face tourism in the area through public awareness, local media and community buy-in.
- It is vital that the strategies suggested in the research study for the involvement of the community in the development of rural tourism in the Ezulwini Valley and ways to sustain such strategies, are implemented.
- The local community should be involved in the whole process of community support for tourism development, from planning and decision-making to management, as well as marketing of the operating projects at hand. This will help because the community members will be able to embrace rural tourism development goals to the overall development goals of this area.
- It is important that awareness is raised on the benefits as well as costs of tourism development.
- There is a need for managers of this destination to go for training on Millennium Development Goals 7 (MDG 7)
- The country could get funding through millennium development goal 8 (MDG 8)

## **RECOMMENDATIONS FOR FUTURE RESEARCH**

The following research topics are recommended for further research in the field of community-based tourism in rural areas:

- Further research should be undertaken in responsible tourism practices at other geographic locations in Swaziland.
- A more detailed study could be conducted on cultural events (such as the Umhlanga Reed Dance, Lutsango and Incwala) which are other attractions that Swaziland is famous for.
- Research on how Swaziland can be aggressively marketed as a destination.

- Further comparative research is necessary for community support of tourism, particularly on ways of encouraging the community to work hand in hand with government.

## CONCLUSION

The development of rural tourism in the Ezulwini Valley will be of great benefit to the economy of the Kingdom of Swaziland. It is important to recognise that Swaziland depends heavily on South Africa in tourism (Harrison, 1995). Swaziland was famous for the casino in the Ezulwini Valley, during the apartheid regime in South Africa, and many tourists flocked to Swaziland with the main aim being gambling. However, the situation changed dramatically when sanctions were lifted from South Africa and the Republic became one of the fastest developing tourism destinations in Africa, South Africa has become Africa's most famous destination. Swaziland, on the other hand, is developing very slowly, (Harrison, 1995: 139) therefore she depends on South Africa economically.

The involvement of the community in rural tourism in the Ezulwini Valley will create a sense of ownership amongst the local community members. This will ensure that community members of the Ezulwini Valley themselves strive for sustainability of the tourism industry, as well as generate increased support for the industry. The concept of community involvement in the development of rural tourism in the Ezulwini Valley is increasingly viewed as being the core element for the success of sustainable tourism development initiatives. The most significant benefit associated with community involvement in tourism development is typically viewed as being the more equitable distribution of the economic benefits achieved through the reduction of import leakages, and the improvement of linkages between tourism and related industries within the Ezulwini Valley. Further benefits include the improvement of the host-guest interaction to the mutual benefit of both the hosts and tourists.

There are factors that may be barriers to the community benefitting from in economic activities related to tourism. These factors include the lack of financial resources at local level, the cultural remoteness of local communities from tourism-related business, the negligible local experience of tourism, and a lack of expertise and competence in managing tourism matters at local level. All of these factors are likely to have a significant influence on the effectiveness and efficiency of local indigenous people in participating in the tourism development.

The study also revealed that there are limitations to financial as well as entrepreneurial skills, restricting opportunities for the local community members who could otherwise have benefitted from rural tourism. It was also revealed that many local community members were not involved in rural tourism businesses, although the respondents are entrepreneurs. However, a certain number of residents from the Ezulwini Valley find employment in town, leaving behind the older generation. It is important to highlight that local community involvement in rural tourism may be severely hampered by the lack of resources, financial and in terms of human skills (inexperience in tourism matters), necessary to profitably direct and co-ordinate rural tourism development in the Ezulwini Valley. Therefore participation in the process of rural tourism development will require communities to be educated in the negative, as well as the positive, impacts of rural tourism development thus enabling them to make informed decisions. It is therefore vital that the appropriate entrepreneurial training and financial support is made available for community participation to be equitable and for it to challenge the damaging rural tourism development paradigm which is sometimes created by investors and developers.

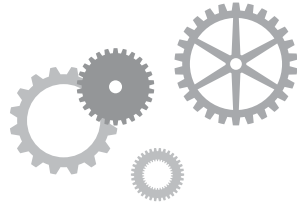
The integrated strategy for community involvement in rural tourism is designed to be a democratic process where tourism development planning is done based on community needs and values. Community involvement in the process should result in the members realising the benefits of rural tourism. There are challenges that are inherent to this strategy.





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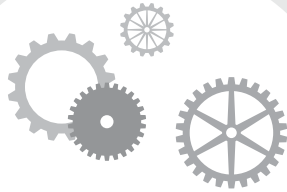
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## Section 5: Financial/Economic Management Resilience

## THE IMPACT OF A SADC CUSTOMS UNION ON ZIMBABWE

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### ABSTRACT

This study provides a quantitative assessment of the potential imports, exports, revenue and welfare implications of the SADC customs union on Zimbabwe. The study uses the Software for Market Analysis and Restrictions on Trade (SMART) partial equilibrium model for analysis. The findings of the study reveal that the customs union will be beneficial to the country in terms of trade expansion valued at US\$ 39.659 million and gains in consumer welfare to the tune of US\$ 7.091 million. However, the country might lose revenue amounting to US\$42.455 million. On trade, the country's exports are expected to fall marginally by 0.94 percent while imports are likely to surge by 2.05 percent. To mitigate revenue loss, the country may consider alternative tax revenues such as Value Added Tax and income tax. A financial facility aimed at assisting sectors affected by trade creation effects is necessary.

### KEYWORDS

SADC customs union, Revenue, Welfare, Trade, Zimbabwe

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## INTRODUCTION

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Over the last fifteen years the world witnessed a mushroom of regional trade agreements (RTAs) (Hoekman & Schiff, 2002). According to Hoekman and Schiff (2002), more than half of the world trade now takes place within trading blocs. Hoekman and Schiff (2002) observed that every country in the world is a member of one or more RTAs. Africa as a region has also been spearheading regional economic integration from the 1980s.

Southern African Development Co-ordination Conference (SADCC) was established in 1980 comprising nine member states namely Angola, Botswana, Lesotho, Malawi, Mozambique, Swaziland, Tanzania, Zambia and Zimbabwe (SADC, 2002). The main objective of SADCC was among others to coordinate development projects in order to reduce member states' economic dependence on the then Apartheid South Africa (SADC, 2002).

Southern African Development Community (SADC) replaced SADCC in August 1992. To date SADC has fifteen member states namely Angola, Botswana, Lesotho, Malawi, Mozambique, Swaziland, Tanzania, Zambia, Zimbabwe, Namibia, South Africa, Mauritius, DRC, Madagascar and Seychelles. The latest members to join SADC are Madagascar in 2007 and Seychelles in August 2008 (SADC, 2010). The major objectives of SADC are to promote economic cooperation and integration among member states. Politically, SADC seeks to strengthen regional solidarity, peace and security (SADC, 2010).

SADC integration programmes are thus centered on trade, such as the removal of tariff and non-tariff barriers; programmes embodied in the concept of trade efficiency and other trade-related issues such as trade and investment, trade and competition policy, trade and labour migration, trade and finance, trade and procurement policy (SADC, 2011). All this is being done with the aim of increasing integration and trade liberalisation among member countries in order to facilitate intra-SADC trade.

In the spirit of trade integration, SADC members in 2000 started to implement a Trade Protocol aimed at establishing a free trade area within eight years from its ratification (SADC, 2002). Member states bound themselves to agreed tariff phase down commitments which led to the attainment of SADC Free Trade Agreement in January 2008 although the actual launch of the SADC FTA was done in August 2008 (SADC, 2008).

In 2007, SADC ministers of trade agreed to continue to deepen regional integration through the establishment of a SADC customs union (SADC, 2008). A customs union has free trade among its member states and a common external tariff (CET) is applied on goods imported from countries outside the customs union. The adoption of a customs union results in the harmonisation of products description and categorisation through the adoption of a Common Tariff Nomenclature (CTN) and the uniform application of customs duties on imports from third countries through an agreed CET. A four-band CTN based on the World Customs Organization (WCO)'s Harmonised Commodity Description and Coding System (HS) will be adopted as the standard customs nomenclature for SADC. The four bands are: capital goods, raw materials, intermediate goods and finished goods (SADC, 2011).

Since almost all SADC member states, with the exception of Angola and Mozambique, belong to existing customs unions in the region, there was need to harmonise trade rules. Hence, the current negotiations of SADC customs union are mirrored on COMESA CET.

SADC customs union failed to take off in 2010 as programmed. Progress in setting up a customs union in SADC are moving at a snail pace as member states especially South Africa which is "the big

brother” are worried by its implication of infant industries. The main challenge with the establishment of a customs union in SADC is the supply side constraints (Department of International Relations and Cooperation (DIRC), 2012).

The assumed SADC CET structure is structured as follows: 0 percent for capital goods, 0 percent for raw materials, 10 percent for intermediate products and 25 percent for finished goods. The assumption is made in the spirit of the ongoing tripartite negotiations. It is expected that SADC might adopt the COMESA CET to harmonise regional trade agreements in order to simplify trade facilitation.

## **STATEMENT OF THE PROBLEM**

Generally, Zimbabwe’s tariff regime is designed in such a way that capital goods attract duty rates of 0 – 5 percent, raw materials, 0 – 5 percent, intermediate goods, 10 - 25 percent and finished goods are charged more than 40 percent. However, Zimbabwe’s tariff structure shows a huge departure from the SADC CET which has a maximum CET rate of 25 percent. The country’s tariff structure is widely dispersed with some tariff lines as high as 100 percent compared to the 25 percent dispersion under the SADC CET.

An analysis of Zimbabwe’s national tariffs shows that only 19 percent of the total tariff lines are complying with the SADC CET rates. The remaining 81 percent require some adjustments which imply a significant change in the country’s trade and tariff policy landscape. Studies conducted by the COMESA Secretariat (2003) and Nhara and Mudungwe (2003), showed that the key tariff bands in terms of contribution to customs duty for Zimbabwe were 5 percent, 25 percent, 40 percent and 60 percent, respectively. These bands contributed a total of around 70 percent of customs duty collectable in 2002.

It is apparent that the implementation of the SADC CET will definitely have an impact on Zimbabwe in terms of customs revenue. This study seeks to empirically investigate the impact of SADC CET on Zimbabwe import tariff revenue, welfare, trade creation and diversion, imports and exports. The significant adjustment of the tariff policy will also have an impact on the welfare of the consumers and producers in the country, exports and imports. Zimbabwe is still recovering from an economic crisis which has seen the decline of the industrial capacity utilisation to as low as 10 percent. Since 2009 when the country adopted multicurrency after dumping the Zimbabwean dollar, the industrial production capacity improved to 43 percent in 2011. The economy has failed to improve beyond that level in recent years. It therefore means that the adoption of SADC CET has a ripple effect on the country’s economy.

### **Objectives of the Study**

The study seeks to achieve the following main objectives:

- To examine quantitatively the revenue and welfare implications of the proposed SADC CET on Zimbabwe;
- To examine the impact of the proposed SADC CET on Zimbabwe imports exports;
- To examine the impact of the proposed SADC CET on trade creation on Zimbabwe; and
- To come up with appropriate policy options for Zimbabwe that can be used in negotiations and policy formulation.

## LITERATURE REVIEW

This section looked at selected literature on economic integration and specifically on the welfare and revenue implications of a customs union. The assessment covers both theoretical and empirical literature.

### Economic Integration Theory

The thrust for regional economic integration draws its rationale from the standard trade theory which states that free trade is superior to all other trade policies. Economic integration refers to efforts by member states trading together reducing or eradicating import tariffs and non trade barriers (Salvatore, 2007).

Peters (1979) identified various forms of economic integration in a sequence starting with the least restrictive set of association. The loosest form of association is represented by trade preferences or partial scope agreements focus on liberalisation of trade in specific products or sectors. A good example of this form of economic integration is Preferential Trade Agreement (PTA). PTA countries agree to reduce tariffs on some set of product categories while higher or non discriminatory tariffs or non trade barriers still are maintained on other product categories.

According to Peters, a free trade area is the second level and most common type of economic integration in which members remove all barriers on trade (tariffs, quotas and non-tariff barriers) among themselves. However, member states still retain their independent external tariffs.

The third form of economic integration is a customs union. It allows free trade among its members and adopts a common external tariff against countries outside the customs union (Peters, 1979). Members of a customs union synchronise their trade policies toward the rest of the world. In a common market, members move beyond narrow integration or commodity trade reforms, to allow the free movement of labour and capital within the union.

The most advanced type of economic integration is when an economic union goes a step further than the common market by harmonising or even unifying the monetary and fiscal policies of member states (Peters, 1979). A political union represents the decisive stage of economic and political integration in which the legislative and judicial process of member states are either unified or federated under consensually agreed arrangements.

### Static and Dynamic Benefits of a Customs Union

In theory, the formation of a customs union is associated with some static welfare effects and dynamic benefits. One of the benefits is the administration savings from the elimination of customs officers, border patrols for trade among member states and reduction of delays at the border (Salvatore, 2007). The elimination of trade barriers among member states are also associated with increased competition which stimulates development through efficiency and reduction in the cost of doing business.

Regional integration helps small countries to build critical mass when confronting the world on critical matters outside trade of commodities such as attracting foreign direct investment (FDI). According to the World Bank (2000) and East African Community (EAC) (2004), there is considerable evidence that regional integration agreements have succeeded in attracting foreign direct investment.



European Union has succeeded in attracting FDIs which triggered economic growth among member states. This has set precedence, thereby encouraging regional communities around the world such as SADC to take a leaf from the EU.

### Revenue and Welfare Effects of a Customs Union

The earliest customs union theory generally believed that any economic integration that represents a movement towards freer trade should be beneficial and welfare enhancing. It is believed that free trade maximises world welfare. A customs union reduces tariffs and is therefore a movement towards free trade, hence, it was believed that a customs union increases world welfare. However, this belief was challenged by Viner (1950) when he showed that the net impact of a regional trade agreement on welfare is uncertain and depends on a number of economic circumstances.

Viner (1950) demonstrated that a customs union can result in either trade creation or trade diversion. Trade creation on one hand is a shift from high-cost domestic production to lower-cost production in a partner country in the customs union. On the other hand, trade diversion involves a shift from the low-cost non-union producer to a higher-cost partner of the union. According to Viner (1950), trade creation enhances efficiency and therefore raises the home country's welfare. Customs unions that are largely trade diverting reduce efficiency and lower the welfare of the union members as well as the world. The impact of trade diversion will be negative if the consumer surplus, as a result of lower prices due to elimination of tariffs, is less than the revenue that could have been collected from duties of imports from non-members.

However, some research studies however do not support the possibility of trade diversion as a result of a customs union (Meade, 1955; Ohyama, 1972; Kemp & Wan, 1976). Based on what is characterised as the Kemp-Wan Theorem, these studies reveals that trade diversion is averted in a customs union since there would exist a set of common external tariffs that is ineffective to alter the emerging trading bloc's trade with non-member countries.

## EMPIRICAL LITERATURE

There are two general types of economic models in the trade literature that have been used to analyse the regional integration namely ex-ante simulation studies and ex-post simulation studies. The ex-post analysis evaluates the impact of RTAs by using investigation of intra-regional trade patterns following the formation of the RTA. The ex-ante approach is undertaken at an earlier date before the formation of the RTA.

Othieno and Shinyekwa (2011) investigated the impact of EAC customs union on Kenya using WITS/SMART model. Othieno and Shinyekwa (2011) noted that trade effects are more reflected in the first period of a fully fledged EAC customs union. This is where all tariff lines across all products are at zero percent except for products that do not meet the Rules of Origin criterion. The result seem to suggest that trade created in 2010 would grow by 513.3 percent, that is, a tune of US\$ 17.3 million, with a diversion effect on few products including cement, chewing gum, soap products, paints and varnishes, iron and steel, woven fabrics of cotton, aluminium, and base metal. This indicates that these are the only products that have become competitive against imports coming from outside the custom union in Uganda's market (Othieno & Shinyekwa, 2011).

Othieno and Shinyekwa (2011) observed that a reduction of the tariff by 2 percent on imports from Kenya subsequently led to tariff revenue loss on certain products.

Still on Mozambique, Hamilton (2009) evaluated the impact of SADC Trade Protocol provides for preferential market access for products from other SADC member states on Mozambique. Hamilton (2009) investigated the impact of complete tariff liberalisation under the SADC Protocol while tariffs on imports from other trading partners remain unchanged. The findings showed that short-term, tariff revenue will decrease by approximately 39 percent resulting in an overall reduction in trade revenue by 13.7 percent while imports are expected to increase slightly by 1.1 percent (Hamilton, 2009).

Cernat (2003) used the gravity model to evaluate the impact of nine regional trading arrangements on the trade flows among participants and with partners outside the RTA for the period 1994 to 1998. The results show significant trade creation effects with no evidence of trade diversion and moderate trade expansion effects for all member states within the RTA.

Karingi et al. (2005) investigated the likely implications of a COMESA FTA and of a COMESA customs union. The study involved five countries namely Malawi, Tanzania, Uganda, Zambia and Zimbabwe. The study showed that the COMESA customs union is welfare improving for all member countries. On the trade front, the results showed that the customs union leads to significant changes in the total volume of trade for all the five countries. However, the terms of trade effects of the customs union establishment indicated that only Zimbabwe loses while all the other four countries experience improvement in the short run. The total effects on welfare of the implementation of the customs union showed that all countries will gain with Zimbabwe having a welfare gain equivalent to US\$10.4 million.

Castro et al (2004) conducted a study on the trade and revenue impacts of the East African Community (EAC) customs union using a partial equilibrium model on 2002 data. The study was undertaken prior to the implementation of the customs union to envisage how import flows and customs revenue was expected to change for Kenya, Tanzania and Uganda if EAC customs union is adopted. The study analysed the proposed phased internal tariff where Tanzania and Uganda were to temporarily maintain tariffs on selected imports from Kenya. The results of the study suggested modest increase in regional trade flows, increase in third country imports for Kenya and Tanzania, and decline in third country imports for Uganda. The study concluded that the implementation of the customs union may lead to increase in producer and consumer welfare for Kenya and Tanzania economies which is motivated by the reduction in import prices. The EAC region as a whole is likely to experience modest decline in customs revenue.

Kaluwa and Kambewa (2009) used the SMART model to evaluate the likely impact of the COMESA CET on Malawi. The results of the analysis indicate that currently Malawi trades mainly with South Africa and generally with countries outside the COMESA region. The COMESA CET is expected to result in reduced consumer welfare and competitiveness for Malawi's producers who rely heavily on imported inputs. This is likely to be the same case for Zimbabwe as her major trading partners are the EU, United States and China.

Makochehanwa (2012) examined the possible impact of the SADC/COMESA/EAC tripartite agreement on the 26 member states. Makochehanwa (2012) estimated the impact of a 100 percent liberalisation on trade creation, trade diversion and welfare using the WITS/SMART model. Makochehanwa (2012) noted that the 26-bloc countries will gain by close to US\$2 billion in terms of trade creation as a result of the FTA. Democratic of Congo and Angola are expected to take the lion share of trade creation (that is 60 percent of total trade created) amounting to US\$ 783 million and US\$384 million, respectively (Makochehanwa, 2012).

Makochehanwa (2012) found that complete tariff liberalisation under the SADC/COMESA/EAC tripartite agreement will result in an estimated US\$1 billion loss in customs/import duty revenue for all the countries. The countries to suffer highest revenue loss will be DRC (\$214 million or 21.4

percent), Kenya (\$211 or 21 percent), Angola (\$160.6 million or 16 percent), Tanzania (\$72.5 million or 7.2 percent) and Zimbabwe (\$71.2 million or 7.1 percent). These five countries will have a combined revenue loss of \$729.6 million and will account for 73 percent of total tripartite revenue loss (Makochekanwa, 2012). According to Makochekanwa (2012) Mauritius, Eritrea, Botswana, Lesotho, Namibia and Swaziland experienced insignificant revenue loss. These countries have already liberalised their economies long back so this new tripartite agreement will have little effect on their revenues.

The foregoing literature review demonstrates the range of empirical approaches that have been applied in analysing the trade, welfare and revenue effects of customs unions. It is evident that the results of the studies vary from case to case. The implications of a customs union depend on a number of economic issues, the initial tariff structure of a country and its trade pattern among other things.

From the above discussion, it is obvious that the impact of a customs union on imports, exports, welfare and revenue is vague from a theoretical point of view. The various theoretical contributions point to potentially important effects and fundamental guidelines, but no general conclusions can be drawn from theory alone. This therefore implies that the question of whether a customs union is welfare-increasing or not is essentially an empirical question that must be settled by examining data specific of SADC customs union on Zimbabwe.

There was no study which was undertaken on the implication of SADC customs union on Zimbabwe. This study therefore fills the gap by empirically analysing implications of the SADC customs union on Zimbabwe.

## Model Framework

The study used partial equilibrium (PE) to evaluate the impact of SADC customs union on Zimbabwe with specific reference to exports, imports, trade creation and diversion, revenue and welfare effects at a given point in time. PE models assess policy reform impacts on sectors that are directly affected, commonly referred to as first-round effects (Lang, 2006). PE models require minimal data as only data on trade flows, tariffs, and elasticities are required.

For the purpose of this study, the Software for Market Analysis and Restrictions on Trade (SMART) was used. SMART is a partial equilibrium modelling tool included in the World Integrated Trade Solution (WITS), a database and software package developed by UNCTAD and the World Bank to allow analysis of market access conditions and different trade policy options available to countries (Othieno and Shinyekwa, 2011; Lang, 2006). WITS gives access to four major trade and tariff databases namely TRAINS database maintained by UNCTAD, COMTRADE database maintained by the United Nations Statistics Division (UNSD) as well as the Integrated Data Base (IDB) and the Consolidated Tariff Schedule (CTS) databases both maintained by the World Trade Organization (WTO) (Othieno & Shinyekwa, 2011; Lang, 2006). This model and the simulation tools are part of the WITS trade database and software suite provided jointly by the World Bank and the United Nations Conference on Trade and Development (Plummer, Cheong & Hamanaka, 2010). The theory of this model is borrowed from Laird and Yeats (1986).

SMART contains in-built analytical models that support trade policy analysis such as effects of multilateral tariff cuts, preferential trade liberalisation and ad-hoc tariff changes. It uses applied tariffs and trade values found in the TRAINS database (Lang, 2006).

A limitation of PE models is that they are static in nature, allowing only for a comparative static comparison of pre- and post-policy change when all other variables are held constant (Lang, 2006).

Thus, they ignore the second round effects as the models do not consider impacts of policy reforms on the wider economy as well as inter-sectoral implications and exchange rate effects.

However, focus of the study is on static effects of trade liberalisation which are trade creation, trade diversion, imports, exports, welfare and revenue effects for Zimbabwe. Hence, the WITS/SMART model emerged as the first choice model.

## RESEARCH FINDINGS

This section presents the main findings from the SMART Model simulations. It analyses the impact of a SADC customs union on trade creation and trade diversion, imports, exports, revenue and welfare effects.

### Trade Creation and Trade Diversion

Trade creation means that more efficient or lower-cost producers in any of the SADC countries displace the less efficient or higher-cost producers in Zimbabwe and consumers therefore benefit from lower prices. However, some producers in Zimbabwe will be negatively affected as their products are substituted by products efficiently produced in other countries in the SADC region. This implies that Zimbabwean industries have to improve their production efficiency and competitive edge in preparation for the customs union.

Trade diversion on the other hand implies that more efficient suppliers from outside the SADC customs union are displaced by less efficient producers within the customs union. This will be costly for the country as revenue that would have been generated from imports from outside the SADC region is foregone and the products become more expensive since they would be sourced from higher-cost producers.

Using simulations results from the WITS/SMART model, Table 1 shows the trade creation and trade diversion effects of the adoption of the SADC CET by Zimbabwe.

**TABLE 1: TRADE CREATION AND TRADE DIVERSION EFFECTS OF THE SADC CET ON ZIMBABWE (US\$ MILLIONS)**

Product Category	Trade Creation	Trade Diversion	Total Trade Effects
Capital Goods	27.587	0	27.587
Raw Materials	3.271	0	3.271
Intermediate Goods	5.263	0	5.264
Finished Goods	3.537	0	3.537
<b>Total</b>	<b>39.658</b>	<b>0</b>	<b>39.659</b>

(Source: Author's Own Calculations Based on Smart Simulations)

The coming into effect of SADC customs union is expected to create a total trade of US\$39.658 million into Zimbabwe from SADC member states. The results confirm the outcome of the ex ante study carried out by Karingi et al. (2005), which shows that the implementation of the COMESA customs union by Zimbabwe is expected to result in trade expansion for the country.

The increase in imports is mainly made up of capital goods, followed by raw materials, intermediate goods and finished goods which Zimbabwe saw imports in these categories rising by US\$27.587 million, US\$3.271 million, US\$5.263 million and US\$3.537 million, respectively (see table 1). Prior

to trade reforms within SADC Zimbabwe market was protected from foreign competition through high tariffs and other non tariff barriers such as import quotas. Hence, the inefficient industries in Zimbabwe were able to supply their domestic market. With trade liberalisation within SADC, commodities from SADC were able to dislodge Zimbabwe products which are inefficiently produced from the market. This is welfare enhancing to households in Zimbabwe as consumers are now able to make savings as they now buy the same commodities at a lower prices thanks to trade liberalisation. However, Zimbabwe industry will be threatened with these imports and if Government of Zimbabwe does not put in place a financial facility to assist industry raise its competitiveness, the country will be faced with closure of industries. Table 2 shows major trade creating products.

**TABLE 2: SENSITIVE SECTORS**

HS Code	Product Description	Trade Creation
87	Motor Vehicles	11.316
85	Electrical Products	8.949
84	Central Heating Boilers	6.926

(Source: Authors' Own Calculations Based on SMART Simulations)

Industries which are likely to be worst hit by trade liberalisation are those engaged in motor vehicles, electrical products and central heating boilers manufacturing (sensitive sectors).

There was no evidence of trade diversion in Zimbabwe. The outcome is consistent with the findings of Cernat (2003) and argument of Meade (1955), Ohyama (1972), Kemp and Wan (1976) and Amponsah (2002) who found out that some regional groupings CET are too weak to divert trade from third parties.

### Revenue Effect

The implication of the SADC CET on member states' fiscal revenue is one of the contentious issues under discussion at the regional level. There are fears that the tariff cuts that have to be implemented by most SADC countries to conform to the CET rates will result in tariff revenue shortfalls for most countries. In theory, there are two opposing forces that generate ambiguity as to how the reduction in tariffs affects revenue. First, the decrease in the tariff rate results in the decrease in tariff revenue. Secondly, as the prices of the goods decrease due to the decline in tariffs, there is a tendency for imports to increase, raising the tariff revenue.

Zimbabwe is among the countries that are supposed to undertake huge transformation of their national tariff structures in order to conform to the SADC CET rates. Table 3 shows the revenue implications of the SADC customs union on Zimbabwe. The WITS/SMART simulations estimate that Zimbabwe will have a total fiscal revenue loss of US\$42.455 million if the SADC CET is implemented. All the product categories will experience revenue losses. This outcome is consistent with the findings of Makochekanwa (2012) who observed that Zimbabwe will lose US\$71.2 million in customs revenue if it adopts tripartite FTA under COMESA, SADC and East African Community (EAC).

**TABLE 3: REVENUE EFFECT OF SADC CET ON ZIMBABWE (US\$ MILLIONS)**

Product Category		Revenue Loss
Capital Goods		-33.359
Raw Materials		-3.004
Intermediate Goods		-2.346
Finished Goods		-3.746
<b>Total</b>		<b>-42.455</b>

(Source: Author's Own Calculations Based on SMART Simulations)

The total loss in revenue represents 11.77 percent of customs revenue collected in 2012 and 1.48 percent of total tax revenue collected in the same year. This therefore means that revenue loss caused by a SADC customs union is insignificant. Although this value is a small proportion of government revenue, it is significant given the increasing importance of customs revenue to the country. Table 4 below shows the five products with the highest revenue losses.

**TABLE 4: LARGEST LOSS IN REVENUE BY PRODUCT (US\$ MILLIONS)**

HS Code	Product Description	Revenue Loss	% of Total Loss
87	Motor Vehicles	-17.219	40.56
85	Electrical Products	-9.535	22.46
84	Central Heating Boilers	-6.123	14.42
24	Tobacco	-1.914	4.51
Other	Other Products not specified above	-7.664	18.05
<b>Total</b>		<b>42.455</b>	<b>100</b>

(Source: Author's Own Calculations Based on SMART Simulations)

Motor vehicles reveal the largest loss in revenue if Zimbabwe joins SADC customs union with a 40.56 percent of total loss in revenue (see table 4). This is followed by electrical products and central heating boilers with revenue loss of US\$9.535 million and US\$6 million, respectively. In Zimbabwe, motor vehicles currently attract duty rates ranging between 60 and 80 percent. These rates are to be reduced to 0 percent and 25 percent respectively depending with the type of vehicle. Under the SADC nomenclature public transport vehicles, goods vehicles and ambulances are treated as capital goods which mean that they will attract a duty rate of 0 percent. Other vehicles are treated as finished goods and will attract a duty rate of 25 percent.

### Consumer Welfare Effect

One of the main arguments in favour of free trade is that consumers will benefit from lower prices. Whether or not this will occur depends on the extent of trade creation as against trade diversion. For Zimbabwe we have already seen that the total trade creation surpass trade diversion which means that consumers will benefit from the implementation of the customs union. Although this arrangement will lead to the loss of government revenue and impact negatively on some producers, individual households will benefit from lower prices. This will mean that households will be in a position to increase consumption, and hence their welfare will also increase.

As shown in Table 5 below, SMART simulation results reveal that Zimbabwe will experience a gain in consumer welfare valued at US\$7.091 million by implementing the SADC customs union. Makochehanwa (2012), estimating the implication of COMESA/SADC/EAC tripartite got related results of a welfare gain of US\$14.4 million for Zimbabwe.



All product categories exhibit welfare gains with major gains falling under capital goods classification. Capital goods recorded welfare gains of US\$3.635 million, followed by finished goods, raw materials and intermediate goods with consumer surplus of US\$1.399 million, US\$1.04 million and US\$1.017 million, respectively.

The gain in welfare from capital goods and raw materials is explained by the need to align import duty on capital goods to zero percent expected for capital goods. This will result in 100 percent savings by households.

**TABLE 5: WELFARE EFFECT OF THE SADC CET ON ZIMBABWE (US\$ MILLIONS)**

<b>Product Category</b>	<b>Welfare Effect</b>
Capital Goods	3.635
Raw Materials	1.04
Intermediate Goods	1.017
Finished Goods	1.399
<b>Total</b>	<b>7.091</b>

(Source: Author's Own Calculations Based on SMART Simulations)

Welfare gains are insignificant in Zimbabwe as they represent 0.073 percent of 2011 GDP of US\$9.656 billion.

### The Impact of SADC Customs Union on Zimbabwe Exports

According to trade theory, trade liberalisation provides extra market access to member states say in a free trade agreement. Has Zimbabwe been able to penetrate new markets in SADC? One of the objectives of this study is to evaluate the impact of SADC customs union on Zimbabwe exports. Table 6 shows developments in Zimbabwe exports before union and after SADC customs union.

**TABLE 6: IMPACT ON EXPORTS ON ZIMBABWE AFTER SADC CET (US\$ MILLIONS)**

<b>Product Category</b>	<b>Exports Before</b>	<b>Exports After</b>	<b>Change in Exports</b>
Capital Goods	95.229	85.154	-10.075
Raw Materials	263.608	262.157	-1.451
Intermediate Goods	890.998	890.253	-0.745
Finished Goods	165.55	163.779	-1.771
<b>Total</b>	<b>1,415.385</b>	<b>1,401.343</b>	<b>-14.042</b>

(Source: Author's Own Calculations Based on SMART Simulations)

Overall, Zimbabwe exports into SADC are expected to fall by US\$14.042 million if the country adopt SADC customs union (see table 6). One possible explanation to the decline in exports is lack of competitiveness of Zimbabwe products especially on capital goods. For capital goods, SADC member states under the SADC nomenclature will import them outside SADC at 0 percent duty. This is expected to give producers of capital goods outside SADC gaining a competitive edge over Zimbabwe which is still coming out of a decade of economic turmoil.

From the SMART simulation analysis, the concentration of Zimbabwe exports is made up of raw materials and intermediate goods which by their nature are expected to fetch low export revenue.

## The Impact of SADC Customs Union on Zimbabwe Imports

Trade creation which was witnessed in this study has a strong bearing to Zimbabwe imports. The impact of SADC customs union on Zimbabwe imports is one of the objectives of this study. Table 7 shows how Zimbabwe imports responded to SADC customs union.

**TABLE 7: MARKET VIEW ON ZIMBABWE AFTER SADC CET (US\$ MILLIONS)**

Product Category	Imports Before	Imports After	Change in Imports
Capital Goods	341.734	369.321	27.587
Raw Materials	280.514	283.785	3.271
Intermediate Goods	1,010.829	1,016.093	5.264
Finished Goods	263.293	266.83	3.537
<b>Total</b>	<b>1,896.37</b>	<b>1,936.029</b>	<b>39.659</b>

(Source: Author's Own Calculations Based on SMART Simulations)

Overall, Zimbabwe imports from SADC after the SADC customs union are expected to increase by US\$39.659 million (see table 7). This increase is caused by trade creation effects. The surge in imports is expected to be driven up mainly capital goods such as central heating boilers, electrical products and motor vehicles.

## CONCLUSIONS AND POLICY OPTIONS

This research estimated the implications of SADC customs union on revenue, welfare, trade creation and diversion, imports and exports on Zimbabwe. The study used the WITS/SMART partial equilibrium model for the analysis.

The spirit of the SADC customs union is to boost intra – regional trade. From economic theory, the tariff alignment which is associated with a customs union is expected to improve competitiveness of individual member states thereby providing a positive sum game. However, emerging issues from this simulation are: Zimbabwe's imports are expected to increase by US\$39.659 million through trade creation if it adopts the SADC customs union. This is likely to cause deindustrialisation as local firms may be displaced by regional firms. In terms of welfare, SMART simulation results reveals that Zimbabwe is likely to gain welfare valued at US\$7.091 million following the adoption of the SADC CET which is very insignificant when benchmarked on national output. With respect to government revenue, the study shows that a total of US\$42.455 million of customs revenue due to tariff alignment which is necessitated by the SADC customs union. With respect to trade, Zimbabwe exports are likely to marginally fall by 0.94 percent (US\$14.042 million) and imports are expected to rise by 2.05 percent (US\$39.659 million).

From this study, it is clear that the implementation of SADC customs union has negative effects on the economy of Zimbabwe. The revenue loss and trade creation effects are potential threats. The welfare gains which stand to be potential gains from a SADC customs union are insignificant in Zimbabwe. The policy implications that can be drawn from this study are:

In the event of the establishment of a SADC customs union, the country may need to consider alternative sources of revenue such as VAT, personal and company taxes and excise duty in order to mitigate revenue loss. In addition, Zimbabwe may need to reconfigure the income tax bands so that they become more progressive thereby raising more revenue. Government could also consider

widening the tax base by taxing the informal sector which has been growing rapidly in the past years as suggested by Alfieri, Cirera and Rawlinson (2006), Brenton et al (2009), Hamilton (2009), Waglé (2011) and Othieno and Shinyekwa (2011).

The agreement by member states to have a basket of sensitive products will help to reduce the revenue loss for Zimbabwe. In this regard, Zimbabwe's negotiators should push for sensitive products that will not be subjected to tariff reduction for some time. This is crucial as it gives member states the needed policy space to develop their sensitive industries before opening up to third countries' competition. Some of the products which should be considered on the sensitive list based on the findings from this study are motor vehicles, tobacco, central heating boilers and electric products.

To cushion the impact of tariff reduction on those industries that are currently enjoying tariff protection, there is need for government to come up with an appropriate timeframe and sequencing of tariff reforms to comply with the agreed SADC CET. For Zimbabwe, this is very important since the country is still recovering from a decade long economic meltdown.

Zimbabwe should envisage the establishment of a financial facility tailored at assisting companies that will be displaced by regional firms and save employment. On the top list of the sectors which are expected to be bailed out are those involved in the manufacturing of motor vehicles, central heating boilers and electric products. The financial facility can also be used to build productive capacity of the country.



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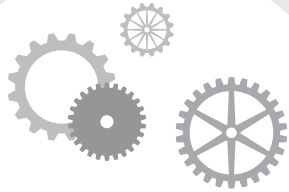
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# VALUING BANKS IN EMERGING MARKETS: A REVIEW OF THE LITERATURE AND SOME INITIAL FINDINGS

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## ABSTRACT

The article attempts to analyse which issues should be considered in the valuation process of banks in emerging markets. This paper presents an extensive literature survey on the valuation of banks in emerging markets and then continues to consider some initial findings from the field work. The literature survey was conducted using any relevant available valuation literature and the field work used the Delphi Technique. The results showed that the equity discounted cash flow model and the dividend discount model were the most popular amongst analysts.

## KEYWORDS

Valuations, Banks, Emerging markets



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## INTRODUCTION

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Valuation, which is considered to be at the center of financial theory, can be defined as the process of estimating how much an asset is worth (Damodaran, 2012). According to Damodaran (2006), knowing what an asset is worth and what determines that value is a pre-requisite for intelligent decision making – in choosing investments for a portfolio, in deciding on the appropriate price to pay or receive in a takeover and in making investment, financing and dividend choices when running a business. Valuation is considered to be both a science and an art (Titman & Martin, 2011). The science takes the form of both quantitative risk-return models and the art includes experience and judgment on the part of the appraiser-intuitive elements that belong to the artistic realm (Pereiro, 2002).

Analysts use a wide range of valuation models ranging from simple to sophisticated ones, depending on the information available. Traditional valuation approaches include discounted cash flow (DCF) and relative valuation approaches (Reilly & Brown, 2012). Other valuation approaches are those of liquidation valuation, open market valuation and real option pricing models. The key assumptions underpinning these valuation models are what make their application challenging when they are applied in any situation (Pereiro, 2002).

Valuing companies in emerging markets is challenging and industry practitioners and academics are yet to agree on how best they can value these companies (Koller, Goedhart, & Wessels, 2010). Pereiro (2002) argued that valuation in emerging markets is a challenging task since valuation models need to be carefully considered and adopted. Koller et al. (2010) also argued that valuation in emerging markets is typically more difficult because of various risks and possible obstacles to businesses, such as lack of transparency in the financial system, low capital and investment liquidity, poor corporate governance, high transaction costs and high asset price and returns volatility. These additional risks resulting from the flaws of the emerging markets warrant careful consideration especially in the application of valuation models (Koller et al. 2010).

Unfortunately, no agreement exists between academics and practitioners in emerging markets on valuation issues, such as how accurate the multiples method compared to the discounted cash flow model, which risk free and market risk parameter should be used or how to determine cost of capital (Pereiro, 2002). Block (1999) also argued that little documentation exists about what analysts actually believe in and do.

Valuation in emerging markets has recently become topical among academics and analysts given the recent financial activities that have seen the region opening up its doors for foreign direct investments and foreign trade (Koller et al. 2010). Furthermore mergers, acquisitions, joint ventures and strategic alliances have also been on the rise. All these economic activities have raised the demand for sound valuation approaches.

Emerging market banks are especially suitable for investigation due to the critical role that they play in the general economy. Beyond their intermediary function between investors and depositors, they also play a critical role in the general economy of the country. Several studies have also argued for the importance of emerging market banks. However, very little is known about these banks especially with regards to their valuation. Copeland et al. (2000) argued that the valuation of banks is still one of the unsolved mysteries in financial theory. Valuation literature especially in emerging markets provides little insight on the best practices of seasoned analysts when valuing banks. Most of the standard valuation literature focuses on industrial companies especially in developed markets.

## BACKGROUND: EMERGING MARKET BANKS

Van Horen (2012) argued that emerging markets banks are by no means small and are continuously growing fast. CIMA (2010) reported that even though banks in emerging markets grew faster than developed market banks before 2008, the global financial crisis seem to have accelerated the trend resulting in a pronounced shift from the developed markets to emerging markets. These banks are now well capitalized and huge enough to compete with their counterparts in developed markets. For instance, the world largest bank with respect to market value is found in an emerging market, China to be specific and the global top 25 of banks currently includes eight banks in emerging markets (Van Horen, 2012). This list of emerging market banks includes three other Chinese banks (China Construction Bank, Agricultural Bank of China, and Bank of China), one Russian bank (Sberbank) and, three Brazilian banks (Itau Unibanco, Banco do Brasil, and Banco Bradesco). India's banks are also expected to catch up with the top global banks given their current growth rate (CIMA, 2010). Furthermore, according to Bloomberg data, 44% of the top 100 banks are emerging banks, an increase from 21% and 30% in 2002 and 2007, respectively (Skolkovo, 2011).

The growth of assets among emerging market banks has also been impressive, with all the eight emerging banks in the top 75 banks worldwide, while all four Chinese banks are in the top 20 (CIMA, 2010). Furthermore, lower down in the global rankings is a list of small emerging market banks that when combined together make up a large portion of the market (Van Horen, 2012).

According to CIMA (2010), emerging market banks present great potential because of the relatively immature development of their domestic financial markets. Chaia, Dalal, Goland, Gonzalez, Modoch and Schiff (2009) estimated that out of 2.5 billion people globally who do not use bank services, 2.2 billion live in Africa, Asia, Latin America and the Middle East. This offers great potential for emerging market banks. Given the strong liquidity and high adequacy ratios, some analysts think that emerging market banks are in a stronger position than developed market banks (CIMA, 2010). For instance, Chinese banks are starting to lend money to European companies for business transactions taking place in Europe.

Even though there is much potential of banks in emerging markets in their domestic markets, some have taken the challenge of setting up branches or subsidiaries abroad, generating income outside their domestic market (Van Horen, 2012). For instance, Standard Bank of South Africa generated almost a quarter of its profits from branches outside their domestic market. In fact, in 2009 close to 30% of the foreign banks worldwide were owned by emerging-market banks (Van Horen, 2011). This shows that these banks do have the knowledge and expertise to undertake and manage international operations.

The main challenge of emerging market banks, as for all other companies, is to generate long-term sustainable success. They need to understand their business activities, value drivers and how they are valued (CIMA, 2010). The 2008 global financial crisis showed that banks did not understand these issues fully. Furthermore, it also showed the extent to which the banking industry is both a critical and susceptible part of the global economy (Koller et al. 2010). Therefore, it is important for emerging markets to relearn how they can create and measure value especially if they are to protect themselves from future crisis (Koller et al. 2010).

It is clear that the current investment flows and activities in emerging market banks are material. These flows are large enough to warrant sound valuation practices that are based on empirical evidence and not intuition only. Better valuation practices may even enhance the inflow of investments, allocation of resources, and in turn increase the management competence and social welfare of people in emerging markets (Bruner, Conroy, Estrada, Kritzman & Li, 2002).

## RESEARCH OBJECTIVES

Against the background of valuation and emerging market banks provided in section above, the primary objective of this study is to explore the bank valuation practises of analysts through a review of the literature and initial findings from round 1 of a Delphi survey. In order to achieve the primary objective of this research, the following research questions were formulated:

- Which special issues should be considered in the valuation process of banks?
- Which models are more popular with analysts when valuing banks in emerging markets?

This study intends to contribute to a deeper understanding of valuation in the banking sector in emerging market. In the essence this study aims to contribute to emerging market research in the field of bank valuation. Following the intense literature search on the subject, it was ascertained that no similar study had previously been undertaken. However, emerging market banks, in general, offer an ideal financial management research field in valuation because:

- Not much is known about them
- Valuation of banks is different from the valuation of industrial companies
- There is no consensus among analysts on how banks in emerging markets should be valued

The findings of this research could be of interest to numerous stakeholders within the banking and financial services sector as well as potential investors, academics and government institutions since they want to ensure high efficiency and development in the economy. The research will also highlight the challenges that are faced by analysts when valuing banks in emerging markets.

## RESEARCH METHODOLOGY

This study will use an interpretivistic philosophy using an inductive approach. The exploratory study will be approached using the Delphi survey to gather data from a panel of experts who are actively engaged in the valuation of banks in emerging markets. The Delphi survey is a structured survey method that relies on a panel of experts to answer questionnaires in two or more rounds based on their practice. After each round, the researcher provides an anonymous summary of experts' responses from the previous round (Kalaian, 2012). As a result, experts are encouraged to revise their earlier answers in light of the responses of other members of the panel. The Delphi technique allows the divergent views of participants to be refined so as to achieve a consensus view that should represent the views of the panel of experts (Kalaian, 2012). The data gathered was quantitative in nature.

In order to settle the questions raised in this article, studies of relevant literature on valuation of models were conducted. The information collected was then analysed and conclusions were made based on that analysis.

Based on the information gathered in the literature review a questionnaire was compiled as part of a three step Delphi Technique. The aim of this first Delphi round was to gain a broader understanding of the analysts views on the subject matter based on their experience. The information gathered in the first Delphi round was used to compile further Delphi rounds. In this paper only the responses gathered in the first Delphi will be considered. This paper will now continue with a discussion of the relevant literature.

## LITERATURE REVIEW

In this section the literature on the subject of the valuations of banks in emerging markets will be discussed.

### Issues to considered in the valuation process of banks

According to Deev (2011), "The valuation of a bank is an estimation of its market value in terms of money on a certain date, taking into account the factors of aggregate risk, time and income expectations". Thus, bank valuation requires special expertise in two specific areas: a comprehensive knowledge of the valuation models and a thorough understanding of the banking industry. Damodaran (2002); Deev (2011) and Koller et al. (2010) indicated that, the basic principles of valuing industrial companies also apply when valuing banks, however, there are specific valuation aspects relating to banks that could affect their valuation process. Proper definition and consideration of these valuation aspects allows the analysts to select the most accurate valuation model and process which could typically be used to establish the value of the bank.

The complexity of valuing banks stems from several reasons. Firstly, from an outside-in point of view the person conducting the valuation will always lack some important information about the banks' financials, such as asset-liability mismatches and the probability of credit losses (Andersen, 2008; Damodaran, 2009). As a result, the person will be left with no option but to rely on rough estimates and personal judgment where better estimates may have been made by individuals with inside information.

Secondly, banks' operations are affected by both sides of their balance sheet (Copeland, Koller & Murrin, 2000). For example- deposits from customers or loans from the money markets form part of both their operations and financing activities. Because of this, it becomes difficult and complex to separate operational from financing activities when valuing banks, since both of them form part of the bank's core operations (Andersen, 2008).

Damodaran (2002) reported two practical challenges when valuing banks. Firstly, because of their business model, it is very difficult to define debt and reinvestments, thus making the estimation of expected future cash flows more difficult. Secondly, banks tend to be heavily regulated and these regulations (e.g. Basel I, II and III and banking legislation) have an effect on both the valuation process and value obtained. Hence, it makes more sense to consider the effects of the regulatory requirements on valuation; consider the business model of the bank and finally, to value equity separately, rather than the entire bank. Copeland et al. (2000); Koller et al. (2010) and Damodaran (2002) also supported the direct valuation of the bank's equity, rather than the entire company.

According to Koller et al. (2010) the banks published accounts presents an overview of the bank's overall performance. The clarity of the picture that they present is greatly influenced by the accounting decisions made by the banks' top management. Therefore, when valuing banks external analysts should consider the appropriateness of these decisions. Even though their considerations may be favourable, they may seem to lack very important information about the bank's internal economics thus; forcing them to rely on rough estimates. This information may include; the extent of credit losses or any mismatch between assets and liabilities (Koller et al. 2010).

Andersen (2010); McCallum (2009) and Koller et al. (2010) urged that since banks are highly leveraged, bank valuations are affected significantly by fluctuation in the overall economy as compared to valuation of normal industrialised companies. Therefore, when valuing banks it is very

important to consider the value drivers of the bank, its business activities and how it creates value (Koller et al. 2010). Also, one should not only pay attention to point estimates but rather use scenarios analysis for future financial performance in order to understand the different possible outcomes (Koller et al. 2010).

## Valuation approaches

The importance and complexity of valuing equity has resulted in the development of a variety of valuation approaches. Even though there are a variety of valuation approaches, this study pays most attention to the DCF and relative valuation approaches. These valuation approaches generally use publicly available information. Assuming that the capital markets are efficient in the semi-strong form, then all such information should be reflected in the equity price (Levy & Post, 2005). Hence the valuation models cannot yield abnormal returns. Table 1 summarises these valuation approaches and their specific models.

**TABLE 1: EQUITY VALUATION APPROACHES AND SPECIFIC MODELS**

Discounted cash flow models (DCF models)	Relative valuation models
Dividend discount model (DDM)	Relative earnings: Price/Earnings Ratio (P/E)
Enterprise discounted cash flow model (enterprise DCF model)	Relative assets: Price/Book Ratio (P/BV)
Equity discounted cash flow model (equity DCF model)	

(Source: Reilly and Brown (2012), own contribution)

These two valuation approaches and their specific valuation models are discussed below. Furthermore their application by analysts is also discussed with regards to emerging markets.

## Discounted cash flow (DCF) approach

The DCF valuation approach was first discussed by Irving Fisher in 1930 and was later formalized by John Burr William (1938). Gordon (1962) extended it when he introduced the divided growth aspect in the late 1950's. Stewart (1991), Hackel and Livnat (1992) and Copeland, Koller and Murrin (1994) pioneered the enterprise DCF model while, Copeland et al. (2000) and Damodaran (2002) developed the equity DCF model.

Titman and Martin (2007), Reilly and Brown (2012) and Damodaran (2012) asserts that the DCF approach estimates the value of an asset by discounting forecasted cash flows with an appropriate discount factor. Put differently, the DCF equates the value of an asset to the present value of expected future cash flows (Reilly & Brown, 2012; Damodaran 2012; Shim, 2009). Table 2 below presents some of the advantages and disadvantages of the DCF model.

**TABLE 2: ADVANTAGES AND DISADVANTAGES OF THE DCF VALUATION APPROACH**

Advantages	Disadvantages
- Flexible for changes	- Controversial results (requires projections of future economic benefits)
- Considers future expectations	- Requires estimates of appropriate discount rates (also subject to controversy)
- Considers market performance (through excess return on market)	- Partially based on probabilities and expertise
	- Problems with application in the emerging markets (due to the lack of market information)
	- The valuation results can be easily manipulated

(Source: Deev (2008))

Messica (2008) observed the DCF valuation approach as one of the most common valuation approaches for equities and cash-generating companies. A study by Imam et al. (2008) recognised the DCF approach as one of the most important valuation approaches. Rady and Nunez (2012) observed that most valuations in emerging markets are extensively based on the DCF approach.

Yee (2004) and Lie and Lie (2002) discussed the inaccuracy of the DCF valuation approach. They attributed the inaccuracy to the uncertainty in forecasted cash flows and determination of cost of capital (Arnott and Bernstein, 2000). Magni, Malagoli and Mastroleo (2006) and Rady and Nunez (2012) argued that the DCF approaches tend to depend on two variables: cash flow and cost of capital, and do not justify how the numbers come about. However, Imam et al. (2008) observed that analysts prefer to use the DCF approaches since; it allows them to build the model in their own way and therefore, justify their recommendations.

Rady and Nunez (2012) attributed the reliance on DCF approach in emerging markets against developed markets to the high economic growth that is associated with the economy. They argued that compared to developed markets, macroeconomic factors of emerging markets translate down into the microeconomics of firms operating in these markets, revealing that the growth of these firms is positively correlated to the growth of the national economy. This suggested variation between valuation approaches that can be used between developed and emerging markets, and making the DCF approach the most appropriate since, it reflects high growth which is associated with these markets.

Some interviews conducted by Rady and Nunez (2012) also confirmed the DCF as a valuation approach suitable for emerging markets as compared to an average usefulness in developed markets. Head of Research, Pharos Holdings and EFG Hermes (cited in Rady and Nunez, 2012) suggested that the reason why there is over reliance on the DCF in emerging markets is that analysts and other stakeholders reading financial reports are well aware of the DCF approach and it is also widely accepted as a, “good reflection of firm value” since it reflects the macroeconomic characteristics associated with these emerging markets. Rady and Nunez (2012) also argued that DCF valuation approaches tend to be used as the primary valuation approach in emerging markets while relative valuation approaches act as secondary valuation approaches because of the lack of comparable companies in emerging market countries. The different models of the DCF can be summarised as follows:

#### **Enterprise DCF model**

The enterprise DCF model, estimates the value of a company by discounting operating free cash flow by the weighted average cost of capital (WACC) (Koller et al. 2010; Farooq, Ullah, Alam, Shah, 2010, Damodaran, 2012; Reilly & Brown, 2012). In other words, the enterprise DCF model represents an entity perspective to the DCF approach, that is, it estimates the present value of both equity and debt claims combined (Jones, 2007; Farooq et al. 2010; Correia et al. 2012). The market value of debt is then deducted from the value of the company to calculate the value of equity.

#### **Equity DCF model:**

It is averred by Correia et al. (2012) and Reilly and Brown (2012) that the equity DCF model estimates the value of equity by discounting free cash flow to equity by the cost of equity. Titman and Martin (2012) and Damodaran (2012) indicated that the equity DCF model deals with all the cash flows that are available for distribution to all the equity providers. These cash flows are derived after adjustments on debt payments are made on operating free cash flow (Reilly and Brown, 2012). Unlike the enterprise DCF model, the equity DCF model values equity claims directly (Koller et al. 2010; Damodaran, 2012; Correia et al. 2012).



## The Divided Discount Model (DDM)

The DDM is considered to be the cleanest and most straightforward model of valuing equity (Reilly and Brown, 2012). This is because it uses dividends which are clear cash flows that go to the equity investors. Jones, (2007), Ross et al. (2008) and Reilly and Brown (2012) asserted that the DDM equates the value of equity to the present value of forecasted dividends by discounting the dividends by an appropriate discount rate. It assumes that when investors buy equity, they expect to receive two types of cash flows: (1) dividends in the period over which they own the equity and (2) the market price at the end of the holding period (Megginson and Graham, 2010; Damodaran, 2012). Miller and Modigliani, (1961) suggested that the DDM will produce inaccurate results unless the payout policy is associated to value creation within the company.

## The relative valuation approach

Sehgal and Pandey (2010), Koller et al. (2010), Titman and Martin (2012), Reilly and Brown (2012) and Damodaran (2012) suggested that relative valuation or multiples estimates the value of assets by looking at how similar assets are valued relative to common variables such as earnings, cash flows, book value or sales. The relative valuation approach is based on the law of one price, which stipulates that two similar assets should trade at similar prices (Damodaran, 2012). Damodaran (2012) suggested that, there are two components to relative valuation. The first is to find similar companies, which is difficult since no two identical companies in the same business can differ on risk, growth potential and cash flows. The second is to standardize the prices by usually converting them into multiples of earnings, book values or sales. Table 3 illustrates some of the disadvantages and disadvantages of the relative valuation approach.

**TABLE 3: ADVANTAGES AND DISADVANTAGES OF RELATIVE VALUATION APPROACH**

Advantages	Disadvantages
- Uses actual data	- Most of the important assumptions are hidden (bank's expected growth in earnings, risk and margins)
- Simple application (derives estimates of value from relatively simple financial ratios)	- No good guideline companies exist (therefore, expertise and additional adjustments are required)
- Does not rely on explicit forecasts	- Laborious and time-consuming (an immense amount of data has to be processed)
- Considers market reaction on bank performance	- Based on the present situation, resulting in losing long-term trends
- Considers market reaction on bank performance	- Estimated value of assets may be incorrect if the market is mispriced
- Reflects the M&A practice	
- Easy and quick to compute with few assumption	
- Easy and quick to compute	
- Reflect the current mood of the market	

(Source: Deev, (2008))

Tasker (1998) and Barker (1999) using survey based analysis observed industry patterns in the selection of comparable companies and the existence of industry- preferred multiples respectively. Tasker (1998) also reported the systematic use of specific industry multiples, which is consistent with certain multiples being more appropriate in specific industries.

There is however, a small body of literature focusing on emerging markets. Irina, Alexander and Ivan (2007) observed that using multiples to estimate the equity value in emerging markets leads to over valuation since companies from emerging markets are subject to various factors such as economic and political risk which require specific adjustments. Sehgal and Pandey (2009) analyzed multiples for equity valuation in India. They suggested that earnings provide better price estimation compared to price to cash flow, price to book and price to cash flow. Sehgal and Pandey

(2009) suggested that multiples are sensitive to market conditions while Rady and Nunez (2012) observed that relative valuation approach needs to be supported by other valuation approaches such as DCF. These studies, however, do not provide evidence on the relationship between the preferred multiples and their level of accuracy in specific industries.

The relative valuation approaches however, difficult to apply in emerging markets because of small equity markets, hence comparable companies are few (Pereiro, 2002). In order to solve this problem some analysts and academics support the use of comparable companies from developed markets (Damodaran, 2012). However, the straight application of for example, US, multiples to emerging market companies is perceived to be incorrect because of country risk and investor sentiments which play central roles in defining company multiples in each economy (Pereiro, 2002). It is also common to find the equity price of the same company quoted in different national exchanges different as a result of the equity markets which provokes dramatic differences in the multiples between different exchanges. A result, specific adjustment techniques have to be adopted in order to deal with problems of the relative valuation approach in emerging markets (Pereiro, 2002). The specific relative valuation models are:

### **Price to earnings (P/E) ratio**

The price to earnings ratio which is also known as the earnings multiple, expresses earnings as a function of the market price of equity (Jones, 2007). It is a function of the pay-out ratio, discount rate and growth rate (Reilly & Brown, 2012). Damodaran (2012) observed that the price to earnings ratio can be estimated using either earnings for the last 4 quarters, providing forward PE; expected earnings per share in the next year, yielding a forward PE; or current earnings per share, providing a current PE. Froidevaux (2004) pointed out that analysts and investors prefer using the price to earnings ratio when they are confident of the quality of historical and forecasted earnings per share and when earnings per share are expected to grow.

### **Price to book value**

The price to book value ratio expresses the book value as a function of market price per share. The book value refers to the value of an asset according to its balance sheet account balance. Damodaran (2012) averred that the book value of equity is the difference between the book value of assets and the book value of liabilities. Equity that is selling below the book value of equity is usually considered to be undervalued, while equity that is selling more than book value is considered to be overvalued (Damodaran, 2012). The price to book value provides a relatively stable and intuitive measure of value and also it can be used to compare companies across similar firms for signs of under- or overvaluation. However, the book value is affected by accounting decisions on depreciation and other variables and it may be not provide much meaning for technology and service companies that do not have significant tangible assets.

### **Application of valuation models to banks valuation**

Adams and Rudolf (2006) argued that in finance it is common to recommend a particular valuation model for a particular type of company. Demirakos, Strong and Walker (2004) suggested that “valuation theorists have studied the theoretical properties of several valuation approaches, and some authors have used these theoretical properties to produce normative arguments in favour of

particular frameworks” For instance; Kronimus (2002) developed a valuation model suitable for valuing young, fast-growing companies. The central focus of these models is to consider the underlying characteristics of the company being valued. Therefore, one can argue for a particular valuation approach for banks. Furthermore, a sector wide comparison revealed that analysts in industrial, media, retail and technology prefer similar valuation approaches while financial sector analysts preferences differ from those of other analysts (Barth et al. 1998).

There are, however, certain aspects relating to banks that could affect the application and choice of valuation model. Demirakos et al. (2004) suggested that the selection of valuation approaches should be dependent on industry related factors. For this reason, proper definition and understanding of these specifics of banks, enables the selection of the most appropriate valuation approach. This paper seeks to understand the specific DCF models and multiples used by analysts when valuing banks in emerging markets.

### **Conclusion to literature review**

Generally, the results of the literature review showed that analysts in either emerging or developed market face similar challenges when valuing banks except that in emerging markets the challenges are magnified. Most of the literature surveyed focused on industrial companies that were listed on the stock markets of developed economies with very little being done on banks and industrial companies in emerging markets. Therefore, a need for empirical valuation research in emerging markets has emerged. The literature survey also indicated that it is very difficult to model how analysts forecast cash flows. The key issues and risk parameters that analysts would need to consider when valuing companies in emerging markets include comprehensive knowledge of the valuation models, risk premium, country risk and quality of information.

Furthermore there is much support for the Equity Discounted Cash Flow method to value banks due to the nature of a bank. Other possible methods include multiples approaches. We will now consider the results of the study to date.

### **DELPHI ROUND 1 RESULT**

The Delphi round 1 questionnaire was sent out via email to 160 analysts that were actively involved in valuing banks in emerging markets. Because of email address changes and other factors, 138 emails successfully arrived to their intended destinations. Of that number, 17 usable responses were received, for a return ratio of 12.31%. The researcher expected a low response rate due to the fact that the respondents operate in a very competitive environment which is highly confidential. Furthermore, a low response rate from a panel of experts actively involved with bank valuation was considered to be more reliable than a large response rate from individuals who are not actively involved with bank valuation in emerging markets.

A general overview of Delphi round 1 responses reviewed that analysts were in agreement on most of the questions. Specific analysis of the results (discussed below) was categorised into demographic information, type of analysis undertaken, discounted cash flow model compared to multiples, practical issues of the DCF model, difficulties encountered when valuing banks and cost of capital determination.

**TABLE 4: DEMOGRAPHIC INFORMATION OF RESPONDENTS**

Demographic		No of responses	Percentage of responses
Experience in valuing banks	1-5 years	6	35.29%
	6-10 years	8	47.06%
	10+ years	2	11.76%
	Not expert in valuing banks	1	5.88%
Highest education	3 or 4 year degree	10	58.82%
	Masters	6	35.29%
	Doctorate	1	5.88%
Professional qualification (CFA, CA or similar)	Yes	7	41.18%
	No	10	58.82%

### Types of analysis undertaken

In the questionnaire the first question asked the respondents to indicate how often they performed an industry, macro-economic and bank specific analysis when valuing banks. In the questionnaire these three forms of analysis were defined as follows:

- Industry analysis: Analysing the banking industry and how banks compete against each other.
- Macro-economic analysis: The process of analysing the general state of the economy and its potential effects on banks.
- Bank-specific factor analysis: The analysis of the financial conditions and the operating results of the bank.

**TABLE 5: TYPES OF ANALYSIS**

	Industry analysis	Macro-economic analysis	Bank-specific factor analysis
Very often	58.82%	47.06%	70.59%
Often	35.29%	47.06%	29.41%
Occasionally	5.88%	0.00%	0.00%
Seldom	0.00%	5.88%	0.00%
Never	0.00%	0.00%	0.00%

The results, summarised in Table 5, indicate that these analysts normally perform all three of these types of analysis before valuing banks. This would indicate that these types of analysis are seen as important in determining a fair value for a bank in emerging markets.

### Discounted cash flow methods compared to multiple valuations

In the next section of the questionnaire various questions were asked on discounted cash flow methods and multiple valuations. The results of these questions are summarised in Table 6. The results show that most of the respondents felt that the discounted cash flow (DCF) method is the most popular valuation technique to use when valuing banks in emerging markets. Furthermore most respondents indicated that they use the DCF model as their primary valuation method. It also emerged that multiples are generally used as a secondary valuation method.

The question of which method was more accurate was then asked and there emerged a strong view that the DCF method is the more accurate of the two. Even when specifically asked to compare the DCF model to the multiples model 82.36% of respondents felt that the DCF model was more accurate compared to the multiple methods.

**TABLE 6: DCF COMPARED TO MULTIPLES**

		<b>DCF</b>	<b>Multiple</b>
Method the most POPULAR technique	Strongly disagree	5.88%	0.00%
	Disagree	5.88%	23.53%
	Neutral	5.88%	58.82%
	Agree	52.94%	17.65%
	Strongly agree	29.41%	0.00%
ACCURACY of Method	Very accurate	41.18%	0.00%
	Accurate	52.94%	5.88%
	Neutral	5.88%	94.12%
	Not very accurate	0.00%	0.00%
	Not accurate at all	0.00%	0.00%
Usage of technique	Primary method	58.82%	17.65%
	Secondary method	17.65%	64.71%
	Both primary and secondary	23.53%	0.00%
	Do not use	0.00%	17.65%

### Practicalities of using DCF

In the next section of the questionnaire we asked a number of questions on the practicalities of using the discounted cash flow method. As was discussed there are a number of different variants of DCF methods. The respondents were asked how often they used these variants in valuing banks in emerging markets. The results can be seen in Table 7.

**TABLE 7: VARIANTS OF DCF**

	<b>Dividend discount model</b>	<b>Equity discounted cash flow model</b>	<b>Free cash flow model</b>
Very often	41.18%	82.35%	0.00%
Often	35.29%	5.88%	0.00%
Occasionally	17.65%	11.76%	5.88%
Seldom	5.88%	0.00%	17.65%
Never	0.00%	0.00%	76.47%

The results appear to support the literature that suggests that the equity discounted cash flow model is the most appropriate model to value banks. It is apparent that the free cash flow model is almost never used due to the shortcomings of the model as discussed in the literature section.

The next question asked what techniques the respondents used to forecast the cash flows required to value banks in emerging markets. The results showed that the majority used time series analysis while some used the scenario and Delphi techniques. This is summarised in Table 8. The terminal value was included in the value of the company by 82.35% as would be expected and the perpetuity with growth method were seen as the most popular method to calculate the terminal value as show in Table 8.

One of the important factors this research tries to determine is how the valuation techniques are used in practice by practitioners and to compare that with the theories. It was found that most respondents used a 4-10 year explicit forecast period to forecast cash flows. This would also appear to be an appropriate amount of time from a theoretical point of view as it is not so long as to make forecasting specific cash flows into the future difficult and not so short that medium term forecasts need not be made.

**TABLE 8: PRACTICAL ISSUES IN DCF**

Technique used to forecast cash flows	Delphi Technique	17.65%
	Scenario Technique	23.53%
	Time series analysis (e.g. extrapolation, averages, simple growth)	58.82%
	Casual forecasting method (e.g. stochastic, deterministic)	5.88%
Usage of Terminal value	Yes	82.35%
	No	17.65%
Method to compute terminal value	Perpetuity with growth	76.47%
	Perpetuity without growth	11.76%
	Multiples	5.88%
	Liquidation value	11.76%
	No answer	5.88%
Length of explicit forecast period	1-3 years	18.75%
	4-10 years	69.49%
	10+ years	11.76%
Use of the same discount rates for explicit and terminal value	Yes	17.65%
	No	82.35%

The last aspect of the practical application of the DCF method by practitioners was whether they use the same discount rate to discount cash flows for both the explicit forecast period and terminal value or not. It was clear that most analysts do not use the same discount rate. This is interesting and will be further analysed in the next rounds of Delphi that does not form part of this paper.

### Practical aspects of using multiple valuations

Similar to the questions asked in the previous section on the practical implementation of DCF techniques questions were asked regarding the use of multiple valuation techniques. The first section asked which multiples were used more often.

**TABLE 9: FREQUENCY OF USE OF MULTIPLES VALUATION TECHNIQUES**

	Price earnings ratio	Price to book value	Price to cash flow
Very often	47.06%	23.53%	0.00%
Often	29.41%	64.71%	0.00%
Occasionally	23.53%	11.76%	0.00%
Seldom	0.00%	0.00%	11.76%
Never	0.00%	0.00%	70.59%
No answer	0.00%	0.00%	17.65%



It is apparent that based on the information summarised in Table 9 the price earnings ratio and price to book value are the most often used multiples. The price to cash flow multiples are almost never used. It would appear that price to book value is slightly more popular than price to earnings.

### Difficulties encountered when valuing

In the last section of the questionnaire the difficulties that respondents faced when valuing banks in emerging markets compared to developed markets were considered. The two issues that appeared to be the most difficult was the difficulty of accessing data and the difficulties in predicting future events. It would appear that the respondents did not feel that the theoretical assumptions of the models gave them difficulty when valuing banks in emerging markets. These findings are summarised in Table 10.

**TABLE 10: CHALLENGES ENCOUNTERED WHEN VALUING BANKS IN EMERGING MARKETS**

Difficulties in accessing data	82.35%
A lack of businesses to compare with	35.29%
Difficulties in estimating underlying assumptions	58.82%
Predicting future events	76.47%
Unrealistic theoretical assumptions of models used	29.41%

## CONCLUSION AND RECOMMENDATIONS

In this study an attempt was made to understand the literature on the valuation techniques used to value banks in emerging markets. Based on the information gained a questionnaire was drawn up as a first round using the Delphi technique. The information gathered in this questionnaire was summarised.

The study found that it is very important for analysts to perform analysis of the macro-economic, industry and bank specific factors that may affect the value of a bank. Furthermore although the literature is somewhat more divided, the analysts surveyed showed a large preference for the DCF methods. They perceive this method as both more popular and more accurate. The DCF method was found to be used mostly as the primary valuation tool while multiples were generally found to be used as a secondary valuation tool.

Analysts further favoured the Dividend Discount Model and the Equity Discounted Cash Flow models when valuing banks in emerging markets. They normally calculate a terminal value based on a growing perpetuity and interesting enough use different discount rates as the discount rates for the explicit forecast period and for the calculation of the terminal value. Generally they favoured the Price Earnings and Price to book value multiples when using multiples.

Finally the main difficulties when valuing banks in emerging markets compared to those in developed markets was that they found was accessing the necessary data and estimating the underlying assumptions.

This paper has explored the difficulties in valuing banks in emerging markets and found that the techniques themselves seem to function adequately for analysts but that access to information and being able to estimate the future posed great challenges for analysts.



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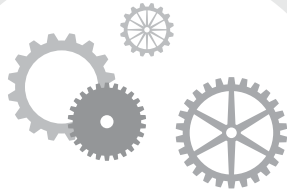
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# DETERMINATION OF NET INTEREST MARGIN DRIVERS FOR SOUTH AFRICAN BANKS

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## ABSTRACT

The perception exists that bank net interest margins (NIM) in Sub-Saharan Africa and South Africa in particular, are high compared to other regions. This could be an indication of inefficiencies in Sub-Saharan African banks. This paper investigates the four largest commercial banks in South Africa to identify the relevance and significance of factors affecting NIM in commercial banking in South Africa. The Classical Linear Regression Model (CLRM), together with the Ordinary Least Squares (OLS) data estimating technique were used to determine net interest margins drivers, based on Ho and Saunders' Dealer model. Average operating costs, degree of risk aversion, credit risk exposure and size of operations were the major factors that influenced NIM in the sample of South African banks. Market power, interest rate volatility and the opportunity cost of holding reserves were also relevant factors, though less significant. Quality of management does not appear to have a significant impact in determining NIM in South African banks.

## KEYWORDS

Net interest margins, Commercial banks, South Africa

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## INTRODUCTION

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Net interest margins (NIMs) are the difference between the interest rates banks borrow and lend at. Due to the sensitivity of competitors and consumers about bank profits, NIM has been a theme of much debate in South Africa.

In 1998 already, the South African Reserve Bank (SARB) commissioned KPMG, an accounting firm, to specifically study bank margins and related profitability in the South African banking sector. The study revealed that there was a widespread perception that South African banks enjoyed excessive net interest margins compared to other capital markets in the world (KPMG report, 1998: 1). The Jali enquiry in 2006 was commissioned specifically because of the negative public opinion on the level of bank charges in South Africa (Competition Commission of South Africa, 2006).

According to Flamini, McDonald and Schumacher (2009:3), excessive bank returns were a common phenomenon throughout the developing world, particularly in Sub-Saharan Africa. Findings from studies (Chirwa & Mlachila, 2004; Jayaraman & Sharma, 2003; cited in Folawewo & Tennant, 2008: 2) concurred with the view that NIMs were higher in the developing world than in the developed world. If excessive high returns are evident it could be an indication of some degree of inefficiency in banking services.

To address the possible concern of inefficiency, the factors influencing NIM must be identified, prioritised and addressed to correct inefficiencies.

### **Objective**

No quantitative study could be found that specifically investigated the determinants of NIM in South African commercial banks. The objective of this paper is to make a contribution to this gap in knowledge and to establish and determine the significance of the dominant factors that determine NIM in the South African commercial banking sector.

The paper is structured into five sections. Section one provided the perceived problem with NIM, the objective and focuses of the paper. Section two reviews the study philosophy on NIM. The research methodology employed is dealt with in section three. The data analysis and interpretation of the results is presented in section four, while section five contains a summary of the findings, conclusions, implications and recommendations.

## **REVIEW OF NET INTEREST MARGIN DRIVERS**

According to Claeys and Vennet (2007: 5), the study of NIM is predominantly based on the Structure-conduct-performance (SCP) and relative market power (RMP) hypotheses on the one hand, and the efficient-structure (ES) hypothesis on the other.

The traditional SCP paradigm emphasises the linear positive relationship between NIM and market structure as an indicator of non-competitive pricing activity in concentrated markets. Claeys and Vennet (2007: 5) defined market concentration as the extent to which a relatively small number of banks account for a relatively large percentage of the market share. Banks operating in highly concentrated markets have more market power irrespective of their level of efficiency. The RMP hypothesis states that only those banks with large market shares are able to exercise market power in pricing, and as a result earn higher margins (Jeon & Miller, 2005: 13).

The efficient structure (ES) hypothesis emerged as an alternative to the SCP framework. It proposes that the performance of a bank is positively related to its efficiency (Claeys & Vennet, 2007: 6).



A number of models, underpinned by the SCP and ES theoretical frameworks, have been developed to examine the determinants of bank net interest margins and profitability. These models consider how internal factors and/or external factors impact on bank net interest margins. The objective of these models is to derive an optimal net interest margin for a bank in a given competitive environment (Hanweck & Ryu, 2005: 7).

## MODELS USED TO STUDY NET INTEREST MARGINS

The most common models to study NIM are the Firm Theoretic and the Dealer Models. Of these, the Dealer Model is most widely used (Hanweck & Ryu, 2005: 7).

### The Dealer Model

This model was pioneered by Ho & Saunders (1981). It presents banking businesses as risk-averse intermediaries acting between lenders and borrowers of funds in the credit market. According to this model, banks seek to create risk-adjusted returns by selecting optimal mark-up on loans and mark-down on deposits to maximise shareholders wealth.

In their study, Ho & Saunders (1981) investigated banks to determine distinctive factors on which a 'pure' interest margin common across all banks, can be based. They concluded that this pure interest margin depends on the degree of managerial risk aversion, the size of bank transactions, the banking market competitiveness and the interest rate risk. They identified the interest rate risk as the most critical factor.

A series of subsequent studies disputed the Dealer model approach, arguing that the model proposed by Ho & Saunders in 1981 does not recognise the bank as a business having a particular production function associated with the provision of banking services (Lerner, 1981: 601). As a result, various extensions of the Ho and Saunders original model emerged. Learner (1981: 601) extended Ho and Saunders' (1981) original model by also including average operating costs as significant factor affecting NIM. Maudos and Guevara (2003: 7) assumed these costs to be a function of size of operations in terms of deposits received and loans issued. Angbazo (1997: 60) also modified the original Ho and Saunders (1981) model by incorporating credit risk into the basic model. He argued that the interest margins of commercial banks reflect both the interest and credit risk premiums.

Likewise, McShane & Sharpe (1985: 118) modified the model to include interest rate risk as a variable. They recognised that the market interest rate risk comes from the volatility of the money markets in that the money market rates cannot be predicted.

Maudos and Guevara (2003: 8) also extended the Ho and Saunders' original model by adding a credit risk premium and operating costs as elements that could explain the variations in NIM. They indicated that in practice the concept of a pure margin does not exist. This is mainly because in the application of the Dealer model the practical effects of certain market, regulatory and institutional imperfections that distort the observed pure net interest margin must be recognised.

Ho & Saunders (1981) acknowledged that in practice these imperfections exist and must be viewed as other variables that can influence net interest margins. They regarded implicit interest payments, loan loss, and bank capital as the institutional imperfections that may impact on pure net interest margins.

Different empirical studies proposed different sets of variables that they considered representative of the imperfections. Saunders and Schumacher (2000: 258) identified implicit interest payments, bank capital and opportunity cost of bank reserves as the relevant imperfections, while Brock and

Saurez (2000: 142) attributed imperfections to average operating costs, loan loss, bank capital and liquid assets. Drakos (2003: 8) considered important imperfections that affect the pure interest margin as liquidity, loan loss provision and interest rate risk. In a further study Zhou and Wong (2008: 44) identified implicit interest payments and the opportunity cost of holding reserves as the most significant market imperfections affecting NIMs in mainland China. Angbazo (1997: 58) identified quality of management as the most important market imperfection that affects net interest margins. They argued that good management must be able to choose highly profitable assets and low cost liabilities.

To control these market imperfection factors a two-step regression function was suggested (Brock & Suarez 2000: 142). This approach was a radical departure from the normal single-step specification that was widely used to determine NIM. While the single-step process combines in one function the base variables of the theoretical model and the additional variables representing imperfections, the two-step approach treated the model in two stages (Doliente, 2003: 5). The first stage of the regression addresses the determination of the pure margin that is constant across banks. The pure margin is treated as a dependent variable in the second step regression for the estimation of the effects of other relevant variables.

Both the Dealer and the Firm Theoretic models have two main limitations. The first limitation is that both models are single-horizon or short-run and static, assuming homogeneous assets and liabilities with the same reference rate.

The second limitation is that the banking industry is treated as being mainly homogeneous. In practice, different banks have different product ranges, business models, pricing power and funding structures (Hanweck & Ryu 2005: 10).

Despite these criticisms the Dealer model approach remains one of the most recognized approaches to study the NIM environments of banks (Hanweck & Ryu, 2005: 7).

## DEALER MODEL APPROACHES

The Dealer Model comprises both the single step and two step approaches. The two step approach requires data with a long time series to estimate the pure interest margin (Maudos & Guevara, 2003: 9). As economic trends over long periods are often interrupted by political, social and economic developments that may distort data patterns, this paper applied the Single Step Dealer Model to investigate the determinants and significance of factors effecting NIMs in selected South African banks.

### The adjusted dealer model

The model applied in this paper is derived from the adjusted single step Dealer Model, and is similar to the models used by Zhou and Wong (2008), Zuzana and Tigran (2008), Maudos and Guevara (2003) to investigate NIM determinants of banks.

### The Single-Step Dealer Model regression is:

$$NIM = \alpha + \beta_1 HERF + \beta_2 C + \beta_3 R + \beta_4 R_c + \beta_5 Q + \beta_6 I_r + \beta_7 OC + \beta_8 QM + \varepsilon \quad (1)$$

(Zhou and Wong, 2008: 45). The symbol ( $\varepsilon$ ) in the specification represents the error term. The independent variables are the banking market competitiveness, represented by the herfindahl index ( $HERF$ ), the average operating costs ( $C$ ), managerial risk aversion ( $R$ ), the credit risk ( $R_c$ ), the size of operations ( $Q$ ), market interest rate volatility ( $I_r$ ), opportunity costs of bank reserves ( $OC$ ), and the quality of management ( $QM$ ).

## Methodology

According to Brooks (2008: 5, 10), the empirical specifications of the Dealer Model can be analysed either by cross-sectional analysis, applying the Classical Linear Regression model (CLRM) by means of the Ordinary Least Squares (OLS) estimation technique or by the panel estimation method. He cautioned that panel data techniques must be used with great care, because of the complexity of the techniques. This paper will adopt the OLS data technique, owing to its widespread use and simplicity.

To ensure statistical reliability with OLS technique, five assumptions must be verified (Brooks, 2008:44): Firstly, the error terms should have zero means. Secondly, the variance of the error terms should be constant and finite over all values of the independent variable ( $x_i$ ). Thirdly, it is assumed that the errors are linearly independent of one another; therefore not auto-correlated. Assumptions four and five respectively assume that the explanatory variables are not correlated with one another, and residuals are distributed normally.

Diagnostic tests to detect and “cure” any violations of the five assumptions were applied to the data. Assumption one is automatically verified if an intercept is included in the regression equation, and it is not zero (Brooks, 2008: 131). White’s test was used to verify hetero-scedasticity, the constant variance of the error terms in assumption two. A graphical analysis was used to test for autocorrelation in assumption three, while a correlation matrix and the Bera-Jarque tests were used to verify multi-collinearity and non-normality in assumptions four and five respectively.

## Model variables

The variables in the model described in equation “1” above are summarised as follows: NIM is the dependent variable in the model, based on the narrow definition of NIM. The narrow definition of NIM takes into consideration bank deposits and loans only. It excludes the impact of other banking services such as securities and banking services charges. The herfindahl index, (*HERF*) represents the banking market competitiveness. Average operating costs (*C*) is represented by the quotient between operational expense and total assets (Zhou & Wong 2008: 43, 44). Degree of Risk Aversion (*R*) is represented by the equity to total asset ratio (Zuzana & Tigran, 2008: 9; Maudos & Guevara, 2003: 11, 12). The latter proposed that the ideal proxy for credit risk ( $R_c$ ) is the loans to total asset ratio.

In terms of the size of operations variable (*Q*), Maudos and Guevara (2003: 8) and Zhou and Wong (2008: 44) considered the logarithm of total loan volume granted as the suitable proxy of the size of operations. The money market interest rates volatility variable ( $I_r$ ) is represented by the annual standard deviation on daily interest rates. The opportunity cost of reserves (*OC*) variable is measured by the ratio of cash due from banks divided by total assets. Lastly, the quality of management (*QM*) is measured by the cost to income ratio.

## Study population and sample

The study population comprises the eight JSE Ltd listed deposit-accepting and loan-issuing banking institutions in South Africa. From the population a sample consisting of the four largest commercial banks, namely Standard Bank, Nedbank, FNB and ABSA were selected. The four banks constitute 90% of the market capitalisation of all the commercial banks listed on the JSE stock exchange as at May 2010, as presented in Table 1 below.

**TABLE 1: MARKET CAPITALISATION OF JSE LTD LISTED COMMERCIAL BANKS (R MILLION)**

<b>Sector Index-Banks</b>				
<b>Name</b>	<b>Code</b>	<b>Year End</b>	<b>Next Results</b>	<b>Market Cap (R, millions)</b>
ABSA Bank Ltd	ASA	Dec	Jun 2010 (Interim)	87 909m
Capitec Bank Holdings Ltd	CPI	Feb	Aug 2010 (Interim)	8 613m
First Rand Ltd (FNB)	FRS	Jun	Jun 2010 (Final)	106 130m
Mercantile Bank Holdings Ltd	MTL	Dec	Jun 2010 (Interim)	867m
Nedbank Ltd	NED	Dec	Jun 2010 (Interim)	63 773m
RMB Holdings Ltd	RMH	Jun	Jun 2010 (Final)	36 310m
Saambou Holdings Ltd (suspended)	SBO	Mar	-	339m
Standard Bank Ltd	SBK	Dec	Jun 2010 (Interim)	166 216m

(Source: www.profile.co.za share data, (May 2010)).

The secondary data that were used in this paper is seasonally adjusted annual interval data. The data were obtained from the Bankscope database. The sample period incorporated the years 2000 to 2010.

## **DATA ANALYSIS AND INTERPRETATION OF RESULTS**

The general-to-specific approach, as recommended by Brooks (2008: 191, 192) was used to analyse NIM. This approach involves starting with a large number of variables, then subtracting insignificant variables and rearranging the model until a final formulation is reached. It has the advantage that diagnostic testing is applied at the beginning of the model-building process.

### **Bank-specific descriptive statistics**

The data of the sampled banks were analysed to determine data normality. The analysis indicated that some data variables of the banks reflect negative and positive skewness. The NIM skewness for all banks was, however, close to zero (Standard Bank, 0.7113; Nedbank, 0.4454; FNB, 0.5920 and ABSA, 0.3774). This indicated that none of the sampled banks had excessive NIM returns.

### **Diagnostic test results**

To apply the OLS technique on the individual banks, diagnostic tests were conducted to ascertain whether the assumptions of the CLRM could be verified and whether the results were valid.

Data distribution normality was tested, using the Jarque-Bera test (Brooks, 2008: 163). The Jarque-Bera statistic calculated from the data was as follows: Standard Bank (0.685), Nedbank (2.934), FNB (0.695) and ABSA (1.484). These statistics exceeded the critical values (Standard Bank, 0.1026; Nedbank, 0.1026; FNB, 0.1026 and ABSA, 0.1026), as derived from the chi-squared distribution statistical tables. This implied that the null hypothesis, namely that the distributions of the data in all the four cases were symmetric and mesokurtic, and could not be rejected, and that the non-symmetry of the distributions was not significant.

Multi-collinearity of explanatory variables was tested by means of the correlation matrix diagnostic test (Brooks, 2008: 161, 173). Correlations of explanatory variables of between -0.7 and +0.7 are assumed not to cause multi-collinearity problems, and near multi-collinearity could be ignored if a model was statistically adequate (Mason & Lind, 1996 cited in Majumdar & Bacon, 2007).

The NIM variables from the sample of banks that exhibited high multi-collinearity and were not statistically significant were excluded from the model. In the Standard Bank analysis, cost of operations, credit risk, opportunity cost of reserves and quality of management were excluded; in the FNB analysis, size of operations was excluded; in the ABSA analysis, quality of management was excluded). Ned bank variables were not correlated with one another. All correlations were less than +0.7.

The existence of auto-correlation was tested graphically after excluding variables exhibiting multi-collinearity. Autocorrelations do not exist if the error terms are uncorrelated with one another (Brooks, 2008:139, 141). A graph was constructed from the residual  $\mu$  (the error term) versus time  $t$ , and  $\mu t$  versus  $\mu$ . The graphical plots of  $\mu$  versus  $t$  and  $\mu$  versus  $\mu$  exhibited random patterns suggesting that auto-correlation was not present in the data of the sample banks.

The presence of heteroscedasticity was tested with White's test. This test investigates whether the variance of the error term  $\text{var}(\mu) = \sigma^2$  is constant (Brooks, 2008: 132, 134). White's test was conducted by running an auxiliary regression on the square of the error terms ( $\mu^2$ ) and the original explanatory variables, their squares and the explanatory variable cross products. The results of the auxiliary regression were subjected to the Lagrange Multiplier test statistic. The test statistic is dependent on the values of the product of observations ( $T$ ) and goodness of fit statistic ( $R^2$ ). This test statistic follows the chi-square,  $\chi^2(n)$  distribution, where  $n$  represents the degrees of freedom in the auxiliary equation. The corresponding five per cent critical value from the chi-square,  $\chi^2(9)$  statistical tables for Standard Bank and Nedbank was 16.919, and  $\chi^2(7)$  table for FNB was 14.067. The test statistics obtained from  $TR^2$  for the three respective banks were: Standard Bank (10.98), Nedbank (9.36) and FNB (5.50). These statistics were lower than the critical values, suggesting that the variance of the error terms was constant and finite over all values of the explanatory variables. This implied that the data was not hetero-scedastic.

The auxiliary regression equation for ABSA data had more explanatory variables than observations, causing the regression format to be out of range. According to Hyndman and Kostenko (2007: 13), minimum sample requirements dictate that the number of data points required for a statistical model must be more than the coefficients. The hetero-scedasticity test could therefore not be performed.

## FINDINGS

### Standard Bank results

The first-time regression results indicated that all the proposed variables in the proposed model for this paper were statistically insignificant as measured by the  $t$ -statistic. This indicated that the theoretical model in its original form did not have the predictive power to estimate NIM for Standard Bank. Table 2 below indicates that after applying the general-to-specific process, variables HERF, R and Log Q did, however, become significant.

**TABLE 2: STANDARD BANK REGRESSION RESULTS**

Multiple R = 0.9605		R Square = 0.9225		Adjusted R <sup>2</sup> = 0.8708		Std Error = 0.2364		
	<b>Coefficients</b>	<b>Standard Error</b>	<b>t Stat</b>	<b>P-value</b>	<b>Lower 95%</b>	<b>Upper 95%</b>	<b>Lower 95.0%</b>	<b>Upper 95.0%</b>
Intercept	-12.087	7.136	-1.694	0.141	-29.548	5.374	-29.54	5.374
HERF	122.022	28.177	4.331	0.005	53.076	190.968	53.076	190.968
C	-98.293	51.844	-1.896	0.107	-225.150	28.564	-225.1	28.564
R	33.975	12.901	2.634	0.039	2.408	65.543	2.408	65.543
Log Q	-2.790	1.025	-2.723	0.034	-5.297	-0.283	-5.297	-0.283

According to table two, the coefficient for market structure (HERF) is positive showing that this variable has a positive influence on NIM. The relative size of the coefficient (122) indicates that its impact on the NIM is also significant. This supports the market power hypothesis that banks operating in highly concentrated markets will exert more market power and make more profit than banks in less concentrated markets, irrespective of their level of efficiency (Claeys & Vennet, 2007: 5).

The positive coefficient of degree of risk aversion (R), variable suggests that the more bank management becomes risk averse, the more they will increase their bank's NIMs. This is in line with the opinion of Zhou & Wong (2008: 44) and Zuzana & Tigran (2008: 9), who concurred that a positive relationship between R and NIM was regarded as a risk premium. Banks that are risk averse are bound to increase NIM to protect them against increasing risk. The size of the degree of risk aversion coefficient (33.975) indicates that its impact on the NIM is significant.

A negative coefficient of size of transaction variable (Log Q) implies that if the size of transactions increases NIMs decrease and vice-versa. Maudos & Guevera (2003: 11) attributed this to economies of scale effect. The coefficient size is relatively small (-2.97), indicating that the variable's influence on NIM is significantly less than on the other variables.

The average cost of operations variable (C) is not statistically significant (t-statistic = -1.896). However, if this variable is removed from the model, the other variables as well as the model also become statistically insignificant. This may indicate that the average cost variable may not have a singular causative effect on NIMs but may have a joint influence with the other three variables.

## Nedbank results

The first-time regression of the basic model does not yield any significant variables for Nedbank. Table 3 below indicates that average operating costs (C), Credit risk exposure (RC) size of operations (Log Q) and interest rate volatility (I<sub>r</sub>) become statistically significant only after applying a general-to-specific process.

**TABLE 3: NEDBANK REGRESSION RESULTS**

Multiple R = 0.9898		R Square = 0.9797		Adjusted R <sup>2</sup> = 0.9662		Std Error = 0.0781		
	<b>Coeff</b>	<b>Standard Error</b>	<b>t Stat</b>	<b>P-value</b>	<b>Lower 95%</b>	<b>Upper 95%</b>	<b>Lower 95.0%</b>	<b>Upper 95.0%</b>
Intercept	3.1136	0.8396	3.7086	0.0100	1.0593	5.1680	1.0593	5.1680
C	-15.5207	4.9165	-3.156	0.0196	-27.5508	-3.490	-27.55	-3.490
R <sub>c</sub>	8.7469	0.5690	15.371	0.0000	7.3545	10.139	7.3545	10.139
LogQ	-1.0869	0.1633	-6.656	0.0006	-1.4864	-0.687	-1.486	-0.687
I <sub>r</sub>	-0.2751	0.0397	-6.930	0.0004	-0.3722	-0.178	-0.372	-0.178



The high coefficient of average operating cost C (-15.5), albeit negative, supports the cost-of-goods-sold hypothesis. This hypothesis suggests that NIM is influenced by the cost that emanates from the bank's activity in the money market as a result of the random arrival of deposits and demand for loans. The negative coefficient of average operating costs variable, however, contradicts the philosophy that suggests that higher margins are required to cushion higher costs. This may suggest that in a highly competitive and/or regulated market costs may rise without a corresponding rise in NIMs. The rising costs may actually reduce profits. Alternatively, as Al Muharrami & Mathews (2009: 4) explained, banks with superior production technologies had lower costs and therefore higher profits.

Nedbank exhibits an inverse relationship between NIM and money market interest rate volatility, (Ir.) This contradicts Maudos & Guevara (2003: 8), who suggested that highly volatile money market interest rates compelled banks to operate with higher margins as a risk premium. However, the result tends to support Dermirguc-Kunt & Huizinga (1998: 20), who found evidence that real interest rises did not increase margins as much in developed countries as in developing countries, due to mandatory deposit rate ceilings that restricted deposit rates. The negative coefficient of size of operations variable supports the economies of scale hypothesis.

The effects of market structure appear to be insignificant for Nedbank. The bank may not have the capacity to influence the market, since its market share at 20% is the smallest of the sampled banks.

## FNB results

The FNB's regression results are similar to those of Standard Bank and Nedbank. It does not produce any variables that are statistically significant from the first-time regression. Table four below indicates that cost of operations (C) degree of risk aversion (R) and credit risk exposure (R<sub>c</sub>) only become significant after the general-to-specific process had been applied.

**TABLE 4: FNB REGRESSION RESULTS**

Multiple R = 0.9316		R Square = 0.8680		Adjusted R <sup>2</sup> = 0.8114		Std Error = 0.2002		
	<i>Coefficients</i>	<i>Standard Error</i>	<i>t Stat</i>	<i>P-value</i>	<i>Lower 95%</i>	<i>Upper 95%</i>	<i>Lower 95%</i>	<i>Upper 95%</i>
Intercept	0.1662	1.3165	0.1262	0.9031	-2.9468	3.279	-2.9468	3.2791
C	119.1861	25.8651	4.6080	0.0025	58.0248	180.3	58.0248	180.347
R	-55.5383	19.9648	-2.781	0.0272	-102.7474	-8.329	-102.74	-8.3291
R <sub>c</sub>	5.2820	2.3444	2.2530	0.0589	-0.2617	10.82	-0.2617	10.8257

The positive coefficient for R<sub>c</sub> supports the opinion of Zuzana & Tigran (2008: 9) and Maudos & Guevara (2003: 11). Banks that are exposed to greater risk operate with higher margins as risk premium. Similarly, the positive coefficient for average operating costs variable (C) supports the theory that banks require higher margins to cushion higher costs attributable to a large asset base.

The coefficient of the credit risk variable (R<sub>c</sub>) is small compared to coefficients of average operating costs (C) and risk aversion (R) variables indicating partial impact on NIMs. The negative coefficient of risk aversion, (R), is unexpected and cannot be backed by either theory or precedent studies. According to Zhou & Wong (2008:44), higher margins imply a more risk-averse bank. The estimated coefficient for this variable is therefore expected to be positive. A possible explanation could be the impact of the National Credit Act (NCA), which curtails banks' risk behaviour, with long-term accruing benefits to the banks.

Lack of impact of market structure (HERF) on NIM is unexpected, as FNB has the biggest market share at 31%. This bank could be expected to enjoy some degree of monopolistic market power.

## ABSA results

All variables except average cost (C), are significant for the first-time regression. Quality of management (QM) is marginally significant with a t-statistic of 1.4316, compared to a critical value of 1.9432. Table 5 below indicates the significant variables for ABSA.

**TABLE 5: ABSA REGRESSION RESULTS**

Multiple R = 0.9943		R Square = 0.9887		Adjusted R <sup>2</sup> = 0.9623		Std Error = 0.0684		
	<b>Coefficient</b>	<b>Standard Error</b>	<b>t Stat</b>	<b>P-value</b>	<b>Lower 95%</b>	<b>Upper 95%</b>	<b>Lower 95.0%</b>	<b>Upper 95.0%</b>
Intercept	-9.7134	6.3565	-1.528	0.2239	-29.9427	10.516	-29.94	10.516
HERF	102.0755	13.1336	7.7721	0.0044	60.2787	143.87	60.278	143.87
R	26.3539	6.6520	3.9618	0.0287	5.1842	47.523	5.1842	47.523
R <sub>c</sub>	-4.9723	1.7890	-2.779	0.0690	-10.6657	0.7210	-10.66	0.7210
LogQ	-2.0110	0.7438	-2.703	0.0736	-4.3781	0.3561	-4.378	0.3561
I <sub>r</sub>	-0.1757	0.0497	-3.537	0.0384	-0.3337	-0.017	-0.333	-0.017
OC	-22.2239	3.9930	-5.565	0.0114	-34.9314	-9.516	-34.93	-9.516
QM	0.0188	0.0132	1.4316	0.2477	-0.0230	0.0607	-0.023	0.0607

The negative coefficient for the opportunity cost variable (OC) contradicts the theory that the additional cost of holding reserves depends on the size of the reserves, thus a positive relationship between opportunity cost and net interest margin would be expected (Zhou & Wong, 2008: 44).

The negative coefficient for credit risk (R<sub>c</sub>) is debatable. Maudos & Guevara (2003: 13) and Flamini et al. (2009: 7) posited that the standard asset-pricing theory dictated that a positive relationship could be expected between NIM and credit risk. Banks faced with higher loan defaults will apply a risk premium that will reflect in higher NIMs. In contrast, Hanweck & Ryu (2005: 20) predicted a negative relationship based on the decreased credit quality of the borrower, which would increase the bank's credit risk and therefore also the value of the option to sell off the asset held by the bank as collateral.

## SUMMARY AND CONCLUSIONS

This paper investigated selected variables of the determinants of NIMs of a sample of South African commercial banks. The analysis revealed that the Dealer Model as applied here explained the bank NIM environment in South Africa well. This was reflected by high goodness of fit (R<sup>2</sup>) indicated in tables 2 to 5. However, the variables that affect the banks' NIM and the extent of the impact of the significant variables were not similar across the sample of banks.

Contrary to the expectation that competitiveness of the market structure has a significant impact on NIMs in Sub-Saharan Africa, the evidence of this research suggests that it does not have a significant impact on all banks. FNB's NIM is not influenced by the competitiveness of the market structure despite having the largest market share (31%). Standard Bank and ABSA with market shares of 26% and 23% respectively are affected significantly by the competitiveness of the market structure despite having lower market shares than FNB.

The impact of average operating costs on NIM is significant only for Nedbank (-15,5207) and FNB (119.1861). The positive relationship for FNB may indicate that the bank transfers a portion of its operating costs to the borrowers and depositors, while the negative coefficient for Nedbank may suggest that the bank endeavours to absorb a portion of its operating costs.

There is little evidence of a relationship between average operating costs ( $C$ ) and NIM for Standard Bank and ABSA ( $t$ -statistic = 0.498 and 1.89 respectively). This is unexpected, since overhead costs are expected to be high in Sub-Saharan Africa and to have a significant influence on NIMs. In terms of the credit risk variable coefficient ( $R_c$ ), Standard Bank is the only bank where credit risk exposure does not appear to have any significant influence on NIM. The size of transaction variable ( $\text{Log } Q$ ) has some influence on NIM in all banks except FNB. . The negative coefficients, (Standard Bank -2.789; Nedbank -1,0869, ABSA -2.0110) supports the economies of scale market power hypothesis. However, this finding contradicts Maudos & Guevara (2003: 8), who predicted a positive relationship due to overheads that increase with size of operations.

The NIM for Nedbank and ABSA displayed sensitivity to short-term interest rate fluctuations as measured by interest rate volatility. However, the magnitude of the coefficients is low (-0.28 and -0.18 respectively), signifying that short-term interest rates are less important in explaining NIM. The quality of management proxy has no significant effect in the estimation of NIMs for all the banks.

## IMPLICATIONS AND RECOMMENDATIONS

This paper identified the factors and the significance of the factors that influence NIM in selected commercial banks in South Africa. The specific factors that have a significant impact on NIM and eventually on bank profitability were: average operating costs; risk aversion; credit risk exposure; size of operations; structure of the market and opportunity cost of holding reserves. The banks in the sample, which represent 90% of the market capitalisation of commercial JSE Ltd. listed banks in SA, are now based on the findings of this paper in a position to identify the factors which have a more significant impact on the determination of their bank specific NIM. Banks will therefore be able to focus their managerial skills on more relevant risk management and on the optimization of socially responsible NIM.

There is increasing pressure on management and economic policymakers to take actions that will keep the South African banking sector competitive and socially responsible. This paper provided a quantitative approach to identify and to determine the significance of factors that influence bank profitability as represented by NIM. The Dealer Model as applied here explained the bank NIM environment in South Africa well. It is recommended that management and policymakers consider the methodological guidance in this paper to determine and compare NIM objectivity in SA.



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# SUSTAINABILITY AND TRIPLE BOTTOM LINE REPORTING IN THE BANKING INDUSTRY

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## ABSTRACT

This research examined the status of disclosures on sustainability and triple bottom line (TBL) reporting in the banking industry. This was based on the Global Reporting Initiative (GRI) - G3 guidelines. An investigation on the four big banks were conducted namely ABSA, Firststrand Bank Limited, Nedbank and Standard Bank, disclosing information about the areas of sustainability and the triple bottom line, in relation to economic, environmental and social factors. The problem statement reflects disclosures in the annual financial reports of organisations on the triple bottom line which are of a voluntary nature. The quality of the triple bottom line reporting has remained fairly low and rarely covers those aspects that are more sensitive to sustainable development, thus ignoring issues of complexity and context, an issue further explored in the literature review. Other issues addressed are sustainability factors, corporate social responsibility, triple bottom line and the Global Reporting Initiative (GRI) and highlights how these intertwine with each other. In this study the empirical research adopts content analysis as a research method, after which the results of the standard disclosures of the GRI-G3 checklist on the four big banks are revealed. The GRI-G3 checklist was used as the basis to assess the financial disclosures of the four big banks as published in their 2010 annual financial reports. In the summary of the results the principles of the defining report content were used as a benchmark to analyse the disclosures of the annual financial reports. The paper concludes with the limitations and challenges faced, followed by recommendations based on the principles for defining report content from the GRI-G3 guideline and aspects that needs further attention due to disclosures not having been adequately represented.

## KEYWORDS

Financial reporting, Sustainability, Banking industry, Triple bottom line reporting



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## INTRODUCTION

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The triple bottom line report (TBL) uses the bottom line metaphor from financial reporting as a template for the reporting of economic, social, and environmental sustainability (Dillard & Dujon King, 2009: 225). The perception of assessing an organisation's viability was distinctively characterised by its financial bottom line, which is defined by the profit earnings and very little, if any, of the organisation's environmental and social responsibilities (Archel, Fernandez & Larrinaga, 2008: 106). Although some organisations report on the triple bottom line (TBL), the question remains whether it has a fair amount of impetus behind it. Organisations have far greater impact on the economy and at the same time the society that it sustains. Due to the fact that the TBL reporting is merely a voluntary activity, the motivations that drive an organisation to engage in such activities remain unclear (Archel et al., 2008: 107). The idea of sustainable development addresses some businesses' desire to see the opportunity to engage and embrace environmental and social issues without giving up the desire to be economically prosperous.

In 1994, Elkington coined the term triple bottom line, but he only made an impact on this matter with his book published in 1997, titled: *Cannibals with Forks: The Triple Bottom Line of the 21st Century Business*. TBL reporting was to unify the economic, environmental, and social factors that influence companies, organisations, many strategies, programmes and initiatives all orientated towards navigating and resolving ethical challenges that arise. The basis of TBL reporting is the balancing of society's requirements and those of organisations to stay profitable and employ people (Elkington, 1997: 140).

### **Limitations and challenges**

In the first place after this study has been completed, King III in coordination with the GRI G4 guidelines calls for organisations to prepare an integrated report, recognising the impact of the organisation on the environment and society, and related reputational issues. Following the incorporation of King III into the Johannesburg Stock Exchange (JSE) listings requirements, listed companies are now required to issue an integrated report for financial years starting on or after 1 March 2010 or to explain why they are not doing so (IRCSA, 2011: 7).

The second limitation of this study is that the analysis of the financial reports is based on the sample of only the four big commercial banks in South Africa. Therefore the results of the study must be interpreted only with the four big banks and should not be generalised to other smaller banks and non-banking business sectors.

Thirdly, the study considers only one period but the findings of the study might change over time. Therefore, more time in the future surrounding this matter may enable more progress to recognise the movements of sustainability reporting across time on annual financial reports. Since there are no regulatory requirements in the context of the information, the findings are based on the quantity of disclosure rather than quality.

Despite the above limitations, this study investigated sustainability reporting practices in the banking sector with the four big banks in comparison with the sustainability and TBL reporting framework, such as the GRI, which is in itself good to compare local banks with international standards.

### **Problem statement**

Archel et al. (2008: 108) suggest that by publishing TBL reports, organisations intend to gain and/or maintain the reputation of the organisation rather than to discharge their accountability. Secondly, and probably as a consequence of its voluntary nature, the quality of TBL reporting has remained

fairly poor, rarely covering those aspects that are more sensitive to sustainable development and ignoring issues of complexity and context. Due to the poor quality of the TBL reports and the importance that an organisation has in society, it is relevant for this report to emphasise the importance of TBL reporting. This will also enhance the focus for organisations in the future when evaluating TBL reporting processes. TBL reporting is a relative new concept and the focus on corporate social responsibility (CSR) and environmental management is no longer just an afterthought in an annual report. The term 'sustainability' has become a fixture in the business arena and this report aims to help to establish these thoughts in organisations, specifically on the four banks which will be under review. Archel et al., (2008: 108) further indicate that too much emphasis is placed on economic value in organisations and that TBL values have not yet been integrated in meaningful ways into the decision-making process of organisations.

### **Research objective**

The primary research objective is to investigate the status of disclosure on the four 'big commercial banks' in South Africa, reporting on sustainability and TBL reporting disclosed in their annual financial reports.

### **Research method**

There are two phases in the study, namely a literature review and an empirical study. By using a literature study, the researcher wishes to bring to the fore the importance for organisations of reporting on sustainability and TBL. Relevant international and national literature forms the base of the literature study. The sources that were consulted include publications such as textbooks, Internet searches, newsletters, company booklets, annual financial reports, management reports and investigative reports used by the media. In the second phase, the empirical study, content analysis was used as the method of research.

## **LITERATURE REVIEW**

### **Introduction**

For business and society both to gain, sustainability in the broader sense needs increasingly to become the focus of environmental, social and economic prosperity. If organisations want to be sustainable, these three mentioned goals needs to be inter-related and supportive of each other.

According to Colbert and Kurucz (2007: 21) the subject of sustainability and the TBL can be traced back to the Brundlandt Report published in 1987 and the work of Elkington published in 1997. Sustainability, CSR and TBL are very closely linked, with TBL reporting also referred to as 'corporate sustainability' or 'sustainability reporting'. The approach recommended by TBL advocates that environmental, social and financial impacts are taken into account when corporate business strategy is defined. The idea behind the TBL paradigm is that a corporation's ultimate success or health can and should be measured not just by the traditional financial bottom line but also by its social, ethical and environmental performance. This factor is an important milestone in the journey toward sustainability (Gray, 2006: 793).

The claims are that if a company performs in all three bottom lines it will be more successful in its financial bottom line (Gray, 2006: 795). Elkington defined the TBL as focusing on economic prosperity, environmental quality and social justice (Elkington, 1997: 69). The King II Report published in 2002 and the review thereof was prompted by changes in international governance trends and the reform of South Africa's company laws. These followed the promulgation of the new Companies Act, 2008 ("the 2008 Act"), which came into effect on 1 July 2010 with the King III

Report, which mentions the impact that the Brundlandt Report published in 1987 had on the definition of TBL. In this publication the statement made was that the planet had to be protected for future generations.

## **Sustainability reporting**

The sustainability agenda, long understood as an attempt to harmonise the traditional financial bottom line with emerging thinking about the environmental bottom line, turned out to be more complicated than some early business enthusiasts had imagined.

Wheeler and Elkington (2001: 1) argue that communicating effectively with stakeholders on progress towards economic prosperity, environmental quality and social justice, and the TBL, will become a defining characteristic of corporate responsibility in the 21st century. Raar (2002: 181) found a similar trend to that of Wheeler and Elkington (2001: 1), and witnessed a move away from environmental and social information in reports, to information that is aimed more at external relations in the category of sustainability. The subject of TBL is not well defined and most companies have relied upon guidelines to structure their sustainability reports. The most popular guidelines were developed by the GRI.

Institute of Directors “King III Report” (2010: 23) recommended that enterprises wanting to develop their stakeholder identification and engagement of non-financial accounting, control and disclosure processes could draw on a growing volume of guidance material, including industry codes of practice, standards, practical method and management tools. Some examples according to the AccountAbility 1000 report (1999: 3) would be the work of the Institute for Social and Ethical Accountability in its AA1000 framework, which include aspects such as:

- The GRI guidelines
- SA8000 from Social Accountability International
- OHSAS 18000 occupational health and safety standards
- ISO 9000 quality management and quality assurance standards
- ISO 14000 environmental standards.

Of all the guidelines recommended by the King III report, the GRI has become the one that is globally accepted, and that most companies use for reporting purposes.

## **The value of sustainability reporting**

According to Cheney (2004: 14) the debate regarding the reasons for a more transparent way of reporting and the value of sustainability is one that is enjoying an increased level of support from most leading companies. Sustainable development can directly drive or limit value creation and that reporting can help investors distinguish companies that are efficient now and well-positioned to protect their market competitiveness from those that are headed for volatile conditions.

White (2002: 15) stated that while financial reports were then meeting certain narrow technical requirements and providing a glimpse of past performance, the future was to be questioned. Organisations need to create capacity to innovate, train and enrich its human capital, enhance its reputation, strengthen brands, alliances and partnerships. The measurement of public trust and the

quality of governance is also critical in this process. The concept of TBL reporting, an assessment of a company's performance in relation to profit, people and the planet, is increasingly welcomed by financial analysts and investors, because it helps them to make better judgments about the true value and prospects of a company across a broader range of assets.

### **Sustainability in the banking industry**

Bouma et al. (2008: 127) make reference to the report of the "International Financial Corporation (IFC) in 2007 of "Banking on Sustainability". The report suggests that for financial institutions, sustainability has two components: managing social and environmental risks in strategic decision-making and lending; and identifying opportunities for innovative product development in new areas related to sustainability. This entails creating financial products and services that support commercial development of products or activities with social and environmental benefits.

The United Nations Environment Programme (UNEP, 2007: 20), in its African Task Force Report on banking value: A new approach to credit risk in Africa, defines sustainable banking as the process whereby banks consider the impacts of their operations, products and services on the ability of current or future generations to meet their needs. Viewed in this way, banks can be deemed to have direct and indirect impacts to the operation of a bank and include issues such as energy efficiency, waste recycling, ecological footprint, and employment conditions. Indirect impact, are those that follow from the products and services that banks provide, typically associated with the finance and investment activities of banks.

Bouma et al. (2008: 127) define sustainable banking as sustainable finance, the provision of financial capital and risk management, products to projects and businesses that promote, or do not harm, economic prosperity, environmental protection and social justice.

### **Sustainable reporting on banking in South Africa**

The Banking Association of South Africa (BASA) is an additional non-statutory body that is charged with ensuring responsible, competitive and profitable performance of the banking sector. BASA was instrumental in developing the Financial Sector Charter (UNEP, 2007: 20).

The Johannesburg Securities Exchange (JSE) aims to improve company reporting practices through the adoption of various statements of the General Accepted Accounting Principles (GAAP). In terms of sustainability, the JSE requires listed companies to comply with the King Report III on corporate governance, which necessitates adherence to GRI guidelines for integrated sustainability reporting. In May 2004, the JSE launched the Socially Responsible Investment (SRI) Index, comprising a list of companies from the JSE all share index who voluntarily participated in a screening process aimed at assessing the extent to which they complied with a series of TBL performance criteria. The index was the first of its kind in an emerging market and the first of its kind in Africa (UNEP, 2007: 20).

Corporate governance is a well-developed concept in South Africa, with the King Committee on corporate governance publishing the first King Report on corporate governance in 1994. The King Code was published through the efforts of the Institute of Directors (IoD) and the King Committee issued its second report in March 2002 (King II), followed by the King III in 2010, which advocated principles of openness, integrity and accountability. It identified seven primary characteristics of good governance, namely discipline, transparency, independence, accountability, responsibility, fairness and social responsibility (UNEP, 2007: 21).

The Financial Sector Charter (FSC) is the outcome of negotiations between 11 industry associations representing the South African financial services sector. The aim of the Charter is to address key areas such as the increased access to financial services for the unbanked, agricultural development, low income housing finance and financing of small and medium black businesses. The Charter applies to the South African operations of the financial sector and the targets contained apply from 1 January 2004, including the setting of targets to 2014 (UNEP, 2007: 21).

The principle values of sustainability are embedded in the majority of South African banks' strategies and policies. Most banks have a general policy concerning the approach to environmental issues, which in some cases is expanded to include issues of safety and health. The majority of the banks include specific reference to the need to consider environmental issues in credit risk assessments. With respect to the social element of sustainability all banks are subject to the FSC and have broad policies concerning HIV/Aids. Several banks consider governance issues as critical to all lending decisions. The United Nations Environment Programme (UNEP) report published in 2007, indicates that leading financial institutions in South Africa are beginning to embrace sustainability at the heart of their operations, however many financial institutions have yet to fully realise their potential to contribute to sustainable development (UNEP, 2007: 5).

### **Corporate Social Responsibility (CSR)**

In a time when resources become scarce, global warming rises and consumers become more aware of companies business practices, many companies are pressured by shareholders and consumers alike to act in an ethical and sustainable way. One of the tools companies are using in order to act on that demand is CSR. After incidents such as Enron, the public, shareholders and stakeholders demanded companies to engage in ethical and long-term growth practices (Cetindamar & Husoy, 2007: 163). Since then, companies who have engaged in CSR practices have gained a competitive edge over those which continue to do business as usual. Being seen as an ethical and socially responsible company can result in higher sales and better relationships with communities and employees, in turn attracting top talent employees, repositioning of the company in the market and better shareholder/stakeholder relationships (Fox, 2007: 43).

Corporate Social Responsibility can be defined as the assumption of rights and obligations due to the economic, political, and social activity performed by organisations. In other words, this is to create and develop values, such as protection, sustainability, compromise, acting responsibly and economically as far as the environment is concerned (Gil Estallo, Giner de la Fuente & Griful Miquela, 2006: 105).

The three aspects considered in the triple bottom are defined as the financial (economic) bottom line, showing the company's financial performance and indicating how its shareholders are benefited (Cheney, 2004: 12). The social bottom line indicates how the company has benefited society, which includes customers, suppliers, communities, government and future generations. The environmental bottom line indicates how a business contributes to the sustainability of its environment by minimising contamination and waste and ensuring a sustainable supply of natural resources. It has been argued that the process of producing the TBL report helps the business recognise the integral role that the business has in its society and environment. To fully embrace the TBL concept, a business needs to understand the interrelationships that it has with its society and environment (Cheney, 2004: 13).

However, before social and environmental bottom lines attain the same external significance of the financial bottom line, they need to become measurable and standardised (Cheney, 2004: 14). While the discipline of accounting is guided by the Generally Accepted Accounting Principles (GAAP),

there is no standardised metric measure of a company's environmental and social benefit or cost. In a move to standardise reporting and measurement, the GRI has developed a framework of sustainable reporting guidelines, which serve organisations who want to report as a narrative on relevant social and environmental issues. However, these guidelines are not as meticulous as those that guide financial reporting (Cheney, 2004: 14).

Environmental performance includes factors such as the amount of energy consumed and its origin, resource and material usage, emissions, effluents and waste management, land use and management of habitats. Environmental variables represent measurements of natural resources and reflect potential influences to its viability. It incorporates air and water quality, and toxic waste. Specific examples include electricity consumption and fossil fuel consumption (Suggett et al., 2010: 2).

### **The Global Reporting Initiative**

The Global Reporting Initiative (GRI) is a network based organisation that pioneered the world's most widely used sustainability reporting framework (Brown, De Jong & Lessidrenska, 2009: 184). GRI is committed to the Framework's continuous improvement and application worldwide.

The Global Reporting Initiative (GRI) is a multi-stakeholder process and independent institution whose mission is to develop and disseminate globally applicable sustainability reporting guidelines. These guidelines are for voluntary use by organisations for reporting on the economic, environmental and social dimensions of their activities, products and services (GRI: Sustainability Reporting Guidelines, 2006: 3). The guidelines are not a code of principles of conduct or a performance standard, but present reporting principles to guide the preparation of an organisation's sustainability report. The guidelines assist an organisation in presenting a balanced picture of their economic, environmental and social performance (UNEP, 2007: 6). The core guidelines are in their third generation and were released in October 2006 following a three year, innovative development period that engaged more than three thousand individuals from diverse sectors, worldwide (GRI: Sustainability Reporting Guidelines, 2006: 3).

The GRI promotes the comparability of published information on sustainability issues across a diverse range of geographically dispersed organisations and supports benchmarking of sustainability performance with respect to codes, performance standards and voluntary initiatives (UNEP, 2006: 4). In the GRI's sustainability guidelines it is stated that the reporting framework is intended to serve as a generally accepted framework for reporting on an organisation's economic, environmental, and social performance. It is designed for use by organisations of any size, sector, or location. It takes into account the practical considerations faced by a diverse range of organisations, from small enterprises to those with extensive and geographically dispersed operations. The GRI reporting framework contains general and sector-specific content that has been agreed by a wide range of stakeholders around the world to be generally applicable for reporting an organisation's sustainability performance (GRI: Sustainability Reporting Guidelines, 2006: 3).

The third generation (G3) guidelines are, however, not a tick list or a regulatory requirement which organisations should simply apply and use for reference. The guidelines should rather be seen as a process tool for improving reporting (GRI, 2006: 2). Indicator protocols exist for each of the performance indicators contained in the guidelines. These protocols provide definitions, compilation guidance and other information to assist report preparers and to ensure consistency in the interpretation of the performance indicators (GRI, 2006: 4).



To help determine what to report on, the reporting principles of materiality, stakeholder inclusiveness, sustainability context and completeness were developed, along with a brief set of tests for each principle. The application of these principles together with the standard disclosures determines the topics and indicators to be reported on (GRI, 2006: 4). Standard disclosures refer to information that should be included in sustainability reports. These guidelines identify information that is relevant and material to most organisations and can be split into three categories: namely: Strategy and profile, Management approach and Performance indicators:

### Benefits from the Global Reporting Initiative reporting

Sustainability reports based on the GRI framework can be used to demonstrate organisational commitment to sustainable development, to compare organisational performance over time, and to measure organisational performance with respect to laws, norms, standards and voluntary initiatives. The GRI promotes a standardised approach to reporting to stimulate demand for sustainability information, benefitting both reporting organisations and report users (Hunt & Hunt, 2006: 260).

According to the GRI (2011: 1) the GRI's vision is to improve corporate accountability by ensuring that all stakeholders, communities, environmentalists, labour, religious groups, shareholders and investment managers have access to standardised, comparable and consistent environmental information to corporate financial reporting. There is a general framework that indicates the GRI categories, which are in turn detailed into further aspects. For the purpose of this study we will only address the economic, environmental and social categories. Table 1 indicates the GRI categories and their aspects.

**TABLE 1: GRI, ECONOMIC, ENVIRONMENTAL AND SOCIAL CATEGORIES AND ASPECTS**

Category	Aspect
<b>Economic</b>	Economic performance
	Market presence
	Indirect economic impacts
<b>Environmental</b>	Materials
	Energy
	Water
	Biodiversity
	Emissions, effluents and waste
	Product and services
	Compliance
	Transport
	Overall
	<b>Social</b>
<b>Social: labour practices &amp; decent work</b>	
Employment	
Labour/management relations	
Occupational health and safety	
Training and education	
Diversity and equal opportunity	

<b>Social: human rights</b>	Diversity and equal opportunity
	Non-discrimination
	Freedom of association and collective bargaining
	Child Labour
	Forced and compulsory labour
	Security practices
	Indigenous rights
<b>Social: Society</b>	Community
	Corruption
	Public policy
	Anti-competitive behaviour
	Compliance
<b>Social: product responsibility</b>	Customer health and safety
	Products and services labelling
	Marketing communications
	Customer privacy
	Compliance

(Source: GRI, (2011: 11.))

## EMPIRICAL RESEARCH

### Participants

The four big banks in South Africa are the participants in this study and their annual financial reports are used for the purpose of the study. A comparison is done between the annual reports and the Global Reporting Initiative checklist as in Table 1, to establish if they comply with the requirements of the guidelines.

### Measuring battery

A checklist based on the GRI guidelines is used to measure the annual financial reports in the measuring battery. Only the part addressing the sustainability and TBL measures as indicated in the GRI checklist is taken into account for this study.

### Research method

Content analysis is used as the method of research in the study, in the form of a quantitative analysis of data. The basic technique involves counting the frequencies and sequencing of particular words, phrases or concepts in order to identify keywords or themes (Welman, Kruger & Mitchell, 2005: 221). This method is appropriate for this study because it produces highly reliable (usually quantitative) data and is usually easy to repeat or replicate.

Most researchers use content analysis to analyse annual financial statements, as it has the advantage of being relatively easy to gain access to the material. It is an unobtrusive method that does not involve the researcher interacting with the people or things being studied. The researcher cannot, therefore, influence the behaviour of the people being studied, but it can present an objective account of events, themes and issues that may not be immediately apparent to a reader, viewer or general consumer (Cooper & Owen, 2007: 67).

Theme identification is one of the most fundamental tasks in qualitative research (Welman et al., 2005: 211). Themes can be described as “umbrella” constructs which are usually identified by the researcher before, after, and during the data collection. The following techniques are usually used in identifying themes:

- Word analyses (word repetitions, keywords in context and indigenous terms)
- Reading of larger units (for example comparing and contrasting material and searching for missing information)
- Intentional analysis of linguistic features (metaphors, transitions and connectors)
- The physical manipulation of texts (unmarked texts, pawing and cut and sort procedures (Welman et al., 2005: 211).

## RESULTS

As discussed in the literature, the GRI intended to develop a voluntary reporting framework that tries to promote sustainability and TBL reporting. Therefore the GRI guidelines surround comprehensive procedures both for the qualitative and the quantitative information. The results are based on these comparisons and assumptions.

<b>Economic</b>	
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In the part dealing with the economic aspects financial implications and other risks opportunities for the organisation’s activities should be addressed.

**Economic performance** - Full disclosure on direct economic value generated and distributed, including revenues, operating costs, employee compensation, donations and other community investments, retained earnings and payments to capital providers and governments was evident from the four banks with the exception of non-disclosure on the economic value retained. None of the banks disclosed their economical generated values, less their economical distributed values according to the standards of the GRI-G3 guidelines. Only Standard Bank had a detailed disclosure on the financial implications and other risks and opportunities for the organisation’s activities due to climate change. No bank declared any significant financial assistance received from the government.

**Market presence regarding procurement practices** – Only Standard Bank disclosed the range of ratios on standard entry level wage compared to local minimum wage at significant locations of operations. All four banks fairly disclosed their procurement practices and proportion of spending on locally based suppliers. Preference is also being granted to local residents when hiring in significant locations of the four banks operations.

**Indirect economic impacts** – Address matters on how the banks invest and develop local economies. The four banks equally presented the extent of development of significant investments and support on communities and local economies. Only Standard Bank disclosed a detailed development and impact of infrastructure investments and services provided primarily for public benefit through commercial, in-kind, or pro bono engagement.

## Environmental

In this part of the checklist environmental implications and other risks opportunities for the organisation's material supply due to climate change should be addressed.

**Materials** – Materials such as stationery from external suppliers and marketing material used by weight or volume were disclosed by Nedbank and Standard Bank, but no bank declared the percentage of materials used that are recycled as input materials.

**Energy** – Energy such as electrical appliances, globes and electronic devices. Standard Bank disclosed initiatives to provide energy-efficient or renewable energy based on products and services and reductions in energy requirements as a result of these initiatives. Having said this, Firststrand Bank, Nedbank and Standard Bank, as well as ABSA, also indicated initiatives to reduce indirect energy consumption and reductions achieved.

**Water** – No bank disclosed any information on total water withdrawal by source or percentage of total volume of water recycled and reused.

**Biodiversity** – Only Standard Bank had interest in declaring on land owned, leased, managed in protected areas and areas of high biodiversity value outside protected areas. This is because only Standard Bank owns property exposed to biodiversity. Therefore, concluded strategies, current actions and future plans for managing impacts on biodiversity were evident from Standard Bank in this regard.

**Emissions, effluents and waste** – All four banks disclosed matters on total direct and indirect greenhouse gas emissions by weight and other relevant indirect greenhouse gas emissions by weight. No bank further declared initiatives to reduce greenhouse gas emissions or reductions achieved.

**Products and services** – No bank disclosed initiatives to mitigate environmental impacts on products and services or extent of impact mitigation.

**Compliance, transport, overall** – No bank was affected by any monetary value of significant fines or total number of non-monetary sanctions for non-compliance with environmental laws and regulations. Nor were they affected by any significant environmental impacts of transporting products and other goods and materials used for the organisation's operations or transporting members of the workforce.

## Social: Labour practices and decent work

This section covers the workforce by employment type as well as employment contracts and how it relates to labour practices.

**Employment** – All four banks disclosed their total workforce by employment type, employment contract, and region, but only ABSA and Standard Bank declared the benefits provided to full-time employees that are not provided to temporary or part-time employees by the operations.

**Labour/Management relations** – This area was fairly disclosed by all four banks in terms of percentage of employees covered by collective bargaining agreements.

**Occupational health and safety** – The aspect of the percentage on the total workforce represented in formal joint management-worker health and safety committees that help monitor and advice on occupational health and safety programmes were very well represented and

disclosed by the four banks. Equally so was the education, training, counselling, prevention, and risk-control programmes in place to assist workforce members, their families, or community members regarding serious diseases reasonable disclosed. Rates of injury, occupational diseases, lost days, and absenteeism and number of work-related fatalities by region were not disclosed by the four banks.

**Training and education** – The average hours of training per year, per employee, by employee category and programmes for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings were not disclosed by the four banks.

**Diversity and equal opportunity** – The percentage and total number of significant investment agreements that include human rights clauses or that have undergone human rights screening were not declared by the four banks. Equally so were there no disclosures for the total hours of employee training on policies and procedures concerning aspects of human rights that are relevant to operations, including the percentage of employees trained.

### Social: Human Rights

None of the categories for Social Human Rights were represented in the disclosures by the four banks. These areas also represent very sensitive information and disclosure would depend on the maturity of these organisations. The following factors represented this category of disclosure, which are:

- Diversity and equal opportunity
- Non-discrimination
- Freedom of association and collective bargaining
- Child labour
- Forced and compulsory labour
- Security practices
- Indigenous rights.

### Social: Society

This section covers the nature, scope and effectiveness of any programs and practices that assessing and manage the impacts of operations on communities, including entering, operating and exiting of these activities. Examples would be community engagement programs like volunteers and social activities in these communities.

**Community** – Although disclosures of this topic has been declared in other communications of the banks, only Nedbank and Standard Bank had declared the nature, scope, and effectiveness of programmes and practices that assess and manage the impacts of operations on communities, including entering, operating, and exiting in their annual financial reports.

**Corruption** – Percentage of employees trained in organisation's anti-corruption policies and procedures were fairly disclosed by all four banks.

**Public policy** – Only Standard Bank admitted support in total value of financial and in-kind contributions to political parties, politicians, and related institutions by the country.

**Anti-competitive behaviour & compliance** – there was non-disclosure in this regard for the four banks under reference.

### **Social: Product responsibility**

Product responsibility address the life cycle stages in which health and safety impacts on products and services that are assessed for improvement of significant products and services.

**Customer health and safety** – Standard Bank disclosed matters regarding the life cycle stages in which health and safety impacts on products and services that are assessed for improvement and percentage of significant products and services. These categories subject to such procedures were not disclosed by the other banks.

**Product and service labelling** – None of the banks disclosed on this type of product and service information required by procedures and percentages. However, all four banks disclosed practices related to customer satisfaction, including results of surveys measuring customer satisfaction.

**Marketing communications** – All four banks disclosed programmes for adherence to laws, standards, and voluntary codes related to marketing communications, including advertising, promotion, and sponsorship. However, none of the four banks declared the total number of incidents of non-compliance with regulations or voluntary codes concerning marketing communications, including advertising, promotion and sponsorship by type of outcomes.

**Customer privacy** – Only Standard Bank disclosed the total number of substantiated complaints regarding breaches of customer privacy and losses of customer data due to incidents related to the bank in this regard, and none of the other three banks made any disclosures on these matters.

**Compliance** – This topic of discussion was not applicable to the four banks because they had no related matters on monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use of products and services.

### **Summary of the results according to the principles for the defining report content**

The four banks fairly disclosed all information required by the principles for defining report content from the GRI-G3 guidelines. A summary of these disclosures on the principles for defining report content are briefly discussed to give content to the measuring instruments of the Global Reporting Initiative (GRI) - G3 guidelines.

### **Economic bottom line**

Materiality, stakeholder's inclusiveness as well as sustainability context were all covered in this regard. The understanding and describing significant, indirect economic impacts, including the extent of impacts were not adequately disclosed in this section and was generally so amongst the four banks. Disclosures also fall short on the balance of the principles and did not reflect a balanced approach on the positive and negative aspects of the organisation's performances.

### **Environmental aspects**

All sub-sections on this topic fall short of disclosures, especially those on materials used for recycled or volumes of direct materials used were partially disclosed. Materiality, sustainability



context and completeness as per the defined principles also had shortcomings in this disclosure. Energy saved due to conservation and efficiency improvements were inadequately disclosed by the four banks, although ABSA and Standard Bank made an attempt in this regard to comply with the defined principles.

However, all four banks indicated initiatives in energy reduction, which is a sign in a positive direction and compliance to the completeness and materiality of the defined principles. Water withdrawn from any water source either directly by the reporting organisations or through intermediaries such as water utilities, including surface, wetlands river water, were not disclosed by the banks as they all utilised water sources from local municipalities.

Regarding the subject of biodiversity, whereby locations and size of land owned, leased, managed in or adjacent to protected areas and areas of high biodiversity value outside protected areas, this was only evident with Standard Bank as the other three were not affected by biodiversity factors. Compliance from Standard Bank in this regard was evident as per the defined principles. Emissions, effluent and waste were all under-represented by the four big banks, except for greenhouse gas emissions, where each bank had some sort of initiative towards direct and indirect emissions. This section was well under-presented in terms of the defined principles. No real means in terms of disclosures on products and services, transport and compliances in this section were made by the banks, which relates to the defined principles. Generally only Standard Bank disclosed information, but not entirely as required by the standards of the GRI.

#### **Social: Labour practices and decent work**

The four banks equally disclosed on the topic under reference, but fell short of the standard disclosures required for this section. Employment of the total workforce and benefits were disclosed by the banks. Standard disclosures were evident from the banks on occupational health and safety, training and education and diversity aspects. No bank took the lead with the disclosure of information in this regard. Disclosures in respect of the defined principles fell short and were not adequately addressed by the banks in terms of the standard requirements.

#### **Social: Human rights**

Very little information was disclosed from the four banks on this section and this was under-represented in terms of the guideline standards. The information declared was not near the principles for defining report content from the GRI-G3 guidelines. This section also requires more focus from the four banks in order to comply with the necessary requirements. This section of disclosure is also very sensitive to these organisations as it addresses diversity and equal opportunities, non-discrimination factors, freedom of association and collective bargaining, child labour as well as forced and compulsory labour factors and therefore it appears that reservations were held on the disclosure of these matters.

#### **Social: Society**

This topic was under-represented with very little information disclosed by the four banks. The information that was disclosed was not near the principles for defining report content from the GRI-G3 guidelines. This section also requires more focus from the four banks in order to comply with the requirements. Not much disclosure was made of the nature, scope and effectiveness of any programmes or practices that assess and manage the impacts of operations on communities, as this would normally be a once-off intervention and not an established relationship, except for Nedbank and Standard Bank that briefly disclosed on these matters. This part of disclosure can also be very sensitive to these organisations as it addresses corruption matters, anti-competitive behaviours and compliance, which may be awkward to disclose.

## Social: Product responsibility

This section of product responsibility was under-represented, with very little information disclosed by the four banks. The information declared was not according to the principles for defining report content from the GRI-G3 guidelines. This section also requires more focus from the four banks in order to comply with the necessary requirements. This section deals with customer health and safety and needs to assess the life cycle stages in which health and safety impacts on products and services and what improvements can be made towards unfriendly products. Marketing communication and adherence to advertising laws as well as customer privacy and compliance thereof also played a critical role in this section. Due to the sensitivity nature in this regard, it appears that these organisations were careful what to disclose and therefore disclosures were not what they should have been.

## CONCLUSIONS

A general perception is that Standard Bank took the lead with disclosures of the total requirements set by the GRI-G3 guidelines, followed by Nedbank, ABSA and Firstrand Bank. Based on the 2010, annual financial statements, it is found that environmental and social reporting by the major commercial banks based on GRI indicators is relatively poor. Among all categories of sustainability items, most of the assessed banks preferred to disclose more on the labour practices and decent work than the human rights category. However, the issues on the subject of human rights and product responsibility are rather unaddressed in the banks' sustainability reports.

A sustainability report should provide a balanced and reasonable representation of the sustainability performance measures of a reporting organisation, including both positive and negative contributions to the economic, environmental, and social impacts. The literature also indicated that too much emphasis is placed on economic value in organisations and too little consideration of the TBL values. Therefore, these aspects allow for a balance of the sustainability performance measures to be disturbed. The four big banks did not perform well on disclosing the negative contributions and allowed for an unbalanced approach in this regard.

Despite there being no regulatory involvement at the time of this study in the disclosures of information, the banks did well in their efforts to disclose information according to the international requirements outlined by the GRI. However, there are also aspects which need attention as disclosures were not adequately represented. The challenge for the banks is neither to remain on the margins of climate change agenda nor to dominate the sustainable development movement, but to create new ideas in collaborating with all stakeholders to find lasting solutions for South Africa and hopefully the world.

## RECOMMENDATIONS

Based on the finding of this study, one would thus argue that without regulatory requirement in relation to sustainability issues by the South African Reserve Bank and its global partners such as the World Bank, development will be slow and on the terms of the individual organisations.

1. The first recommendation is that reporting regarding environmental and social aspects should improve.
2. A more balanced approach in terms of disclosing positive as well as negative contributions are needed.

3. To develop and formalise concrete policies around sustainability reports in the banking sectors and/or country-specific ones. It is imperative that these policies are transparent to stakeholders and compliance thereto is monitored. These aspects could also be bank-specific.
4. To put into practice the ambitions formulated in specific policies, the banks need to devote considerable attention and resources to capacity building, training, motivating and rewarding their employees.
5. Initiatives recommended include e-learning, creating a national qualification for sustainable banking, making it part of staff key result areas (KRAs), giving staff time off to undertake charitable activities.
6. The banking industry has to be pro-active in driving the sustainable banking agenda. This will mean the banks, amongst other things, need to introduce extensive sustainability reporting as part of financial reporting. There is a need to give greater attention to the message that the banks are sending out to the stakeholders about living their values.

To support this expectation and to communicate clearly and openly about sustainability, a globally shared framework of concepts is required. It is the GRI's mission to fulfil this need by providing a trusted and credible framework for sustainability reporting that can be used by organisations of any size, sector or location.

This is why GRI has relied on the collaboration of a large network of experts from all of these stakeholder groups in consensus-seeking consultations. This multi-stakeholder approach to learning has given the reporting framework the widespread credibility it enjoys with a range of stakeholder groups. New reporting requirements have been added through a pathway of laws, regulations, standards, codes, guidance and stock exchange listing requirements (IIRC, 2011: 4). The aforesaid has led to the moment where integrated reporting comes into play and has by doing this already adhered to recommendations 1 and 2.

An integrated report is not simply an amalgamation of reports, it brings together material information about an organization's strategy, governance, performance and prospects in a way that reflects the commercial, social and environmental context within its operations (IIRC, 2011: 2). It incorporates, in a clear language, material information from financial statements and the sustainability report and other sources to enable stakeholders to evaluate the organisation's performance and to make an informed assessment about its ability to create and sustain value (IRCSA, 2011: 1).

In order to facilitate the adoption of integrated reporting in South Africa, the Integrated Reporting Committee of South Africa (IRCSA) released a framework discussion paper on 25 January 2011 (KPMG, 2011). This discussion paper is intended to assist leadership and those tasked to prepare the integrated report in exercising their judgement on the organisation's reporting activities and in deciding what should be included in the integrated report.

In September 2011 the International Integrated Reporting Committee (IIRC) has concluded a discussion paper: Towards integrated reporting – Communicating value in the 21st Century. The discussion paper offers initial proposal for the development of an International Integrated Reporting framework and outlines the next steps towards its creation and adoption. The purpose of the paper is to prompt input from all those with a stake in improved reporting, including both producers and users of reports.

All JSE listed companies are required to issue an integrated report for financial years starting on or after 1 March 2010 or to explain why they are not doing so (IRCSA, 2011: 3). There is no standard format available for integrated reporting but to achieve the objectives of integrated reporting and the integrated report, the Framework for Integrated Reporting and the Integrated Report Discussion Paper identifies suggested elements to be included in the integrated report (IRCSA, 2011: 7).

The King III report recommends that all JSE listed companies should adopt integrated reporting which includes the banking sector. Some of the major South African banks have presented an integrated report as on 31 December 2011 and some suggested embarking on the journey during 2012.



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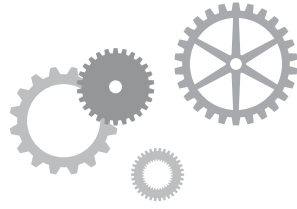
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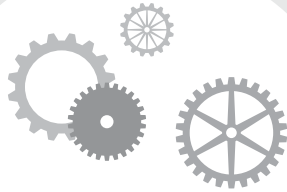




## Section 6: Information/Technology Resilience

## ARE THERE CULTURAL ORIENTATION DIFFERENCES IN TERMS OF ONLINE INFORMATION PRIVACY?

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### ABSTRACT

Facebook has become an integral part of modern-day student life providing attractive means for personal online interaction. The purpose of this study is to investigate the differences between individualistic and collectivistic students in terms of online information privacy in a South African context. A survey of 210 undergraduate students at the University of Pretoria found that collectivistic students engage in more online protective behaviour than individualistic students. Most cross-cultural studies examine online privacy concern on a national scale. Furthermore, few studies extend the attitudinal dimension of online privacy concern to online privacy protective behaviour. When administered at individual level, it was found that collectivistic students implement more protective behaviour strategies than individualistic students although individualistic students are just as concerned about their privacy. When targeting students on Facebook, marketers should consider not only students' demographic profiles but also the way in which they use the internet bearing in mind that cultural factors influence how a particular group accesses the web and which social media tools they choose.

### KEYWORDS

Online privacy, Information privacy, Privacy concern, Protective behaviour, Individualism-collectivism, Survey, Facebook, South Africa

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## INTRODUCTION

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If Facebook was a country, it would be the third largest in the world (Zarrella & Zarrella, 2011: 1). As of October 2012 Facebook is the largest social network with one billion monthly active users (Facebook, 2012: 1). In the year following August 2010, 4.8 million (71%) of an approximate 6.8 million South African internet users had registered accounts with Facebook (Internet World Stats, 2012: 4). Of these registered users, 3.2 million (67%) accessed their accounts in the same period (World Wide Worx, 2011). Social networking sites (SNSs) like Facebook were originally intended to facilitate social interaction between a user and individuals of their choice. However, due to the vast amount of accurate personal information found on these platforms, the usage of such information has evolved to extend beyond the original purpose of connecting and sharing (Hoy & Milne, 2010: 28).

Since the large scale adoption of the internet in the 1990s, online information privacy has been an important focus area in privacy research (Buchanan, Paine, Joinson & Reips, 2006). Various researchers have explored the effect of gender and age differences on online privacy concerns (Beldad, de Jong & Steehouder; Hoy & Milne, 2010; Malhotra, Kim & Agarwal, 2004; Sheehan & Hoy, 2000; Strater & Lipford, 2008). However, a limited amount of research has focussed on the effect culture has on information privacy. Furthermore, cross-cultural studies use a national culture index that stereotypes all citizens of a country as belonging to the same culture (Cho, Rivera-Sánchez & Lim, 2009; Mohammed, 2010; Rustemli & Kokdemir, 2001; Yu & Cude, 2009). These studies compare Eastern and Western cultures to show that western cultures are predominantly individualistic and therefore more concerned about their online privacy. Applying this national index in a South African context is not feasible. Research has shown the South African population to be representative of both individualistic and collectivistic cultures. Therefore measuring culture at individual level is necessary (Eaton & Louw, 2000).

Many marketers in South Africa use Facebook as a cheap marketing tool, but fail to realise that the social networking environment is merely a tool for enhancing existing meaningful offline relationships (Levin, 2012: 2). Analysing how individuals in different cultures regard and respond to privacy issues provide a means for researchers to understand further complex online behaviours in the information age (Cho et al., 2009). It could therefore be beneficial for South African marketers to gain greater insight into how Facebook users' privacy concerns and behaviours will be affected by their cultural orientations. Therefore, the main purpose of this study was to investigate the difference between individualistic and collectivistic individuals in terms of their online information privacy on Facebook in a South African context. This study was guided by the following specific research objectives:

- To determine how individualistic and collectivistic individuals differ regarding their usage intensity of Facebook.
- To determine how individualistic and collectivistic individuals differ in terms of privacy concerns.
- To determine how individualistic and collectivistic individuals differ in terms of privacy protective behaviours.

This article is divided into four sections. Firstly, an overview of the literature relevant to privacy and culture is given. Thereafter the research methodology, data analysis techniques and findings are discussed. The article concludes with a discussion of direction for further research.

## LITERATURE REVIEW

### Social networking sites defined

A social networking site (SNS) is defined as a web-based service that facilitates online social interaction (Boyd & Ellison, 2008: 210). SNSs enable users to engage in three main activities. Firstly, it allows users to construct a public or semi-public profile within a bounded system. Secondly, it enables users to showcase a list of other users with whom they share a connection. Lastly, it enables users to view and project their list of connections, as well as the connections made by others, within the system. SNSs differ from other web-based activities because they have visible profiles that display clear lists of other people with who connections are shared (Boyd & Ellison, 2007: 211).

Facebook was launched in 2004, designed to support Harvard-only college networks. In September 2005 Facebook expanded to include high school students and professionals from corporate networks. This site is differentiated from other SNSs because Facebook users can decide whether they want to make their profile public to all users (Boyd & Ellison, 2007).

Facebook as a social networking site in South Africa

Compared to other SNSs in South Africa, Facebook has the most subscribers (World Wide Worx, 2011). This motivates many South African brands to use Facebook as a cheap advertising solution because it reaches a mass, yet much targeted, audience. Dumping information on Facebook, however, will not create instant appeal among young consumers. As the social networking environment is merely a tool for enhancing existing, meaningful offline relationships, reaching consumers online requires a much more customer-specific approach (Levin, 2012: 2; Solis, 2012: 1).

Facebook's user-friendly interface and pervasiveness motivates users to divulge large amounts of personal information online. The type of information revealed on Facebook includes basic demographic information, contact information, friends, pictures, wall and newsfeed. Facebook has the highest trust ratings among SNSs because users believe their contract with Facebook has not been violated (Fogel & Nehmad, 2010: 159). In a study of Facebook privacy, Acquisti and Gross (2006: 18) found that 53% of respondents wrongfully believe that Facebook does not provide their personal information to third parties. Facebook has launched various programmes where user purchasing behaviour information is gathered and supplied to third parties. Users often do not have the option to opt-out (Story, 2007). This enables companies to design more effective advertisements, from which Facebook generates its income. Internet users experience heightened privacy concerns when they become aware of these above-mentioned practices and privacy has been identified as a key issue that internet marketers need to recognise and address (Sheehan & Hoy, 2000: 62).

### Privacy defined according to dimensions

The idea of privacy dates back to the 1800s (Warren & Brandeis, 1890: 196), but because privacy is complex, contextual and ambiguous it should be defined differently for each unique situation to which it applies. To counter this problem researchers have defined privacy according to its various dimensions (Burgoon, Parrott, LePoire, Kelley, Walther & Perry, 1989; Clark, 1997; Decew, 1997; Van Dijk, 2006).

In many instances the privacy dimensions are interdependent and overlap. Burgoon et al. (1989: 134) defines information privacy as "the ability to control who gathers and disseminates information about one's self or group and under what circumstances". This dimension overlaps with the accessibility dimension where gaining information entails physically accessing an individual (DeCew, 1997: 76). It is also supported by both the privacy of personal communications, as well as the privacy of personal data dimension; the opportunity individuals have to prevent automatic transmission of their personal data to others (Clark, 1997: 3). Information privacy is referred to as the right to selective disclosure and relates to the relational dimension of privacy (van Dijk, 2006).

To place these interdependent dimensions in perspective, privacy has been conceptualised as the control individuals have over these various dimensions (Leino-Kilpi et al., 2001). For the purpose of this study, privacy will be defined in an informational context as "the right to prevent the disclosure of personal information to others" (Westin, 1967: 7). The information dimension is especially prominent in the online environment (Beldad et al., 2011: 221) and it has been found that individuals who experience privacy concerns offline will experience these same concerns online (Sheehan & Hoy, 2000: 66).

### **Online information privacy and privacy protective behaviour**

In order for the internet to perform it must be able to capture, retain and transmit the information users enter into it (Walter, 2012: 4). However, because of the internet's vast expansion, disclosing large amounts of personal information has become mandatory (Byrne, 2008: 20). This is applicable to SNSs such as Facebook because consumers sacrifice their information (name, date of birth, gender and interests) for social gain (interacting with friends on Facebook). From this it is clear that privacy is viewed as a commodity that can be traded (McStay, 2010: 136; Cho et al., 2009: 410). Consumers regard the release of personal information as a risky transaction because they become vulnerable to exploitive behaviour from third parties (Milne & Gordon, 1993). Therefore it is necessary for marketers to view the exchange of personal information as an implied social contract.

Information privacy concerns refer to an individual's subjective views of fairness with regard to their personal information (Campbell, 1997). These views of fairness relate strongly to social contract theory which forms the basis of the Internet Users' Information Privacy Concern (UIIPC) scale. It measures the degree of concern through three dimensions: collection; control; and awareness of privacy practices (Malhotra et al., 2004: 338). Firstly, collection is defined as the degree to which a person is worried about the amount of individual-specific data others possess relative to the value of the benefits received. Individuals will hesitate to release personal information if they expect a negative outcome. Secondly, control is considered the active component of information privacy. Lack of control over the flow of personal information will increase concern. Lastly, awareness of privacy practices incorporates interactional and informational justice. Violating these two types of justice will lead to decreased perceptions of fairness, in other words breach of the implied social contract (Malhotra et al., 2004: 338).

Studies have indicated that when internet users have privacy concerns they are likely to engage in privacy protective behaviour (Cho et al., 2009; Fogel & Nehmad, 2008; Hoy & Milne, 2010). Privacy protection behaviours are those actions taken by individuals to ensure online privacy (Cho et al., 2009: 401). Various underlying dimensions of privacy protection behaviours have been tested across five nationalities. Three distinctive behaviours were present in all the nationalities. These were avoidance behaviour, opt-out behaviour and proactive self-protection behaviour (Cho et al., 2009: 407). Although most internet users who experience privacy concerns will engage in these protective behaviours, the extent to which they engage in these behaviours is dependent on the user's culture (Mohammed, 2010: 86).

Culture is one of the largest determinants of how we communicate. It not only determines the way we say things, but also influences the tools we choose to get a message across. Therefore, technological tools such as Facebook which affects human behaviour may not be free of cultural influences (Calhoun, Teng & Cheon, 2002: 293; Solis, 2012: 1). Online social interaction must be understood as a reflection of a knowledge base representative of an existing, bigger, offline social structure. The primary objective of social media is not to forge new relationships, but rather to extend existing networks (Boyd & Ellison, 2007: 211; Levin, 2012: 2). When SNS users interact online these interactions are never void from the cultural norms and histories to which the users are bound in their offline environment (Byrne, 2008 :24).

Hofstede's (1983) extensive cross-cultural study found individualism compared to collectivism to be one of the most distinctive dimensions of cultural variation. A large body of knowledge suggests that consumers' privacy concerns are affected by their respective cultural values (Cho et al., 2009: 398; Mohammed, 2010; Rustemli & Kokdemir, 2001; Yu & Cude, 2009). Most studies exploring this phenomenon used Hofstede's (1983) four indices of national culture namely individualism, power distance, uncertainty avoidance and masculinity.

The Individualism index (IND) refers to an individual's likelihood to be independent from groups. People from individualistic cultures regard private life as very valuable while people in collectivistic cultures accept groups and intrusion into private life more easily (Cho et al., 2009: 399). The Power Distance index (PDI) refers to the degree of inequality between a "less powerful" and "more powerful" individual and the Masculinity index (MAS) measures the extent to which a society values material things over caring for people. Cho et al. (2009) found that IND alone can represent PDI and MAS when testing privacy concerns in an online context. The Uncertainty Avoidance Index (UAI) refers to the extent to which individuals feel threatened by uncertain situations and tries to avoid them.

A value from zero to 100 is assigned to each of the four indices, where a score of 100 represents the strongest degree to which the value dimensions manifested in the culture. A culture that scores high on the IND, PDI, MAS and UAI will be considered as a predominantly individualistic culture. Individualism-collectivism (i.e IND) is considered a key dimension of national culture and a fundamental dimension on which societies differ (Hofstede, 1980: 148; Triandis, 1994: 160). It is the only index that will be used in this study. Individualism-collectivism was traditionally conceptualised as a continuum where individualism refers to an emphasis on self-sufficiency and control, the pursuit of individual goals and a culture where people derive pride from their own accomplishments. In contrast to this collectivists believe that they are an indispensable part of the group (Morris, Davis & Allen, 1994: 67).

Many studies focussing on cultural differences between countries have focussed on America and Asian countries, like China, Korea and Japan, because they are perceived as vastly different (Calhoun et al., 2002; Cho et al., 2009; Hofstede, 1980; Yu & Cude, 2009). Asian cultures have often been equated with African cultures as both are considered collectivistic but Eaton and Louw (2000: 217) have found that African collectivism differs from Far Eastern collectivism. This suggests the need to measure culture at an individual level.

While culture is defined at national level, whether an individual exhibits an orientation consistent with the national culture needs to be measured. "Not all western thinkers are happy with individualism and, not all eastern thinkers with collectivism" (Hofstede, 1980: 150). It would be misleading to look at national culture and equate the stereotypical culture with all citizens. This is



especially true when a country consists of a heterogeneous population with different cultural backgrounds (Yoo, Donthu & Lenartowicz, 2011: 197). Research has shown that South Africa consists of such a population, with citizens representing both highly individualistic and highly collectivistic orientations (Eaton & Louw, 2000).

Expected cultural differences in online information privacy concern and behaviour at individual level Social contract theory suggests that a company's collection of personally identifiable data is only perceived as fair once the consumer is given control over that information and is informed about the firm's intended use of that information (Malhotra et al., 2004: 338). Therefore consumers will seek out and carefully examine specific privacy protocols before they commit themselves to a transactional relationship (Pan & Zinkhan, 2006: 332). Users believe, however that their contract with Facebook has not been violated (Fogel & Nehmad, 2010: 159) yet it has been found that consumers believe they should be provided with even more control over the gathering and dissemination of personal information regarding exchange relationships online (Beldad et al., 2011). In a cross-cultural study it was found that collectivistic individuals use the internet more than individualistic individuals (Mohammed, 2010). It can therefore be expected that:

**H1:** There is a significant difference between individualistic and collectivistic cultures in terms of their SNS usage levels.

Throughout this study privacy is viewed as a boundary concept where privacy is traded off against other social values, for example interaction with others. Therefore, privacy is viewed as a social balance (Altman, 1977; Jordaan, 1993; Westin, 1967). Differences in these social balances are prominent in relative homogeneous societies (Milberg, Burke, Smith, & Kallman 1995: 67). It can thus be said that individuals from different cultures will show varying degrees of concern about privacy. Individualistic individuals expect service providers to respect and care about them as well as give them confidence about the services they are receiving (Yoo et al., 1998: 181). Cho et al. (2009: 411) found that internet users from highly individualistic cultures exhibited significantly higher privacy concerns. Based on this it can be hypothesised that:

**H2:** There is a significant difference between individualistic and collectivistic cultures in terms of their information privacy concern on Facebook.

Many studies focus on the attitudinal dimension of online privacy, but a limited amount of studies extend their focus to the corresponding behavioural aspect (Cho et al., 2009: 401). Although research is scarce in this field evidence suggests that culture has a significant influence on the extent to which individuals engage in privacy protection behaviours (Mohammed, 2010: 86). Similarly it has been found that users learn what to disclose and to protect over time in terms of their cultural norms (Strater & Lipford, 2008: 17; Byrne, 2008: 24). Not only has it been found that differences exist among different cultures, but Rustemli and Kokdemir (2001: 813) found that significant differences exist between individualistic and collective cultures. Based on this it can be hypothesised that:

**H3:** There is a significant difference between individualistic and collectivistic cultures in terms of their privacy protective behaviour.

## METHODOLOGY

### Sampling

The target population consisted of all undergraduate students studying on the main campus of the University of Pretoria who have made use of Facebook during the 2012 academic year. Conducting this study among students is appropriate because they represent the majority of Facebook users;

the median age of Facebook users on 18 October 2012 was 22 years (Internet, Facebook Statistics). Due to time and cost constraints a non-probability proportionate quota sampling method was used (University of Pretoria, 2012: 67). The questionnaire was handed out to 223 potential participants and 217 questionnaires were received back, giving a response rate of 94%. A screening question was used to ensure that only Facebook users were included. Seven cases were excluded from data analysis due to a high incidence of missing responses and response bias so 210 questionnaires were usable. The aim of this study however, was to contribute to existing literature on the use of SNSs in South Africa and this limitation should therefore not be problematic. The sample consisted of 32% Black Africans, 32% Indian/Asian, 32% Caucasian, two per cent Coloureds and 2 per cent 'Other' ethnic groups. Respondents' age ranged from 18 to 30 years.

### Data collection and measurement

The Facebook intensity scale was used to measure usage levels because it is considered a better measure of Facebook usage than frequency or duration indices (Ellison, Steinfield & Lampe, 2007: 1143-1168). The scale was adapted from a five-point to a seven-point scale to enable the researchers to compare the various constructs and included statements such as "Facebook is part of my everyday activity" and "I feel out of touch when I have not logged onto Facebook for a while". The Cronbach's alpha coefficient for the six items is 0.90; this is slightly higher than the value of 0.89 reported by Ellison et al. (2007: 1150).

Yoo et al. (2011: 193-208) cultural values scale was used to measure respondent's individualism-collectivism orientation. The six statements were: "Group loyalty should be encouraged even if individual goals suffer", "Individuals should only pursue their goals after considering the welfare of the group", "Group success is more important than individual success", "Group welfare is more important than individual rewards", "Individuals should stick with the group even through difficulties" and "Individuals should sacrifice self-interest for the group". The Cronbach alpha for the six items is 0.86 which indicates acceptable internal consistency reliability. A higher overall score on the individualism-collectivism orientation scale indicates that a respondent is more collectivistic than individualistic. Due to the nature of this study's research objectives it was necessary to classify respondents as either individualistic or collectivistic.

Malhotra et al. (2004: 351) Internet Users' Information Privacy Concerns (IUIPC) scale was used to measure respondent's online privacy concern. Online privacy concerns were measured with ten items, seven-point Likert scale with statements such as "It bothers me to give personal information to so many online companies" and "A good consumer online privacy policy should have a clear and visible disclosure". The Cronbach alpha for the ten items is 0.89.

Online privacy protective behaviour was measured by using Buchanan et al. (2006: 161) scale and included statements such as "I watch for ways to control what people send me online", "I use a pop-up window blocker on my Internet browser" and "I check my computer for spy ware". A high score (7) indicates a high level of engagement in online privacy protective behaviour whereas a low score (1) suggests little engagement in online privacy protective behaviour. A Cronbach's alpha score of 0.72 indicated acceptable internal reliability.

All four scales were 7 point Likert scales with scale points ranging from 1 ("Strongly disagree") to 7 ("Strongly agree"). Age, gender and ethnicity were measured through open-ended ratio scaled, single response and single response multiple choice questions respectively.

The initial questionnaire was pre-tested with a sample of 16 participants by using the collaborative pre-testing method (Cooper & Schindler, 2011: 359). Data was collected during September 2012 through campus intercepts using a self-completion. No incentives were offered for participation in the study.

## RESULTS

### Descriptive statistics

The sample (n=210) consisted of the following ethnic groups: 67 Black Africans, 67 Indian/Asian, 67 Caucasian, four Coloureds, with five respondents being classified as 'Other' ethnic groups. The gender representation was 106 males and 104 females. Respondents' ages ranged from 18 to 30 years, with an average age of 20.58 years.

The descriptive statistics indicate that the individualistic group made up 51% of the sample and the collectivistic group 49% and further suggest that both individualists and collectivists use Facebook moderately. With regard to Facebook usage, the results indicate that 74.1% of individualistic respondents spend less than an hour per day on Facebook, compared to 77.5% of collectivistic respondents. A total of 25.9% of individualistic respondents spend more than an hour per day on Facebook, compared to 22.5% of collectivistic respondents. This suggests that differences may exist between the two groups and that individualistic individuals spend more time on Facebook.

The amount of friends respondents have on Facebook, ranged from 50 to 1789 with an average of 436.48.

## HYPOTHESIS TESTS

### Hypothesis 1

Hypothesis 1 focussed on the difference between two groups, namely collectivistic and individualistic individuals, in terms of their Facebook usage levels.

The descriptive statistics show a very small difference in the mean of the total usage intensity score of individualistic (M=4.30, SD=1.63) and collectivistic (M=4.34, SD=1.44) individuals. Considering overall Facebook usage was measured at an interval level of measurement, the independent samples t-test was identified as the appropriate parametric significance test and confirmed when the assumption of normality was met. The results of the t-test assuming equal variances ( $t_{208} = -0.151$ ,  $p = 0.880$ ) indicate that there is no significant difference in the means scores of the collectivistic and individualistic sub-samples on the intensity of Facebook usage scale.

### Hypothesis 2

The second hypothesis (H2) focussed on the difference between two groups, namely collectivistic and individualistic individuals, in terms of their online privacy concerns. The t-test was used and the normality tests indicate that there were significant departures from normality for H2, resulting in a decision to conduct the non-parametric Mann-Whitney U-test instead. The results of the Mann-Whitney U-test show that information privacy concern levels in individualistic individuals (Median=5.80) do not differ significantly from the concern levels of collectivistic individuals (Median=5.95,  $U = 5241.00$ ,  $z = -0.61$ ,  $p > 0.05$ ). There is thus not support for H2. However marketers should be aware of the high privacy concerns exhibited by both groups (Median=5.80; Median=5.95) as organisations can easily be seen as overstepping the bounds of expected information practices as consumers are vulnerable to exploitive behaviour (Milne & Gordon, 1993).

### Hypothesis 3

Hypothesis 3 focussed on the differences between two groups (collectivistic and individualistic individuals) in terms of their online privacy protective behaviour.

The descriptive statistics suggest that collectivistic individuals take more protective action online than individualistic individuals. The assumption of normality was assessed through the Kolmogorov-Smirnov test for normality and the results show that compared on the total privacy protective behaviour score, the individualistic sub-sample has a normal distribution, but the collectivistic sub-sample showed great departures from normality. As a result, the Mann-Whitney U-test was used to test the hypothesis. The privacy protective behaviour levels in individualistic individuals differ significantly from the concern levels of collectivistic individuals (Median=5.20, U=4104.50,  $z=-3.19$ ,  $p<0.05$ ), showing support for H3.

## DISCUSSION

The purpose of this study was to determine, in a South African context, whether a difference exists between individualistic and collectivistic individuals in terms of online information privacy on Facebook. It is important to note that the social networking environment is merely a tool for enhancing existing, meaningful offline relationships (Levin, 2012: 2; Solis, 2012: 1) and these relationships will always be influenced by culture. Analysing how individuals in different cultures regard and respond to privacy issues, this study provides a way for researchers to understand further complex online behaviours in the information age.

In contrast to recent research (Cho et al., 2009; Yu & Cude, 2009; Yoo et al., 2011) no significant difference was found between individualistic and collectivistic individuals in their usage intensity of Facebook. Also, no significant difference was found between individualistic and collectivistic individuals in terms of their online privacy concern. This is supported by the high levels of concern reported by both groups. This finding (no significant differences) is in contrast to studies conducted by Cho et al. (2009) and Mohamed (2010), but consistent with the notion that, regardless of cultural orientation, individuals will express a natural concern when it comes to their privacy being invaded (Boyd & Ellison, 2008: 222).

Many studies focus on the attitudinal dimension of online privacy, but a limited amount of studies extend their focus to the corresponding behavioural aspect (Cho et al., 2009: 401). At the time of conducting the research, no research could be found that investigated how internet users from different cultures respond to privacy infringements. This study examined self-reported privacy concerns in conjunction with privacy protective behaviours. It was found that a significant difference exists in the amount of protective behaviour the sub-samples engage in. Contrasting to existing literature (Cho et al., 2009: 411) results indicate that collectivistic respondents will utilise more privacy protective strategies than individualistic respondents.

The reason for non-significant findings for H1 and H2 may be related to the methodology, measurement scales and sample used in this study. In order to classify respondents as either individualistic or collectivistic, the sample was divided into two groups using the median split method. A method frequently employed in cross-cultural studies (Yoo et al., 1998; Hui, 1988; Singelis, Triandis, Bhawuk & Gelfand, 1995, Triandis 1989). The total score on the individualism-collectivism scale was not heavily skewed in one direction therefore this method was used to dichotomise the individualism-collectivism continuous variable. Many researchers warn against the use of the median-split method due to loss of data, but Yoo et al., (1998: 184) argue that non-split data shows similar results to those obtained when using the median-split method. In the case of this study, the data indicated a small variance in overall responses. This means that respondents who differ extremely and slightly are grouped into opposite ends of the continuum while in reality their scores are almost the same. The median of the individualism-collectivism scale was 4.1667, with most responses lying close to the median. Ten respondents scored exactly on the median, 4.1667, but were classified as individualistic. Another possible explanation for the similar scores on the collectivism-individualism scale is the homogeneity of the sample.

The main reason for so many opposing views in cultural research is because there is no single index of culture. Dimensions of culture have merely been suggested (Yoo et al., 1998: 179). Cross-cultural studies of privacy concerns have mostly used Hofstede's (1980) individualism-collectivism typology. Many researchers have used Hofstede's dimensions to examine differences in the same country yet Hofstede himself advised against the implementation of national culture on individual level: "The same index is not suitable for distinguishing among individuals" (Hofstede, 1980: 148). This is known as the ecological fallacy; when researchers inappropriately assume that national cultural characterisation applies to individuals (House & Hanges, 2004: 99). According to Brewer and Venaik (2012: 678) the reason why researchers make this mistake is because Hofstede uses the same labels for constructs that are measured at both individual and national level of analysis, thus confusing the two.

## **MANAGERIAL IMPLICATIONS**

Privacy has become a strategic issue for companies who operate in the information-centric, networked global economy. When a company develops a social media campaign, the success of that campaign will largely depend on how well knowledgeable the company is about their target audience. The company not only needs to know the demographic data, but also how that data influences the way their target audience uses SNSs. Marketers in South Africa, who use Facebook as an affordable marketing tool, should also focus on other demographic variables, and not just of culture, to define and segment their target audience for advertisements on Facebook, as collectivistic and individualistic consumers do not differ in their Facebook use.

There are also cultural factors that go much deeper than how a particular group accesses the web and which social media tools they choose. When planning a campaign, these cultural factors should be taken into consideration to reduce the risk of alienating one's target audience by overstepping privacy boundaries. Marketers and Social Networking Site operators should be aware of the high privacy concerns exhibited by both groups and ensure that they inform users about their privacy policies and settings as well as methods to 'opt-out' if consumers no longer wish to receive advertisements from a company.

Marketers targeting collectivistic individuals may find it difficult to reach them on a platform such as Facebook, as they engage in more protective behaviours and advertisements on a more traditional media could be considered for this group.

## **LIMITATIONS**

In his seminal work, *Culture's consequences*, Hofstede (1980) has influenced many researchers. A research tradition on cultural differences and privacy concerns has since developed in the marketing field resulting in a diverse and somewhat confusing array of literature. In recent years new studies have been emerging that strongly critique his approach (Brewer & Venaik, 2012; Sharma, 2009; Yoo et al., 2011).

Although it has been said that the four indices of culture cannot be applied at individual level, it has been found that these dimensions do not necessarily exist at individual level and that gender has a strong influence on individualism-collectivism. It has been found that women show collectivism at the individual relationship level (Markus & Oyserman, 1989).

The focus of this study was individualism-collectivism orientation because it is considered the most distinctive dimension of cultural orientation (Hofstede, 1980). However, attention should be given to the fact that it remains only one dimension of cultural variation (Triandis, 1989: 506). Furthermore,

vertical and horizontal individualism-collectivism helps to explain the differences within individualistic and collectivistic cultures. Due to time constraints this dimension was not tested in this study.

The use of students as sampling units can also be seen as a limitation. Results may differ if a sample was drawn from student as well as non- student populations. Lastly lack of a random sample frame makes the generalisation of the results impossible.

## **RECOMMENDATIONS FOR FUTURE RESEARCH**

An association between the degree of individualism-collectivism in a society and its degree of modernity is suggested by Triandis (1994). Culture is dynamic and changes with socio-economic factors. Hofstede's indices should be retested and updated. Furthermore, individualism-collectivism is a dimension of culture at both the societal and organizational levels, although most of the research has focused on societal or national culture. More research is needed on how culture manifests in individuals. Previous literature has found gender to be a strong predictor of online concern. Therefore future researchers should pay more attention to the association of gender and cultural orientation at individual level.

Lastly, the relatively homogeneous sample of the study could not have captured the full continuum of each of the cultural dimensions. This study should be replicated in non-student sample groups and compared with the results obtained in student samples. The cultural value scale used in this study has been validated in non-student samples and more studies should focus on these samples.

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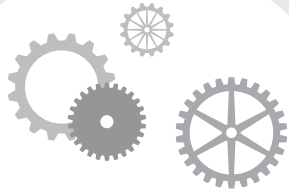
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# THE LINKAGE BETWEEN M-COMMERCE ACCEPTANCE DIMENSIONS AND USAGE FREQUENCY: AN INTERNATIONAL PERSPECTIVE

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## ABSTRACT

With the accelerated proliferation of high speed wireless-enabled devices; the global business fraternity is gaining interest in using this medium as a means of conducting transactions through m-commerce. This paper examined the extent to which two emerging markets; Taiwan (293 consumers) and South Africa (304 consumers), have been able to keep pace with this trajectory. An analysis was made on the relationship among six dimensions with attitude and m-commerce usage frequency. A quantitative research approach was pursued through a self-administered survey questionnaire. Based on the Pearson correlations results, independent t-tests with gender and cohen's D measures; positive statistical and practical significance was established along the ease of use, usefulness, enjoyment and credibility dimensions with both attitude and usage frequency among male and female consumers on both samples. However, no statistical and practical significance was observed along the innovativeness and subjective norms dimensions'. The study presents practical insights for initiating or improving the m-commerce activities of various organisations in line with the dimensions that have been identified. Ultimately, usage frequency along these constructs is set to reinforce the marketing strategy of any organisation and further present a stimulus effect on business profitability.

## KEYWORDS

M-commerce acceptance, Usage frequency, Taiwan, South Africa

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## INTRODUCTION

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Mobile, wireless-enabled devices are changing the way in which people communicate and synchronise their daily activities. The combination of increasing portability, falling traffic charges and subsidised subscriptions has not left any sector of the society with immunity from the culture of mobile telephony (Kaplan, 2011). Cawley and Hynes (2010) contend that near universal access to the mobile phone as a technological device has been achieved. In addition, a report from the International Telecommunications Union (ITU, 2011) opined that; Western Europe exhibits the highest penetration of mobile phones and wireless-enabled devices (79%), followed by North America (48%); Asia (14%); Latin America (12%) and Africa (10%), respectively. This status quo has morphed mobile devices into an ultimate commercial transactions platform; that enables business entities to establish a universal electronic presence (Zhou, 2011).

Wu and Wang (2005) defined m-commerce as any 'direct or indirect transaction that has latent monetary value and is conducted through wireless telecommunication networks'. M-commerce is a platform therefore, which affords the consumers an opportunity to share information and purchase products and services from sellers using their mobile devices (Ngai & Gunasekaran, 2007). It is through this interface that consumers are able to conduct electronic commerce (buy and sell goods and services) through Internet enabled hand-held devices (Phillips, 2003).

### Building blocks of m-commerce technology acceptance and hypotheses development

Indeed, the technology acceptance model (TAM) has proven to be an operative model with high explanatory power of the users' attitude and behavioural intentions related to the adoption of information technologies (IT) across a wide variety of contexts (Taylor & Todd, 1995). The TAM was first proposed by Davis (1989) based on the theory of reasoned action (TRA) (Ajzen & Fishbein, 1980; Fishbein & Ajzen, 1975). In recent years, several scholars have extended TAM with a view to validate the inclusion of more constructs; determinable from the specific contexts of research. For example, Yang (2005) adopted TAM to study factors affecting Singaporeans' attitudes toward m-commerce. He found evidence to support TAM, indicating that consumer innovativeness, past adoption behaviour, technology cluster adoption, age and sex affected adoption behaviour of users in Singapore. Liao, Tsou and Huang, (2007) presented an extended TAM considering another variable, 'perceived enjoyment', into the original TAM to analyse factors influencing subscribers' usage of 3G mobile services in Taiwan. Their research indicated that perceived usefulness, perceived ease of use and perceived enjoyment are positively related to attitude, and perceived enjoyment has the strongest effect on both attitude and intentions to use wireless services.

Applied to m-commerce research, perceived ease of use (PEOU) has been defined as the extent to which a user believes that using a system will be effortless (Davis, 1989). This is indicative of the skills, opportunities and resources needed for operating the technological systems as these may act as an external constraint towards mobile commerce technology acceptance (Wu & Wang, 2005). It therefore follows that, a user who perceives a higher ease of use of mobile commerce will depict stronger and more positive attitudes towards adoption (Hung, Ku & Chang 2003; Liao et al., 2007). It is against this backdrop that the following hypotheses are proposed for the study:

**H1:** Perceived ease of use is positively related to attitude towards m-commerce acceptance

**H2:** Perceived ease of use is positively related to m-commerce usage frequency

Perceived usefulness (PU) is herein defined as the extent to which a mobile device owner believes that a mobile device would enhance his/her effectiveness in conducting a business transaction from a mobile site (Davis, 1989). PU has been shown to shape positive attitudes in system use (Taylor &



Todd, 1995). A user who perceives higher usefulness of mobile commerce services tends to exhibit a stronger attitude for adoption (Bruner & Kumar, 2005; Hung et al., 2003) coupled with positive behavioural intention to use the technologies (Liao et al., 2007; Yang, 2005). In the study, the relationship between PU with attitude and m-commerce usage frequency among Taiwanese and South African consumers is expected to be a positive one. On that note, the following hypotheses are proposed for the study:

**H3:** Perceived usefulness is positively related to attitude towards m-commerce acceptance

**H4:** Perceived usefulness is positively related to m-commerce usage frequency

M-commerce provides a new channel whereby consumers may transact in a self-paced and interactive manner; feeling more playful and amused. Teo, Lim and Lai (1999); Venkatesh (2000) and Liao et al. (2007) established that perceived enjoyment had the strongest and positive effect on attitude and behavioural intention to use 3G services in Taiwan. Perceived enjoyment (PE) is conceived as the extent to which the activity of conducting m-commerce is perceived to be enjoyable in its own right, apart from any performance consequences (Davis et al., 1989). Therefore, it is expected that if a consumer perceives the use of m-commerce to be enjoyable, he or she is more likely to have a favourable feeling and a higher propensity to utilise mobile platforms habitually, for commercial transactions. This study therefore, proposes the following hypotheses:

**H5:** Perceived enjoyment is positively related to attitude towards m-commerce acceptance

**H6:** Perceived enjoyment is positively related to m-commerce usage frequency

Khalifa and Chen (2002) underscored that subjective norms (SN) reflect perceptions that significant referents desire the individual to perform or not perform specific behaviour. This suggests that consumers will tend to comply with specific technology acceptance behaviours in line with the expectations of family, peers, authority figures and the media. These authors established strong and positive association between social norms and attitude whereas the studies of Wu and Chen (2005) ratified the existence of positive and statistically significant results between subjective norms and intention to use new technologies. Similarly, in this study; it is expected that subjective norms will be positively associated with m-commerce usage frequency. This research therefore, proposes the following hypotheses:

**H7:** Subjective norms are positively related to attitude towards m-commerce acceptance

**H8:** Subjective norms are positively related to m-commerce usage frequency

Various studies have confirmed that innovativeness is related to consumer adoption behaviour. Rogers (1995) defined personal innovativeness (PI) as the willingness of an individual to try out any new information systems, earlier than the average user (Rogers, 1995). This construct was tested and reported to be positively related to users' decision to adopt various technologies (Leung & Wei, 1998). Relatedly, Kuo and Yen (2009) found that innovativeness is positively associated with consumer adoption of 3G services. Similar studies on internet shopping further endorsed this construct as having a positive influence on adoption behaviour (Citrin et al., 2000). Given the relative infancy of research on mobile services in emerging economies; it is appropriate to test PI as an influencing variable. This construct was included in this study because it was expected that PI positively influences consumers' attitude as well as their decisions to use m-commerce frequently.

**This research therefore, proposes the following hypotheses:**

**H9:** Perceived innovativeness is positively related to attitude towards m-commerce acceptance

**H10:** Perceived innovativeness is positively related to m-commerce usage frequency



During m-commerce transactions, consumers are concerned about risks such as faulty transactions or stolen username and password (Fang, Chan, Brzezinski & Xu, 2005). The increased awareness about hackers is another concern. With such high level of ambiguity over the authenticity of information, perceptions of the mobile service provider's trustworthiness is such a pivotal determinant towards m-commerce acceptance. The construct 'Perceived credibility' (PC) is defined as the extent to which a person believes that using m-commerce will be free of security and privacy concerns, particularly where mobile payments are concerned (Luarn & Lin, 2005; Wang, Wang, Lin & Tang, 2003). The confidence that people have in being able to process secure m-commerce transactions together with the protection of their privacy and personal information, is likely to positively affect users' attitude and m-commerce usage frequency. Thus, this study proposes the following hypotheses:

**H11:** Perceived credibility is positively related to attitude towards m-commerce acceptance

**H12:** Perceived credibility is positively related to m-commerce usage frequency

Attitude (ATT) toward an innovation is a critical intervening variable in innovation adoption decisions (Rogers, 1995). Thus, attitude toward specific information technology is conceptualised as a potential user's assessment of the desirability of using that technology (Davis et al., 1989). Attitude therefore, predicts an individual's use of technology. Additionally, there is substantial empirical evidence to suggest that attitude is positively related to behavioural intention to use new electronic commerce technologies (Bruner & Kumar, 2005; Hung et al., 2003; Liao et al., 2007; Teo & Pok, 2003). Following on from this empirical evidence, it may be postulated that consumers' feelings about m-commerce are a critical antecedent of the likelihood of continued purchasing behaviour using online m-commerce platforms. This study aims to evaluate the existence of a positive relationship between ATT and usage frequency, therefore the following hypothesis is proposed:

**H13:** Attitude towards m-commerce acceptance is positively related to usage frequency.

## **PROBLEM INVESTIGATED**

Studies on technology adoption have sought to examine a variety of trends that exist amongst different countries with regard to customers' usage of m-commerce technologies. This has provided a clear indication of the course to be deployed by researchers. However, in most studies the dependent variables have been 'attitude' (Mathieson, 1991), 'acceptance' (Shi 2004), 'satisfaction' and 'intention to use' (Venkatesh, 2000) as well as 'actual use' (Koutras 2006).

In their meta-analysis of online consumer behaviour; Cheung, Zhu, Kwong, Chan & Limayem (2003: 216) indicated that "compared to intention and adoption, continuance is an under-researched area". More, specifically, other authors' stated that the usage frequency variable is an important indicator of continuance and should therefore, be considered in future research studies (Flavián, Guinalú & Gurrea, 2006). This being the case, the present study sought to utilise attitude and m-commerce usage frequency as 'intervening' variables, albeit within the context of two emerging countries; Taiwan and South Africa.

Based on an assessment of the existing literature regarding TAM, the study tested various hypotheses by adding (1) a trust-related construct (perceived credibility); (2) a resource-related construct (perceived innovativeness); (3) a social-related determinant (subjective norms) and (4) an aesthetic-related construct (perceived enjoyment) to the original nomological structure of the two TAM constructs with attitude as a mediating variable. Additionally, attitude is expected to be positively related to m-commerce usage frequency.

## RESEARCH METHODOLOGY

A quantitative approach was used in the study in order to quantify the data by applying statistical techniques (Malhotra & Birks, 2003).

### Participants and sampling procedure

The target population for this study was a purposive sample of consumers above 18 years of age from Taiwan and also from Gauteng (South Africa). In a purposive sample, the sample elements are selected because it is expected that they can serve the research purpose (Churchill & Iacobucci, 2002). A self-administered survey instrument was used to collect data from the respondents. The survey research method was chosen as it is cost effective and convenient to administer among large consumer samples and also as part of an exploratory assessment (Malhotra, 2007). A sample size of 800 respondents was chosen based on a historical basis by establishing the sample sizes that were used in previous studies (Pavlou, Lie & Dimoka, 2007; Wu & Wang, 2005).

### Instrumentation and data collection

The survey questionnaire consisted of two parts. The first, recorded the respondents' demographic information with variables such as age, gender, educational levels attained, experience with m-commerce etc. The second part, recorded the respondents' perception on each variable in the conceptual framework, using statements that were based on a review of existing multi-item scales or similar scales that were initially developed by other scholars. The m-commerce technology acceptance scale used in this study included several dimensions, namely; perceived innovativeness based on the sub-scales of Hung et al. (2003) and Yang (2005); perceived ease of use sub-scale adapted from Davis (1989); Karahanna and Straub (1999), Teo and Pok (2003) and Wu and Wang (2005); perceived enjoyment subscale adapted from Venkatesh (2000); Venkatesh and Morris (2000) and Zhou (2011); subjective norms sub-scale adapted from Wu and Chen (2005); perceived usefulness sub-scale adapted from Davis (1989); Mathieson (1991) and Mohd Suki and Mohd Suki (2011); perceived credibility sub-scale adapted from Luarn and Lin (2005) and Kuo and Yen (2009); attitude sub-scale adapted from Taylor and Todd (1995), Teo and Pok (2003) and Davis et al. (1989) as well as the usage frequency sub-scale which was based on the e-shopping frequency sub-scale of Pavlou (2003).

The overall scale constituted of 38 items that were anchored on a Likert scale ranging from 1 (strongly disagree) to 7 (strongly agree). The Likert scale was used as it is relatively easy to construct, makes data easy to collect and analyse, thereby making them suitable for surveys (Kothari, 2008). However, the m-commerce usage frequency sub-scale was measured on a semantic-differential scale ranging between less frequently (1) to most frequently (7) in order to accurately capture the views of the respondents regarding the frequency with which they have engaged in various mobile commerce transactions.

Participation in the study was voluntary. Where a prospective consumer refused to participate, the next eligible respondent was approached to participate in the study. Other ethical considerations such as the participants' right to anonymity, confidentiality, privacy or non-participation, informed consent and protection from discomfort, harm and victimisation, among others, were adhered to during the data collection process. An accompanying letter containing the author's name and an explanatory statement highlighting the purpose of the study was attached to the questionnaire.

### Reliability and Validity

Reliability of the study was ascertained through computation of Cronbach alpha values. According to Nunally (1978), Cronbach's alpha coefficients of less than 0.50 are deemed unacceptable; those between 0.50 and 0.69 are considered as being adequate whereas those above 0.70 are regarded

as being acceptable. The scale reliability values for the Taiwanese and South African samples were: 0.857 and 0.681 (perceived innovativeness); 0.742 and 0.875 (perceived ease of use); 0.796 and 0.747 (perceived enjoyment); 0.806 and 0.714 (subjective norms); 0.756 and 0.716 (perceived usefulness); 0.739 and 0.869 (perceived credibility); 0.865 and 0.898 (attitude); 0.788 and 0.704 (usage frequency), respectively. The inclusion of the perceived innovativeness sub-scale was supported by Hair, Black, Babin, Anderson, Tatham & Black (2010: 385) who suggest that coefficient alpha values of 0.5 to 0.6 are "important" when justifying internal reliability of a given scale. Additionally, the standardized cronbach's alpha value for the entire scale was established at 0.793 (Taiwanese sample) and 0.764 (South African sample) indicating that the scale performed adequately in capturing the elements included under mobile-commerce technology acceptance.

Convergent validity was assessed through the computation of correlations among the m-commerce acceptance sub-scales with attitude and usage frequency. The results (reported in Table 1 and table 2) indicate positive relationships between the six m-commerce acceptance sub-scales and attitude as well as with usage frequency on both the Taiwanese and South African samples, thus providing evidence of convergence.

A pilot study was conducted with a view to enhance content validity (Sudman & Blair, 1998). In the absence of a sample frame, the pilot study utilised snowball sample on 40 respondents as it enabled the researcher to obtain referrals of consumers who have at least purchased a product or service at least once (between the period September 2012 to date) using their mobile device. Additionally, pre-testing was done through a de-briefing review of the research instrument by two academics who are publishers in e-commerce and IT studies. This enabled the researcher to identify and eliminate problems with regard to the sequencing and wording of questions. Feedback from the pilot sample and the experts enabled the researcher to make minor changes to the final questionnaire.

## Data Analysis

Approximately 304 responses were obtained from the South African sample and 293 responses were obtained from Taiwan giving a study response rate of 74%. Data analysis was conducted using the Statistical Package for the Social Sciences, Version 20.0.

## Sample characteristics

Frequency analysis was first conducted on the samples. The Taiwanese sample had more male respondents (nT= 164; 56%) compared to females (nT = 129; 44%). On the contrary, the South African sample comprised of more female respondents (nZAR=192; 63%) compared to males (nZAR =112; 37%). The sample distributions in terms of age categories were as follows: below 20 years (nT = 32; 11%; nZAR =49; 16%); 21-30 years (nT = 111; 38%; nZAR =143; 47%); 31-40 years (nT = 126; 43%; nZAR =85; 28%); 41-50 years (nT = 15; 5%; nZAR =12; 4%) and older than 50 years (nT = 9; 3%; nZAR =15; 5%). A majority of the respondents were in possession of an undergraduate qualification (nT = 108; 37%; nZAR =146; 48%) as well as a high school certificate (nT = 70; 24%; nZAR =94; 31%). Regarding the level of experience with mobile-based Internet transactions; the respondents had less than 12 months experience (nT = 100; 34%; nZAR =106; 35%); between 1-2 years of experience (nT = 120; 41%; nZAR =116; 38%); 2-3 years of experience (nT = 32; 11%; nZAR =61; 20%) and more than 3 years of experience (nT = 41; 14%; nZAR =21; 7%).

Furthermore, a majority of the Taiwanese respondents (nT =179; 61%) spend between 100(TWD) to 300(TWD) on online mobile purchases with mobile digital assistants, pagers and smartphones

as the most preferred choice of devices for m-commerce transactions. On the other hand, a majority of the South African respondents (nZAR =225; 74%) spend approximately 20(ZAR) to 250 (ZAR) on online mobile purchases with smartphones being the most preferred choice of mobile devices for m-commerce transactions.

## Correlations

The Pearson's Product Moment Correlation Coefficient (r) was used to analyse the bivariate relationship between the six m-commerce acceptance dimensions with attitude and future usage frequency on both the Taiwanese and the South African samples. These results are reported in Table 1 and table 2 of this study.

**TABLE 1: CORRELATION ANALYSIS OF M-COMMERCE ACCEPTANCE DIMENSIONS WITH ATTITUDE AND USAGE FREQUENCY (TAIWANESE SAMPLE)**

Construct	PI	PEOU	PE	SN	PU	PC	ATT	FOU
Perceived innovativeness	1	.191**	.317*	.470**	.568	.337*	.362**	.682*
Perceived ease of use		1	.440**	.216*	.384**	.379*	.456**	.660*
Perceived enjoyment			1	.315*	.401**	.399	.379**	.537*
Subjective norms				1	.596**	.343	.243*	.383**
Perceived usefulness					1	.411**	.497**	.414**
Perceived credibility						1	.198**	.510*
Attitude							1	.527**
Usage frequency								1

\*\* Correlation is significant at the 0.01 level (2-tailed). \* Correlation is significant at the 0.05 level (2-tailed)

With regard to the Taiwanese sample correlation coefficients (rT) and the South African sample correlation coefficients (rZAR); the relationship between the six m-commerce acceptance subscales and attitude revealed positive and significant, weak to strong correlations. Perceived innovativeness (rT =0.362; p<0.01; rZAR =0.301; p<0.05); perceived ease of use (rT =0.456; p<0.01; rZAR =0.396; p<0.01); perceived enjoyment (rT =0.379; p<0.01; rZAR =0.378; p<0.01); subjective norms (rT =0.243; p<0.05; rZAR =0.309; p<0.01); perceived usefulness (rT =0.497; p<0.01; rZAR =0.504; p<0.01) and perceived credibility (rT =0.198; p<0.01; rZAR =0.317; p<0.05) were positively correlated with attitude. Thus; the consumers' attitudes towards accepting mobile technologies for commercial transactions are largely shaped by the increased level of consumer innovativeness, ease of using m-commerce tools, enjoyment of utilising the mobile devices, normative influence of friends and family, usefulness of m-commerce in improving the users' lifestyles as well as credibility of the mobile sites.

**TABLE 2: CORRELATION ANALYSIS OF M-COMMERCE ACCEPTANCE DIMENSIONS WITH ATTITUDE AND USAGE FREQUENCY (SOUTH AFRICAN SAMPLE)**

Construct	PI	PEOU	PE	SN	PU	PC	ATT	FOU
Perceived innovativeness	1	.285**	.433*	.283**	.394**	.220**	.301*	.663**
Perceived ease of use		1	.296**	.343**	.412	.418*	.396**	.402**
Perceived enjoyment			1	.437**	.490	.389**	.378**	.677**
Subjective norms				1	.520**	.784	.309**	.348**
Perceived usefulness					1	.543*	.504**	.403**
Perceived credibility						1	.317*	.532**
Attitude							1	.550**
Usage frequency								1

**\*\* Correlation is significant at the 0.01 level (2-tailed). \* Correlation is significant at the 0.05 level (2-tailed)**

The relationship between the six m-commerce acceptance sub-scales and usage frequency further revealed positive and significant, moderate to strong correlations on both samples as shown on Table 1 and table 2 of the study. Perceived innovativeness ( $r_T = 0.682$ ;  $p < 0.05$ ;  $r_{ZAR} = 0.663$ ;  $p < 0.01$ ); perceived ease of use ( $r_T = 0.660$ ;  $p < 0.05$ ;  $r_{ZAR} = 0.402$ ;  $p < 0.01$ ); perceived enjoyment ( $r_T = 0.537$ ;  $p < 0.05$ ;  $r_{ZAR} = 0.677$ ;  $p < 0.01$ ); subjective norms ( $r_T = 0.383$ ;  $p < 0.01$ ;  $r_{ZAR} = 0.348$ ;  $p < 0.01$ ); perceived usefulness ( $r_T = 0.414$ ;  $p < 0.01$ ;  $r_{ZAR} = 0.403$ ;  $p < 0.01$ ) and perceived credibility ( $r_T = 0.510$ ;  $p < 0.05$ ;  $r_{ZAR} = 0.532$ ;  $p < 0.01$ ) were positively correlated with usage frequency. Thus; m-commerce usage frequency has a positive and statistically significant relationship with personal innovativeness, ease of using m-commerce tools, enjoyment, norms and social influences, perceived usefulness as well as credibility (trustworthiness) of the mobile sites wherein the transactions are being conducted. Moreover, positive and strong associations were established between consumer attitudes towards social m-commerce and usage frequency on both samples ( $r_T = 0.527$ ;  $p < 0.01$ ;  $r_{ZAR} = 0.550$ ;  $p < 0.01$ ).

## DISCUSSION

Descriptive statistics (mean, standard deviation) of the two samples are presented in Table 3 of this study. The mean score values present the overall perception of Taiwanese and South African consumers on each of the six independent dimensions that were identified in the study. Male consumers in Taiwan scored mean values ranging between 4.287 and 5.981 whereas the mean score values for the South African males ranged between 4.092 and 5.402. However, the Taiwanese female consumers indicated mean values ranging between 4.958 and 5.997 whereas the South African females registered mean score values ranging between 4.026 and 5.751. These findings reveal that on an average rating of 4 and above, all dimensions are moderately important to both male and female consumers in explaining m-commerce technology acceptance.

**TABLE 3: TEST FOR DIFFERENCES BETWEEN MEANS: MOBILE COMMERCE ACCEPTANCE DIMENSIONS AND GENDER (TAIWANESE VERSUS SOUTH AFRICAN SAMPLES)**

Construct	Sample	COHEN'S STATISTIC 'D'		MALE		FEMALE		TEST FOR DIFFERENCES		
		d	Effect size	Mean	SD	Mean	SD	F	t	Sig ('p' value)
PI	Taiwan	.022	None	5.420	.791	5.255	.648	.666	2.814	.109
	South Africa	.043		5.124	.655	4.026	.544	.692	1.337	.704
PEOU	Taiwan	.199	Small	5.028	.617	5.067	.700	.385	2.778	.046*
	South Africa	.281		4.092	.600	5.751	.661	.783	2.735	.025*
PE	Taiwan	.576	Large	4.287	.784	5.555	.791	1.382	2.549	.023*
	South Africa	.541		4.185	.767	5.386	.508	1.954	2.893	.000**
SN	Taiwan	.091	None	4.519	.849	5.423	.805	.798	.874	.091
	South Africa	.080		4.264	.734	5.734	.539	1.866	.750	.084
PU	Taiwan	.201	Small	5.654	.618	4.958	.766	1.416	2.009	.000**
	South Africa	.178		5.106	.514	4.568	.487	.778	2.265	.004**
PC	Taiwan	.443	Medium	4.951	.784	5.997	.689	6.528	5.651	.041*
	South Africa	.398		4.795	.654	5.416	.784	7.958	5.630	.017*
ATT	Taiwan	.399	Medium	5.887	.699	5.829	.692	1.102	1.729	.003**
	South Africa	.420		5.421	.840	5.402	.752	.965	1.719	.000**

1. \* Significance at p<0.05; \*\* Significance at p<0.01.  
2. Sub-scales were measured on a scale using Minimum value (1= strongly disagree) and Maximum Value (7=strongly agree)  
3. Cohen's D measure indicates practical significance (relationship with gender)

Independent t-tests were also computed in order to explore the possible existence of any gender-based differences in the two samples along the identified m-commerce dimensions. Furthermore, to make qualitative judgement in order to assess the size of the correlation coefficients, practical significance was computed using Cohen's d-statistic with a view to establish effect sizes (small, medium and large). These results are highlighted on Table 3. The following guideline, as suggested by Cohen (1988), was used to measure effect sizes:

- d= .10 to .29 (small effect)
- d= .30 to .49 (medium effect)
- d= .50 and greater (large effect)

In terms of the perceived ease of using m-commerce platforms, statistically significant differences were observed among male and female consumers for the Taiwanese sample (F=0.385; t=2.778; p<0.05) as well as the South African sample (F=0.783; t=2.735; p<0.05). Female consumers seem to consider perceived ease of use of m-commerce technologies to be more important than their



male counterparts. This is demonstrated by the significantly higher mean score for females (  $T=5.067$ ;  $ZAR=5.751$ ) compared to males (  $T=5.028$ ;  $ZAR=4.092$ ). In addition, PEOU yielded a small practical effect ( $dT=0.199$ ;  $dZAR=0.281$ ) with attitude and usage frequency; indicating statistical and practical significance. H1 and H2 are therefore, not rejected.

Consistently, Venkatesh and Morris (2000) found that PEOU was more salient to women rather than with men. These findings denote that the ease of use, availability and effortless usage of m-commerce technology is a symbolic issue when determining the attitudes of female consumers. This adds further evidence to the differential salience observed because men perceive the m-commerce technologies to be easier to use with increasing experience, thus resulting in perceptions of ease of use receding into the background upon determining their usage frequency of m-commerce (Zhou, 2011).

In terms of the usefulness of m-commerce platforms, positive correlations were observed on the PU dimension with attitude and usage frequency. Furthermore, strong statistically significant differences were observed among male and female consumers for the Taiwanese sample ( $F=1.416$ ;  $t=2.009$ ;  $p<0.01$ ) as well as the South African sample ( $F=0.778$ ;  $t=2.265$ ;  $p<0.01$ ). Male consumers seem to consider perceived usefulness of the m-commerce transaction process to be more important than their female counterparts. This is demonstrated by the significantly higher mean score for males (  $T=5.654$ ;  $ZAR=5.106$ ) compared to females (  $T=4.958$ ;  $ZAR=4.568$ ) on this dimension. A small effect size indicating practical significance of this result was also observed ( $dT=0.201$ ;  $dZAR=0.178$ ) indicating small practical effect on both samples. H3 and H4 are therefore, not rejected.

The results of this study are in resonance with previous technology acceptance studies of Nysveen, Pedersen & Thorbjørnsen (2005), Zhou (2011) and Venkatesh and Morris (2000) who also found that male consumers consider perceived usefulness to be more sacrosanct than females in their decisions to adopt m-commerce. This is indicative of the fact that extrinsic motives such as usefulness and expressiveness are key drivers of m-commerce acceptance among male consumers across different cultures. Further observation of the results of the independent t-test scores and the correlations indicates that; of the six m-commerce acceptance dimensions, PU had the strongest effect on usage frequency (Pavlou, 2003) as well as attitude ( $p=0.000$ ) and these findings are in concert with Davis (1989) assertions that perceived usefulness is the most decisive factor affecting technology adoption.

Regarding the perceived enjoyment dimension, strong, statistically significant differences were observed among male and female consumers for the Taiwanese sample ( $F=1.382$ ;  $t=2.549$ ;  $p<0.05$ ) as well as the South African sample ( $F=1.954$ ;  $t=2.893$ ;  $p<0.01$ ). Female consumers seem to consider the pleurability of the m-commerce transaction process to be more important than their male counterparts. This is demonstrated by the significantly higher mean score values for females (  $T=5.555$ ;  $ZAR=5.386$ ) compared to males (  $T=4.287$ ;  $ZAR=4.185$ ) along this dimension. Additionally, a large effect size ( $dT=0.576$ ;  $dZAR=0.541$ ) indicating practical significance of this result was observed coupled with moderate to strong correlation coefficients between PE with attitude and usage frequency. H5 and H6 are therefore, not rejected.

These findings are in contradiction with Venkatesh, Morris and Ackerman (2000) who asserts that there is no direct relationship between PE and technology usage with the enjoyment effects only being mediated by PEOU and PU. On the other hand, studies of Teo et al. (1999), Dhabolkar and Bagozzi (2002) and Liao et al., (2007) concur with the results of this study that PE is an antecedent of m-commerce usage frequency. It is through this hedonic dimension that vendors can create aesthetically rich environments for conducting business and pleasure transactions. Mobile interface and website designers should therefore make good use of games and other creative applications to instil fun and interest in the m-commerce transaction process.

Regarding the subjective norms construct; no statistically significant differences were observed among male and female consumers for the Taiwanese sample ( $F=0.798$ ;  $t=0.874$ ;  $p>0.05$ ) as well as the South African sample ( $F=1.866$ ;  $t=0.750$ ;  $p>0.05$ ). Additionally, no effect size was observed ( $dT=0.091$ ;  $dZAR=0.080$ ) indicating absence of practical significance along the SN dimension. H7 and H8 are therefore, rejected. These findings are in contradiction with studies of Zhou (2011); Taylor and Todd (1995) and Safeena, Hundewale and Kamani (2011) who argue that attitudes towards technology adoption are largely shaped by social influences and peer group opinions. This study suggests that there is no statistically significant empirical evidence to suggest that Taiwanese and South African consumers exhibit cohesiveness (even against their own feelings and beliefs) in order to show how critical they consider social status when making decisions regarding their frequency of using m-commerce technologies.

No statistically significant differences were observed among male and female consumers for the Taiwanese sample ( $F=.666$ ;  $t=2.814$ ;  $p>0.05$ ) as well as the South African sample ( $F=.692$ ;  $t=1.337$ ;  $p>0.05$ ) along the perceived innovativeness dimension. Additionally, no effect size was observed ( $dT=0.022$ ;  $dZAR=0.043$ ) indicating absence of practical significance along the PI dimension. H9 and H10 are therefore, rejected. These findings are in contradiction with studies of Kuo and Yen (2009) who emphasises that highly innovative consumers are usually optimistic towards wireless mobile services. Furthermore, there is no statistically or practically significant empirical evidence to suggest that Taiwanese and South African consumers' level of innovativeness is in any way associated with m-commerce usage frequency. Bhatti (2007) also concurred that there is no statistical significance between consumer innovativeness and m-commerce adoption among consumers.

Regarding the perceived credibility dimension, statistically significant differences were observed among male and female consumers for the Taiwanese sample ( $F=6.528$ ;  $t=5.651$ ;  $p<0.05$ ) as well as the South African sample ( $F=7.958$ ;  $t=5.630$ ;  $p<0.05$ ). Female consumers seem to consider the credibility of the m-commerce transaction process to be more important than their male counterparts. This is demonstrated by the significantly higher mean score for females ( $T=5.997$ ;  $ZAR=5.416$ ) compared to males ( $T=4.951$ ;  $ZAR=4.795$ ) along this dimension. Additionally, a medium effect size ( $dT=0.443$ ;  $dZAR=0.398$ ) indicating medium practical effect on both samples was observed. H11 and H12 are therefore, not rejected.

These results suggest that consumer attitudes and usage frequency of m-commerce may be determined by concerns about mobile site security and privacy. For example, consumers are concerned about issues regarding the authenticity of mobile sites (Yang, 2005); disclosure of personal information (Wu & Wang, 2005); risks of faulty mobile transactions as well as theft of credit card information (Jeong & Yoon, 2013). Luarn and Lin (2005) highlights that PC is a trust based component whose significance should be explored further.

In terms of attitude towards m-commerce platforms, strong statistically significant differences were observed among male and female consumers for the Taiwanese sample ( $F=1.102$ ;  $t=1.729$ ;  $p<0.01$ ) as well as the South African sample ( $F=0.965$ ;  $t=1.719$ ;  $p<0.01$ ). The respondents seem to display positive attitudinal perceptions towards the m-commerce transaction process compared to their female counterparts. This is demonstrated by the higher mean score for values males ( $T=5.887$ ;  $ZAR=5.421$ ) compared to females ( $T=5.829$ ;  $ZAR=5.402$ ) on this dimension. Furthermore, strong correlation coefficients were observed between attitude and usage frequency on both samples further validating the positive, statistical significance of this dimension. A medium effect size ( $dT=0.399$ ;  $dZAR=0.420$ ) was observed indicating practical significance of this dimension. H13 is therefore, not rejected. The results of this study concur with previous studies of who suggests that attitude is a strong indicator of m-commerce acceptance (Wu & Wang, 2005) and m-commerce usage frequency (Pavlou, 2003).

## CONCLUSIONS

This paper advances the notion that m-commerce technology acceptance is an issue of positive attitudes and increased purchasing frequency. Six constructs were identified in the study as key determinants of M-commerce acceptance, namely; PI, PEOU, PE, SN, PU and PC. Of these six dimensions; only four attributes showed positive, statistically and practically significant association with both attitude and m-commerce usage frequency i.e. perceived ease of use, perceived usefulness, perceived enjoyment and perceived credibility. Therefore, H1, H2, H3, H4, H5, H6, H11 and H12 were supported in this study. In addition, attitude was found to have positive and statistically significant association with usage frequency. Therefore H13 was not rejected in this study. There was no statistical significance or practical effect that was established along the subjective norms and perceived innovativeness dimensions therefore, H7, H8, H9 and H10 were not supported in this study. Empirical evidence for the fundamental interconnection existing between PI and SN with gender could not be clearly established in the study.

The results of this study present sufficient grounds to examine technology acceptance issues along the dimensions that were excluded from the present study, e.g. mobile site informativeness, perceived value and culture. By intensifying the m-commerce acceptance dimensions that were identified in this study it is possible to increase the potential for increased competitive advantage and profitability among marketing organisations through increasing the frequency of usage of m-commerce sites.

## MANAGERIAL IMPLICATIONS

The usage of mobile devices for commercial transactions is a distinct consumer behaviour study with potentially valuable implications for numerous disciplines. For information systems developers; understanding how different consumer groups within varied cultural settings use mobile devices can provide invaluable opportunities for designing new capabilities that will support consumers' lifestyles. These can include inter alia; strengthening the transaction security and privacy protection abilities in the mobile commerce devices to reduce consumer risk; using advanced operating systems such as Symbian (EPOC), PalmOS, Pocket PC and also updating mobile device software presentation standards to iMode or newer packages. On the other hand, marketers may gain valuable insight into using mobile sites for positioning their businesses and building brand image.

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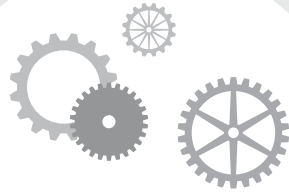


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# INFORMATION DISCLOSURE AND ONLINE PRIVACY CONCERNS AMONGST FACEBOOK USERS

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## ABSTRACT

The progressive development of social networking sites, specifically Facebook has created concerns in terms of the volume and type of information disclosed. This study investigated the information disclosure shared and online privacy concerns amongst users on Facebook. The results of the study provide insight into the information disclosed on Facebook amongst undergraduate students at the University of Pretoria. It further indicates the level of concern amongst these users with regards to their online privacy. The study further investigated the differences between genders with regards to these constructs. The results might provide marketers and organisations with insight into young consumers' information disclosure and online privacy concerns which might be useful in communicating with these particular target audiences.

## KEYWORDS

Information disclosure, Online privacy concerns, Gender, Facebook

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## INTRODUCTION

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The growth and development of information technology has generated interest from marketing scholars and practitioners alike. Information technology is changing social norms, in terms of relationships, both on and offline (Boyd & Ellison, 2004: 221-222). Social networking sites have become popular and Facebook founded in 2004, one of the largest platforms, has created a new era of communication. It allows for the sharing of large amounts of personal information with friends, colleagues and sometimes strangers as well (Boyd & Ellison, 2004: 211). This site has become an integral part of many peoples' lives and whilst numerous advantages are present a number of risks need to be recognised.

Various studies have focussed on online privacy specifically information disclosure patterns (Tufekci, 2008: 31-34; Fox, Rainie, Horrigan, Lenhart, Spooner & Carter, 2000: 13-14) and information privacy concerns on Facebook (Fogel & Nehmad, 2009: 159; Jones & Soltren, 2005: 34-35). A study by Taraszow, Aristodemou, Shitta, Laouris, and Arsoy (2010: 95) reported that gender plays an important role in the disclosure of information, our study also investigated the differences between gender and information disclosure. The second construct, online privacy concerns was also investigated in this study. According to Yuan (2011: 454) online privacy concern is a direct measure of a person's perception of their information privacy on the Internet. This study therefore investigated student's information disclosure and their concern for online privacy. According to Socialbakers (2012) the ages 18-24 is regarded highest number of active users of social networks in South African and therefore this group was regarded an appropriate target audience for our study.

Social networking sites require individuals to build a personal profile by providing or disclosing personal information. Multiple studies (Acquisti & Gross, 2006: 1; Fogel & Nehmad, 2009: 153; Hoy & Milne, 2010: 28; Mohamed, 2010: 74; Strater & Lipford, 2008: 111) have illustrated that there is a concern amongst consumers about their privacy and personal information on these sites. The fact that personal information is shared creates a number of risks and therefore online privacy concern is a construct that needs further exploration (Debatin, Lovejoy, Horn & Hughes, 2009: 83-84). This study focussed on gaining insight from a South African perspective.

The more personal information an individual divulge on Facebook, the easier it is for one to be located and tracked online by friends and acquaintances (Jones & Soltren, 2005: 4). This also makes it possible for unauthorised individuals to gain access to personal information. The problem investigated in this study relates to the fact that young individuals disclose large volumes of personal information on social networking sites in an attempt to build their personal profile. The study focused on investigating undergraduate students as Facebook users in terms of their level of personal information disclosure as well as their online privacy concerns.

### **The research objectives of this study are:**

- To determine how much information users disclose on Facebook in terms of their own personal information;
- To determine if there is a relationship between student's online privacy concern and their information disclosure;
- To determine if there are differences with regards to information disclosure amongst male and female Facebook users;
- To determine if there are differences with regards to online privacy concerns amongst male and female Facebook users.

The paper starts with a general discussion on social networks to provide the context for the study which is followed by a discussion on information disclosure and online privacy concerns as two main constructs. The differences between genders in terms of both information disclosure and online privacy concern are then discussed followed by the methodology, results and discussion section. The paper concludes with the implications, limitations and suggestions for future research.

## LITERATURE REVIEW

Recent years have seen social networking sites becoming increasingly popular, with millions of people around the world accessing these sites on a regular basis. A social networking site is a platform specifically used for the purpose of building networks or connections between people and/or organisations. These sites are virtual communities in which people are encouraged to exchange and share information for a number of reasons such as building friendships, fostering business connections to name but two (Hoy & Milne, 2010: 23).

An early form of social networking started in 1997 with the creation of SixDegrees.com, a website which included features such as profile creation, listing of friends and the ability to view another friend's list (Boyd & Ellison, 2008: 214). In recent years a variety of these sites has appeared and became increasingly popular. The social networking site selected for this study is Facebook. This site essentially allows users to create and modify their personal profile by including personal information ranging from telephone numbers and home addresses to religious views and relationship status. Facebook also allows an individual to add 'friends', share photographs, join groups and send private or public messages (Strater & Lipford, 2008: 110).

While Facebook has presented an entirely new form of communication and means of socialising it also presents various risks for its users. The volume and type of personal information visible on the users' profiles, allow for possible unauthorised access if privacy control measures are not activated leaving the user vulnerable. It is important to understand to what extent consumers disclose personal information. This insight might help consumers to possibly be aware of the potential risks in sharing such information, creating awareness amongst these individuals. The following section discusses information disclosure in greater detail.

## INFORMATION DISCLOSURE

In recent years the security risks of information disclosure online have been highlighted. As social networking sites have increased the ease and likelihood of individuals sharing personal information these risks have become more evident. The increase in both identity theft and the breaching of personal security in recent years can be attributed to social networking requiring users to disclosure of personal information (Fogel & Nehmad, 2009: 155; Mohamed, 2011: 86) to create their own personal profiles. Within the context of social networking sites, information disclosure can be defined as the personal information about oneself that is released and disclosed into the public domain. When individuals create their personal profiles online they decide and modify to what extent information about themselves is disclosed or not disclosed as part of managing their own identity (Strater & Lipford, 2008: 111).

Whilst a person can never be forced or coerced into joining a social networking site or reveal personal information, people are willing to disclose considerable volumes of personal details, despite the risks involved (Acquisti & Gross, 2006: 13). Profile visibility can be defined as the number and type of information shared on a user's profile or as a list of identifying information accessible by other Facebook users (Young & Quan-Haase, 2009: 266). Profiles information can be

divided into the following categories; basic information which is descriptive in nature including gender, home town and birth date. Contact information which includes telephone numbers, e-mail address, residential address and personal websites. Finally personal information, which describes the user's interests, likes and dislikes and any other information that the user may want to share.

The rest of the profile contains social features and the user's activities which could include photographs that can be uploaded and 'tagged' in order to identify individuals in the photograph. By 'friending' a person the user is giving that person access to their profile and in effect to their personal information. Various studies (Dwyer, Hiltz & Passerini, 2007: 7; Fogel & Nehmad, 2009: 156; Ellison, Steinfield & Lampe, 2007: 1156; Mohamed, 2011: 82 and Young & Quan-Haase, 2009: 268) have found strong support for disclosing and sharing personal information. The reasons why users disclose such information could be driven by a number of different factors, such as peer pressure, little concern for personal privacy, little awareness of the consequences of revealing personal information online, a narrow minded approach to evaluating privacy risks and trust of the networking service (Mohamed, 2011: 77).

In a study by Dwyer et al. (2007: 7) the respondents indicated that 100% of Facebook members divulge their real name when creating their profile, while research carried out by Fogel and Nehmad (2009: 156) found that 81.8% do so. Both these percentages are high when considering that this is for the disclosure of real identity aspects. When considering other personal information that might be a threat to individuals, Ellison et al. (2007: 1156) found that in 96.0% of their respondents included their high school name on their profile. In the study by Mohamed (2011: 82) it was found that 48.6% of the respondents included in his study revealed their country of origin, 31.7% revealed their school or university name a smaller percentage of respondents revealed their mobile phone number and e-mail addresses. Young and Quan-Haase's (2009: 268) study, reported that the 80.5% of their respondents disclosed their current city or town of residence on their profile, 97.4% revealed school name, 92.2% birth date and in this study 83.1% of the respondents disclosed their e-mail addresses and a smaller percentage of respondents disclosed their physical address and mobile phone number. These types of information may pose a threat to the users as it provides details about their personal identity, information and geographical area in which these individuals are located. This type of information might be misused by unauthorised individuals. The next section discusses the construct online privacy concerns.

## **ONLINE PRIVACY CONCERN**

Due to the increasing popularity of social networking sites and the disclosure of information, concerns around privacy are raised (Acquisti & Gross, 2006: 12). Privacy can be defined as the privilege or right of individuals, groups, or institutions to choose when, how, and to what extent information about them is shared with others (Taraszow et al. 2010: 84). Once an individual discloses personal information online, control over this information is lost to some extent which may result in the misuse by an unauthorised third party (Dinev & Hart, 2006: 12). Privacy concern is defined by Dinev and Hart (2006: 9) as "an individual's subjective views of fairness within the context of information privacy".

According to Young and Quan-Haase (2009: 270), three types of privacy concerns exist. Firstly, there is the concern that unknown individuals will use another's information for purposes which could cause harm to them. Secondly, the information revealed online could be used or sold without the knowledge of the Facebook user. Lastly, there is the concern that individuals who have a relationship with the Facebook user offline could see information that was not intended for them to see. In order to overcome these privacy concerns users could simply refrain from disclosing personal information, however it is necessary to disclose some of this information to build a profile on these social networking site.

Furthermore, Young and Quan-Haase (2009: 272) found that students who are highly concerned about internet privacy are less likely to disclose personal information on Facebook. The findings suggest that students do not simply say they are concerned about their privacy; they actively partake in measures to protect themselves from possible breaches in privacy by refraining from placing personal information on their profiles. Therefore, it can be noted that the more respondents are concerned with their online privacy, the less likely they might be to provide personal information in their profiles. This lead to the following hypothesis:

**H1:** There is a negative association between the concern for online privacy and information disclosure of student Facebook users.

Acquisti and Gross (2006: 14) examined the differences in information disclosed between male and female users. Their results found that male users were more likely to reveal personal information such as mobile phone number, their sexual orientation and personal address than female users. Fogel and Nehmad (2009: 159) found that females have a greater concern for internet privacy and personal information disclosure than males. A study by Taraszow et al. (2010: 93) support the findings by Acquisti and Gross (2006: 14) in that males were found to be more likely than females to reveal personal information. Taraszow et al. (2010: 95) suggested that one of the reasons why male internet users are more likely to disclose personal information online is that they want to appear to be more independent, powerful and available to others online. The following hypothesis is therefore formulated:

**H2:** Males are more inclined than females to disclose information on Facebook.

Fogel and Nehmad (2009: 157) and Mohamed (2011: 85) identified significant differences between males and females in their concern for online privacy, with women being more concerned than men. Supporting these results were the study by O'Neil (2001: 30-31) which concluded that females have higher concerns for online privacy than males. Therefore the following hypothesis is stated:

**H3:** Females have a higher concern for internet privacy than males on Facebook.

The following section will discuss the methodology used in this study and will address sampling, data collection and the measurement. Each of these aspects will be briefly discussed in the context of this study.

## **METHODOLOGY**

The target population for this study consisted of undergraduate students between the ages 18 to 24 years studying on the main campus of the University of Pretoria for the 2012 academic year. The units of analysis in this study were individual students with a Facebook account. As mentioned in the literature review, the most active group of users are aged between 18 to 24 years. Some of the studies already mentioned also used student samples for data collection (Acquisti & Gross, 2006: 4; Debatin et al., 2009: 90 and Ellison et al., 2007: 1148).

A non-probability sampling method was used as an accurate sampling frame was not available (Cooper & Schindler, 2011: 385). Quota sampling was used to ensure the sample was demographically diverse thus providing a representation of the target population. An equal number of female (100) and male (100) respondents answered the questionnaire; of which 50 respondents were Black, 50 Caucasian, 50 Coloured and 50 were Indian. The final realised sample included a total of 200 usable questionnaires.

**TABLE 1: QUOTA SAMPLE FRAME MATRIX FOR THIS STUDY**

<b>Ethnicity</b>	<b>Male</b>	<b>Female</b>	<b>Total</b>
Black	25	25	50
Coloured	25	25	50
Indian	25	25	50
Caucasian	25	25	50
<b>Total</b>	100	100	200

The next section will discuss the data collection method as it pertains to this study.

## **DATA COLLECTION**

The draft questionnaire was pre-tested with a quota sample of 12 undergraduate students studying at the University of Pretoria during the 2012 academic year. The pilot study consisted of male and female participants from the Black, Coloured, Indian and Caucasian ethnic groups, where the collaborative pre-testing method defined by Cooper and Schindler (2011: 358).

Data was collected from undergraduate students during September 2012 via a campus intercept using a self-administered questionnaire. No incentives were offered to respondents in order to complete the questionnaire. The researchers introduced themselves to the respondent and explained the nature and purpose of the study. The potential respondents were asked if they have an active Facebook account in order to determine if the respondents met the requirements of the sample. Those that met the requirement were asked if they would be willing to take part in the study. A consent form was signed and the respondents then completed the self-administered questionnaire. The next section will discuss the measures used for the two main constructs investigated in this study, information disclosure and online privacy concern.

## **MEASUREMENT**

The construct information disclosure used a multiple-choice, 17-item, single response scale and was adapted from Young and Quan-Haase (2009: 267-268). A scale adapted from a study by Govani and Pashley (2005) provided an overview of the types of information that students are willing to share on their Facebook profiles. Young and Quan-Haase (2009: 267) then added additional items and this adapted instrument were used in our study. Respondents had to indicate which of the items listed was included and disclosed in their personal profile on Facebook. The same methodology was used in our study as in Young and Quan-Haase (2009: 26) where from the 17 items an additive scale was created where all the 'yes' responses were revealed.

The next construct, online privacy concern, was measured using a 7-point Likert scale consisting of 10 items. The scale points were labelled from: 1 = Strongly disagree to 7 = Strongly agree. No scale items were reverse scored. The online privacy concern scale was taken from the Internet users' information privacy concerns scale by Malhotra, Kim and Agarwal (2004: 351). Although this scale has three sub-dimensions, measuring online privacy in terms of control, awareness and collection, the results for this scale will be reported as a composite (total) score to meet the objectives of this study. A composite scale score was calculated using the averaging method. The Cronbach's alpha value for this scale is 0.85, which indicates acceptable internal consistency reliability.

The last part of the questionnaire focussed on the demographic profile of the respondents by using multiple-choice, single response questions regarding age, gender and ethnicity. The following section will report the results for this study by reporting the descriptive statistical results followed by the results for the hypotheses testing.



## RESULTS

The target for the quota sample was a minimum of 200 respondents and the quota matrix provided in Table 1 was realised. As stated before the sample was equal in size for gender, 100 males and 100 females as well as divided equally amongst the different ethnic groups. The age categories for the realised sample resulted in (52.5%) of respondents in the category 18-20 whilst the smallest (5.5%) fell in the age category 24 and above.

A self-administered questionnaire was issued by the researchers after the screening questions were asked and this resulted in 100% response rate. The second question wanted to know if the respondent was aware of privacy settings available on Facebook the results revealed that the majority (93.5%) of the respondents were aware of the privacy settings on Facebook and a small number (6.5%) of the respondents are not aware of these settings.

Table 2 presents the results for each of the items in the list of information disclosure measured providing the means, standard deviations and percentages for each items in the scale.

**TABLE 2: RESULTS OF DESCRIPTIVE STATISTICS FOR INFORMATION DISCLOSURE**

	Sum	Mean	Std. Deviation	Percentage
Email	163	0.82	0.389	81.5
Interests	153	0.77	0.425	76.5
Relationship	126	0.63	0.484	63.0
Last Name	193	0.97	0.184	96.5
School Name	181	0.90	0.294	90.5
Instant messenger	79	0.40	0.490	39.5
Name	196	0.98	0.140	98.0
Blog	21	0.11	0.307	10.5
Cell phone	68	0.34	0.475	34.0
Current Home Address	25	0.13	0.332	12.5
Photo Self	185	0.93	0.264	92.5
Photo Friends	187	0.94	0.247	93.5
Birth Date	183	0.91	0.280	91.5
Current Town	152	0.76	0.428	76.0
Video Self	32	0.16	0.368	16.0
Gender	191	0.96	0.208	95.5
Sexual Orientation	141	0.71	0.457	70.5

The results of this construct indicate high levels of information disclosure amongst Facebook users which is in line with previous research (Young & Quan-Haase, 2009: 265-272; Gross & Acquisti, 2005: 13; Tufekci 2008: 20-25) in terms of information disclosure. These results found that 12 of the 17 items included in the list indicated that more than 60% of the respondents disclose such information on their profile.

The majority (98.0%) of the respondents reported using their actual name (first name) in their profile and the majority (96.5%) also included their last name. A large number of the respondents disclosed their school name (90.5%), photo of their friends (93.5%) and photo of themselves (92.5%), birth date (91.5%), and the majority of respondents disclosed their gender (95.5%) and photos of their friends (96.1%). The information items with smaller results included blogs (10.5%), videos of self (16.0%), personal cell phone number (34.0%) and personal physical address (12.5%).

The descriptive results for information disclosure show that males on average are somewhat more likely to reveal information than females however a hypothesis test was done to determine if there are significant differences between male and female Facebook users.

Table 3 summarises the means and standard deviation of items that measured the second construct namely, online privacy concerns.

**TABLE 3: MEANS AND STANDARD DEVIATIONS FOR THE CONSTRUCTS ONLINE PRIVACY CONCERNS**

	<b>Mean</b>	<b>Std. Deviation</b>
<b>Online privacy concern items measured</b>		
1. Consumer online privacy is really a matter of consumers' right to exercise control over decisions about how their information is collected, used, and shared.	5.85	1.228
2. Consumer control of personal information lies at the heart of consumer privacy.	5.74	1.277
3. I believe that online privacy is invaded when control is lost or unwillingly reduced as a result of a marketing transaction.	5.70	1.389
4. Companies seeking information online should disclose the way the data are collected, processed, and used.	6.04	1.166
5. A good consumer online privacy policy should have a clear and visible disclosure.	6.15	1.072
6. It is very important to me that I am aware and knowledgeable about how my personal information will be used.	6.33	1.173
7. It bothers me when online companies ask me for personal information.	5.91	1.208
8. When online companies ask me for personal information, I think twice before providing it.	6.23	1.124
9. It bothers me to give personal information to so many online companies.	6.12	1.258
10. I am concerned that online companies are collecting too much personal information about me.	5.59	1.342

From Table 3 a profile of the respondents' responses in terms of the individual items measuring the constructs online privacy concern is provided. The item that indicates the highest concern for online privacy concern is "It is very important to me that I am aware and knowledgeable about how my personal information will be used." (M = 6.33, SD = 1.173) and the item with the lowest concern is "I am concerned that online companies are collecting too much personal information about me" (M = 5.59, SD = 1.342).

The means suggest that respondents are most concerned about the use of their personal information as they might be unsure of how this information will be used. This might indicate that Facebook should explicitly inform users what their information will be used for and allow for the respondents to remove some of his/her information should they decide to do so. Interestingly, when referring to the means of the item with the lowest concern which indicates that respondents are least concerned about the amount of information being collected. This might translate to the fact that in the context of Facebook the individual decides what they would like to share and disclose and therefore might perceive this to translate in having some control over this item.

Respondent's online privacy concerns by gender show that male and female online privacy concerns are similar; however on average females seem to have a higher concern than males. The next section discusses the hypotheses tests to answer three of the objectives stated above.

## HYPOTHESIS TESTS

The first hypothesis (H1) focused on the association between concern for internet privacy and information disclosed by Facebook users and the hypothesis stated below:

**H1:** There is a negative association between the concern for internet privacy and information disclosure of student on Facebook users.

The concerns for internet privacy were measured at an interval level of measurement and information disclosure was measured at a nominal level the appropriate parametric significance test is the Pearson's product moment correlation (Pallant, 2011: 129-135). The data violated the normality assumption of the Pearson's product moment correlation and the non-parametric Spearman's rank order correlation was used to test this hypothesis. The results suggest that the association between online privacy concerns and information disclosure on Facebook has no statistical significance,  $r_s(198) = 0.055$ ,  $p = 0.066$ . Contrary to findings by Young and Quan-Haase (2009: 267), it was found that there is no significant association between online privacy concerns and the amount of information disclosure on Facebook.

A possible explanation is that among South African students within this sample the association between these two constructs does not exist or apply whereas in other countries, such as America, the concern for online privacy does impact the amount of information disclosed on Facebook. The specific reasons for this finding could be investigated in greater detail in a future study.

Hypothesis H2 focused on the difference between males and females with regards to information disclosure on Facebook. H3 focused on the difference between males and females regarding their online privacy concern. The alternative hypotheses of H2 and H3 are stated below:

**H2:** Males are more inclined than females to disclose information on Facebook.

**H3:** Females have a higher concern for internet privacy than males on Facebook.

Since online privacy concerns was measured at an interval level of measurement and information disclosure was measured at a nominal level of measurement, the appropriate parametric significance test is the independent samples t-test. The assumptions could not be satisfied; therefore the Mann-Whitney U test was used as a non-parametric alternative (Pallant, 2001:260). Hypothesis H2 and H3 are one-tailed (directional) hypothesis, tested at a 5% level of significance (i.e.,  $\alpha=0.05$ ). H2 resulted in a p-value of 0.0025 while H3 resulted in a p-value of 0.041. This suggests that males and females differ significantly in both their concern for online privacy and the information disclosed on Facebook. In both cases the null hypothesis was rejected in favour of the stated alternative hypothesis.

To address the first objective of the study our results indicated that as per previous research (Young & Quan-Haase, 2009: 265-272; Gross & Acquisti, 2005: 71-80; Tufekci, 2008: 20-36), the data show high levels of information disclosure by Facebook users. Specifically regarding some of the more sensitive items such as first name, 98.0% of both male and female respondents reported that they use their actual name in their profile and 96.5% included their last name.

The hypotheses tests indicated that there was a significant difference in the amount of information disclosed by both males and females. The results indicate that male respondents disclose more information than females. The findings of this study by Fogel and Nehmad, (2009: 159) found that male respondents are less concerned about online privacy than females. This may lead them to reveal larger amounts of personal information online. Furthermore the results found that females are more concerned about online privacy than males, which support's previous research by Hoy and Milne (2010: 33). The next section discusses the managerial implications of the findings of this study.

## MANAGERIAL IMPLICATIONS

Yuang (2011: 471) states that it is critical to gain a deeper insight into privacy issues from countries other than the United States of America and it becomes clear, after reviewing the available literature base, that little research has been conducted on the issue of information disclosure on Facebook within a South African context.

This study indicates that there are concerns for online privacy that need to be taken into consideration when marketers or organisations use online networks to obtain information. Although this study is a quantitative study it could be augmented with qualitative data from Facebook users in order to provide more insight into the results.

As today's marketers and organisations have an increasingly growing need to gather data, the line between the means of getting the information and treating customers fairly and informatively has become one that has led to concerns within users of online networks such as Facebook. Therefore marketers or organisations should explicitly communicate with customers in stating that when personal information is disclosed on social networks that they give permission to the organisation to use the information provided. The communication should clearly state what type of information will be used and why it will be used. This may help individuals to make an informed decision with regards to how they would like to protect their own personal identity and information.

Three privacy related settings of a Facebook profile exist. Firstly a Facebook user can set their profile to be a 'public profile' which effectively makes the profile open to all people on a user's network. The user may still restrict access to certain parts of information on their profile. A Facebook user may also set their profile to be a 'private profile' which means that their profile can only be viewed by the user's Facebook friends. Lastly, a Facebook user can set their profile to 'search profile,' which reveals information displayed in the search results of a user from a separate network, such as full name, profile picture and friend lists (Strater & Lipford, 2008: 112). These three types of settings should be communicated to all Facebook users by regularly reminding users by for instance sending notifications to all users.

Subsequently, the need for marketers and/or organisations to develop and implement a relationship that is open and honest regarding the type of user's information that will be used and the reasons for using it could help in reducing the concerns of users when disclosing personal information.

Finally this study indicates that both female and male (to a lesser extent) have concerns about how advertisers and marketers make use of personal information. These different results in association to gender, offer advertisers and organisations a deeper insight into consumers when actively using behavioural advertising.

## LIMITATIONS AND RECOMMENDATIONS FOR FUTURE RESEARCH

A limitation to this study is that the sample represents only one university and can therefore not be generalized to a larger population on statistical grounds. Added to this is the findings based on a non-probability sample cannot be generalised to a larger population. Furthermore a self-administered questionnaire was used another method such as observation and recording the behavioural patterns of participants' Facebook profile as suggested by (Fogel & Nehmad, 2009: 160) may have provided more in-depth insight. Furthermore the information disclosure item measure may also be a limitation as it is based on the number of items developed by Young and Quan-Haase (2009: 272) which might be limited.

Future research that investigate information disclosure and online privacy concerns should expand on this study by examining a broader set of demographics, including a non-university student-

dominated sample, would improve current efforts. Given Facebook's expansion into older segments of the population, this research could be replicated to compare differences across different age groups (Fogel & Nehmad, 2009: 160). In addition, respondents were not asked if they had profiles on social networking sites other than Facebook, the sample tested consisted of Facebook users only. Hargittai (2008: 293) cautions researchers not to generalise results based on users of one site to others.

This study highlights the need for further research into the issues of privacy and trust amongst friends on Facebook as the questions asked in this study did not examine these issues (Strater & Lipford, 2008: 7).

Adults and youths may also have different definitions of privacy, making it important to learn more about their desire for information control (Hoy & Milne, 2010: 43).

It is important that future research examines the level of 'conscious' awareness young adults about the possible dangers they expose themselves to, when revealing authentic private and contact information on social networking sites (Taraszow et al., 2010: 96).



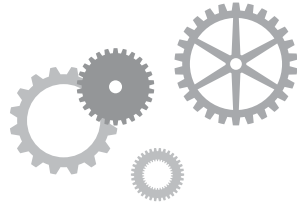
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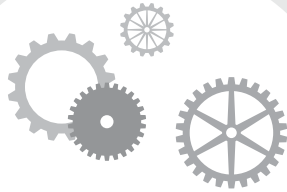
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## Section 7: Project Management Resilience

# THE DISPARITY BETWEEN PROJECT SUCCESS AND PROJECT MANAGERS' COMPETENCIES

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## ABSTRACT

Many projects continue to fail despite the use of established project methods and techniques as the competency required for successful project outcomes has been lacking. A project's success is contingent on managing the various project constraints effectively. It is essential that project managers possess and display appropriate competencies. A structured questionnaire was developed based on competency standards and frameworks. This questionnaire was distributed amongst South African project managers. The responses were analysed to determine which competencies are perceived as invaluable. The results emphasised that project managers focus on technical competency rather than on contextual and behavioural competency and that the desired competencies ensuring project success are not rated as significantly important. By gaining a greater understanding of what key competencies are needed to manage a project successfully, more effective education and training methods and procedures can be developed to facilitate the instruction of the defined key competencies, and improve the effectiveness of future project managers.

## KEYWORDS

Project success, Project manager competencies, Competency frameworks

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## INTRODUCTION

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A conundrum currently exists in the project management discipline: literature suggests that project success is dependent on the project manager's competencies (Mnkandla & Marnewick, 2011; Bourne & Walker, 2004), but on the other hand research suggests that the competency of the project manager is not a factor that contributes to project success (Marnewick & Labuschagne, 2012).

Many companies recognise that project management is key to their business operations (Crawford, 2005). This increase in the adoption of project management has stimulated the interest of both practitioners and researchers to investigate all aspects of project management and considerable effort has been devoted to understand the role of the project manager itself as well as the skills and competencies that a project manager must portray.

With project managers in short supply and increasing pressure to identify potential project managers, companies are looking more and more for reliable and predictable assessment processes and criteria. A further complication to this problem is that companies are initiating too many complex projects and that these companies do not have enough competent project managers to manage these projects. Companies report difficulties in the recruitment of project managers with the appropriate knowledge, skills and experience necessary for their current projects. It is commonly found that while relevant project management qualifications may indicate the presence of project management knowledge, they are often poor predictors of overall capability (Worsley & Worsley, 2009).

Various project management competency standards exist (Project Management Institute, 2007; Caupin, Knoepfel, Koch, Pannenbäcker, Pérez-Polo & Seabury, 2006) but these standards have not been described, assessed and further developed for organisations, teams and individuals within the South African construction environment. In addition, no research has been conducted since 2007 to determine the project management competence levels of public sector infrastructure departments (Rwelamila, 2007).

This article fills the research gap through an in-depth analysis of the required competencies as per the surveyed project managers. Project managers in the construction industry were requested to complete the questionnaire and rank all the project management competencies. The project management competencies were classified into three categories, i.e. contextual, behavioural and technical competencies. The results were categorised and ranked according to the three competency categories.

This classification and categorisation of the competencies enables companies to establish a competency baseline. Such a baseline can be used to determine current project managers' competency levels as well as the screening and interviewing of prospective project managers. The research does not address how the specific competencies should be measured but focuses more on which competencies are deemed important by current project managers in the construction industry.

The first section of the paper focuses on a current literature review to determine what the current project management competencies are. The literature review also focuses on the importance of project management competencies and their relation to project success. The second section of the article focuses on the research methodology and the reasons why questionnaires were used. The analysis and interpretation of the results are discussed in the third section, with the fourth and fifth sections focusing on the conclusions and management implications of the research, respectively.

## LITERATURE REVIEW

Project management competence is defined as the demonstrated ability to perform activities within the project environment (Project Management Institute, 2007). These activities must lead to expected outcomes based on predefined and accepted standards. The International Project Management Association (IPMA), on the other hand, defines competence as a collection of knowledge, personal attitudes, skills and relevant experience that is needed to perform a certain function successfully (Caupin et al., 2006).

Project management competence can therefore be linked to the performance of the project itself and ultimately to the performance of the organisation (Crawford, 2005). Thus, there is a strong case for understanding and improving the competencies of project managers as this will lead to successful projects and ultimately successful organisations (Skulmoski & Hartman, 2010).

With regard to competencies, Crawford (2005) proposes three classifications:

1. Input competencies that refer to the knowledge and skills that a project manager brings to a job.
2. Personal competencies that are the core attribute underlying a project manager's capability to execute a job.
3. Output competencies that relate to the 'demonstrable' performance that a project manager exhibits within the work environment.

The IPMA classifies competence into three ranges, i.e. technical, behavioural and contextual knowledge, experience and personal attitudes (Caupin et al., 2006). This view of IPMA is very much aligned with various views that competence is not a single construct (Alam, Gale, Brown & Khan, 2010).

The Project Management Institute's Project Management Competency Development Framework (PMCDF) defines three competence dimensions, namely knowledge, performance and personnel (Project Management Institute, 2007). Project management competence is defined as what project managers bring to a project or project-related activity through their knowledge and understanding of the project management discipline, experience in the application of this knowledge, and core attitude and personality traits that affect their behaviours.

A project manager's competence is a key factor that influences the eventual outcome of the project. Research has been able to isolate a consistent group of behavioural competencies associated with successful project managers (Stevenson & Starkweather, 2010). Dainty, Raidén & Neale (2009), on the other hand, argue that whilst project management competence represents only one of many criteria upon which project performance is contingent, it is also arguably the most significant as it is people who deliver projects and not processes and systems.

Finding the right project manager depends on how an organisation defines the project management role and, more importantly, how it defines the project management process itself. Organisations look most often for project experience when evaluating new project managers, followed by communication skills. Technical skills are assumed to be a given for project managers entering the job market. However, the key behavioural competencies involved in the performance domain are dynamic and difficult to identify (Chen, Partington & Wang, 2008).

Project success has been conceptualised based on the triple constraint and key traits such as leadership, ambition and aggressiveness (Ahadzie, Proverbs & Olomolaiye, 2008; Sheffield & Lemétayer, 2013; Ika, Diallo & Thuillier, 2012). The generally described project manager

competencies such as project-specific expertise, problem-solving, leadership and social competence have to be complemented by entrepreneurial and project management competence. Depending on the type and scope of the project, competencies will vary in their depth and breadth (Hölzle, 2010).

The need for project management competence is well documented. Kaklauskas, Amaratunga & Lill (2010) contend that “there is a growing awareness of the relationship between achieving project success and project managers' competences”. According to Marnewick and Labuschagne (2012), the competence of the project manager is in itself a factor in the successful delivery of projects. This view is also shared by Patanakul & Milosevic (2009) and also by Stevenson & Starkweather (2010). Whilst employers need guidance in the selection of a competent project manager, they are responsible for identifying the specific competencies needed for a particular project. However, the latter remains difficult to quantify.

Project management as a professional discipline has given rise to a number of frameworks that define the scope of the discipline and describe its tools, techniques and concepts (Chen et al., 2008).

### **APM Competence Framework**

This framework's focus is to assess the knowledge and experience of a specific project manager. This assessment is then used to identify training, development and qualification needs. This framework consists of five dimensions.

The first dimension is breadth. An individual project manager must have knowledge of the APM Body of Knowledge which defines the knowledge needed to manage any kind of project (Association for Project Management, 2006). The second dimension is depth. The framework provides guidance for project management competencies and maps the levels of knowledge and experience of the project manager. This mapping can be used to determine gaps and possible areas of improvement with regard to skills and abilities. Achievement is the third dimension. Competency levels are used to achieve certain levels on the IPMA competency rankings. The fourth dimension is commitment which focuses on developing the project manager's practice. The idea is to develop a targeted development plan that can be used to enhance an individual project manager's career. The fifth and last dimension is accountability. This dimension focuses on the ethical practice expected of project managers.

### **Global Alliance for Project Management Performance Standards (GAPPS)**

GAPPS is a unique alliance of government, private industry, professional associations and training/academic institutes working together to develop globally applicable project management competency-based standards, frameworks and mappings. The GAPPS Project Manager standard is written in the format of a performance-based competency standard. This is a particular form of standard that aims to answer two key questions:

1. What is usually done in this occupation, profession, or role by competent performers?
2. What standard of performance is usually considered acceptable to infer competence?

The standard identifies six units of competency as per table 1.



**TABLE 1: GAPPS UNIT OF COMPETENCY**

Unit #	Unit Title
PM01	Manage Stakeholder Relationships
PM02	Manage Development of the Plan for the Project
PM03	Manage Project Progress
PM04	Manage Product Acceptance
PM05	Manage Project Transitions
PM06	Evaluate and Improve Project Performance

Each of these units is further broken down in detail and has associated competencies.

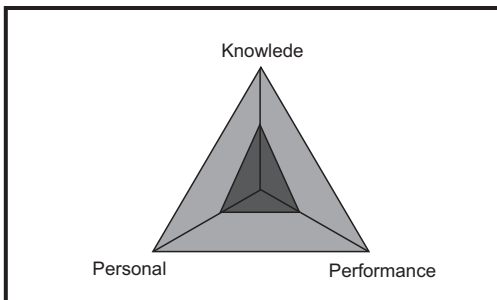
**PMI Project Manager Competency Development Framework (PMCDF)**

The PMCDF provides an overall view of the skills and behaviours one would need to develop competence as a project manager (Project Management Institute, 2007). It provides a framework for the definition, assessment and development of project management competence. The framework also defines the key dimensions of competence and identifies those competencies that are most likely to impact project management performance. The framework outlines the key dimensions of competency and identifies those competencies that are most likely to impact performance (Pellegrinelli and Garagna, 2009).

Shao (2006) offers the following brief description of the PMCDF:

1. Three project management competency dimensions are defined as Knowledge, Performance and Personal. These dimensions are further divided into four levels, i.e. Unit of Competence, Competency Cluster, Element which is specific to each competency cluster and Performance Criterion which is specific to each element.
2. The Knowledge and Performance Competence dimensions draw upon the nine knowledge areas as well as the five project management process groups as outlined in the PMBOK® Guide (Project Management Institute, 2008).
3. The Competency Scorecard is used for self-assessment and identification of training needs.
4. This framework is not used to select project managers due to the limitation of understanding of the relative weighting that must be applied to each of the elements.

Figure 1 is a graphical depiction of the PMCDF. The green indicates a competent project manager, implying that project managers must be fully competent in all three dimensions. The red indicates the current competency of a project manager. The distance between the red and green indicates competency gaps that need to be addressed.



**Figure 1: PMCD Framework**

The IPMA's ICB shows the knowledge, experience and personal attitudes expected of project managers (Ghosh, Forrest, Dinetta, Wolfe & Lambert, 2012; Caupin et al., 2006). Furthermore, the ICB deals with a mix of knowledge about project management concepts, demonstrable performance against each knowledge topic and specific behaviours that are deemed to be associated with good project management (Aitken & Crawford, 2008). However, some aspects of competence, like self-concept and value, are not included in the ICB (Song & Gale, 2008).

The ICB describes a competent project manager within the three different ranges, represented figuratively in the eye of competence as per figure 2.

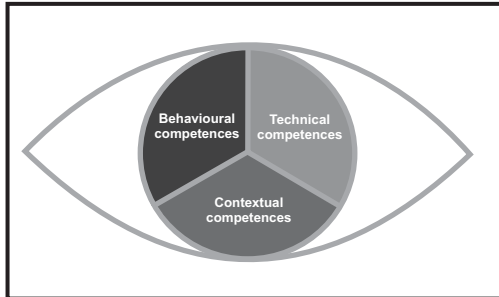


FIGURE 2: THE ICB EYE OF COMPETENCE

The technical range competencies describe the elements that are needed to initiate and start, execute and close a project. The behavioural competence elements are those personal attitude elements which are relevant to project management itself and within the context of the project. Behavioural competence elements include leadership, assertiveness and reliability. The contextual competence elements describe the concepts of project, programme and portfolio and the relationship between these concepts and the organisation that is involved in the project.

The competency ranges can be grouped into four components:

1. **Knowledge:** the knowledge in generally accepted practices of project management applied to specific technical disciplines.
2. **Skills:** the capability to apply knowledge in an efficient, effective, professional and successful manner.
3. **Personal attitude:** the commitment to perform in an appropriate and acceptable professional and ethical manner.
4. **Experience:** the knowledge or skill that is gained from doing an activity.

Each of the ranges has elements that make up that specific competency. The technical competency range constitutes 20 elements, the behavioural competency range 15 elements and the contextual competency 11 elements.

Three research questions are posed:

- **Research question 1 (RQ1):** How are the various competency elements ranked by the project manager fraternity?

- **Research question 2 (RQ2):** Are the three competency ranges perceived as equally important by the project management fraternity?
- **Research question 3 (RQ3):** Is there a relation between project success and the perceived competency levels of a project manager?

This concludes the discussion on project management competency itself and the various standards and frameworks. The next section focuses on the research methodology.

## RESEARCH METHODOLOGY

According to Clough and Nutbrown (2012), it is important to decide what research methodology to use as it is a challenging endeavour and portends difficulties if the most appropriate methodology is not selected. Zikmund, Babin, Carr and Griffin (2010) assert that all research methodologies can be considered under two approaches to inquiry, which are qualitative and quantitative.

Quantitative research can be described as objective and countable which lends itself well to the use of a survey instrument to collect data from pre-set questions similar to the questionnaire used in the current study (Balnaves and Caputi, 2001). This methodology seeks to systematically, factually and accurately describe the facts and characteristics of a given population or area of interest and is appropriate when variables of the study are clear. This methodology seems applicable because the study's objective is to understand the key project management competency factors that impact project success within the South African built environment. These results need to be obtained from current data concerning the most significant key competencies needed to be an effective project manager.

A structured questionnaire was developed focusing on two aspects: (i) biographical information and (ii) the perceived competence of project managers. Structured questionnaires are based predominantly on closed questions which produce data that can be analysed quantitatively for patterns and trends. The researcher 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 aggregated reliably and that comparisons can be made with confidence between sample subgroups or between different survey periods. When developing a questionnaire, to measure knowledge, attitudes, emotion, cognition, intention or behaviour, items or questions are generated that require participants to respond to a series of questions or statements. These responses are then converted into numerical form and statistically analysed. Questionnaires are relatively quick to complete, economical and easy to analyse. However, the use of questionnaires assumes that both the researcher and the respondents share an underlying assumption about language and interpret the statement wording in a similar manner. Using structured questions may also restrict the depth of a participant's response and the quality of data could be diminished or incomplete. To achieve the objective of this research, the technical, behavioural and contextual competency elements of IPMA's ICB were selected and the degree of importance of these competencies needed to be ranked according to a 5-point Likert scale.

Research objectives and questions determine the sampling frame and sampling techniques, i.e. probability and non-probability sampling. Argyrous (2011) describes a good sample as having two properties: representativeness and adequacy. In this regard, random samples provide a good approximation of the population and offer better assurance against sampling bias and are more representative than non-probability samples. Nevertheless, due to situational and financial constraints, some researchers rely heavily upon convenience sampling.

The sample size influences the accuracy of estimation and affects the statistical analysis by influencing standard errors. A large sample size can help minimise these errors. However, the adequacy of the sample size is determined by the way respondents are selected (random or convenient), the distribution of the population parameters, the purpose of the research (exploratory or applied), and data analytical procedures. Low response rates or non-responses by subjects distort the information drawn from the sample and decrease the reliability and validity of a study, making generalisation difficult (Argyrous, 2011).

Collecting the data by surveying members associated with PMSA ensured certain characteristics of the study population, including that the respondents had project management experience with the built environment. Members of PMSA received correspondence describing the objectives of the study and requesting their participation.

Zikmund et al. (2010) state that the ultimate goal of questionnaires is to provide representative information about the group from which the sample was drawn, in this case from the sample size of 1 200 members of PMSA. Experience from other researchers indicates a low response rate typically in the order of somewhere between 2% and 25%. Blaikie (2003) advises researchers to plan on a 10-20% response rate if random sampling is used. It was anticipated that the sample size for this research would yield 120 returned questionnaires, which would be an adequate number in terms of undertaking some useful exploratory data analysis.

The research data were collected from a survey linked to PMSA's website, a process that was cost effective, reduced the amount of time required to collect data and ensured that each participant was asked the same question and in the same order. The participants were provided with instructions and were informed that the surveys would take 45 to 60 minutes to complete.

In order to draw meaning from the survey data, the researcher compiled the data records in summary fashion. This information was then used to complete the statistical analysis, which prioritised the key competencies of interest. The data gathered in this survey were processed and analysed using SPSS, a statistical analysis software package (Argyrous, 2011; Huizingh, 2007). SPSS is able to do enhance data management and has extended reporting capabilities.

Descriptive statistics used to describe raw data include measures of central tendency such as the mean, median and mode. Two of the most frequently used descriptors of data are the mean and standard deviation. The mean is simply the sum of all the measurement values divided by the number of measurements. The standard deviation, on the other hand, describes the variability of the data points around the mean. Very similar measurement values will have a small standard deviation, while widely scattered data will have a much larger standard deviation. A high standard deviation indicates imprecise data.

As scales were used in the questionnaire, internal consistency was very important to check. Internal consistency is a measure when assessing scales are used in the survey. Cronbach's alpha is a measure of internal consistency and is used to determine whether the scale is reliable. The Cronbach's alpha coefficient is a reflection of how well the different items complement one another in measuring the same variable. The Cronbach's alpha coefficient was calculated for each of the technologies that were used and is presented in table 2.

**TABLE 2: CRONBACH'S ALPHARESULTS**

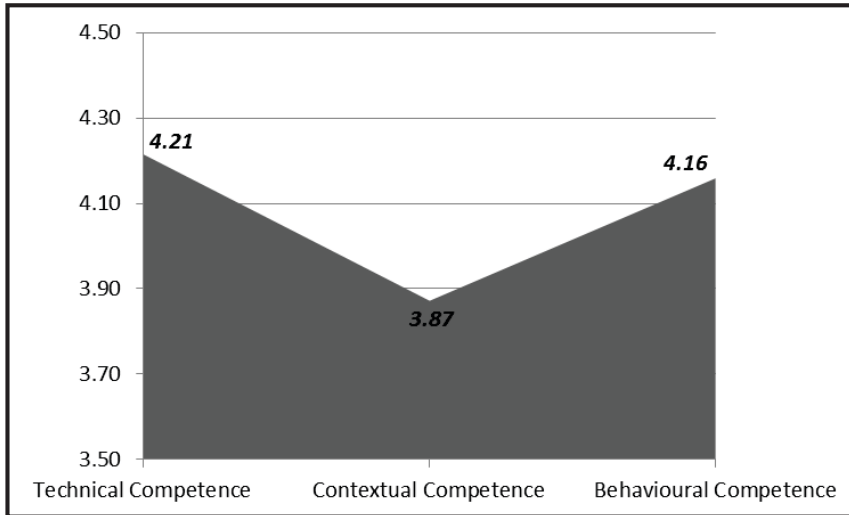
<b>Competency Ranges</b>	<b>Cronbach's Alpha</b>
Technical	0.815
Contextual	0.852
Behavioural	0.885

Internal consistency levels of 0.7 or more are generally accepted as representing good reliability.

## RESULTS AND ANALYSIS

The results from the survey are discussed in the following format: Each of the three major competencies is discussed in detail, i.e. the competencies that are perceived as critical and those that are not perceived as important.

Figure 3 provides a quick overview of the three competencies. Of the three competencies, the technical aspect is rated the highest (mean = 4.21) with the contextual competencies rated the lowest with a mean of 3.87.



**FIGURE 3:** MEANS OF COMPETENCE GROUPINGS

The difference between the highest ranking competency group and the lowest competency group is only 0.34. It indicates that there is not a major difference in the importance of the competency groups. Of interest is the fact that none of the competency groups were perceived as extremely important (Likert scale = 5). The average ranking between the three competency groups is 4.08, indicating that the competencies were ranked as very important.

The next section focuses on the technical competencies and which individual competencies were perceived as important.

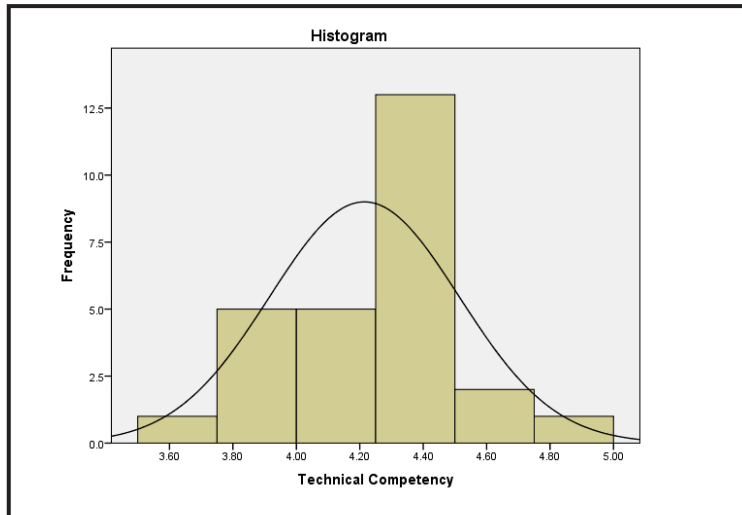
### Technical Competencies

The statistical frequencies of the technical competencies are presented in table 3.

**TABLE 3:** STATISTICAL FREQUENCIES OF TECHNICAL COMPETENCIES

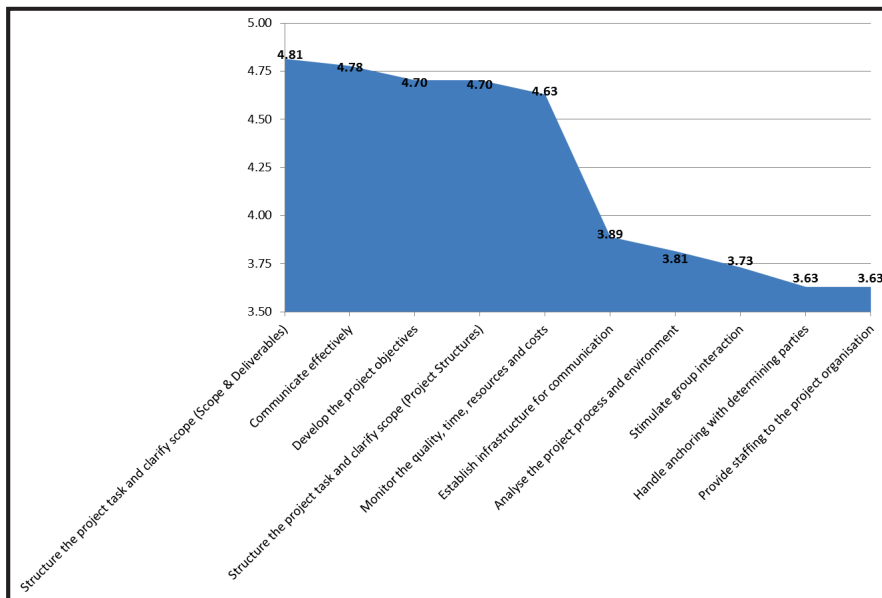
Mean	4.2145
Median	4.2750
Std. deviation	0.29915
Skewness	-0.344
Std. error of skewness	0.448

The results indicate that the standard deviation is only 0.29915, implying that most of the responses are around the mean of 4.21. This is also highlighted by the skewness results of  $-0.344$  and the histogram with the normal curve as per figure 4.



**FIGURE 4: TECHNICAL COMPETENCE HISTOGRAM**

Figure 5 provides an overview of the top five competencies as well as the five lowest ranking competencies.



**FIGURE 5: TOP AND BOTTOM FIVE TECHNICAL COMPETENCY ELEMENTS**

The competency that was perceived as the most important is that of structuring the tasks of the project itself and clarifying the scope of the project. This specific competency occurs twice in the top five competencies, i.e. under the project structures grouping (4.81) as well as the scope and deliverables grouping (4.70). This is quite interesting since the entire project depends on the scope and tasks and this determines the overall cost and duration of the project.



Being able to communicate was perceived as another competency that project managers should possess (mean = 4.78). In the literature, communication is perceived as a factor that contributes to project success (Marnewick & Labuschagne, 2012). Another competency that goes hand-in-hand with clarifying the scope is developing the project objectives (mean = 4.70). These objectives determine the overall direction of the project itself and are derived from the business case and strategic intent of the organisation. The continuous monitoring of the quality, time, resources and cost is also perceived as a very important competency. This competency ensures that the project manager will always be able to manage and control the constraints of the project.

The top five technical competencies emphasise the importance of understanding the project itself, the role it plays in achieving the strategic objectives of the organisation and then ultimately the on-going management of the project on a day-to-day basis with regard to time, cost, quality and resources.

An in-depth analysis of the top five competencies highlights the importance of and support for the top five competencies. The results are depicted in figure 6.

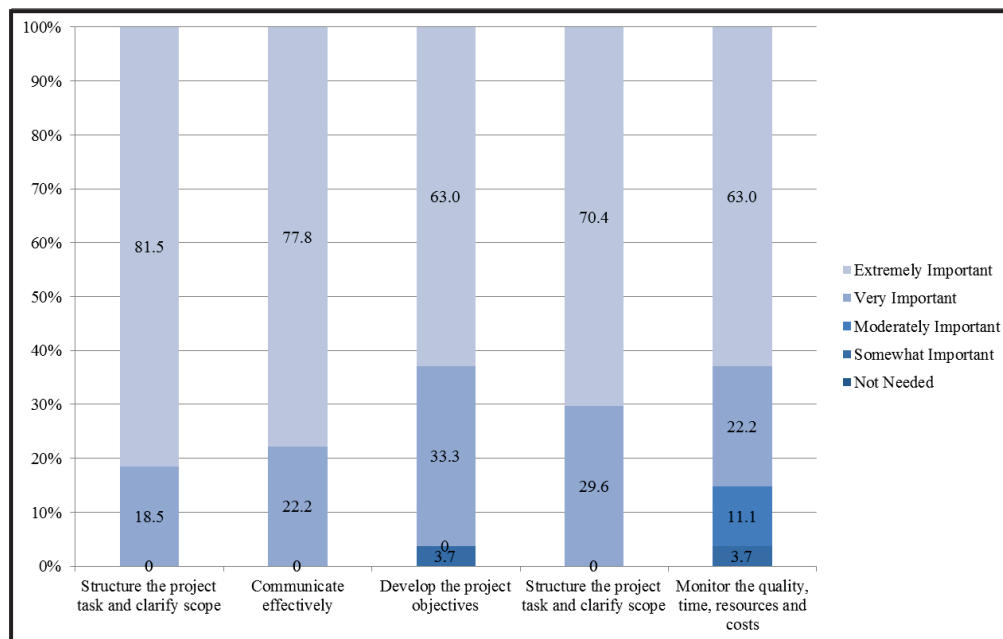
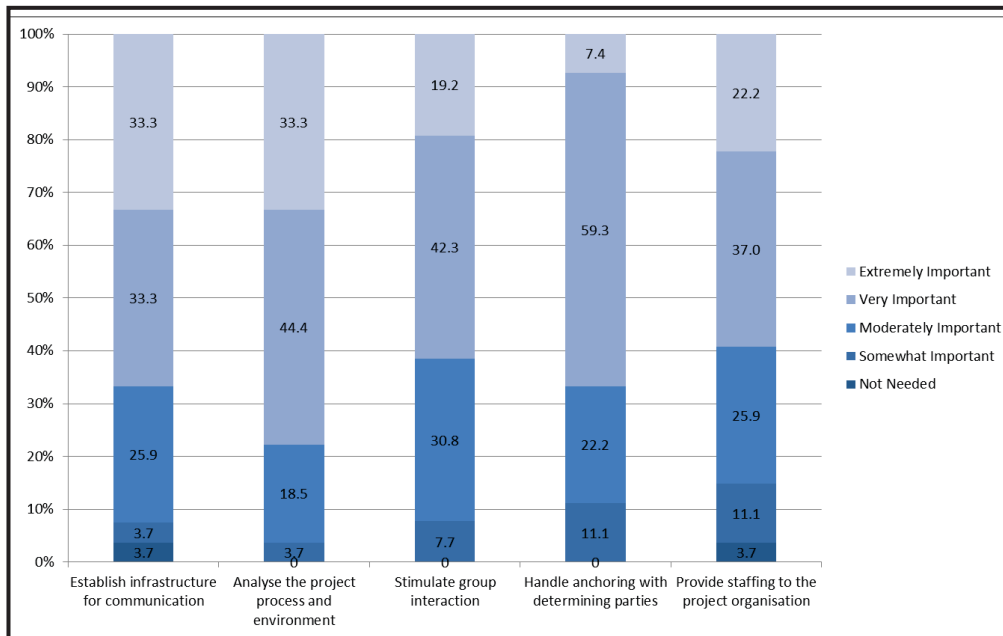


FIGURE 6: TOP FIVE TECHNICAL COMPETENCY ELEMENTS

The competencies were rated as either extremely important or very important, emphasising the fact that the project managers surveyed believed that these competencies were of the utmost importance. Only two of the top five competencies have other ratings as per figure 6. These other ratings are significantly small (3.7% in the case of developing the project objectives and 14.8 in the case of monitoring the quality, time, resources and costs) and it can be concluded with confidence that the top five competencies were valued as extremely important by the respondents.

At the other end of the scale are the bottom five competencies as rated by the project managers. Whereas the top five competencies focus on the same project aspects (scope and strategic alignment), the bottom five competencies are diverse as illustrated in figure 5. The bottom five competencies range from the establishment of communication infrastructure to the staffing of the project. Although these competencies are needed and are technical in a sense, they are more related to the contextual and behavioural group of competencies.

Having said the above, there were some of the respondents who believed that these competencies were extremely important as illustrated in figure 7.



**FIGURE 7: BOTTOM FIVE TECHNICAL COMPETENCY ELEMENTS**

Figure 7 clearly indicates that these competencies were rated by the majority of the respondents as either extremely important or very important. This is also reflected in figure 5 where the means range from 3.89 to 3.63. However, some of the respondents classified these competencies as not needed or as somewhat important.

The next section focuses on the contextual competencies and also looks at the top and bottom five competencies.

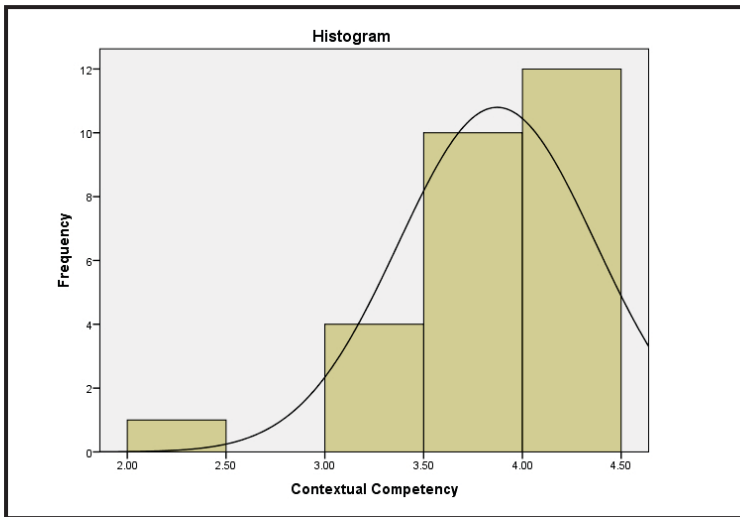
### Contextual Competencies

The interesting fact about the contextual competencies is that they were rated very close to one another by the respondents. There is a difference of 1 between the means of the highest ranking competency (4.44) and that of the lowest ranking competency (3.41). The results of table 4, however, tell a different story.

**TABLE 4: STATISTICAL FREQUENCIES OF CONTEXTUAL COMPETENCIES**

Mean	3.8718
Median	3.9333
Std. deviation	0.49874
Skewness	-1.660
Std. error of skewness	0.448

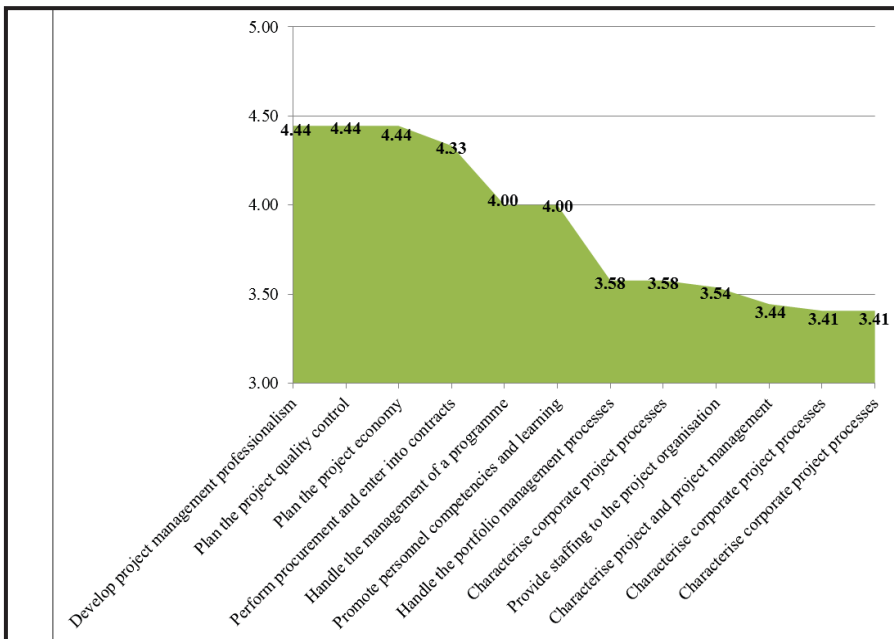
The standard deviation of 0.499 is higher than that of the technical competencies and the skewness (-1.660) indicates that there is greater skewness to the left. This is clearly visible from figure 8.



**FIGURE 8: CONTEXTUAL COMPETENCE HISTOGRAM**

The results in figure 9 highlight the proximity of the means. There are six top competencies with three competencies sharing the same mean of 4.44 and two competencies with a mean of 4.00. The three competencies with a mean of 4.44 focus on the development of the profession itself, the planning of quality and the overall costing of the project. The latter two competencies relate to the technical competency of managing the cost, quality and scope of the project. Another contextual competency that was important was procurement and entering into contracts (mean = 4.33). The importance of this competency makes logical sense as project managers in the built environment do enter into various contracts with suppliers.

The competencies of managing a programme and the promotion of personnel competencies rank in joint fifth place.

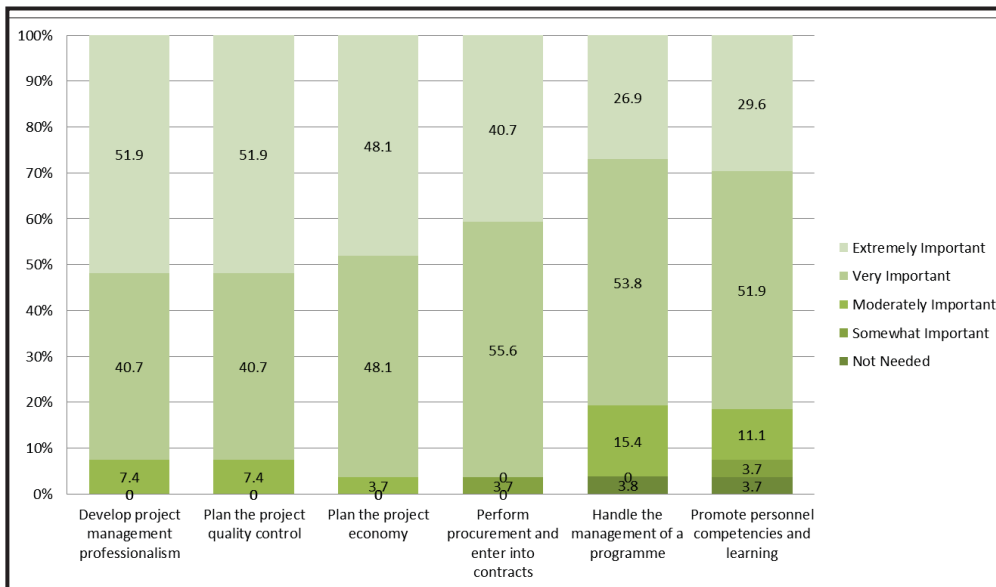


**FIGURE 9: TOP AND BOTTOM FIVE CONTEXTUAL COMPETENCY ELEMENTS**

Four of the six lowest ranked competencies focus on the characterisation of project processes and project management itself within organisations. It must be noted again that the contextual competencies focus on the project within the organisation. The characterisation of the corporate project processes falls under the groupings of project orientation, permanent organisation and business. This competency itself positions the project processes, the project, the organisation and the enterprise at large. It is clear that project managers do not see this as an important competency although it might streamline and standardise project management within the organisation.

The handling of the portfolio management process (mean = 3.58) was not deemed that important as project managers are not necessarily involved in portfolio management. A basic knowledge of portfolio management is needed. The other competency is staffing the project (mean = 3.54). This is in correlation with the technical competencies where the staffing of the project was not seen as a very important competency.

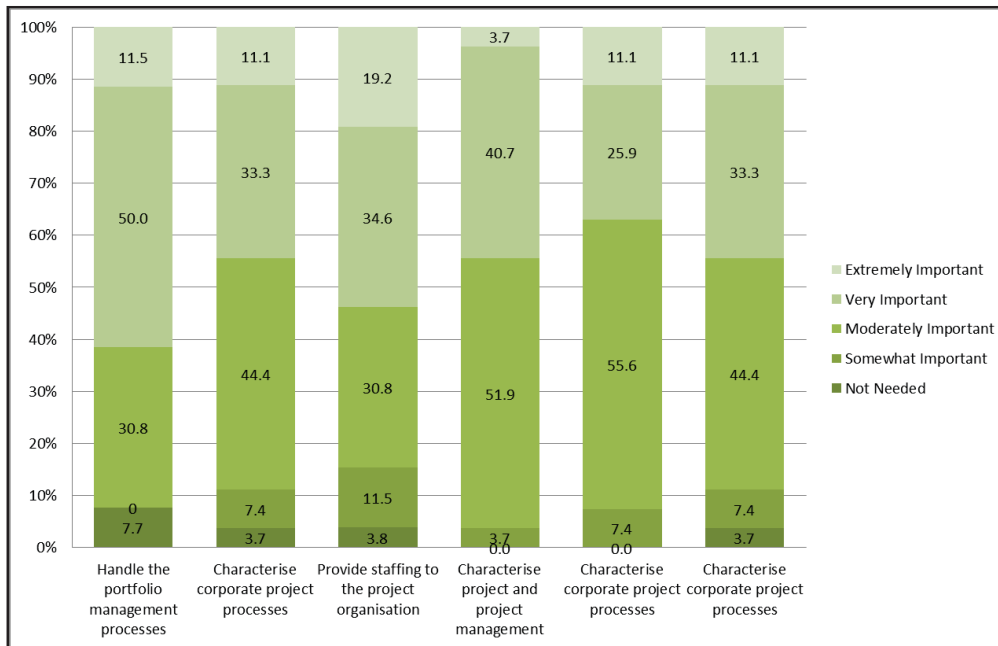
Figure 10 provides an in-depth analysis of the responses with regard to the top five competencies within the contextual grouping of competencies.



**FIGURE 10: TOP FIVE CONTEXTUAL COMPETENCY ELEMENTS**

The analysis of the top six competencies indicates that there is a slight difference in the rating of the competencies compared with that of the top five technical competencies. None of the top six competencies has a majority rating of extremely important. The ratings cover all the scales and some respondents were also of the opinion that these competencies were actually not needed.

This is totally opposite from the technical competencies which were all rated as important. None of the top five technical competencies were rated as not needed. Figure 11 highlights the bottom six competencies within the contextual grouping.



**FIGURE 11: BOTTOM FIVE CONTEXTUAL COMPETENCY ELEMENTS**

The majority of the ratings for each of the competencies was either very important or moderately important. At a mean of 4.16, the behavioural competencies were ranked second most important by the respondents.

### Behavioural Competencies

The behavioural competencies were also closely rated with a rating point difference of 1 between the highest and lowest rated competencies.

**TABLE 5 STATISTICAL FREQUENCIES OF BEHAVIOURAL COMPETENCIES**

Mean	4.1588
Median	4.1905
Std. deviation	0.29981
Skewness	0.129
Std. error of skewness	0.448

The analysis ( $\sigma = 0.299$ ) indicates that most of the responses are close to the mean and this is confirmed by the skewness (0.129).

The top-rated competency is to communicate effectively (mean = 4.70). Communication is important in any project and it is seen as so important that the major project management standards have dedicated entire knowledge areas to communication (Project Management Institute, 2013, Association for Project Management, 2006). It is, however, quite interesting to note that the setup of the communication infrastructure was not perceived as important and was rated among the bottom five technical competencies.

The competence of reliability was also rated very high with a mean of 4.50. The involvement of participants rated high, with the competencies of providing direction and commitment coming in at

fourth and fifth place, respectively. The provision of direction relates back to the technical competency of setting the project objectives (mean = 4.70) and these results seem to correlate.

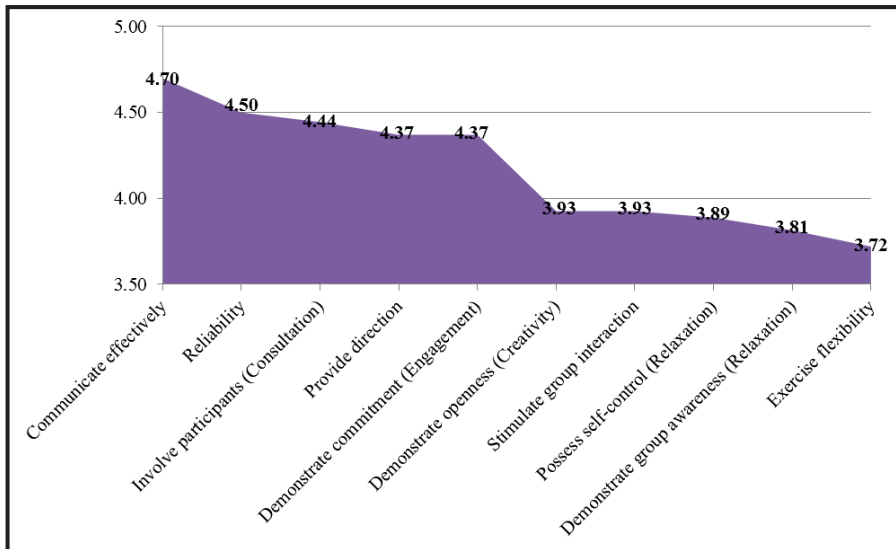


FIGURE 12: TOP AND BOTTOM FIVE BEHAVIOURAL COMPETENCY ELEMENTS

The analysis of the results with regard to the top five competencies indicates that these competencies were not rated as extremely important but rather very important and even moderately important. This is a change from the other two competencies where the top five were always rated as extremely important. The analysis is illustrated in figure 13.

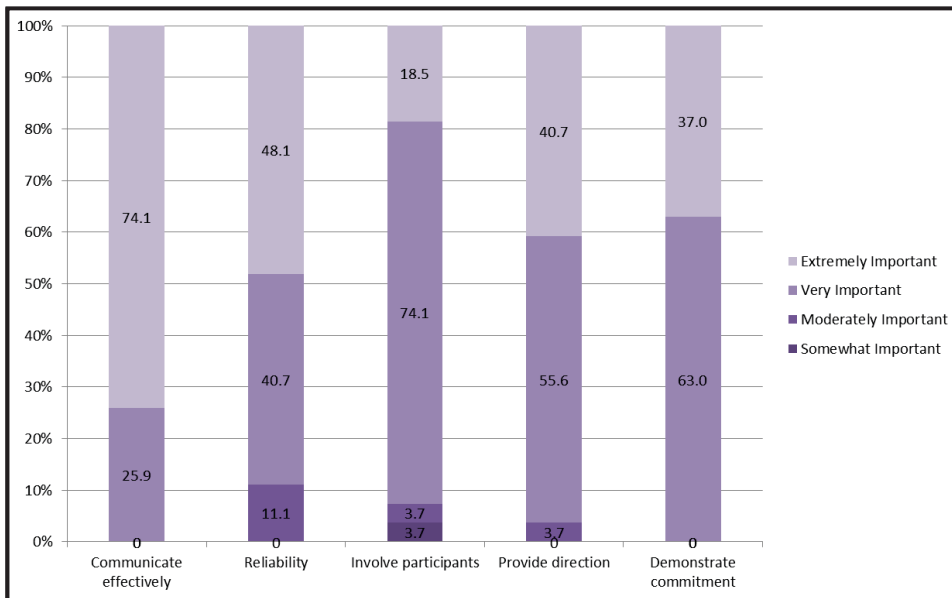


FIGURE 13: TOP FIVE BEHAVIOURAL COMPETENCY ELEMENTS

Figure 14 illustrates the bottom five competencies and it is of interest that although these are the bottom-rated competencies, they were never rated as not needed or somewhat important. The majority of the responses rated these competencies as very important as well as moderately important.



The bottom five competencies cover a wide range of competencies with openness rated the highest (mean = 3.93). Group awareness and the stimulation of group interaction were rated as some of the lowest competencies. This is quite interesting as a project is all about groups and group dynamics.

Another interesting aspect is that the competency of exercising flexibility was rated the lowest with a mean of 3.72. Project managers need to be flexible as projects and the project environments change constantly.

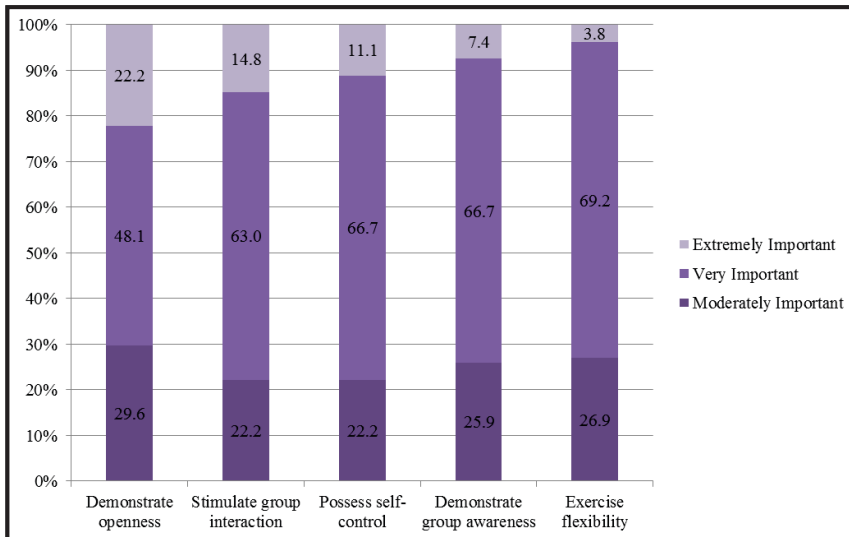


FIGURE 14: BOTTOM FIVE BEHAVIOURAL COMPETENCY ELEMENTS

The analysis of the overall top and bottom five competencies resulted in figure 15. Four of the five top competencies are technical competencies and one is a contextual competency. Behavioural competencies do not feature amongst the top five competencies.

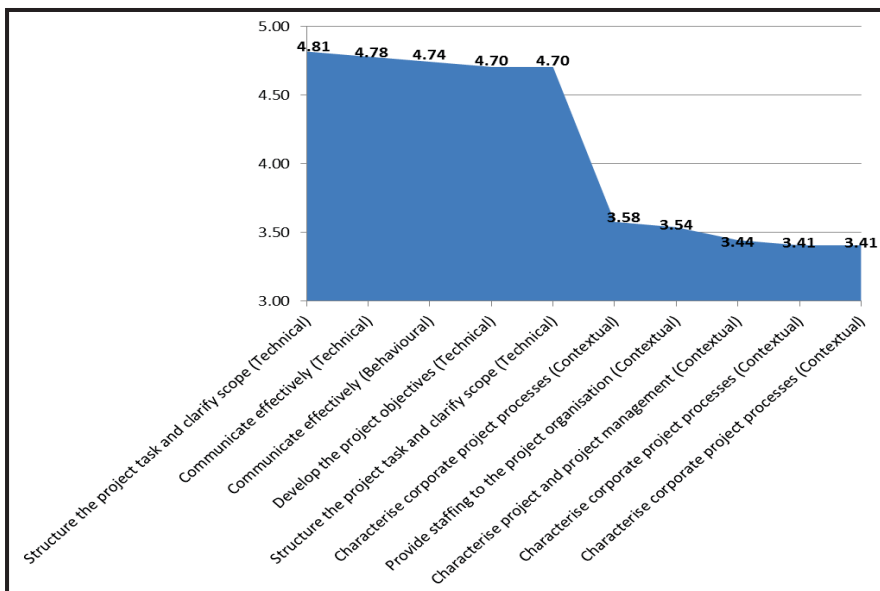


FIGURE 15: TOP AND BOTTOM FIVE COMPETENCY ELEMENTS

The bottom five competencies are from the behavioural competency grouping.

## DISCUSSION

The first research question asked how the various competency elements are ranked by the project manager fraternity. The analysis of the results indicates that in the case of all three competencies, the responses are positively skewed towards the extremely important and very important ratings. The implication is that the respondents had a very strong feeling towards each of the competencies. This is evident when one reflects on the top and bottom five competencies of each of the groupings. Although some competencies were rated lower, they were still perceived as important by the respondents. There is not a single competency that was rated as the “uber” competency.

Research question 2 focused on whether the three competency ranges are perceived as equally important by the project management fraternity. The contextual competence range overall was rated lower than the technical and behavioural competence groupings. The elements of contextual competence focus on the interaction of the project team within the context of the project and with the permanent organisation. They focus on the positioning of the project itself within the organisation and the strategic role the project plays. It might be that the respondents believed or perceived this competency range as more the competencies that portfolio and programme managers must possess. It is not really the function of a project manager to strategically position the project.

The answer to the third research question is quite interesting. Research by Marnewick (2012) highlights factors that contribute to project success. The factors that contribute the most to project success are (i) communication between the project team and the customers, (ii) executive support, (iii) handling of change, (iv) user involvement and (v) the clarity of the business objectives.

Table 6 provides a mapping between the top five competencies of each of the groupings and the factors that contribute to project success.

**TABLE 6: MAPPING BETWEEN TOP FIVE COMPETENCIES AND PROJECT SUCCESS**

<b>Factors contributing to project success</b>	<b>Technical</b>	<b>Contextual</b>	<b>Behavioural</b>
Communication between the project team and the customers	Communicate effectively		Communicate effectively
Executive support			
Handling of change			
User involvement			Involve participants
Clarity of the business objectives	Develop the project objectives		

Table 6 shows the discrepancy between what the respondents believed to be important competencies and the factors that contribute to project success. Only four of the total of 16 top competencies can be mapped to the project success factors. This highlights the imbalance between what are thought to be important competencies versus the reality of what should be important competencies.

There is not a single contextual competency that was listed as a top competency contributing to project success.

## CONCLUSIONS

The literature review highlights the importance of project management within the organisation. Project management plays a pivotal role in the implementation of the organisational strategy. This can only be accomplished if the project managers themselves are competent.

Project manager competency has been and is still widely researched and has culminated in various competency frameworks and standards. These frameworks and standards are used to evaluate and benchmark a project manager's competency. Organisations use these competency frameworks and standards to evaluate the project manager and identify gaps for further training and upskilling.

The results indicate two major findings. The first finding is that project managers perceive all competencies as important in the day-to-day running and management of a project. Although some competencies are flagged as more important than others, in general, they are all perceived as important. The second finding highlights the fact that there is no link or correlation between the factors that influence project success and the related competencies.

The results also create the impression that project managers are more focused on the technical competencies than on the contextual and behavioural competency groupings. The reason for this is that most project management training deals with the technical aspects of managing a project (Mnkandla & Marnewick, 2011). A recommendation based on these results is that the training of project managers includes all competency factors and not just technical competencies.

This research provides a baseline of the possible relationship between project success and the various individual competency elements. Any further research in this area of project success and competence can be based on these results as presented in this paper.

A gap in this research is that no direct correlation is made between the individual competency elements and project success. Future research should focus on the contribution and correlation between each of the competency elements and project success. The results of such research could provide a more comprehensive training framework for project managers.

## **MANAGERIAL IMPLICATIONS**

Various managerial implications have been uncovered by this research. The most important implication is that there is a serious disjoint between the factors that contribute to project success and the competency elements that are perceived as important by project managers. Three of the five top factors are not included in the competencies that are perceived as important. Executive support and user involvement are two of the main factors that contribute to project success. The competency elements that might address these two factors are based within the contextual and behavioural competency groupings. More focus should be placed on the competency elements within the contextual and behavioural competency groupings.

This leads to the second managerial implication, i.e. the selection of project management training providers. There are various private, public and tertiary institutions that offer project management training. Companies should ensure that this training covers all three of the competency groupings and not just one specific competency grouping. It is true that a junior project manager might need more technical competencies but the other competency groupings cannot be neglected as they contribute to project success more so than the technical competencies.

The third and last managerial implication focuses on continuous learning. One of the key aspects surrounding the competencies of a project manager is that they must keep their "saw sharpened" at all times. Organisations must ensure that there is a continuous evaluation of the project managers' competencies and that gaps are identified. These gaps must then be addressed through training and other skills development processes.

Well-trained and competent project managers contribute to the overall project management maturity of the organisation, which in turn has a positive impact on project success.

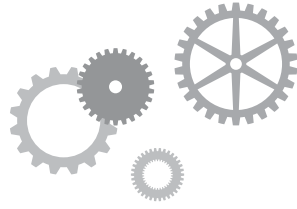


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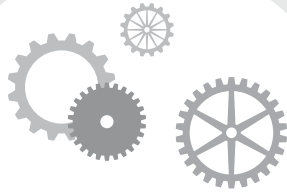


## Section 8: Research Resilience



# A HOLISTIC AND CONTEXT-SPECIFIC PERSPECTIVE OF CONSTRAINTS TO RESEARCH PRODUCTIVITY IN THE SOUTH AFRICAN CONTEXT

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## ABSTRACT

Absent from literature is research that both develops and tests theory that relates to constraints to research productivity in the South African context. This study sought to address this absence. A qualitative study was undertaken, based on a grounded theory analysis of highly productive researchers, the majority of which were National Research Foundation A-rated; mainly from the University of the Witwatersrand but also from the Universities of Cape Town, Johannesburg, KwaZulu-Natal and South Africa. Propositions relating to constraints to research productivity were derived. The University of the Witwatersrand was then used as the sampling frame for a quantitative study. These propositions were tested empirically. Multiple linear regression analysis, factor analysis, partial correlation analysis, t-tests and bivariate correlation analysis were applied. Results suggest that the factor structure of these potential constraints loads onto four component categories. Tacit knowledge, self-efficacy and gender role differentiation are found to dominate relationships with research productivity.

## KEYWORDS

HRM; Research productivity

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## INTRODUCTION

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South Africa, according to the World Economic Forum Global Competitiveness report, is currently rated as 140th out of 144 countries, or 5th lowest in the world, for the quality of its education system (World Economic Forum, 2012). In stark contrast, according to the same survey the country is ranked 15th best in the world for the quality of its business schools; 41st for its capacity for innovation; 34th for the quality of its research institutions; 30th for university-industry collaboration in R&D; and 37th for patent applications weighted per population size (World Economic Forum, 2012). In a globalised context where “knowledge has replaced the traditional assets of land, capital, labour, and entrepreneurship” as a basis for competitive advantage (Huang, 2009: 1), university research output, or productivity, can contribute to solving societal challenges. However, the extent to which these societal obligations can be met is a function of the extent to which constraints to university research output, or research productivity, can be managed. Hence, in order to manage these constraints, knowledge is needed of specifically what these constraints are, and the extent to which this context differs from other global contexts. According to convergence theory (Kerr, Dunlop, Harbison & Myers, 1960; Williamson & Flemming, 1977), as a result of global competitive pressures, organisational practices (including those related to research productivity in universities) will over time tend to converge, or become similar across different global contexts. However, according to culture theory (Hofstede, 1980), differences in societal cultures will prevent this convergence, and localised differences will persist; even if performance is constrained by resisting the innovative integration of more competitive (more efficient and effective) practices from other contexts. Similarly, other research has found that societal cultural differences transmit strongly to organisational cultural values and practices within countries (House, Hanges, Javidan, Dorfman & Gupta, 2004). What is therefore unclear is the extent to which convergence has occurred in the practices related to research productivity; in the South African context compared to the global context. This study develops theory related to research productivity which is then related to the global literature. The qualitative model is then tested empirically and the findings are related back to the global literature.

According to the global literature, the production of university research outputs, or research productivity, is a function of a complex array of individual-level effects (see Dundar & Lewis, 1998; Erdogan & Bauer, 2005; Hara, Solomon, Kim & Sonnenwald, 2003; Morton & Beard, 2005; Laursen & Foss, 2003; Lucas, 2006; Rachal, Shelley & David, 2008; Ramsden, 1994; Rothausen-Vange, Marler & Wright, 2005; Rynes, Bartunek & Daft, 2001). However, the extent to which this body of findings extends to, or is generalisable to, the South African university context is unclear. Further, absent from this body of literature is theory that has been developed and that has also been tested in this specific context. This study attempts to address this gap.

<b>Problem investigated</b>	
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The problem addressed by this study is the absence of knowledge of the primary constraints to research productivity in this context. Despite a plethora of literature that relates to antecedents or factors posited to influence research productivity, theory that predicts these relationships has largely been derived in other countries. Consequently, to date there has been no comprehensive study that has both derived a model of these relationships and tested it in the South African context. As discussed above, there is a tension between the predictions of convergence theory (Kerr et al., 1960) and the predictions of culture theory (Hofstede, 1980). According to the predictions of convergence theory (Kerr et al., 1960), South African research productivity will be similar to other global contexts because similar practices will have converged across contexts. However,

according to the predictions of culture theory (Hofstede, 1980) societal differences in culture will constrain the ability of organisational practices to converge with global practices. What is not understood is the extent to which South African university research productivity is similar to global research productivity. This study seeks to address this gap in knowledge by developing and testing a grounded model of these relationships. The relationships within this model and their relationships with the global literature is expected to provide some insight into the extent to which the South African context of university research productivity is similar to the global context. Theoretic propositions derived from this qualitative process are related to the extant literature, and tested quantitatively. Due to its relatively comprehensive approach, a relatively large number of propositions derived from the qualitative analysis are subjected to an analysis of the literature, and are tested. Although not exhaustive, this research provides a perspective of the relative importance of a wide range of different constraints to research output that is currently missing from the literature. The research question posed in this research is thus: what is the relative potential contribution of different factors to research productivity in this context. Theory and previous research findings are now considered in order to frame the research. In each case, the theory and research findings are related to the propositions that together comprise the qualitative model of the factors.

### **Purpose and objectives of the study**

The purpose of this study is to address this gap in the literature by deriving a context-specific and comprehensive model of the relationships around research productivity and testing it. This study therefore develops theory and tests it in the South African context. From a practical perspective, the results of this study are aimed at providing insight into the improvement of research output in this context. If research productivity is an important dimension of job performance, then knowledge of what specifically contributes to different forms of research output may result in more effective and efficient research productivity. The objective of this study is therefore to test theory that relates a range of different biographical, demographical and contextual factors to the individual research productivity of academics in the context of a large South African university. The forms of individual research productivity tested in this study include Thomson Reuters Institute for Scientific Information (ISI) and Proquest International Bibliography of the Social Sciences (IBSS) accredited journal articles, South African Department of Higher Education accredited journal articles, conference proceedings publications, conference paper presentations, book chapter, book publications and a composite measure of research output related to quantity of output.

### **Theory and Hypotheses**

Differences in university research productivity have been found to be associated with a relatively comprehensive range of different factors (Hales, Shahrokh & Servis, 2005, Rachal et al., 2008; Ramsden, 1994; Rothausen-Vange et al., 2005). Another dimension of the constraints to research productivity is that academic findings are often lost to the process, and do not form the inputs to further research and are instead forgotten; the 'death valley' phenomenon (Kobayashi et al., 2007). What is lacking in the South African research productivity literature is empirical evidence that supports a comprehensive model of research productivity constraints. In this study, research productivity is framed as a form of job performance. University research productivity might be considered a dimension of job performance because promotions, tenure and hiring decisions are based on these measures. An overview is now provided of the research design, in order to justify the structure of the theory and previous empirical research that is reviewed in the following sections.

The qualitative portion of the research involved a grounded theory application (Glaser, 1992). Sixteen highly research-productive respondents were interviewed, mainly from the University of the Witwatersrand but also from the University of Cape Town, the University of Johannesburg, the University of KwaZulu-Natal and the University of South Africa. The majority of these respondents (nine) are classified as A-rated according to the country's National Research Foundation rating system. Thematic content analysis was used to derive propositions which related individual factors to research productivity in this context. Coding was used, and Glaser's (1992) precedent was followed. The discussion of the individual performance factors, which were derived from the qualitative analysis, is structured as follows. These factors are termed 'performance factors' because the qualitative analysis findings suggest that these factors might contribute to research productivity as a dimension of job performance. The propositions were developed into scales. These scales were then piloted for use in the final study. The quantitative study sampled the University of the Witwatersrand. Two hundred and twenty-five responses were received, with a response rate of about seventeen percent. The results of factor analysis tests were used to categorise the variables associated with each of the propositions into component categories. The relatively comprehensive sets of different factors were therefore categorised on the basis of a factor analysis. The following review of theory and previous research is therefore structured according to the following four component categories, in order to provide a coherent structure for the review:

- **Component 1.** Performance factors in the form of biographical factors. These are factors that are specific to the individual such as experience, exposure to other contexts, levels of formal education, extent of research collaboration on journal publications, preference for quantitative versus qualitative research methods, marriage, dependent children and gender.
- **Component 2.** Performance factors in the form of personal orientation factors. Included in this category of factors are personal 'intrinsic', or internal, endowments of job satisfaction, self-efficacy, affectivity and locus of control.
- **Component 3.** Research Work Role Satisfaction factors are reviewed next. These factors, which emerged from the qualitative analysis: satisfaction with research and satisfaction with teaching, relate to the significant differentiation of academic staff into two categories of work roles that were predicted to differ significantly in their influence on research productivity.
- **Component 4.** Supervisory Experience factors are reviewed next. These factors represent variance associated with 'supervision' in its different forms, both as a research supervisor and as a work supervisor. Included in this component category are masters and doctoral supervision, rank designations and span of control.

The literature that relates to these component categories is considered as follows, and hypotheses are derived for testing.

## **COMPONENT CATEGORY 1 BIOGRAPHICAL FACTORS AND RESEARCH PRODUCTIVITY**

Experience and learning represent human capital, according to human capital theory (Becker, 1964). Human capital is any investment of learning or experience that can contribute to a return, in the form of increased productivity, to an activity (Becker 1964). This includes factors such as migration, or even improvements in health care (Becker, 1964). Human capital can take the form of specific human capital, a form of knowledge, or learning, that cannot obtain a productivity return in other work contexts (Becker, 1964). Alternatively, human capital can take the form of general human capital which can obtain a productivity return in other contexts (Becker, 1964). On the basis

of these conceptions, hypothesis A1 is offered: that there is a significant association between experience and research productivity. According to Human Capital theory, formal education reflects an investment in individuals, in the form of learning skills, knowledge and attitudes, which are in turn expected to directly influence an individual's work, job or task productivity (Becker, 1964). Increased investments in human capital can enable learning about 'how to learn' (Schmidt & Hunter, 1992). Hypothesis A2 is therefore proposed: levels of formal education are significantly associated with research productivity. The socio-technical infrastructure embedded in research organisations influences research collaboration, which can generate shared learning between academics and lead to increased research productivity (Hara et al., 2003). Constraints to collaboration can impede research productivity not only between academics; a lack of collaboration with practitioners, who are a source of tacit knowledge, also constrains the knowledge creation process (Rynes et al., 2001). Collaborative learning is therefore taken to represent a dimension of experience, or human capital. Differences exist between different academic fields that influence collaboration (Hara et al., 2003). These differences relate to different methodological approaches to research (Becher, 1989). One of these methodological differences is the extent to which either quantitative or qualitative methods dominate in a field (Becher, 1989). Hypothesis A3 is therefore included in the analysis: that preference for either quantitative or qualitative methods is significantly associated with higher levels of research productivity. One aspect of the tension between work roles and family roles is the influence of such 'spillovers' on family life and on working outcomes. Working mothers have been found to experience higher levels of negative family-to-work spillover than fathers (Dilworth, 2004). Family-to-work spillovers have also been found to differ according to generational differences (Dilworth & Kingsbury, 2005). In terms of bidirectional interrole conflict, family boundaries have been found to typically be more permeable, in that work roles typically intrude more significantly on family roles than family roles on work roles, although not necessarily in a gender-specific manner (Eagle, Miles & Icenogle, 1997). On the basis of this literature, the following hypotheses are derived: hypothesis A4: there is a significant association between research productivity and number of dependent children and research productivity; and hypothesis A5: there is a significant difference in research productivity by gender. The second of the component categories into which certain of the factors were grouped is the personal factors category. This category is now considered.

## **COMPONENT CATEGORY 2 PERSONAL ORIENTATION FACTORS AND RESEARCH PRODUCTIVITY**

Job satisfaction, self-efficacy, affectivity and locus of control were factors justified for inclusion in this research on the basis of the qualitative analysis. The job performance literature was found to support their inclusion in the study. These were found to load together as a dominant category in the factor analysis. Job satisfaction is 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). Satisfaction is expected to contribute to performance because dissatisfaction can lead to the withdrawal of an individual from an intrinsic investment in tasks (Organ, 1988). Despite mixed results in different contexts, meta-analysis findings have been found to support a positive relationship between job performance and job satisfaction (Judge, Thoresen, Bono & Patton, 2001). Hypothesis B1 is therefore derived; that there is a significant association between job satisfaction and research productivity. Meta-analysis findings have found evidence of a positive association between self-efficacy and job performance (Stajkovic & Luthans, 1998). This relationship, however, is weaker for tasks that are higher in complexity (Stajkovic & Luthans, 1998). Self efficacy as a personal judgement of "how well one can execute courses of action required to deal with prospective situations" (Bandura, 1982: 122). On the basis of this body of literature, hypothesis B2 is offered: that there is a significant association between self-efficacy and research productivity. On the basis

of reviewed 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)”. However, 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 (PA) and negative affect (NA) have been found to be independent factors (Watson et al., 1988). According to Podsakoff, MacKenzie, Lee and Podsakoff, (2003), affect can act as a nuisance factor in certain survey items that measure constructs, and can contribute to method bias. On account of this literature, the inclusion of affect as a variable in the analysis was taken to be supported. Hence, hypothesis B3 is derived: that there is a significant association between affectivity and research productivity. 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 individuals along the dimension of external versus internal locus of control are associated with differences in behaviour (Rotter, 1966). According to meta-analysis findings, locus of control has been found to be positively associated with job satisfaction and job performance (Judge & Bono, 2001). 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, individuals with an internal locus of control have been found to 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). Spektor and O'Connell (1994) also found individuals with an internal locus of control to have significantly higher levels of job satisfaction and lower levels of work anxiety. Hypothesis B4 is therefore derived; that differences in locus of control are significantly associated with differences in research productivity.

### **COMPONENT CATEGORY 3: RESEARCH WORK ROLE SATISFACTION AND RESEARCH PRODUCTIVITY**

With regard to the tension between teaching and research, according to the scarcity model, scarcity of time, energy and commitment can manifest in conflict between different work roles (Moore, 1963). Further, investments in research are different from investments in teaching and a negative relationship between teaching and research productivity is therefore expected (Fox, 1992). Other research, however, suggests that individuals with multiple roles with regard to research, teaching and administration can perform at higher levels than individuals with a single such role (Hattie & Marsh, 1996). Teachers have been found to be “liberal, sociable, showing leadership, extroverted, low in anxiety, objective, supportive, nonauthoritarian, not defensive, intelligent, and aesthetically sensitive” yet researchers have been found to be associated with “striving to create order, independence, achievement orientation, and dominance” (Hattie & Marsh, 1996: 514). Hypothesis C is therefore derived, that work-role specific satisfaction is significantly associated with research productivity.

### **COMPONENT CATEGORY 4: SUPERVISORY EXPERIENCE AND RESEARCH PRODUCTIVITY**

Higher degree supervision and the number of people reporting to an individual were found to load on the fourth component category of the factor analysis, termed supervisory experience. This was taken to reflect an underlying aspect that is common to both higher degree supervision as well as the supervision of others in the work context. Due to the commonalities inherent in research



supervision and research production, the learning investments in one are considered to be general human capital to the other (Becker, 1964); experience transferrable from one context to the other. Further, the efforts of students can be harnessed toward joint publication of such work (Hara et al., 2003: 958). Hence, hypothesis D1 is offered: that there is a significant association between masters and doctoral supervision and research productivity. Span of control, or the number of individuals that report to an academic manager, is expected to be associated with time investments that may take time away from research. Span of control might act as a proxy for the amount of administrative work load an individual needs to deal with, which might be independent of rank, by virtue of a management position on the organisational hierarchy. Hence, hypothesis D2 is derived; that there is a significant association between span of control and research productivity. At this juncture, having derived a justification for the inclusion of the range of qualitatively derived factors predicted to be associated with research productivity, the methodology of the study is introduced.

## METHODOLOGY

As indicated above, a qualitative process was applied using grounded theory (Glaser, 1992) in order to derive propositions that related a range of 'performance factors' to research productivity. Sixteen respondents were interviewed. Most of these (nine) were A-rated researchers according to South Africa's NRF system. A maximum heterogeneity approach was used, in order to investigate commonality in relationships across diverse academic fields. Certain fields were found to have no A-rated researchers. The outputs of the qualitative research process were propositions. Each of the propositions were found to be supported by the extant literature, and hypotheses were derived from these propositions. The variables, which were justified for inclusion in the research on the basis of the qualitative analysis, were termed 'individual performance factors' due to their predicted relationships with research productivity. Research productivity was conceived of as a form of individual job performance. The univariate statistics for these factors are reported in Tables 1, 2 and 3.

**TABLE 1: DESCRIPTIVE STATISTICS: INDIVIDUAL PERFORMANCE FACTORS 1**

Variable	Mean	Standard Deviation	Variance	Skewness	Kurtosis
Job Satisfaction	15.07	4.03	16.2	-.836	.854
Research versus Teaching	12.44	4.646	21.6	-.223	-.253
Satisfaction with Teaching	4.24	1.58	2.5	-.128	-.561
Satisfaction with Administration	2.23	1.53	2.34	1.16	.515
Satisfaction with Research	4.87	1.55	2.4	-.586	-.013
Self-Efficacy (SE) Research	425.25	106.36	11311.9	-.586	-.013
SE DOE journal publication	74.29	25.18	633.9	-.847	.186
SE ISI/IBSS publication	71.9	25.2	632.9	-.587	-.408
SE Proceedings Publication	76.39	23.8	567.07	-1.09	.920
SE Conference Presentation	81.5	21.38	457.3	-1.291	1.444
SE Statistical Analysis	49.88	33.4	1115.8	-.087	-1.217
SE Qualitative Analysis	71.33	27.47	754.7	-1.026	.417
SE Teaching Postgraduate	84.9	20.5	421.9	-1.464	1.327

\*Means of binary variables are instead reported as percentages. SE = Self-Efficacy

**TABLE 2: DESCRIPTIVE STATISTICS: INDIVIDUAL PERFORMANCE FACTORS 2**

Variable	Mean	Standard Deviation	Variance	Skewness	Kurtosis
Negative Affectivity	17.75	6.63	43.9	1.33	1.85
Positive Affectivity	38.13	6.87	47.2	.954	11.22
Locus of Control	69.56	10.6	112.8	-.398	.649
Age	40.67	10.56	111.4	.420	-.337
Gender 1=male*	47%	-	-	-	-
Years in South Africa	27.85	17.16	294.4	.077	-.945
Other countries lived in	1.21	1.45	2.11	1.66	3.19
Full-time work experience	14.6	10.69	114.3	.769	-.086
Years as a researcher	10.2	8.84	78.18	1.6	2.79
Years working for the institution	6.39	6.74	45.39	2.44	8.4
Multinational experience*	21%	-	-	-	-
Membership of professional associations*	81%	-	-	-	-
Years of formal education	19.3	4.39	19.28	-1.242	2.58

\*Means of binary variables are instead reported as percentages

**TABLE 3: DESCRIPTIVE STATISTICS: INDIVIDUAL PERFORMANCE FACTORS AND RESEARCH OUTPUTS**

Variable	Mean	Standard Deviation	Variance	Skewness	Kurtosis
Mr./Ms. designation*	48%	-	-	-	-
Dr. designation*	32%	-	-	-	-
Associate Professor designation*	14%	-	-	-	-
Professor designation*	8%	-	-	-	-
People reporting (span of control)	2.7	6.4	41.54	4.623	26.31
Masters supervised	6.19	9.55	91.27	2.561	8.11
PhD supervised	.95	2.7	7.46	5.1	35.61
Accredited DOE journal articles	4.27	10.1	102.8	5.83.4	43.36
Accredited ISI/IBSS journal articles	7.19	14.69	215.8	3.4	13.33
Co-authored	4.78	10.95	119.94	3.6	13.8
Conference proceedings	3.42	6.05	36.62	3.29	12.56
Conference presentations	8.82	16.67	278.7	4.66	28.9
Books	1.05	6.8	46.27	13.9	202.38
Book chapters	1.7	3.27	10.7	4.99	33.6
Total units: gross research productivity	21.97	35.67	1272.48	3.233	11.95

\*Means of binary variables are instead reported as percentages

**TABLE 4: DESCRIPTIVE STATISTICS FOR INDIVIDUAL PERFORMANCE FACTORS 4**

Variable	Mean	Standard Deviation	Variance	Skewness	Kurtosis
Preference for quantitative methods=1*	45.6%	-	-	-	-
Married*	57%	-	-	-	-
Dependent children	1.09	1.28	1.64	1.33	.324
South African origin (by birth)*	56%	-	-	-	-
English home language*	52%	-	-	-	-

\*Means of binary variables are instead reported as percentages

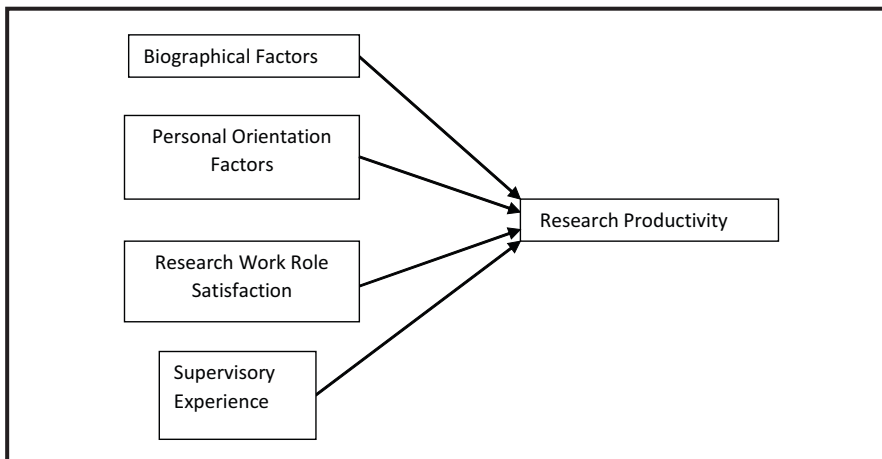
In order to understand the underlying core categories of factors that this range of qualitatively-derived factors would reduce to, an exploratory factor analysis was performed (Tabachnik and Fidel, 2007). The rotated component matrix for these factors is reported in Table 5, below.

**TABLE 5: ROTATED COMPONENT MATRIX**

	Component					
	1	2	3	4	5	6
Job Satisfaction	-.136	<b>.765</b>	.067	-.009	.159	-.159
Satisfaction Teaching	-.025	-.040	<b>-.736</b>	-.006	-.215	-.031
Satisfaction Research	-.060	.254	<b>.720</b>	.033	-.080	.007
Self-Efficacy Research	.132	.256	<b>.517</b>	.215	<b>.430</b>	.116
Negative Affectivity	-.108	<b>-.742</b>	-.063	-.052	.098	-.071
Positive Affectivity	-.069	<b>.627</b>	.048	-.141	.332	.271
Locus of Control	.027	<b>.657</b>	.086	.025	-.168	-.037
Age	<b>.885</b>	.009	-.019	.100	-.060	.172
Full-time work experience	<b>.878</b>	.041	-.080	.106	-.025	.150
Years as a researcher	<b>.783</b>	-.060	.194	.271	.075	.047
Years working Institution	<b>.764</b>	-.026	.010	.210	.008	-.146
Years of Formal Education	.069	-.034	<b>.579</b>	-.008	-.084	-.058
Masters Supervised	.368	-.049	.026	<b>.728</b>	.032	.133
PhD supervised	.277	.067	.029	<b>.612</b>	.306	.192
Co-authored papers	<b>.491</b>	.034	.326	-.004	<b>.490</b>	-.117
Preference Quantitative	-.071	-.067	-.049	.005	<b>.798</b>	-.067
Dependent Children	.143	.050	-.128	-.040	-.047	<b>.824</b>
People reporting	.095	.003	.046	<b>.750</b>	-.127	-.127
Other countries lived in >1 year	-.026	-.080	<b>.419</b>	.305	-.043	<b>.562</b>

Only continuous variables were included in the factor analysis; binary variables were not included. The anti-image correlation matrix diagonal values were all above .5. The Kaiser-Meyer-Olkin measure value was .748, which was above the required .5. The Bartlett test of sampling adequacy returned an approximate Chi-Squared value of 1300.3 with 171 degrees of freedom ( $p < .0001$ ). A rotation using the Orthogonal Varimax process was applied. The sampling adequacy tests were considered to support the adequacy of the analysis. Component 1 is dominated by loadings on age, full-time work experience, years as a researcher, years working for the institution and co-authored papers. This factor seems to relate to a biographical component that includes human capital learning investments over time, or experience. This component is termed 'Biographical Factors'. Years of formal education and other countries lived in were included in this category because they were also biographical characteristics, despite their loading on a different component category. Component 2 reflected loadings on total job satisfaction, total positive affectivity and total internal locus of control, which all contrast with negative affectivity. This component is considered to relate to intrinsic psychological, or factors that are personal to the individual, and is termed 'Personal Orientation Factors'. Component 3 is found to be dominated by a contrast between satisfaction with teaching and satisfaction with research together with research self-efficacy, years of formal education and other countries lived in. This component is termed 'Research Work Role Satisfaction', because the variables that load on this factor are primarily related to the differentiation

of work tasks between teaching and research. In the analysis of the associations of these factors with research productivity, years of formal education and countries lived in were tested together with the other biographical factors. This categorisation was used as a useful guide to the categorisation of variables, but the overarching rationale of the categorisation was the relationship of these variables with each other, and not with research productivity. Variables such as masters and PhD students supervised were found to load on Component 4 together with the variable that measured the number of people reporting to an individual. This component was taken to reflect supervisory experience, both in terms of higher degree supervision and in terms of management supervision, or position in the organisational hierarchy, and was termed 'Supervisory Experience'. Component 5 was considered to represent a singlet, as the other two variables that loaded on this component were previously interpreted under a different component. Similarly, Component 6 was also considered to be a singlet and was not interpreted. On the basis of this analysis, the performance factors were taken to form four overarching categories of factors: (i) Biographical Factors; (ii) Personal Orientation factors; (iii) Research Work Role Satisfaction; and (iv) Supervisory Experience. Figure 1. shows a simple model of the these factors.



**FIGURE 3:** THE FOUR CATEGORIES OF INDIVIDUAL PERFORMANCE FACTORS DIFFERENTIATED BY FACTOR STRUCTURE: A SIMPLE MODEL

This framework was therefore applied as a general categorisation, and the following four core hypotheses were derived from this general structure:

- **Hypothesis A.** Biographical Factors are significantly associated with research productivity.
- **Hypothesis B.** Personal Orientation Factors are significantly associated with research productivity.
- **Hypothesis C.** Research Work Role Satisfaction is significantly associated with research productivity.
- **Hypothesis D.** Supervisory Experience is significantly associated with research productivity.

Specific subordinate null-hypotheses were tested in order to allow for the testing of these core null-hypotheses.

In order to test the conformity of the multiple linear regression analysis with the assumptions of these tests, a comprehensive process of testing was followed. Seven multiple linear regression models were used; with each of the research productivity items as dependent variables. An

extensive process of testing was applied to the models. Outliers and influential points were removed. Cases were identified according to the following criteria and removed: (i) standardised (ZRE) and studentised (SRE) residuals with an absolute value of greater than plus or minus two; (ii) cases exceeding the absolute cut-off value of DFFITS (DFF) tests, according to the formula  $2\sqrt{[p/n]}$  where p represents the number of variables in the equation, intercept included; (iii) cases identified as falling outside the acceptable range of leverage values (LEV), defined as being between  $1/n$  and  $2p/n$  in value; (iv) cases reasonably far from the value of one according to tests of the covariance ratio (COV); (v) cases exceeding the Mahalanobis (MAH) distance cut-offs; (vi) cases exceeding the Cook's distance cut-off values (COO); and (vii) cases exceeding the limits of the DFBETA values, which reflect the change in absolute value in the estimated coefficient due to the deletion of a variable. On the basis of these tests, it was decided to apply bootstrapping in the multiple linear regression testing (Tabachnik and Fidel, 2007). Two processes were followed. First, a model was developed, with the inclusion of variables not exhibiting singularity or multicollinearity (Tabachnik and Fidel, 2007). Each of the research productivity items was used as the dependent variable with these factors. Second, a backward elimination model was used, with the least significant variable removed in successive steps until only variables significant at the ten percent level remained in the model (Field, 2007). This process was deemed to be acceptable because the inclusion of all of the variables in the model were justified by theory (Field, 2007).

### Scales and Measures

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 job satisfaction. The Cronbach Alpha obtained for these items was .859. The self-efficacy items were derived from the scales developed by Bandura (2006). All items had shown validity and reliability in other contexts. All items were piloted before their use in the final instrument. Across the sample, the Cronbach's Alpha value for all of the seven self-efficacy items was .783. The scales used in this research to measure negative and positive affectivity were derived from Watson, Clark and Tellegen's (1988). Spektor's (1988) locus of control scales were used, with sixteen items. The Cronbach's Alpha value for these sixteen variables was .738 for the sample. This value was deemed acceptable. Satisfaction with research versus teaching was measured by three items. Cronbach Alpha scores for these items were found to be .886. The satisfaction with research item correlated positively and significantly with this item (.570;  $p < .0001$ ) and the satisfaction with teaching item correlated negatively and significantly with this item (-.754;  $p < .0001$ ).

### **HYPOTHESIS A. THERE IS A SIGNIFICANT ASSOCIATION BETWEEN BIOGRAPHICAL FACTORS AND RESEARCH PRODUCTIVITY.**

The results of the testing of the sub-hypotheses derived from this core hypothesis are reported and discussed as follows.

**Hypothesis A1:** There is a significant association between experience and research productivity.

Years of full-time experience, or years of total work experience, were found to be significantly associated with gross research productivity (.411;  $p < .0001$ ); the publication of DOE journal articles (.309;  $p < .0001$ ); international journal article publication (.364;  $p < .0001$ ); conference proceedings publication (.310;  $p < .0001$ ); book publication (.132;  $p < .048$ ) and book chapter publication (.132;  $p < .0001$ ). The null hypothesis was rejected. However, when the influence of age was controlled for, total work experience was only found to be positively associated with conference proceedings (.157;  $p < .018$ ); conference presentations (.141;  $p < .034$ ) and book chapter publication

(.138;p<.039), and weakly associated with gross research productivity (.118;p<.079). Total work experience was not found to be significantly associated with either of the journal article publication items or for book publication when age was controlled for. When years as a researcher were controlled for, total work experience was only found to be significantly associated with book publication, yet with no other research productivity measure. According to the multiple linear regression analyses, total work experience was found to be associated with DOE journal article publication in the backward elimination model; with international journal article publication in the full model and also in the backward elimination model; with conference proceedings publication according to both models; with conference presentations according to both models; and with gross research productivity according to both models. Years of experience as a researcher is found to be significantly associated with all the measures of research productivity except book publication. After the influence of age and, in turn, experience with the institution, were controlled for, these associations were still found to be significant. The results of this analysis support the notion that research productivity is primarily associated with specific human capital, according to Becker's (1964) conception; where learning investments associated with the research context, and not experience beyond this research context, contribute to journal article publication. Journal article publication might therefore be a function of tacit knowledge endowments, which are context specific (Nonaka, 1994). Years of experience of working for the institution were found to be significantly associated with all the measures of research productivity except book publication. However, when years as a researcher were controlled for, years of working for the institution were found to be significantly associated with DOE article publication yet not significantly associated with any of the other measures of research productivity. Person-job fit becomes better aligned over time with experience in the institution (Erdogan & Bauer, 2005); this might be reflected in the association between years of experience in the institution and DOE journal article publication. It is possible that individuals exposed to the incentive system of the institution may be prioritising DOE journal article publication because the system regards these as equal to ISI/IBSS journal publications. Membership of professional associations was found to be associated with gross research productivity; international article publication; local journal article publication; conference proceedings publication; conference presentations and book chapter publication. Membership of these associations might confer advantages associated with membership of networks (Burt, 2001; Coleman, 1988; Granovetter, 1973; Lin, 2001). Researchers might benefit from joining such academic and professional networks with a view to using these linkages to build collaborative publishing linkages or other linkages that might support research productivity.

**Hypothesis A2:** Levels of formal education are significantly associated with differences in research productivity.

According to the Pearson tests of association, years of formal education were found to be weakly associated with higher numbers of conference presentations, yet were not found to be associated with any of the other measures of research productivity. The null hypothesis was accepted. When years as a researcher are controlled for, the association between years of education and each of the research productivity measures is found to not be significant. Formal education might not translate into the learning investments necessary for research productivity; it might not represent the specific human capital (Becker, 1964) that contributes to increased productivity in research. However, individuals with higher levels of cognitive ability are expected to 'learn faster' or have a curvilinear or multiplicative relationship between cognitive ability and the influence of experience (Schmidt & Hunter, 1998). If this were the case, then individuals with higher endowments of cognitive ability would be expected to finish their higher degrees in a shorter period of time, which might militate slightly against the positive association between years of education and research productivity. Further research is recommended into the relationship between formal education and research productivity. Research output may be a tacit form of productivity (Nonaka, 1994) or specific human



capital (Becker, 1964) that is possibly 'robust' to the influence of learning that is not specifically related to 'learning by doing'.

**Hypothesis A3:** Preferences for either quantitative or qualitative methods is significantly associated with higher levels of research productivity.

According to the Pearson tests of association, a preference for quantitative rather than qualitative methods is not found to be significantly associated with any of the research productivity measures at within the five percent level of significance. The null hypothesis was accepted. These results suggest that research output is generally independent of a differentiation of methods by quantitative versus qualitative methods.

**Hypothesis A4:** There is a significant association between number of dependent children and research productivity.

Dependent children, as a tested variable, are found to be positively associated with conference proceedings publication but not with any other of the research productivity items. The null hypothesis was rejected. This association might have captured the effects of time, or age. Partial correlation analysis was therefore used in order to control for age as a covariate variable. After controlling for age, dependent children are found to be negatively associated with international journal article publication. According to the results of the multiple linear regression analysis, dependent children are also found to be negatively associated with international journal publication. This result might suggest that family-to-work spill-over (Dilworth, 2004; Dilworth & Kingsbury) may be present in terms of international journal article publications.

**Hypothesis A5:** There is a significant difference in research productivity by gender.

According to t-test results, male academics are found to have higher gross research productivity, to have published more internationally accredited journal articles and conference proceedings, and to have made more conference presentations. The null hypothesis was rejected. These associations were analysed further using partial correlation analysis. When dependent children and, in turn, marriage, were controlled for, these significant associations were not found to change. These results were confirmed by the multiple linear regression analysis. These results support findings in other academic contexts that have found males to dominate journal article publication (Barbezat, 2006; Rachal et al, 2008; Rothausen-Vange et al., 2005). Being male was found to be significantly and positively associated with a preference for research over teaching and weakly associated with satisfaction for research, or a research locus of satisfaction. Being female was found to be significantly and positively associated with satisfaction with teaching, or a teaching locus of satisfaction, and weakly and negatively associated with satisfaction with research. These results echo other findings from other academic contexts that males have been found to spend less time on teaching versus research (Barbezat, 2006). Having considered the contribution of biographical factors to research productivity, the results of the tests of associations between personal orientation factors and research productivity are now discussed.

### **HYPOTHESIS C.B. PERSONAL ORIENTATION FACTORS ARE SIGNIFICANTLY ASSOCIATED WITH RESEARCH PRODUCTIVITY**

**Hypothesis B1:** There is a significant association between job satisfaction and research productivity.

According to the bivariate analysis of the associations between job satisfaction and research productivity, measured as seven dimensions of research output, no significant bivariate association was found. According to the results of the multiple linear regression models run with all the

dimensions of research productivity as dependent variables, job satisfaction was also found to not be a significant predictor of any of these. The null hypothesis was accepted. 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), that predict, on a theoretical basis, a positive association between job satisfaction and research productivity as a form of work performance.

**Null-hypothesis B2:** There is no significant association between self-efficacy and research productivity.

The significant positive associations found between all the self-efficacy items and their corresponding types of research productivity (except for book chapter and book publication) are congruent with theory and previous findings that predict a positive relationship between self-efficacy and work-related performance (Bandura, 1997; Stajkovic & Luthans, 1998). The null hypothesis was rejected. Further research is recommended; into the mechanisms through which self-efficacy may contribute to research productivity.

**Null-hypothesis B3:** There is no significant difference between affectivity and research productivity.

According to the zero-order Pearson correlation tests, none of the research productivity measures was found to be significantly associated with negative affectivity. The null hypothesis was accepted. In none of the multiple linear regression models for the seven measures of research productivity were any of the associations with either negative affectivity or positive affectivity found to be significant. Affect is therefore not taken to be significantly associated with research productivity in this context, notwithstanding the possibility that affect might contribute to method bias (Podsakoff et al., 2003).

**Hypothesis B4:** Differences in locus of control are not significantly associated with differences in research productivity.

According to the results of the Pearson tests of association, an internal locus of control was not found to be significantly associated with any of the measures of research productivity. According to the results of the multiple linear regression analyses, however, locus of control was found to be a significant predictor of book chapter publications. The null hypothesis was rejected. Except for the case of book chapter publications, these results contest the empirical findings and theory that predict a positive relationship between an internal Locus of Control and job performance (Judge & Bono, 2001; Littunen & Stormhammar, 2000; Miller et al., 1982; Rotter, 1966; Spektor & O'Connell, 1994; Wallston & Wallston, 1978). This sample, however, might reflect a cohort of professional staff in which range restriction might be present (Hunter, Schmidt & Le, 2006). Further comparative research is suggested; into how different professional cohorts differ from the academic cohort in terms of job performance and locus of control. The lack of significance of the variables in this category (except self-efficacy) in their relationship with research productivity seems to indicate that this context differs from other global job performance contexts.

### **HYPOTHESIS C. RESEARCH WORK ROLE SATISFACTION IS SIGNIFICANTLY ASSOCIATED WITH RESEARCH PRODUCTIVITY.**

**Hypothesis C1:** Differences in work-role specific satisfaction are significantly associated with differences in research productivity.

Individuals with higher levels of research locus of satisfaction were found to have higher levels of gross research productivity and to have published more international journal articles, DOE journal articles; and to have presented more conference papers. Satisfaction with research was found to be

negatively associated with satisfaction with teaching, and positively associated with the satisfaction with research versus satisfaction with teaching item. These results suggest 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 satisfaction levels specific to research might possibly act as a primary mechanism that may offer a way to increase research productivity amongst academic staff. It is therefore recommended that human resources management systems focus more extensively on the intrinsic rewards or intrinsic aspects of incentivising research productivity, particularly because evidence has been found in other academic contexts to support the notion that such incentives are effective in increasing research output (Hales et al., 2005). Individuals with higher reported levels of teaching locus of satisfaction were found to have lower levels of gross research productivity, to have published fewer international and DOE journal articles, conference proceedings and book chapters, and to have presented fewer conference papers. The null hypothesis was rejected. However, no association was found between a teaching locus of satisfaction and the publication of books. Further tests indicated that satisfaction with teaching was negatively associated with satisfaction with research and negatively associated with the satisfaction with research versus satisfaction with teaching item. If individuals with a teaching locus of satisfaction are less research productive and more dissatisfied with research, these findings may support seminal theory (Hackman & Oldham, 1976; Herzberg, 1966; Organ, 1988; Scott, 1966), and meta-analysis evidence (Judge et al., 2001) from different contexts that predict a negative relationship between job-related dissatisfaction and job performance.

#### **HYPOTHESIS D. THERE IS A SIGNIFICANT ASSOCIATION BETWEEN SUPERVISORY EXPERIENCE AND RESEARCH PRODUCTIVITY.**

Three variables were included in this component classification: masters and doctoral supervision, university rank designation, and span of control. The hypotheses that relate to the tests of associations between each of these and research productivity are now discussed.

**Hypothesis D1.** There is a significant association between Masters and PhD supervision and research productivity.

Individuals that were found to have supervised more masters degree students were found to have higher levels of gross research productivity, and to have published more DOE journal articles; international journal articles; conference proceedings; and book chapters, and also to have presented more conference papers. The null hypothesis was rejected. These results broadly support the positive associations predicted by Hara, Solomon, Kim and Sonnenwald (2003); that the efforts of postgraduate students can be harnessed toward joint publication. The predictions of Human Capital theory (Becker, 1964) are also supported; which predict that learning investments in supervision may contribute to the research productivity of supervisors. However, when years as a researcher were controlled for, masters degree supervision was found to be significantly and negatively associated with international journal article publication and positively associated with book chapter publication. No other associations were significant. According to the zero-order tests of association, doctoral supervision was found to be significantly associated with gross research productivity; DOE journal article publication; international journal article publication; conference proceedings publication; conference presentations and book chapter publication. However, when years as a researcher are controlled for, the doctoral students supervised item was found to be significantly associated with conference proceedings publication; conference presentations; the publication of book chapters; and gross research productivity; the 'lower' levels of research output. When the doctoral supervision item was run in the multiple linear regression models instead of master degree supervision it was found to be significantly associated with book chapter publication. This was the only measure of research productivity found to be associated with doctoral supervision

according to the multivariate analysis. These results suggest that journal article publication is not significantly associated with masters or doctoral degree supervision over and above the influence of years of experience as a researcher.

**Hypothesis D2:** There is a significant association between span of control and levels of research productivity.

According to the bivariate tests, span of control, or the number of people that report to an individual in the organisation, was found to be significantly associated with gross research productivity, conference presentations, book publication and book chapters, yet was found to not be significantly associated with DOE journal publication and conference proceedings publication. The null hypothesis was rejected. Further tests were conducted in order to ascertain the potential influence of having a larger administrative load on research productivity over and above the influence of years of experience as a researcher. Interestingly, only the publication of books and book chapters were found to be significantly associated with span of control after years as a researcher were controlled for. When tested in the multiple linear regression analysis, span of control was not found to be significantly associated with any of the measures of research productivity in any of the models. These results might suggest that individuals that undertake management roles in this context might be robust to constraints to research productivity associated with these roles.

## **ETHICAL ISSUES AND LIMITATIONS**

A limitation of this study is that the quantitative portion of the research sampled only one university. The research proposal was submitted to the University's Ethics Committee for approval. Any hint of refusal was unconditionally and immediately respected. The ethical principle of anonymity necessitated the use of self-reports of research productivity. While introducing an element of common method bias, this was considered to be unavoidable; the ethical imperative of anonymity was to be unconditionally upheld (a condition required when obtaining permission from the human resources division of the institution). Other forms of method bias correction were however used, such as the use of affect as a control variable (Podsakoff et al., 2003) in the multiple linear regression models. The Harmon test for common method bias was also applied (Podsakoff et al., 2003). One underlying factor was not dominant over the range of included variables. The cross-sectional nature (Bryman, 2004) of this research also represents a limitation. The research is also associated with causality limitations. The potential for self-selection bias (Gimento, Folta, Cooper & Woo, 1997) is also acknowledged; as academics more interested in research are expected to be more likely to choose to respond. Similarly, certain individuals might have wished to remain obscure (Macmillan & Katz, 1992), because they prefer to not have their research outputs or other information shared with others, notwithstanding assurances of anonymity. Notwithstanding these limitations, it is argued that the challenges faced by this research are no different than those faced by typical survey studies in this field, and academic precedent was followed faithfully in order to address these challenges.

## **CONCLUSIONS**

This research sought to address the absence from the literature of a clear and holistic model of the relative relationships around research productivity in the South African university context. The research question posed in this paper was the following: what is the relative potential contribution of different factors to research productivity in this context (given that these are factors that have been specifically derived from a qualitative analysis in this context). A relatively comprehensive model based on a range of factors (the output of a process of theory development using a grounded theory

application) was tested quantitatively in order to answer this research question. Theory was therefore tested that related different factors to research productivity. The findings suggest that certain factors, and categories of factors, dominate in their associations with research productivity. The influence of tacit experience (Nonaka, 1994), or specific human capital (Becker, 1964), was found to have the strongest associations with research productivity. Research output may therefore be robust to the influence of general human capital, or learning in ways other than 'learning by doing'. The influence of self-efficacy (Bandura, 1997; Stajkovic & Luthans, 1998) was also found to dominate in associations with research productivity; second in its strength to the influence of experience in the form of tacit learning. It is concluded that this context differs from other global (and perhaps also local) contexts in that intrinsic factors such as job satisfaction, affectivity and locus of control are largely found to have no associations with research productivity. Gender was found to be associated with differences in research productivity; males are found to be more research productive. Interestingly, female academics are found to be significantly more likely to derive their primary job satisfaction from teaching, and males to derive theirs from research (satisfaction with teaching was found to be significantly and negatively associated with gross research productivity, ISI/IBSS journal articles, DOE journal articles, conference proceedings, book chapters and conference paper presentations. Worryingly, masters and doctoral student supervision is not found to be associated with journal article publication when years of experience as a researcher are held constant (in fact masters degree supervision is then found to be negatively associated with ISI/IBSS journal article publication). Individuals with greater administrative work-loads (more people reporting to them) were found to perhaps be robust to this influence; no negative association was found after holding years of experience as a researcher constant. It is concluded that convergence with other global contexts (Kerr et al., 1960) may not be occurring because many of these results are atypical of the results predicted on the basis of the 'global' literature. Specifically, the lack of associations found for the intrinsic personal factors (with the exception of self-efficacy) are notable. In the above sections, the results of the testing of the hypotheses were discussed, yet managerial implications and recommendations were not considered. These are now discussed.

## **MANAGERIAL IMPLICATIONS/RECOMMENDATIONS**

Certain assumptions about research productivity may be challenged by these results. Firstly, the assumption that research productivity can be a function of forms of experience other than being a researcher is questioned. It is recommended that research training should be based on 'learning by doing', with practice-based components also tailored to principles of 'learning by doing'. Mentoring and co-authoring is strongly recommended, based on this approach. The dominance of self-efficacy, with the second-strongest associations with research productivity, suggests that the enablement of self-confidence and self-belief should be another focus of academic research development programmes. Approaches aimed at developing a 'learning by doing' approach might also be particularly well disposed toward enabling the development of self-confidence and self-belief in developing academics. If (i) male academics do tend to derive their primary job satisfaction from research, and (ii) female academics from teaching, and (iii) if satisfaction with teaching is negatively associated with research productivity then it is recommended that further research investigate what the causal mechanisms are that underlie this fundamental differentiation in this context. The consequences of a lack of knowledge of these differences may manifest in persistent gender inequality; both in remuneration (as research might be rewarded more extensively than teaching), and in status (research output is typically associated with academic status in a different way than teaching). Of concern is the lack of a positive association between postgraduate supervision and journal outputs. It is recommended that the nature and scope of postgraduate supervision be explored for its potential synergies with journal publication outputs. It is tentatively recommended that a journal article submission be made a requirement for higher degree awards.

The focus might be on submission, not on acceptance (given the relative difficulties inherent in achieving acceptance in journals). Other forms of ensuring alignment between journal article publication and dissertation and thesis development should be enabled. Encouragingly, no negative relationship between the number of staff supervised by an academic and research productivity was found. It is recommended that more senior professors with higher research outputs be encouraged to also take on administrative leadership if these roles indeed do not constrain their research output. Such leadership might itself enable research productivity if research productivity is indeed highly 'tacit' in nature; expert leadership focused on the transmission of institutional capital may be needed. It is also argued that the retention of more senior research staff be prioritised, as these individuals might hold the key to the development of research productivity premised on a 'learning by doing' approach. It is also recommended that further research specifically tests the extent to which 'global' literature does indeed apply to relationships in the South African academic context. With management schools rated fifteenth-best in the world (World Economic Forum, 2012), this local academic context is not independent of the broader local context associated with the fifth-worst rated education system in the world; and not independent of the societal obligations in terms of research productivity that are also associated with this broader local context.





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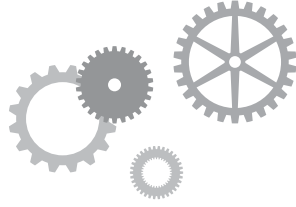
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## Section 9: Education Resilience

# THE RELATIONSHIP BETWEEN ENTREPRENEURIAL INTENTION AND ENTREPRENEURIAL EDUCATION AMONG STUDENTS AT A HIGHER EDUCATIONAL INSTITUTION IN SOUTH AFRICA – AN EXPLORATORY STUDY

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## ABSTRACT

Unemployment, especially youth unemployment, is a global problem that both developed and developing economies are facing. In addition, it is becoming increasingly difficult for graduates to find jobs after finishing their studies. Entrepreneurship education at Higher Educational Institutions (HEIs) are becoming an important solution help solve unemployment and the underemployment of graduates. Against this background the objective of this research is to investigate and empirically test the relationship between Entrepreneurship education and the Entrepreneurial intention of students enrolled for an entrepreneurship-oriented module at a HEI. For the purpose of this paper the Learning motives, Teaching methods and Programme content (independent variables) influencing Entrepreneurship education (intervening variable) and Entrepreneurial intention (dependent variable) was investigated. Entrepreneurial content and Interactive teaching were found to have a significant positive relationship with Entrepreneurship education, while Entrepreneurship education was found to have a significant positive relationship with Entrepreneurial intention.

## KEYWORDS

Entrepreneurial, Education; Entrepreneurial intention, Higher educational institution



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## INTRODUCTION

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Unemployment, especially youth unemployment, is a global problem that both developed and developing economies are facing (Naidoo, 2012; Setiloane, n.d.; Wijnberg, 2010). South Africa, a developing economy, is not exempt from this problem and the number of unemployed increased by 100 000 people to 4.6 million between the fourth quarter of 2012 and the first quarter of 2013 according to Statistics SA (Unemployment rises to 25.2%, 2013). The unemployment figure for the youth between the ages of 15 and 24 is even worse and is estimated at around 50% (Smallhorne, 2013; South African unemployment – youth ages 15-24, 2013). In addition, it is becoming increasingly difficult for graduates to find jobs after finishing their studies. The number of degree holders in the labour market in South Africa grew from 463 000 in 1995 to 1,1 million in 2011. The unemployment rate for graduates in 2011 was 5% (Graduate unemployment rate in South Africa, 2013). Research undertaken proved that the unemployment, and much more so, the underemployment of graduates, are a devastating phenomenon in the lives of graduates and a high incidence of either, are definite indicators of institutional ineffectiveness and inefficiency.

Entrepreneurship however could be an important vehicle for reducing unemployment in general and youth unemployment in particular (Azhar, Javaid, Rehman & Hyder, 2010: 13; Fatoki, 2011: 161; Kongolo, 2010: 2290-2291; Small business can help beat unemployment, 2013; Solving unemployment in South Africa, 2012; Van Zyl, 2013). Previous research shows that 90% of employment growth in numerous nations originates from the entrepreneurial sector of the economy (Morris, Pitt & Berthon, 1996: 59) and countries such as China have used entrepreneurship as a vehicle to reduce its unemployment (Wu & Wu, 2008: 752). Entrepreneurship can also be a solution to the high unemployment rate in South Africa (Naidoo, 2012; North, 2002: 24). Entrepreneurship is one of the most important aspects in generating economic prosperity and progressing societal quality of life (Morris & Lewis, 1995:42). Without the creation of new businesses, South Africa risks economic stagnation (Fatoki, 2010: 87).

Naidoo (2012) nonetheless warns that the entrepreneurship levels of people aged between 18 and 34 in South Africa have declined significantly by 16 percent between 2010 and 2011 and that young entrepreneurs in SA chose self-employment out of necessity rather than being motivated by attractive opportunities. According to Turton and Herrington (2012: 68) South Africa has the lowest rate of the 10 sub-Saharan countries for entrepreneurial intention in its youth population (15%), which is also below the average of the Sub-Saharan countries of 56%. Herrington, Kew and Kew (2011: 3) are of the opinion that a lack of education and training are major obstacles inhibiting entrepreneurial development in South Africa. In the same manner Naidoo (2012) believes that the root of SA's entrepreneurial problem is linked to the country's educational structures. Both SA's formal and informal educational structures do not prepare the youth to become skilled entrepreneurs. Not only has the structure ill-equipped the youth to become entrepreneurs, but it has created a culture where young South Africans dream of becoming employees, rather than employers. Educated unemployment or underemployment is also often due to a mismatch between the aspirations of graduates and employment opportunities available to them (Graduate unemployment, n.d.). High levels of long term graduate unemployment represent a massive threat to Higher Educational Institutions (HEI) within South Africa, which stand to lose a significant degree of social relevancy if the job market for graduates does not improve within the near future.

In an attempt to increase entrepreneurship in South Africa, it is therefore necessary for the potential workforce to be trained and educated in entrepreneurship (Turton & Herrington, 2012: 67). One way of reducing the obstacles to entrepreneurial intention in South Africa is through entrepreneurship education (Fatoki, 2010: 92; Liñán, Rodriguez-Cohard & Rueda, Cantuche, 2011: 195). Tertiary institutions in general and HEIs in particular are expected to play a role in this regard, in addition to

research and teaching (Rasmussen & Sorheim, 2006: 185). Fatoki (2010: 93) is of the opinion that entrepreneurship education should be made accessible to all tertiary learners in order to equip them with business practices. In addition, Dhliwayo (2008: 337) proposes that entrepreneurship education in South Africa needs a new approach and an early integration in the educational system in order to produce entrepreneurs.

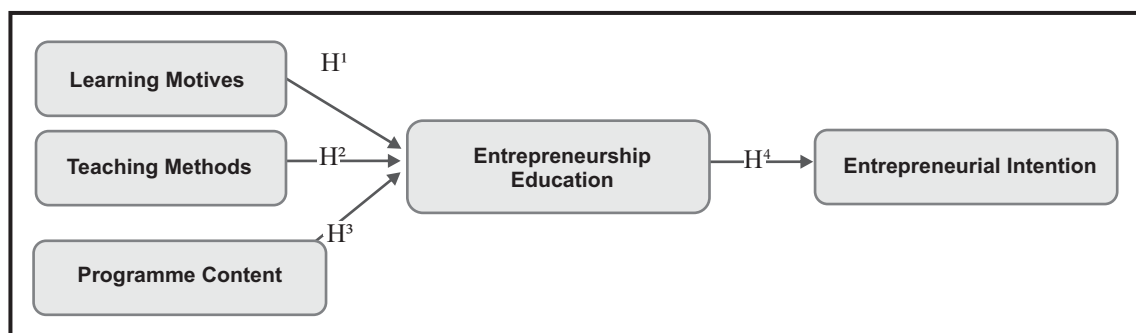
Many researchers have tried to analyse the influence of entrepreneurship education on self-employment intention, also known as entrepreneurial intention. Rasmussen and Sorheim (2006: 193) have found that even though some variables of entrepreneurship education are not easy to assess, it is important to assess its impact on entrepreneurial intention. This has led them to recommend more studies for a better understanding of the impact of entrepreneurial education on entrepreneurial intention. Entrepreneurial intention examines how much a person is interested to be an entrepreneur either now or in the future (Azhar et al., 2010: 16). Wu and Wu (2008:753) contend that entrepreneurship education is important in building entrepreneurship in people's minds, as it will encourage them to consider becoming entrepreneurs. A positive correlation exists between entrepreneurial intention among the youth and the level of education attained (Turton & Herrington, 2012: 68).

However, findings by Fatoki (2010; 2011) among South African students regarding entrepreneurial intention were not encouraging. It was found that the entrepreneurial intention of students is very low in South Africa (Fatoki, 2010: 92; 2011: 161). In addition, little is still known about the impact of entrepreneurship education on students' entrepreneurial intention in South Africa (Tobias & Ingrams, 2010: 9).

Against this background and to address the research gap discussed above, the objective of this research is to investigate and empirically test the relationship between entrepreneurial education and the entrepreneurial intention of students enrolled for an entrepreneurship-oriented module at a HEI. Suggestions will be made, based on the empirical results, of how the design of current entrepreneurship education initiatives can be improved.

## PROPOSED HYPOTHESISED MODEL

There are many factors that influence entrepreneurial intention (EI). This study investigates the role of entrepreneurial education (EE) on the EI of students at a Higher Educational Institution (HEI) in South Africa. For the purpose of this paper the Learning motives, Teaching methods and Programme content (independent variables) influencing Entrepreneurship education (intervening variable) and Entrepreneurial intention (dependent variable) of students will be investigated. The hypothesised model and relationships are depicted in Figure 1.



**FIGURE 1:** PROPOSED HYPOTHESISED MODEL: ENTREPRENEURSHIP EDUCATION'S INFLUENCE ON ENTREPRENEURIAL INTENTION

Evidence has been found in the literature to support the relationships hypothesised between the three independent variables identified in this study and the intervening variable (Entrepreneurship education) and the dependent variable (Entrepreneurial intention). The factors that influence Entrepreneurship education include: Learning motives, Teaching methods and Programme content. The nature of these variables, together with theoretical and empirical support (where found) for the hypothesised relationships, are discussed in the following sections.

## **DEPENDENT VARIABLE: ENTREPRENEURIAL INTENTION**

In the entrepreneurship literature many scholars have focused on intention (e.g. Bird, 1988; Krueger, Reilly & Carsrud, 2000). Intentions have been proved to be the best predictors of individual behaviors (Liñán, Rodríguez-Cohard & Rueda-Cantucho, 2005: 1), particularly when the behavior is rare, hard to observe or involves unpredictable time lags (Krueger & Brazeal, 1994). The establishment of new ventures and the creation of new value in existing ones, which have been identified by Bird (1988) as the two outcomes of entrepreneurial intention, are good examples of such behaviors (Fini, Grimaldi, Marzocchi, Sobrero, 2009: 1). Turton and Herrington (2012: 33) are also of the opinion that a strong association exists between entrepreneurial intention and actual entrepreneurial behavior. On the other hand, Fatoki (2010: 88) and Azhar et al. (2010: 16) describes entrepreneurial intention as one's judgements about the likelihood of owning one's own business either now or in future. In this study, Entrepreneurial intention refers to students' intention to start their own business and be their own boss if the opportunity arises in future.

Research show that a strong association exists between an individual's perception of entrepreneurial desirability and feasibility, and the intention to engage in entrepreneurial activity. The models most frequently used to analyse entrepreneurial intention are the Shapero Entrepreneurial Event (SEE) model and the Theory of Planned Behaviour (Turton & Herrington, 2012: 33). In essence, these models suggest that an individual's entrepreneurial intention is influenced firstly by the perception of the extent to which it is desirable (attractive and credible) to become and entrepreneur. Secondly, entrepreneurial intention is influenced by perceptions of feasibility, which focus on the individual's ability to adopt entrepreneurial behavior (Turton & Herrington, 2012: 33).

The Theory of Planned Behaviour was developed by Ajzen (1991) to predict and explain human behaviour in specific contexts (Ajzen, 1991: 181). According to this theory, the behaviour to start a new business is both intentional and planned. Ajzen (1991: 181) has identified three independent determinants of intention, namely attitude towards the behaviour, subjective norm and perceived behavioural control. "Attitude towards the behaviour" refers to the amount to which the person has an encouraging or an uncomplimentary appraisal or assessment of the behaviour in question (Ajzen 1991: 188). "Subjective norm" refers to the perceived social pressure to carry out or not to carry out the entrepreneurial behaviour (Liñán et al., 2005: 4-5). "Perceived behavioral control" is the third originator of intention, and refers to the perception of difficulty in the fulfillment of the behaviour of becoming an entrepreneur (Liñán et al., 2005: 4-5). The three determinants have a positive link with the entrepreneurial intention of students. In addition, personal attitude reflects beliefs and opinions held by an individual about becoming an entrepreneur.

The Entrepreneurial Event Theory (SEE) was established by Shapero and Sokol (1982). This theory is used to gain understanding of the decision to create a new firm (Franco, Haase & Lautenschlager, 2010: 262). In predicting entrepreneurial intention the SEE theory uses three perceptions, namely: perceived desirability, perceived feasibility and entrepreneurial knowledge. "Perceived desirability" involves an individual's desire for entrepreneurship), "perceived feasibility" refers to the possibility of an individual becoming an entrepreneur (Segal, Borgia & Shoenfeld, 2005: 45). "Entrepreneurial knowledge" refers to the ability to create an opportunity and take action aimed at realising the innovative practice (Widding, 2005: 598).

There are many factors that influence entrepreneurial intention. According to Fini et al. (2009: 5) the antecedents of entrepreneurial intention could be grouped into two macro-categories, identifying the individual and the contextual domains (Bird, 1988). The first one includes demographics, personal traits, psychological characteristics, individual skills and prior knowledge, individual network and social ties. The second one encompasses environmental support, environmental influences and organisational factors. This study will only investigate the influence that EE has on EI.

## **MEDIATING VARIABLE: ENTREPRENEURSHIP EDUCATION**

Entrepreneurship education (EE) is a concept that has faced numerous theories and fragmentations (Tobias & Ingrams, 2010: 2). Some researchers link entrepreneurship education to the teaching of business management skills. Jones and English (2004: 416) define entrepreneurial education as the process of enabling people to identify commercial opportunities and the insight, self-esteem, knowledge and skills to use those opportunities. According to Azhar et al. (2010: 16) entrepreneurship education evaluate the depth of knowledge a person has about the entrepreneurial environment, required abilities, recognition of the entrepreneur's figure and the intention to be an entrepreneur, by taking a particular entrepreneurship module. In this study, Entrepreneurship education refers gaining an awareness and knowledge about the trends and issues faced by South African entrepreneurs, compiling a business plan, managing the basic finance in a business, spotting market opportunities and dealing with the risks involved in becoming self-employed, by being enrolled for an entrepreneurship-oriented module.

Entrepreneurship education is of the utmost importance in South Africa. Indeed, as the youth lack skills and education to postulate to formal employment (Herrington, Kew & Kew, 2009: 12), getting educated can address both low education realities and an increase in self-employment. According to Fatoki (2010: 93), entrepreneurship education is needed to enhance skills and knowledge. However, the low entrepreneurial intention in South Africa (Fatoki, 2010; Tobias & Ingrams, 2010) indicate a great need for HEIs and government support initiatives (Fatoki, 2010: 93; Herrington et al., 2009: 45). In determining entrepreneurial intention, most studies have indicated that entrepreneurship education is the most important method of improving the entrepreneurial intention of students. Akmaliah and Hisymuddin (2009: 539) advocate that entrepreneurship education has the potential to develop knowledge and skills and also increases the entrepreneurial intention of students. In addition, Wu and Wu (2008: 768) suggest that by educating students about entrepreneurship, their entrepreneurial intention will improve as well.

Dickson, Solomon and Weaver (2008: 245) add that countries' level of entrepreneurship is related to their level of education. Education gets individuals to develop their reasoning and to acquire particular skills. In that sense, entrepreneurship education is expected to develop or inculcate business skills and even get individuals ready to become entrepreneurs (Burger, O'Neill & Mahadea, 2005: 90). To support this view, Jones and English (2004: 417) note the increasing demand in entrepreneurship modules, as students are looking for transferable skills to successfully start their own businesses.

Many researchers have found a positive relationship between entrepreneurship education and entrepreneurial intention. According to Lee, Chang and Lim (2005: 31) entrepreneurship education is a requirement for creating the intention to become self-employed. Walter and Dohse (2009: 8) point out three reasons on how this education could increase the intention. Firstly, entrepreneurship education could help students in generating basic business ideas and being able to do a market analysis. Secondly, the education would lead them to bring business ideas together efficiently to enable them to spot market opportunities. Lastly, the number of entrepreneurship modules would demonstrate how important entrepreneurship is to the institution.

Researchers have identified many factors that can influence entrepreneurship education. For instance, while showing how it can have a negative influence on entrepreneurial intention, Oosterbeek, Van Praag and Ijsselstein (2010: 452) suggest that the factors leading to that negative impact can be the large number of students attending the module, which reduces active involvement, the obligation to attend the classes, and the level of personal effort required relative to the other credits allocated to the module. Pretorius, Nieman and Van Vuuren (2005: 424) also list the context in which the entrepreneurship module is taken as a relevant factor influencing entrepreneurship education.

Apart from the above-mentioned factors, Walter and Dohse (2009: 2) argue that individual influences, individual traits, and the interaction between the university and the region have an effect on entrepreneurship education. They are of the opinion that the impact of this education on student intention can be increased by aligning the content of the programme with the regional context (Walter & Dohse 2009: 5). Wang and Verzat (2011: 379) note that the learning environment, in which students are faced with reality, interacting with lecturers and other actors of the business environment, tends to positively influence entrepreneurship education. Three factors that influence entrepreneurship education in this study are shortly discussed in the following sections.

### **Learning motives**

Blundel and Lockett (2011: 2) suggest that learning motives are the reasons for studying entrepreneurship, which should lead to getting a better understanding of economic, social and environmental trends related to entrepreneurship in the twenty-first century, and which will foster entrepreneurial thinking amongst students. In this study Learning motives refer to students studying entrepreneurship as it will help them in starting their own business in the future, assist them to better understand entrepreneurship and entrepreneurs and because they have an interest in studying this module.

According to Pretorius et al. (2005: 424), changing the behaviour to venture creation is a failure for some entrepreneurship programmes. This means that entrepreneurship education should transform the learners' motivation when engaging in the module, into the will to start their own business. Fayolle, Gailly and Lassas-Clerc (2006: 711) identify a few motives, referring to pedagogical, social or economic perspectives in which students may opt for EE.

Van Gelderen, Van der Sluis and Jansen (2005: 97) relate learning behaviour to three outcome measures: a performance outcome or goal achievement; a personal growth outcome or skill development; and an effective evaluation outcome or satisfaction. De Clercq, Honig and Martin (2012: 2) refer to learning orientation as a learner's tendency to continuously update their current knowledge. The learner, in this case, already has an idea and some knowledge about entrepreneurship, and gaining more knowledge can increase the attractiveness or intention of becoming an entrepreneur.

### **Teaching methods**

Teaching methods refer to the academic methods and materials used by HEIs to make entrepreneurial skills easier for students to assimilate. Numerous studies on how entrepreneurship education could lead to entrepreneurial intention have listed a number of efficient and effective teaching methods. For the purpose of this study Teaching methods refers to using team-building exercises, creativity, fieldwork, examples of real-life entrepreneurs and case studies as teaching methods during the entrepreneurship education process.



Fayolle et al. (2006: 703) suggest that teaching methods would be more effective if incorporating case studies, talks by entrepreneurs, and real-life situations (2006: 711). Pointing out the increase of entrepreneurship modules, Walter and Dohse (2009: 2) support the idea that teaching methods using active modes and effective modes, motivate students to take entrepreneurship classes.

Burger et al. (2005: 90) emphasise that teaching methods should include team work, experience-based learning and mentoring. Likewise, Herrington et al. (2009: 30) believe that the methods should involve a “system thinking” approach, to enable learners to see a business as a system rather than a group of separate components. Assuming that specific knowledge in entrepreneurship leads to better opportunity identification, the teaching methods should also put an accent on spotting available opportunities (Souitaris, Zerbinati & Al-Laham, 2007: 572). In a similar way, in addition to experiential learning and real-world experiences, Lüthje and Franke (2002: 10) advocate that teaching methods should provide more knowledge about innovative opportunities.

Bornard and Parmentier (2011: 2) highlight how teaching through business games has increased in the American entrepreneurship education system. They argue that this way of teaching enables students to use the theoretical knowledge acquired in class by applying it to practical cases, allowing them also to gain knowledge through experimentation with business strategies. Business games are computer-based business simulations, in which a computer programme calculates the performances of firms which are run by small groups of students. Business games are used at the beginning of a course to introduce students to business management, and also at the end of the course, to help them in implementing the knowledge acquired during the course (Bornard & Parmentier, 2011: 9-10).

The most common methods used in teaching entrepreneurship are also noted by Co and Mitchell (2006). They highlight the use of videos, practical work, business plan writing, computer simulations, role-playing games, interaction with entrepreneurs, and joining a students' entrepreneurial club (Co & Mitchell, 2006: 350). Similarly Pittaway and Cope (2007: 495) present the following methods: action learning, new venture simulations, technology-based simulations, and development of actual ventures, skills-based courses, video role plays, experiential learning and mentoring.

### **Programme content**

Programme content refers to the pedagogical curriculum that should be incorporated into entrepreneurship education modules. Fayolle et al. (2006: 710) identify the type of entrepreneurship education programme offered as a factor influencing this education. They highlight five dimensions that should be reflected by the content of the programme: the know-why, the know-how, the know-who, the know-when and the know-what. The know-why refers to the attitudes, values and motivations. The know-how deals with abilities, the know-who is linked short and long-term social skills, the know-when is intuition and the know-what relates to knowledge (Fayolle et al., 2006: 711). In this study Programme content refers to an entrepreneurship module providing students with a greater awareness of entrepreneurship, teaching them the financial aspects of business management, how to develop an entrepreneurial culture and giving them a better understanding of how to compile a business plan.

Keat, Selvarajah and Meyer (2011: 209) present a four-dimension curriculum for entrepreneurship including: general business knowledge, general venture knowledge, opportunity-specific knowledge and venture-specific knowledge. General business knowledge should apply to all firms, including new ventures, while general venture knowledge is specific to start-ups. Opportunity-specific knowledge should address spotting an unserved market and how to venture in it, while venture-specific knowledge should tackle product or service production.



Programmes should entail personal development and not only business skills, as stated by Herrington et al. (2009: 96) and Douglas and Shepherd (2002: 90). Gürol and Atsan (2006: 27) concur that the focus should be on the development of skills to start the business, while development of personal attributes and behaviour of good entrepreneurs should also be a major component of a successful EE programme.

Based on the literature above, the current research proposes the following hypotheses, summarised in Figure 1.

**H1:** There is a positive relationship between Learning motives and Entrepreneurship education.

**H2:** There is a positive relationship between Teaching methods and Entrepreneurship education.

**H3:** There is a positive relationship between Programme content on Entrepreneurship Education.

**H4:** There is a positive relationship between Entrepreneurship education and Entrepreneurial intention.

## RESEARCH METHODOLOGY

### Questionnaire design

The measurement instrument used in this study consisted of a cover letter as well as a set of questions in Sections 1, 2 and 3. A cover letter was distributed together with the questionnaire, detailing the purpose of the research study as well as the details of the applicable NMMU division under which the research was conducted, namely the Unit of Applied Business Management. Respondents were assured of confidentiality, and instructions were provided as to the completion of the questionnaire. Definitions of entrepreneurship education and entrepreneurial intention were also provided.

In Section 1 of the questionnaire, respondents were required to specify the extent of their agreement with the 35 statements related to Learning motives, Teaching methods, Programme content, Entrepreneurship education (mediating variable) and Entrepreneurial intention (independent variable), by placing an X in the appropriate column. 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.

In Section 2, demographic information relating to the respondent, pertaining to ethnicity, age, faculty, qualification and campus was captured. Respondents were instructed to place an X next to the relevant answer option. Section 3 was an open question to gather respondents' suggestions and comments regarding entrepreneurship education and entrepreneurial intention. The dependent and independent variables were measured by developing suitable scales to measure the relevant concepts. Each variable was then operationalised in terms of the scale. Appendix A illustrates the wording of the items used for the different scales of the variables in this study.

### Sampling and data collection

The target population of this study comprised NMMU students who were enrolled for an entrepreneurship-orientated module. A non-probability convenience sampling technique was considered as the most suitable, owing to the availability and easy access to students who constituted the sample.

The sampling frame for this study included a list of students registered for an entrepreneurship module at the NMMU. The use of registered students at the NMMU made it easier to define and

access the sample frame for the current research. All questionnaires were personally given to respondents. The sample size consisted of 221 students who were selected from the sampling frame.

## EMPIRICAL RESULTS

### Demographic information

The majority of the respondents (76.83%) in this study were female, while male respondents accounted for 18.29% of the sample. The vast majority of respondents were under the age of 26, with 46.34% between the ages 18-21 years and 40.24% between the ages of 21 and 25. Most respondents were White (50.00%), followed by Black (26.83%) and Coloured/Asian (18.29%). Most respondents were studying in the Faculty of Health Sciences (76.83%), followed by the Faculty of Business and Economic Sciences (12.20%) and other faculties (6.10%). Most students were undergraduates currently studying towards a Bachelor Degree (82.90%), followed by postgraduates currently studying an Honours Degree (12.20%).

### Results of the reliability and validity assessments

An exploratory factor analysis (EFA) was undertaken to assess the validity of the measuring instrument used in this study. Bryman and Bell (2007: 165) define validity as the issue of whether or not an indicator (or set of indicators) that is devised to gauge a concept really measures that concept. In other words, validity refers to whether the measuring instrument measures what it is supposed to measure. In this study, an exploratory factor analysis was conducted to determine the validity of the measuring instrument. Items that loaded onto one factor only, and factors that loaded greater than 0.48 (Zikmund, Babin, Car & Friffen, 2010: 259), were considered significant. The results of the EFA are shown in Table 2 below.

Cronbach's alpha coefficients (CAs) were calculated to assess the reliability of the measuring instrument used. According to Thomas (2004: 30) reliability refers to the concept that should the measuring instrument be applied again, the same results will occur. According to Strüwig and Stead (2001: 66), the Cronbach's alpha is a coefficient that indicates the internal consistency of a group of items. Zikmund, Babin, Car and Friffen (2011: 302) add that a coefficient of less than 0.6 is considered to be unreliable, 0.6 to 0.7 reflects fair reliability, and coefficients of more than 0.7 are considered very reliable. The Cronbach alpha value for each variable is shown in Table 2 below.

TABLE 2: FACTOR STRUCTURE OF THE VARIABLES

	CONTENT	INTENT	INTERACT	MODELS	EDUCATE
CONT3	<b>0.7751</b>	0.2311	0.1629	0.2619	0.0982
CONT7	<b>0.7187</b>	0.0417	0.1302	-0.0081	0.3299
LEARN2	<b>0.5887</b>	0.4607	-0.0965	-0.0358	0.2626
LEARN5	<b>0.5768</b>	0.4642	0.1524	0.0355	0.3376
CONT2	<b>0.5561</b>	0.0578	<b>0.5878</b>	-0.0034	0.1965
CONT6	<b>0.5133</b>	-0.0068	0.0961	0.3716	0.4013
INTENT6	-0.0658	<b>0.8972</b>	0.0981	0.1485	0.1073
INTENT2	-0.0065	<b>0.8871</b>	0.0692	0.0609	0.1798

INTENT7	-0.0874	<b>0.8841</b>	-0.0045	0.0751	0.2391
INTENT4	0.1080	<b>0.8582</b>	0.0518	0.0439	0.0583
INTENT3	0.2963	<b>0.8274</b>	0.0090	-0.0838	0.0292
INTENT8	0.1117	<b>0.8258</b>	0.0545	-0.0010	-0.0757
INTENT5	0.1154	<b>0.8031</b>	0.2142	0.1650	0.1764
INTENT1	0.3261	<b>0.7793</b>	0.0705	-0.1022	0.0354
LEARN4	0.2486	<b>0.6585</b>	0.1913	-0.1082	0.2356
LEARN1	0.2287	<b>0.6307</b>	0.0351	-0.0425	0.2456
TEACH1	0.0414	-0.0220	<b>0.7679</b>	-0.1030	0.0900
TEACH6	0.2130	0.0774	<b>0.7355</b>	0.0790	0.0558
TEACH3	-0.0046	0.2159	<b>0.7171</b>	0.2967	0.1234
TEACH7	0.1704	0.3387	<b>0.6391</b>	0.1245	0.2312
TEACH2	0.0605	0.2809	0.1127	<b>0.7163</b>	-0.0139
TEACH5	0.3208	0.1117	0.2281	<b>0.6583</b>	0.0581
EDU3	0.0708	0.2329	0.0804	0.0023	<b>0.8165</b>
EDU7	0.3752	0.1986	0.0805	-0.0637	<b>0.7286</b>
EDU6	0.2431	0.3362	0.1215	0.0529	<b>0.7037</b>
EDU5	0.3593	0.2378	0.2036	0.1123	<b>0.6385</b>
EDU8	-0.2208	0.2385	0.4486	0.1270	<b>0.4839</b>
EDU2	0.3454	0.0028	0.2418	0.1138	<b>0.4773</b>
EDU1	0.4381	0.1409	0.1498	0.1809	<b>0.4659</b>
EDU4	<b>0.4954</b>	0.2350	0.2936	-0.0267	0.3522
CONT4	0.3322	0.0169	<b>0.4686</b>	0.2941	0.3180
CONT5	0.2633	-0.0100	0.3781	0.2569	0.3072
CONT1	0.3112	0.1016	0.3460	0.2106	0.2981
TEACH4	0.3303	-0.0167	0.2270	<b>0.4866</b>	0.1965
LEARN6	0.3207	0.2034	0.4416	-0.3087	-0.2340
Cronbach alpha value	0,851	0,949	0,801	0,635	0,846
Expl.Var	12,14	21,64	10,92	6,25	11,48

(Key: CONTENT = Entrepreneurial content; INTENT = Entrepreneurial intention; INTERACT = Interactive teaching; MODELS = Teaching role models; EDUCATE = Entrepreneurship education).

In order to measure the dependent variable Entrepreneurial intention eight items were developed. All eight of these items loaded as expected. In addition to these eight items, two other items also loaded onto Entrepreneurial intention, namely LEARN4 and LEARN1. Despite these two additional items, the name Entrepreneurial intention was retained for this factor. As highlighted in Table 2, the factor loadings for this construct ranged between 0.8972 and 0.6307 and Entrepreneurial intention explains 21.64% of the variance in the data. The Cronbach's alpha coefficient for Entrepreneurial intention is 0.949. Sufficient evidence of a valid and reliable scale measuring Entrepreneurial intention is thus provided.

In order to measure the independent variable Entrepreneurship education eight items were developed. Only five items loaded together as expected, namely EDU3, EDU5, EDU6, EDU7 and EDU8. The factor loadings for this construct ranged between 0.8165 and 0.4839. Entrepreneurship education explains 11.48% of the variance in the data. The Cronbach's alpha coefficient for Entrepreneurship education is 0.8458 (see Table 2). Sufficient evidence of a valid and reliable scale is thus provided.

Seven items were originally developed to measure the factor Program content. Only three of these loaded together, namely CONT6, CONT3 and CONT7. The other items measuring Program content did not load as expected and CONT2 loaded onto more than one factor. Three other items loaded together with the three items measuring Program content, these were EDU4, LEARN5 and LEARN2. Given the items that loaded together the factor was renamed Entrepreneurial content. From Table 2 it can be seen that factor loadings of between 0.775 and 0.513 were returned for this Entrepreneurial content. Entrepreneurial content explains 12.14% of the variance in data. Sufficient evidence of discriminate validity for this construct is thus provided. Entrepreneurial content returned a Cronbach's alpha coefficient of 0.851. Satisfactory evidence of reliability for the scale measuring this factor is thus reported.

To measure the independent variable Teaching methods seven items were developed. Four of these items loaded together onto one construct, namely TEACH1, TEACH3, TEACH6 and TEACH7, the three remaining items loaded onto another construct. As a result, the factor was renamed to Interactive teaching. Table 2 shows that factor loadings for this construct ranged between 0.7679 and 0.6391. The variable Interactive teaching explains 10.92% of the variance in the data and a Cronbach's alpha coefficient of 0.801 is reported. The aforementioned provide sufficient evidence of a valid and reliable scale measuring Interactive teaching.

As mentioned above, three of the items (TEACH2, TEACH4 and TEACH5) measuring Teaching methods loaded onto another factor. Based on the nature of these items, the factor was renamed Teaching role models. The factor loadings for the items measuring Teaching role models ranged between 0.7163 and 0.4866 and this factor explains 6.25% of the variance in the data (see Table 2). The Cronbach's alpha coefficient for Teaching role models is 0.6345, which is less than the lower limit of 0.70. However, according to Zikmund et al. (2011: 302), coefficients between 0.6 and 0.7 reflect fair reliability. Satisfactory evidence of validity and reliability for the scale measuring Teaching role models is thus provided.

### Revised operationalisation of variables and hypotheses

Based on the factor analysis, the operationalisation of the various constructs was rephrased and the hypotheses reformulated. The reformulated operational definitions are summarised in Table 3 and the reformulated hypotheses described thereafter.

**TABLE 3: REFORMULATED OPERATIONAL DEFINITIONS**

Factor	Operationalisation
Entrepreneurial intention	Refers to the respondents' having an interest in studying entrepreneurship and having the intention to start their own business in the future should the opportunity arise.
Entrepreneurial content	Refers to the module content including aspects relating to finance, the business plan, starting an own business and entrepreneurship in general.
Interactive teaching	Refers to teaching methods that are interactive and that encourage creativity, and that include fieldwork, team building exercises and student presentations.
Teaching role models	Refers to teaching methods that use real life entrepreneurial role models.
Entrepreneurship education	Refers to gaining knowledge about compiling a business plan and managing the basic finances in a business, being aware of issues facing entrepreneurs and being able to spot opportunities in the market, by taking a particular entrepreneurship-oriented module.

As a result of the EFA, one independent variable namely, Learning motives was eliminated from the hypothesised model, in some cases the factors were renamed, and consequently the hypotheses

reformulated. The dependent variable however remains unchanged. The reformulated hypotheses are as follows:

- H1:** There is a positive relationship between the Entrepreneurial content and Entrepreneurship education.
- H2:** There is a positive relationship between Interactive teaching and Entrepreneurship education.
- H3:** There is a positive relationship between Teaching role models and Entrepreneurship education.
- H4:** There is a positive relationship between Entrepreneurship education and Entrepreneurial intention

## EMPIRICAL RESULTS

### Descriptive statistics

In order to describe the data related to the sample, descriptive statistic methods such as the mean, standard deviation and frequency distributions were computed. These are summarised in Table 4. For the purpose of this study, the response categories on the 7-point Likert type scale were categorised as Disagree ( $1 \leq x < 3.0$ ), Neutral ( $3.0 \leq x < 5.0$ ) and Agree ( $5.0 \leq x < 8.0$ ).

**TABLE 4: DESCRIPTIVE STATISTICS**

Factor	Mean	Std. Dev	Disagree%	Neutral%	Agree%
Entrepreneurial content	5.755	0.842	1.22	9.76	89.02
Interactive teaching	4.668	1.241	8.54	36.59	54.88
Teaching role models	5.875	0.795	0.00	12.20	87.80
Entrepreneurship education	5.225	0.893	2.44	28.05	69.51
Entrepreneurial intention	4.859	1.449	10.98	35.37	53.66

Concerning the independent variables, Entrepreneurial content reported a mean score of 5.755, whereas Interactive teaching, Teaching role models and Entrepreneurship education reported mean scores of 4.668, 5.875 and 5.225, respectively. Regarding the dependent variable Entrepreneurial intention, a mean score of 4.860 was reported. The vast majority of respondents (89.02%) agreed that the module content included aspects relating to finance, the business plan, starting an own business and entrepreneurship in general. Similarly, the vast majority (87.8%) agreed that the teaching methods used made use of real life entrepreneurial role models. Only 54.9% agreed that the teaching methods used were interactive and encouraged creativity, and included fieldwork, team building exercises and student presentations. The majority of respondents (70%) perceived themselves as having knowledge about compiling a business plan and managing the basic finances in a business, being aware of issues facing entrepreneurs and being able to spot opportunities in the market. Only 53.66% of respondents agreed to having an interest in studying entrepreneurship and having the intention to start their own business in the future should the opportunity arise.

### Pearson's Product Moment correlations

Table 5 below details the correlations between the variables investigated in the study. Pearson's product moment correlations were calculated.

**TABLE 5: PEARSON'S CORRELATION COEFFICIENTS**

Factor	1	2	3	4	5
1. Entrepreneurial content	1.000	<b>0.509</b>	<b>0.405</b>	<b>0.464</b>	<b>0.657</b>
2. Interactive teaching	<b>0.509</b>	1.000	<b>0.306</b>	<b>0.258</b>	<b>0.484</b>
3. Teaching role models	<b>0.405</b>	<b>0.306</b>	1.000	<b>0.379</b>	<b>0.425</b>
4. Entrepreneurship education	<b>0.464</b>	<b>0.258</b>	<b>0.379</b>	1.000	<b>0.339</b>
5. Entrepreneurial intention	<b>0.657</b>	<b>0.484</b>	<b>0.425</b>	<b>0.339</b>	1.000

(Bold =  $p < 0.05$ )

Following Choudhury's assessment guidelines, all the variables reveal a significant positive correlation with each other. However, a closer look at the r-values shows different degrees of association. Indeed, the following variables have strong positive associations: Entrepreneurial content and Entrepreneurial intention ( $r = 0.509$ ), Entrepreneurial content and Entrepreneurship education ( $r = 0.657$ ). A moderate association is reported between Entrepreneurial content and Interactive teaching ( $r = 0.405$ ), as well as between Entrepreneurial content and Teaching role models ( $r = 0.464$ ). A moderate positive association is reported between Entrepreneurial intention and Interactive teaching ( $r = 0.306$ ), and between Entrepreneurial intention and Entrepreneurship education ( $r = 0.484$ ). However, the correlation between Entrepreneurial intention and Teaching role models reveals a weak positive association ( $r = 0.258$ ).

The Table 5 also reports a moderate positive association between Teaching role models and Interactive teaching ( $r = 0.379$ ), between Teaching role models and Entrepreneurship education ( $r = 0.339$ ), as well as between Entrepreneurship education and Interactive teaching ( $r = 0.425$ ).

### Empirical results: Multiple regression analysis

In order to test the hypothesised relationships two multiple regression analyses were undertaken. In the first model the influence of the independent variables Entrepreneurial content, Interactive teaching and Teaching role models on the dependent variable Entrepreneurship education was established.

**TABLE 6: INFLUENCE OF THE INDEPENDENT VARIABLES ON ENTREPRENEURIAL EDUCATION**

Dependent variable: Entrepreneurial education		R-Square = 0.4620	
Independent variables	Beta	t-value	Sig.(p)
Entrepreneurial content	<b>0.6159</b>	<b>5.7294</b>	<b>0.0000*</b>
Interactive teaching	<b>0.1370</b>	<b>1.9833</b>	<b>0.0509**</b>
Teaching role models	-0.0019	-0.0136	0.9891

\* $p < 0.001$ ; \*\* $p < 0.10$

Table 6 displays that the independent variables explain 46.2% of the variance in Entrepreneurship education. Furthermore, it highlights a positive linear relationship (5.7294,  $p < 0.001$ ) between Entrepreneurial content and Entrepreneurship education. This shows the significance of Entrepreneurial content on Entrepreneurship education. It implies that the more the module content entails aspects relating to finance, compiling business plans, starting an own business and entrepreneurship in general, the more likely students are to perceive themselves as having knowledge about compiling a business plan and managing the basic finances in a business, being aware of issues facing entrepreneurs and being able to spot opportunities in the market.



Similarly, a positive linear relationship is reported between Interactive teaching and Entrepreneurial education (1.9833,  $p < 0.10$ ). This implies that the more teaching methods are interactive, encourage creativity and include field work, team building exercises and student presentations, the more likely respondents are to perceive themselves as having knowledge about compiling a business plan and managing the basic finances in a business, being aware of issues facing entrepreneurs and being able to spot opportunities in the market.

The relationship between Entrepreneurial content and Entrepreneurship education also finds support in other studies. According to Van Vuuren and Botha (2010: 611), entrepreneurship modules should entail business skills for running a company on a daily basis, financial management being one of those skills. In addition, Souitaris et al. (2007: 568) support that efficient entrepreneurship modules should include a business-planning component, to enable the learners to compile business plans.

Similarly, previous studies have supported the relationship between Interactive teaching and Entrepreneurial education. Indeed, Keat et al. (2011: 210), support that entrepreneurship programmes should not be bounded to the classroom context, but also involve interaction with the business environment. Furthermore, Souitaris et al. (2007: 573) advise teachers to incorporate team building exercises into their modules, while Dhliwayo (2008: 330) proposes the implementation of a method called Work Integrated Learning (WIL) compiling both classroom and field work.

No relationship was reported between the variable Teaching role models and Entrepreneurship education. In other words, whether or not real life entrepreneurial role models are included in the entrepreneurship module, it does not affect how entrepreneurial the respondents find the module.

In the second multiple regression analysis the influence of the independent variable Entrepreneurship education on Entrepreneurial intention was established.

**TABLE 7: INFLUENCE OF THE ENTREPRENEURIAL EDUCATION ON ENTREPRENEURIAL INTENTION**

<b>Dependent variable: Entrepreneurial intention</b>		<b>R-Square = 0.2347</b>	
<b>Independent variables</b>	<b>Beta</b>	<b>t-value</b>	<b>Sig.(p)</b>
Entrepreneurial education	<b>0.7861</b>	<b>4.9530</b>	<b>0.0000*</b>

\* $p < 0.001$

Table 7 reports a positive linear relationship (4.9530,  $p < 0.001$ ) between Entrepreneurship education and Entrepreneurial intention, translating that the more students perceive themselves as having knowledge about compiling a business plan and managing the basic finances in a business, being aware of issues facing entrepreneurs and being able to spot opportunities in the market, the more likely they are to have an interest in studying entrepreneurship and have the intention to start their own business in the future should the opportunity arise. Entrepreneurship education explains 23% of variance in Entrepreneurial intention.

Akmaliah and Hisymuddin (2009: 539), who recognise the potential of Entrepreneurship education for increasing entrepreneurial intention, support the significant positive relationship between Entrepreneurship education and found in this study. Furthermore, Byabashaija (2010:5) assert that entrepreneurship education influences students' choice to become entrepreneurs by swaying their perception of feasibility and enhancing their self-efficacy to perform. Nabi and Holden (2005: 547) even support the significance of that relationship in the core definition of entrepreneurship education, namely the process of learning skills for starting up a business.

On the ground of the above findings, support is found for the hypothesised positive relationships between the variables Entrepreneurial content (H1), Interactive teaching (H2) and Entrepreneurship education, whereas no support is found for a positive relationship between Teaching role models (H3) and Entrepreneurship education. Furthermore, support is found for the hypothesised relationship between the independent variable Entrepreneurship education (H4) and the dependent variable Entrepreneurial intention.

## **DISCUSSION OF THE EMPIRICAL RESULTS AND MANAGERIAL AND EDUCATIONAL RECOMMENDATIONS**

In doing this research we have tried to clarify the still existing debate about the different theoretical variables that determine the decision to start-up. The point of departure of this research was twofold: Firstly to establish the relationship between Entrepreneurial education and the Entrepreneurial intention of students enrolled for an entrepreneurship-oriented module at a HEI. Like many other researchers in this field we believe that entrepreneurship education could make an important contribution to enhance students' intention to start their own business now or sometime in the future. Secondly we also wanted to establish what should be important components of entrepreneurial education.

A positive relationship was found between Entrepreneurial education and Entrepreneurial intention. This means that the more students perceive themselves as having knowledge about compiling a business plan and managing the basic finances of a business, being aware of issues facing entrepreneurs and being able to spot opportunities in the market, the more likely they are to have an interest in studying entrepreneurship and have the intention to start their own business in the future should the opportunity arise. Relevant implications and recommendations have been derived from these results with regards to entrepreneurship education. Lecturers should encourage students to read and report on entrepreneurial and business issues featuring in financial, economic and entrepreneurship magazines in order to increase their entrepreneurial knowledge and awareness of entrepreneurial trends and potential business opportunities. From a research point of view, more research should be conducted on the factors that influence the entrepreneurial intention among the youth in South Africa as this research has pointed towards a clear positive relationship between entrepreneurship education and entrepreneurship intention.

Furthermore, as Liñán et al. (2011: 209) suggest, entrepreneurship education should not only be considered as an instrumental technique for those who already have decided to be entrepreneurs. It has to become a policy instrument to make more people aware of entrepreneurship as a potential career path. Entrepreneurship modules should also not only be offered as part of the curriculum of business or commerce-oriented programmes, but every student should be exposed to at least one entrepreneurship-oriented module during their studies.

Only 55% of respondents participating in this study agreed that the entrepreneurship module they had taken at NMMU involved interactive teaching methods. The main reason for this is most probably the large number of students attending the module, which makes field work and business visits a challenge. Given that Interactive teaching had a significant positive relationships with Entrepreneurship education, which in turn had a significant positive relationship with Entrepreneurial intention, more efforts should be made however to improve the interactivity of the teaching methods employed in entrepreneurship modules.

At the NMMU the emphasis is increasingly on Blendid Learning, which emphasises the use of various different and interactive teaching methods both in and outside the classroom. In an attempt to increase interactive teaching methods, field work, which involves regular on-site visits of

entrepreneurial ventures, should form part of an entrepreneurship module. This would enable students to witness how the business is managed, problems experienced by the entrepreneur and how they are solved, and so forth. In addition different teaching methods such as group assignments and the completion of case studies on real entrepreneurs would also help students to develop teamwork and relate theory to practice. Students should be made aware of entrepreneurial success, by assigning them to do research about entrepreneurial success stories that they would have to report on or present. They can do an interview with a local entrepreneur, which is also an effective way of relating theory to practice. This might enable them to realise that success in life through entrepreneurship is a reality and is a possible career path for them as well.

The results of this study revealed a significant positive relationship between Entrepreneurial content and Entrepreneurship education. This relationship translates that the more the module content entails aspects relating to finance, compiling business plans, starting an own business and entrepreneurship in general, the more likely students are to perceive themselves as having knowledge about compiling a business plan and managing the basic finances in a business, being aware of issues facing entrepreneurs and being able to spot opportunities in the market. Keat et al. (2011: 210) advocates that the content of an entrepreneurship module should lead to triggering the entrepreneurial intention of students and enhancing entrepreneurship awareness.

Entrepreneurship lecturers should make sure that they maintain a high standard in terms of entrepreneurial content in their modules. In other words, simply emphasising compiling business plans is not enough. It may be useful to increase feasibility perceptions, but will not affect students' desirability to start their own business. Therefore entrepreneurial training needs to consider, not only increasing perceived feasibility and desirability, but also the concept of entrepreneurship, the role of the entrepreneur, the development of the venture after start-up, managing the entrepreneurship's time and leadership. In addition to what is currently done in the entrepreneurship modules, students should be provided with the latest data regarding entrepreneurship in South Africa and around the world through research assignments and lectures. This would enable them to increase their general knowledge about entrepreneurship. Apart from financial aspects and compiling business plans, the content should also stress junior enterprise creation competitions, in the form of team project management throughout the duration of the module. This would help both in enabling students to apply theory to venture creation, but also to make them experience what competition can be like.

An overall, encompassing recommendation is to develop partnerships or networks with local entrepreneurs in order to give the opportunity to the best students to do internships in those businesses, so that they can have the experience of fieldwork. These entrepreneurs could also act as mentors when students do start their own businesses in future.

## **LIMITATIONS OF THE STUDY AND RECOMMENDATIONS FOR FUTURE RESEARCH**

As in all research, this study contains certain limitations. These should be taken into consideration when interpreting the findings of this study. Only a small sample drawn from 221 NMMU students participated in the research and a convenience sampling method was used. Two principal limitations are identified: firstly the size of the sample is small to be able to generalise the findings. Secondly, convenience sampling is not representative of the general population that is of interest to the researcher, and this lessens the external validity of the study (Zikmund et al., 2010: 396). Future studies, could be conducted both nationally and internationally to as to generalise the findings and to improve the entrepreneurial intention of students at HEIs.

The data collection method used was a survey. Surveys do not ensure an optimal coverage and includes non-response errors. For future research, the use of other methods such as interviews should be considered.

The sample also shows that the majority of respondents were White females. For future research, it may be interesting to know if gender and race play a significant role in the entrepreneurship intention of South Africans.

The scale measuring Teaching role models should be revisited because the reliability of the items measuring this factor was low. Future studies are encouraged to identify and measure other factors that influence entrepreneurship education to examine the impact of these factors on both entrepreneurship education and entrepreneurial intention of students at HEIs. The findings of this study contribute to existing research in the field of entrepreneurial intention amongst entrepreneurship students, even though numerous limitations were highlighted. Nevertheless, many opportunities exist for future research on entrepreneurial intention and entrepreneurship education.



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Zikmund, W.G., Babin, B.J., Carr, J.C. & Friffen, M. 2011. *Business Research Methods*. 9th Edition. USA: Thomson Learning.

## APPENDIX A:

### SCALES MEASURING THE DEPENDENT AND INDEPENDENT VARIABLES

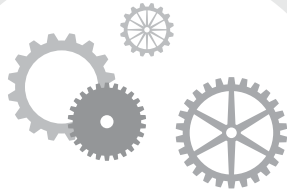
<b>ENTREPRENEURIAL INTENTION</b>	
INTENT1	I intend to start up my own business.
INTENT2	I would become an entrepreneur if a suitable opportunity arises.
INTENT3	I am determined to create a business in the future.
INTENT4	I am prepared to do anything to be an entrepreneur.
INTENT5	I will make every effort to start a business some day.
INTENT6	My professional goal is to become an entrepreneur.
INTENT7	I would prefer to be an entrepreneur rather than an employee in someone else's business.
INTENT8	I want to be my own boss.
<b>ENTREPRENEURSHIP EDUCATION</b>	
EDU1	I have sufficient knowledge about entrepreneurship.
EDU2	I know how to compile a business plan in order to start my own business.
EDU3	I know how to manage the basic finances of a business.
EDU4	I have knowledge on how to deal with risk that entrepreneurs face.
EDU5	I am aware of how to spot the opportunities on the market.
EDU6	I know the main issues involved in starting my own business.
EDU7	I have the skills and knowledge to start my own business.
EDU8	I am aware of trends and issues faced by South African entrepreneurs.
<b>LEARNING MOTIVES</b>	
LEARN1	Studying entrepreneurship will help me start my own business.
LEARN2	Studying entrepreneurship is important, since it helps me to better understand entrepreneurship and entrepreneurs.
LEARN3	Gaining knowledge about entrepreneurship is important as I am not guaranteed a formal job after studying.
LEARN4	I would study entrepreneurship even if I did not have to.
LEARN5	I am interested in studying entrepreneurship.
<b>TEACHING METHODS</b>	
TEACH1	In this module, emphasis is put on team-building exercises.
TEACH2	In this module, methods used put strong emphasis on creativity.
TEACH3	In this module, interactive strategies involving guest lecturers are used.
TEACH4	In this module, the methods used involve field work.
TEACH5	In this module, the methods used include presentations from students.
TEACH6	In this module, examples of real-life entrepreneurs are used.
TEACH7	In this module, use is made of case studies of entrepreneurs
<b>PROGRAMME CONTENT</b>	
CONT1	This module helps to create greater awareness of entrepreneurship.
CONT2	This module covers the financial aspects of business management.
CONT3	This module outlines how students can develop an entrepreneurial culture.
CONT4	This module gives a better understanding of how to compile a business plan.
CONT5	This module gives strategies to solve problems in the field of entrepreneurship.
CONT6	This module provides ways of spotting business opportunities.
CONT7	This module entails knowledge about statutory start-up issues.



## Section 10: Corporate Governance Resilience

# ASSESSING CORPORATE GOVERNANCE AND EXECUTIVE REMUNERATION USING SHARE OPTION PLANS

63



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## ABSTRACT

The modern global business environment pays much attention to the compensation of top-level managers and CEOs. It is common news in the global media that the compensation of many CEOs is rising at alarming rates, often far exceeding the rate of corporate earnings. This article provides an explanation of share options (stock options) and the role of corporate governance in South Africa and highlights the challenges and problems that the trend of high CEO compensation is posing to companies given that owners, boards and managers often battle it out to exert their preferred stand in this regard. Companies must espouse strong values that shareholders and stakeholders approve of and make CEO remuneration a sustainable part of a business management model. In recent times there has been a trend to pay CEOs million rand salaries, as part of the shareholder value ideology and this has led to their salaries skyrocketing. This is an attempt to limit the agency problem that exists between principals and their CEOs and directors and is a governance mechanism that thus tries to align the interests of principals and CEOs through salaries, bonuses and long-term incentive share options. Effective corporate governance frameworks must be in place and the mindset of incrementalism must be reconsidered at a time when shareholders are increasingly realizing that they have real power and desire real growth in their investments and when other stakeholders feel sidelined. Areas for further research on corporate governance and compensation with respect to processes of governance, executive remuneration and financial reporting are also investigated. The researcher used a very simple purposive sample interview survey methodology in this research.

## KEYWORDS

Corporate governance, Remuneration, Share Option plans

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## INTRODUCTION

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“Larry Ellison doesn't really need the money - as the co-founder and long-reigning CEO of data company Oracle, Ellison is the fifth richest man in the world with a personal worth of \$43 billion. Still, a few pennies more can't hurt and he managed to improve on the \$77.6 million he was paid in 2011. The following year Ellison got a pay cheque worth \$96.2 million - that's right, he is a hair away from earning \$100 million annually. Yet Ellison only earns a dollar as a salary. His bonus of \$3.9 million isn't bad, but well below the \$13.3 million he got in 2011. So what made the difference? Stock options worth \$90.6 million. Nice”.

(<http://businessnews.howzit.msn.com/the-best-paid-american-ceos>).

A wide range of corporate scandals in the last few years has prompted a policy and research focus pertaining to executive remuneration and using share options and awards and corporate governance (Keasey et al., 2005). Not surprisingly, much of the focus was on big listed corporations (Gabrielsson & Huse, 2002). How can extremes and obvious excesses such as in the quote above be justified when billions are starving across the globe? Many of the global scandals also raised issues as to whether executive remuneration including share options plans, rather than solving agency problems, are in essence leading to new conflicts of interest arising between CEOs, boards of directors, shareholders and stakeholders.

This article seeks to throw greater light on employee share options (ESOs) and corporate governance in a sample of organizations many of which are large and established operations (some Multinational Corporations) as well as smaller middle -sized operations. The stakeholder-agency theory and the stakeholder theory in which there is a distinction between ownership and control (Shleifer & Vishny, 1997) are also assessed briefly in this article. However it is especially the use of share options plans as an effective incentive that seeks to align the interests of principals and CEOs as well as talent management mechanism that are examined. There is great research interest in corporate governance and this tends to focus particularly on the role of boards (Venter et. al., 2003). The role of boards and their external directors, as well as the role of owners, and other governance mechanisms such as executive remuneration and especially share optionplans, and financial reporting and auditing are also the objects of recent research initiatives (Keasey et. al., 2005).

Share options are usually granted under company share option schemes and give the holder, usually the CEO (agent) and/or certain directors, the right to buy shares at a fixed price which is generally the exercise price (current market price) or strike price of the option at a time between two fixed dates. Share options are also usually awarded on a rolling basis and new awards are made at earlier intervals. The profits made are taxable compensation. In the United States, CEO pay has risen to levels which are often way beyond what can be justified by changes in organizational size and performance. It is extremely excessive and often rewards failure.





**FIGURE 1:** RATIO OF AVERAGE COMPENSATION OF CEOS AND PRODUCTION WORKERS, 1965-2009. (Economic Policy Institute. 2011. Based on data from Wall Street Journal/Mercer, Hay Group 2010)

Definitions of what corporate governance entails often vary. For the purpose of this article, corporate governance refers to the principles, systems and processes by which a company is administered. Business policy should include systems which incorporate mechanisms for all the shareholders including the external stakeholders (Freeman & Reed, 1983). Fama and Jensen, (1983) and Donaldson and Preston, (1995) who promote the stakeholder theory and Hill and Jones (1992) with their stakeholder-agency theory support this notion.

Corporate governance gives the guidelines as to the manner in which a company is directed or controlled so that it is able to fulfill its goals and objectives in a way that adds value to the company. This must also benefit all shareholders (Keasey & Wright, 1993) as well as stakeholders including the suppliers, customers, stockholders, employees, financial institutions, the media, political action groups, communities, and governments. Financial returns to stockholders may be important but not at the expense of the shareholders. It is thus critical that for the long term the strategies implemented by an organization should reflect the way in which it intends to grow, its structure, control systems, and even its operating culture. Good corporate governance ensures corporate success and leads to economic growth as it keeps the investors' confident and this makes for example, the raising of capital for projects easier. Corporate governance provides inducements for owners and managers to achieve the predetermined objectives that are generally in the interests of the organization, shareholders and stakeholders. There are other interpretations of what organizations actually are, for example they are viewed as totally independent bodies which pursue only what is good for themselves (Filatotchev & Wright, 2005; Blair & Stout, 1999).

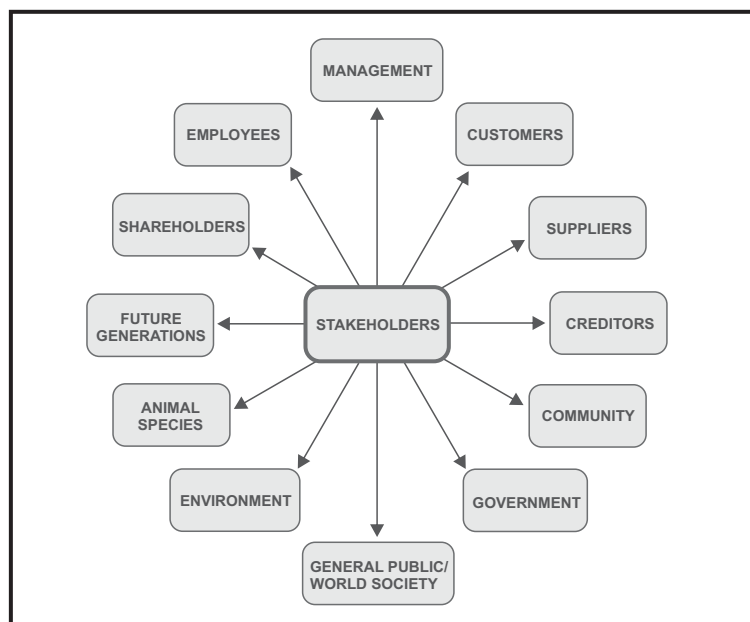
### The Stakeholder Theory

Shareholders should nonetheless not in any sense be disenfranchised to the benefit of other stakeholder groups but the latter should play some part in the corporate governance process. The extent to which they participate will be dependent on the broader legal and political environment in which the organization functions and more especially the law and moral and ethical correctness. The nexus of laws impacting firms in any country matters for the analysis of corporate governance. A good normative argument can be made for a strong stakeholder perspective, and in many countries stakeholders do take part in the decision-making process of an organization within legal limits of course.

A clear difference exists between definitions of who the stakeholders are in any organization. Freeman postulated the theoretical approach in 1984 which differed from the Corporate Social Responsibility (CSR) approach by not simply focusing on the corporation and its wide range of responsibilities, but by looking carefully at the various groups which have a legitimate interest in an organization and what and how it does what it does. The basis for stakeholder theory is that organizations are generally so big and their impact on society is far more insidious than one would imagine. Consequently they should be far more accountable to society than simply demonstrating concern for their shareholders. There is also a business case in considering the needs of the stakeholders through obtaining supplier confidence and enhanced customer perceptions as well as more highly motivated employees.

The conventional input-output model of an organization which considers businesses to be converting investor, supplier, and employee inputs into customer outputs (Donaldson & Preston, 1995) is taken a step further. In terms of the Stakeholder theory every authorized employee or groups of employees who take part in the business of the organization do so to obtain certain benefits not all of which are self-evident. Stakeholder Theory is also more normative. A group of stakeholders may of course have duties as well as obligations to their own stakeholders and so a network model exists (Rowley, 1997). A model of a corporation is thus arrived at which serves the purpose of providing a framework for investigating the linkages between conventional organizational performance and the practice of stakeholder management. Those who are considered to be stakeholders may be recognizable by their special interests and all stakeholder interests are considered to be intrinsically valuable (Donaldson & Preston, 1995). Clarkson (1995) defines stakeholders as the people who have or may claim ownership, rights or even interests in a corporation and its various activities.

Stakeholder theory is the most popular and influential theory to arise from business ethics (Stark, 1994) It has been expressed in various ways. What is common is that in whichever way, stakeholders represent a broader community for corporate responsibility than only stockholders. Stakeholder Theory is in a sense a managerial tool in that it recommends that attention be paid to the interests of all stakeholders including the government, investors, political groupings, suppliers, buyers, employees, the community at large as well as trade associations. Attention is paid to the attitudes of employees, the structures and processes as well as practices of an organization.



**FIGURE 2: THE STAKEHOLDERS OF THE MODERN ORGANIZATION**

There are undoubtedly disparate views on stakeholder theory. Many question the notion that it is primarily an organization's responsibility to provide its stockholders or owners with profit. Milton Friedman (1970) maintained that it is an organization's duty to act responsibly and thus also consider the welfare of non-stockholders. It is apparent that the stakeholder perspective, especially when taken to extremes, has its risks. However, any deviations from shareholder and stakeholder value, may empower management to hide behind a wide range of self-seeking objectives.

Agency theory is a contracted variety of stakeholder theory where there is a separation between ownership and control. Separation of ownership and control often leads to a potential conflict of interests. In such a scenario, the CEO of an organization for example, is an agent who is employed by a principal to conduct tasks and manage an organization on their behalf. The term 'agency' implies that a relationship exists between a principal and their agent. The agent is thus accountable to the principal who employs him/her. The Agency theory is thus primarily concerned with the resolution of problems that may arise during the course of the agency relationships, that is, between principals (including the shareholders) and agents of the principals (for example, Chief Executive Officers or company executives). Problems may arise due to inter-alia, inefficiency on the agent's part, different attitudes between the principal and the agent on risk issues, incomplete information, different goals for an organization or the way in which transactions are handled with a third party

(<http://www.investopedia.com/terms/a/agencytheory.asp>). The agent may have totally different objectives in mind including a desire for an elevated salary, large bonus and greater status as a director. This may differ considerably from the principal's objectives which could be the maximisation of profits for the shareholders (Grossman & Hart, 1986). The CEO and directors of an organization are expected to conduct business ethically and with integrity and fairness. They should be accountable, responsible and transparent in all the transactions they undertake and consider all stakeholders (Thomson & Bureau, 2009).

### **Corporate governance and the CEOs role**

Corporate governance should be what ultimately defines the principles of responsible leadership, sustainability, consideration of all stakeholders and corporate citizenship into tangible governance in organizations. It is a tool containing the processes and structures to help endow the foundation with responsible and accountable leadership imbued with corporate citizenship that considers all shareholders and stakeholders (OECD, 1999).

Cannon (1994) states that the effective governance of an enterprise is in control of the activities that make up the internal regulation of the business in compliance with the obligations placed on the firm by legislation, ownership and control. It incorporates the trusteeship of assets, their management and their deployment. The aim of corporate governance is to align as closely as possible the interests of individuals, corporations and society (King Report on Corporate Governance, 2002) (Ehlers & Lazenby, 2010). Corporate governance thus involves "holding the balance between economic and social goals and between individual and communal goals ... the aim is to align as nearly as possible the interests of individuals, corporations and society" (Ehlers & Lazenby, 2004). Corporate governance assists CEOs and directors to be able to distinguish between personal and corporate funds used while in the process of managing an organization (Thomson & Bureau 2009). However there is much research which demonstrates that highly fraudulent behaviour can be directly associated with share option incentives that CEOs receive. This is more especially the case where the CEO and board members also have share options and even more so when the CEO is the chairman of the board of an organization (O'Connor et al., 2006).

Privately owned organizations firms including family businesses tend to rely on informal social controls rather than on any contractual governance. In fact family owned businesses are often

characterized by formal contracts, incentives and carefully designed monitoring systems (Jensen & Meckling, 1976). Running organizations 'properly' requires integrity and morally correct behaviour and it thus rapidly enters the sphere of Corporate Social Responsibility and ethics. Consequently the task of especially the CEO of an organization should make it clear that profit is generated but that this is not at the expense of all the stakeholders in society and the environment. This is thus a daunting task as the CEO is not merely an 'agent' recruited to increase profits, but is rather tasked with benefiting all stakeholders in the organization's network and to being accountable. Corporate Social Responsibility (CSR) is thus made an aspect of policy and put into practice not merely as a façade (Feizizadeh, 2012). There are of course many CEOs and executives who pursue the interests of the organization even though this may be at odds with their own interests (Donaldson & Davis, 1991).

The separation of the goals between the wealth maximization of the shareholders and the personal objectives of CEOs is a key assumption of Agency theory CEOs should thus seek to protect the interests of shareholders and stockholders and not strive for additional personal enrichment. However this is not always the case and the separation of ownership and control in an organization often leads to conflicts of interest between directors and shareholders where the former strive for self-enrichment above everything else. Principals need to find ways to ensure principals act in their interest as well as those of all stakeholders. Effective ethical governance is thus a major issue for the CEOs and directors of many organizations. The dominant focal areas are on ensuring that companies are effectively directed and controlled and that CEOs and directors act on behalf of all their stakeholders and shareholders. CEOs and directors as well as managers operate as agents on behalf of the principals or shareholders of an organization. There is thus a contractual view that assumes that both parties perform in their own welfare. In this arrangement, corporate governance is regarded as a method by which owners may direct and control the operations of the organization (Ehlers & Lazenby, 2010). The organizational rewards including share option plans given to CEOs and directors which impact on the organization in terms of corporate governance and the stakeholder and agency theories must therefore be carefully considered.

### **Share option (stock option) plans**

Maharaj, Ortlep and Stacey (2008) state that employees tend to develop a positive relationship with employers based on a pattern of expectation they have on their employers. Once their expectations are not fulfilled, it becomes clear that employee commitment tends to diminish. Kruse (2002) contends that employees work much harder and are likely to be more attentive to issues of quality at work than otherwise when they are given share options. Albaraccin, Johnson and Zanna (2005) state that employee attitudes and perceptions tend to show their vision and values that drive them to make the decisions that they do make. Positive attitudes are bolstered by share option offerings. To ensure that CEOs and other directors do not abuse their powers and be tempted to indulge in unethical conduct it is often desirable to provide them with share or stock options incentives as explained earlier, which is already an acceptable global practice (Leape, 2006). Share options serve a purpose of making the shareholder wealthier and also align the interests of the option holders with the shareholders as they all have an interest in the shares going up in price since the greater the price increase the greater the profits that will be derived. If the market slumps and share prices drop, the share option holder does not 'cash in' but rather exercises the right when the market is bullish.

However, share options are usually considered to be long-term compensation and executives treat these as part of the compensation which they 'earned' and almost always exercise the option to sell shares when this becomes a possibility. Some share option plans seem to be well designed and the

option strike prices may be much higher than the current price of shares. Share option re-pricing takes place in high risk situations or when the organization's performance is poor. This is done to restore the incentive effects of the share option and even backdating may result (Klausner, 2007). Share options plans are often used as a recruitment tool in many countries (Rousseau & Shperling, 2003).

Share option plans became the mechanism which is used in many organizations to pay CEOs and often other directors and even mid-level managers higher levels of compensation. However, for this concept to work it would not be sufficient to pay them with only a few shares but with enough to make them far wealthier and so huge share option deals are arranged for them. Grigoriadis and Bussin (2007) explain that many companies cover executive staff as well as middle management by offering them share options but with BBEE it is now necessary to begin to consider all employees. There is certainly a need to research if there are differences in expectations amongst employees who do have share options and those who do not. Joensson (2008) maintains that employees view their social identity as being derived from the status afforded to them by inter alia, employers. The share option plans generally thus seek to win hearts and minds of employees, but also seem to impinge on employee attitudes due to their intrinsic nature which provides a sense of ownership and power. There is also the undoubted extrinsic value of financial gain which they desire to achieve. When new shares are issued under option schemes, the earnings per share are diluted and the existing shareholders suffer since the CEOs gain is the shareholders loss as earnings are reduced. This is why in South Africa, International financial standards reporting (IFRS) is followed by listed companies since January 1, 2005. This necessitates that share options be reflected as cost/expenditure against revenue. Often when shares are granted in large blocks to CEOs there is fraudulent activity as profits are manipulated so that the company's financial performance looks rosy. This often results in shares obtaining an upward impetus based on false numbers (Kneale, 2011) and is thus fraudulent activity.

The latter is often at the expense of stakeholders, which is why more effective corporate governance is required. If organizations are to have compensation plans including share options, there needs to be additional monitoring and this will in itself increase the costs of agency. The agency theory results in problems as the interests of CEOs for example and principals do not always align. The compensation should in all cases be linked to measurable outcomes including especially the financial outcomes over a prolonged period of time. CEO share option plans vary considerably by region of the world. The United States is the highest payer of CEOs and in this country some 14.6 million employees had share options in their organizations in 2004 (National Center for Employee Ownership, 2004). These are essentially a common form of long-term market-orientated incentive scheme. The share options allow CEOs and directors to purchase shares at a fixed price so that once the shares rises above the purchased price the CEO and directors can sell the shares and generate an often huge profit. Executives generally receive annual compensation as well as long-term compensation in their remuneration package. In 2008, the CEO of Porsche, Wiedeking, receive an annual earning estimated to be 77 million Euros (Focus, 2009). A 2008 survey in the United Kingdom uncovered that Lonmin's American CEO took home a total pay package of £8.2m. This huge salary was 790 times the average wage of £10,410 among his 24,122-strong workforce many of whom are employed at the Marikana and Limpopo mining operations in South Africa, where ore containing platinum group metals is extracted (Guardian, 2008). There are of course many such huge pay ratios in especially the service and retail sectors where there are millions of low level wage earners. Are salaries such as these remotely justifiable? Generally speaking, the contributions of chief executives are over-valued to say the least.

Human capital is an ever-increasing source of differentiation between companies. There are however limited supplies of talented CEOs and directors and so the principals of organizations are on the lookout for efficient and effective employees and use share option plans as a mechanism to



recruit and manage and motivate talented employees who are of greater value to them (Rueff, 2008; Faragher, 2007). Share options provide the CEOs and directors, the incentive to manage an organization in such a way that share prices are likely to increase leading to greater profits. Consequently, share options plans are assumed to bring into line the CEOs and directors' goals with those of the shareholders. An agency problem should thus not exist as in such a scenario the CEO and directors become the 'owners' of the organization. It is clearly time for corporate governance reforms which is why the US President Barack Obama announced in February 2009, his desire to cap salaries at \$500, 000 on all companies obtaining federal support funding . This would in effect oblige executives to accept very large pay reductions and they would also be prohibited from receiving additional bonuses above their basic pay, but would be able to retain usual share dividends within reason (Houle, 2009).

## **WHAT SOME SENIOR EMPLOYEES THINK ABOUT SHARE OPTIONS AND CORPORATE GOVERNANCE**

### **Methodology**

Purposive sampling is very useful for situations where one needs to reach a targeted sample quickly and where sampling for proportionality is not the primary concern. One of the first things the researcher did was to verify that the respondents do in fact meet the characteristics or criteria for being included in the sample. They were purposively selected because they met the main characteristic of being recipients of share options (Patton, 1990). Purposive sampling techniques thus involve selecting certain units or cases "based on a specific purpose rather than randomly" (Tashakkori & Teddlie, 2003). The researcher used a very simple purposive sample interview survey methodology (key informant) and distributed surveys to 800 CEOs from medium and large sized enterprises, including multinational corporations, each were required to respond on the issues of share options and corporate governance. An introductory email was sent to the organizations concerned as a follow up prior to information being collected. Clarity was provided on what was expected and respondents were in no way obliged to answer any questions and did so voluntarily. Language barriers were not a problem as all of the respondents were fluent in English. Questions were structured in such a way that responses could be easily compared. Included were closed and open-ended questions. The response rate was 25% (n=200). The respondents were either CEOs, senior managers or executives in each of the respective organizations. The industries covered included banking (20), medical (20), hotel (30), media (10), construction (10), mining (20), pharmaceutical (10), leisure (10), wholesale and retail (40) and education (30). In terms of ethicality, all questionnaires were designed to ensure that the respondents remained anonymous so as not to compromise them in any way. Respondents were made aware of their rights and had to sign a consent form that was provided with the questionnaire. Organizational names remained undisclosed throughout the research.

Twenty questions excluding biographical data were constructed with part of the responses based on a five point Likert scale (Strongly disagree, disagree, neutral, agree, strongly agree). The instrument was reliable in that it yielded consistently similar results when the entity measured remained constant (De Vos, 2002).



**TABLE 1: DEMOGRAPHIC COMPOSITION OF THE SAMPLE (N=200)**

<b>Gender</b>	Frequency	Percentage
Male	133	66.5%
Female	67	33.5%
<b>Age</b>	Frequency	Percentage
25-35	18	9%
36-45	42	21%
46-55	29	14.5%
56-65	111	55.5%
<b>Ethnicity</b>	Frequency	Percentage
Black	95	47.5%
White	82	41%
Coloured	11	5.5%
Indian	3	1.5%
Oriental	9	4.5%

The majority of share options recipients were male, over 55 years of age and mainly blacks and whites. Many of these had certificates or diplomas (n=74) while some had degrees and postgraduate qualifications (n=39). Interestingly, only a few (n=84) had completed qualifications where financial management was included as a course. 43% (n=86) of respondents had been with their current company for at least the last 5 years and 27% (n=54) had been with the company for more than 10 years.

The researcher attempted to gauge the attitude and behaviour of the respondents with regard to agency and whether or not there is any consideration on their part of all stakeholders in the managing of their respective organizations. It appears, according to the interviews and the literature reviewed that employees are in favour of share options (Bucko, 1993) and are more likely to be more committed to their work and have a positive attitude as a result thereof (Klein, 1987). For some CEOs, share options are the only meaningful incentives and some of them possess so many shares that they do not believe that they receive more meaningful incentives from variation in their annual pay. This makes it highly improbable that anything other than changes in the share price will indeed motivate the CEOs. (<http://knowledge.wharton.upenn.edu/article.cfm?articleid=526>). After analyzing the survey sample responses of CEOs (n=200), on the value of share options, it was possible to conclude that they have a number of extrinsic as well as intrinsic values. Some CEOs felt that they were in a position to greatly influence the course of events in the organization due to their shares held (n=58). Others felt that they were proud to be regarded as part-owners of their organizations and had vested interests. Furthermore share options instilled them with a sense of pride and achievement (n=142) and created opportunities for creating long-term capital based wealth (n=127). Some regarded the share options as a 'savings plan' (n=71). Some CEOs (n=77) would probably prefer to own shares directly rather than have share options.

Four CEOs did not receive share options and would if give the opportunity seek employment in a company where share options were on offer. Most of them felt pleased about the prospect of greatly increased compensation even though it would be deferred (n=126). Half of those interviewed felt they were more committed and intended to stay with their employer due to the share option plan they had and would need to carefully consider moving to another company (n=102). The majority of CEOs (n=153) felt that share options built a team spirit and served as a motivator to perform well at

work. All of those who received share options regarded them to be the preferred reward mechanism. Interestingly a number (n=52) although happy with share options, would prefer the work environment to be more quality oriented and would also prefer to have opportunities to develop themselves whilst making more money. Some respondents (n=33) that share options did lead to inflated profit figures in other organizations and that this was misleading investors.

Surprisingly only a small number felt they were obliged to deliver the goods in their current positions and were keen to meet existing obligations (n=71). This group concurs with the findings of Rousseau and Shperling (2003). In regard to the latter, one would imagine that all of them would share the same sentiment. The results however generally strongly suggest that the ethic of self-preservation and a spirit of entitlement pervade the thinking of most CEOs and that only a few feel bound to perform effectively in terms of a psychological contract with their principals. This concurs with the findings of Bucko (1993). This same group also stressed that they had close working relationships with their boards of directors but perhaps more was needed. There is however a need to take the concept of corporate governance in organizations further than boards alone and this notion is supported by research conducted by Hessels and Hooge (2006).

Half of the respondents (n=90) felt that they did more than enough to consider all stakeholders and were involved in corporate social responsibility initiatives, but they did not appear to grasp the full extent of what stakeholder theory actually implies and to most, this was a necessary façade to appease certain stakeholders namely government. It thus seems that ethics and business do not exist in harmony as they should. A number (n=11) had concerns with regard to issues of trust and confidence which was apparently lacking in their relationship with the board of directors. Some (n=54), questioned the perceived and authentic independence of the auditors used to monitor their progress. Three suggested that a recent number of high profile corporate failures have clearly shown that a major component of running a business lies in controlling risk but they were averse to being 'spied on'. The system of internal controls including internal audits thus appears to be insufficient in some organizations. Two CEOs believe that in some organizations in which they previously worked, share options were simply used to discriminate amongst employees.

A large number (n=146) felt that companies are now demonstrating a greater sensitivity to coalescing ethical issues with commercial achievement but that this is very difficult to do in an environment where corruption is an ever-increasing problem in respect of, for example, granting of huge tenders. The likelihood of bribes being considered is greater now than ever before and so CEOs are called on to have strong moral compasses and avoid ethical dilemmas and moral mazes. A number of respondents (n=47) felt that their company was using share options simply to protect its image and that this was in line with what they thought was Broad Based Black Economic Empowerment (BBBEE). Over half of the respondents (n=11) felt that participating in share options was a good opportunity to build financial empowerment. Certain CEOs (n=32) believed that educational qualifications should also be used as a criteria to evaluate how many shares an employee should receive.

CEOs believe that they are accountable and that this is part of what is viewed as a corporate governance (n=156). The need to be monitored, evaluated and controlled as agents is 'a given' so as to ensure that they act in the interests of all stakeholders but especially the shareholders. This confirms the findings of Keasey and Wright, (1993). Certain CEOs (n=101), felt that they were hampered in their efforts to act entrepreneurially and be as innovative as they deemed necessary at times, so as to assure that shareholders and stakeholders actually benefit from the upside potential of the organization. Corporate governance should be appropriate and mechanisms should be in place to support CEOs more rather than serve as a 'control tool'. The elements of organizational effectiveness that should be monitored vigorously were believed to be financial performance and strategic management taking into account the generation of millennials. The internal governance instruments such as share options and financial reporting as well as the accessibility of required

information should also impact the way in which corporate governance is handled and should thus be carefully considered. Uhlaner et al. (2007) have predicted facets of organizational effectiveness, including strategic change and financial performance that could be worth noting. The study was limited in light of the fact that different types of share options operated differently and had different objectives.

### **Why share options are not advisable**

A study by Wasserman (2006) represents a fascinating development in distinguishing between a suitable reward-system for agents such as CEOs in terms of the share option versus cash balance in compensation. CEOs and directors receiving share options need to be responsive to shareholders and stockholders and not simply be concerned about stock prices that impact them personally. There are those who argue that when share options are part of the remuneration package of executives, they are more likely to be concerned when the value of shares is plummeting on the stock exchange. Share prices are ascertained by the earnings and returns that employees generate in the long term, however in the short and term shares are volatile and may move for a variety of reasons that are not linked to a company's performance. There is often immense pressure on CEOs to manipulate share prices in order to increase the value of their options. Every now and then company internal control systems and corporate governance fail which allows management to perpetuate fraud which means that managers can manipulate the share price for self-enrichment. While corporate governance initiatives may be in place, these are not always adequate to control or regulate what happens to shares with regards to manipulation by executives who have huge volumes to sell. It is also problematic that in many companies, the CEOs have greater power than the boards of directors. Critically, the desired culture of ownership and CEO accountability is not always the result of share options.

So, it is often the case that a CEO unethically predicts that a share price will rise steeply so that greater interest may be generated in the purchasing of more shares so that their shares obtained by share options, may be sold when a desired peak price is attained. After their sale of shares, the price of shares may plummet within days and this is then blamed on exogenous factors that have adversely influenced the prices. It was commonplace in the 1990s, that many CEOs and other share option holders obtained inordinately large increases in their remuneration despite the highly mediocre or poor performance of their companies. As interest rates were lowered and risk aversion fell, investors found that they were paying higher prices for shares (Fink, 2009). Consequently share prices increased even in poor performing companies. The global economic slump since 2008 has witnessed most stock prices plummeting. Employee share option plans are risky as they do not in most cases align the interests of employees that receive them at whatever level. CEOs should be limited to selling only certain amounts of shares when share prices suddenly climb and the way to implement controls of such a nature would be to hold all executive share options in a trust account (Kneale, 2011). The listing requirements of the Johannesburg Stock Exchange (JSE Ltd), Schedule 14, provides that executive directors may not be trustees of share options schemes, and only non-executive directors who do not benefit from a share option scheme would qualify to be trustees of a scheme. Furthermore, shares held by a company's share trust shall not exceed 20% of the issued share capital (Kneale, 2011).

One would imagine that share options for CEOs and directors would give them an incentive to become more productive and efficient and consider all stakeholders in the process however the opposite is often true. In the case of start-ups, paying in shares is the primary exception to the rule. Paying in shares makes more sense in this case as start-ups generally battle with cash flow to pay employees, so shares may often be the only option (Fink, 2009). Executives should only gain financially if the shares of their company outperform the market or a peer group. By indexing a situation can be avoided where an executive profits if the share price goes up 5% even though the market as a whole rises by 12%. There are supporters of the notion that if shareholders benefit, so

should their executives, even if the reason is overall aggregate market movements or economic trends over which shareholders and executives have no control (<http://knowledge.wharton.upenn.edu/article.cfm?articleid=526>). When considering share options as compensation, principals should stretch out the exercise period of the share options or even award restricted shares that have long-term vesting. This will to an extent ensure that these professional CEOs consider all stakeholders when “cashing-in”. The board of directors should also be in a position to scrutinize the CEO’s portfolio to see how much he or she has invested in the share price. Research has shown that once CEO wealth is too highly concentrated in shares, CEOs may undertake diversifying acquisitions, which will in turn have the effect of lowering their risk but this also then reduces firm value.

The shareholders should be able to approve the grants to CEOs on an individual basis rather than the principal granting sole approval for share options in general. When CEOs are paid in share options this tends to divorce pay from performance and so efficiency and productivity decline. The business cycle must be considered first and foremost and the effectiveness of employees’ efforts must be carefully weighed up (<http://www.businessinsider.com/2009/2/why-stock-options-suck>).  
The cost of agency relationships

The principals of companies are constantly monitoring the activities of their CEOs and this is a very costly exercise. In this exercise, the CEOs as agents are obliged to spend much money and time on inter-alia, carrying out certain related tasks including developing incentive schemes and remuneration packages for the directors on the board. Meetings have to be held with financial analysts on a regular basis and very often also with shareholders. In the process, many CEOs purchase for themselves expensive aircraft and motor vehicles which are essentially additional costs incurred by the company and thus represent a loss to shareholders. It is thus critical to conduct regular meetings between all the directors and major institutional investors and broader key stakeholders all of whom should have voting rights at the AGM in support of, or against, any resolutions that are to be passed. Additional regulatory processes may need to be implemented if shareholder actions are not adequate. CEOs should thus be bound to codes of conduct and recommendations that may have been made by governmental bodies and the stock exchange. Compliance should however be voluntary and not legally enforceable. It is likely that the CEO will abide by such rules as failure to do so would clearly result in the share price dropping (<http://kfknowledgebank.kaplan.co.uk/KFKB>). The main task of corporate governance efforts should be to control CEO opportunism and empowerment to make decisions about real value distribution.

### **The King Reports on Corporate Governance in South Africa**

South Africa is making strides to align corporate governance with international standards. Consequently a series of reports was developed after intense research by Mervyn King a former Judge of the High Court of South Africa and a committee he chaired on the issue of Corporate Governance in South Africa. The first of these was termed The King I Report, and was published in 1994. This report interrogated the basic principles of good financial, social, ethical and environmental practices and discussed aspects beyond the usual financial and dogmatic facets of corporate governance. The report called for an integrated approach to good governance taking into consideration the interests of all stakeholders, not only the CEO, board of directors and shareholders. The responsibility toward shareholders in terms of financial issues and ethical standards in organizations was elaborated (Ehlers & Lazenby, 2004).

A follow-up King II Report was published in 2002, which substituted the 1994 report. This report exceeded issues on the requirements of the Companies Act of 1973 and integrated recommendations that the committee made on the workings of a Code of Corporate Practice and Conduct for organizations. Seven key areas of ‘good corporate governance’ were identified, namely, accountability, discipline, transparency, independence, responsibility, fairness and with an

emphasis on social responsibility. This report thus resulted in minimum standards of corporate governance (Ehlers & Lazenby, 2004) where the needs of all stakeholders need to be considered. In terms of this report, corporate discipline is a critical need on the part of a company's senior management and they should be obliged to adhere to behaviour that is universally recognised and accepted as proper and correct. Transparency and independence to avoid potential conflicts of interests that may exist must be avoided. CEOs and boards need to be accountable for their decisions and actions and mismanagement must be penalized. All shareowner interests must obtain equal consideration, whether small or large. Critically, companies must be aware of and respond to social issues, and they should place a very high priority on the maintenance of acceptable ethical standards (Ehlers & Lazenby, 2004). In the Share Options Code to the King Report of 2002, there is a recommendation that re-pricing of any share options requires shareholder approval as does any discount to the ruling price.

A third report on governance (King III Report) was drafted in 2009 due to the anticipated new Companies Act and modifications in international governance tendencies. The Draft Report and the Draft Code were released in February 2009. It suggested that executive remuneration be fixed by stakeholders and there should be a risk-based approach as opposed to pure legal compliance. Thus integrated reporting is required where explanations for any looming or existing financial crisis need to be provided. Not surprisingly, in terms of stakeholder theory, sustainability, ethical conduct and new era risk including reputation, are considered to be basic concerns. With regards to effective governance, internal audits need to play a part in weighing up controls to be adopted (Ehlers & Lazenby, 2004). Transparency and high principles of corporate governance are non-negotiable as is the need to develop the competitiveness and growth of the South African economy through especially the promotion of the growth of new enterprises and by promoting entrepreneurship and creating new jobs. Steps would also be taken to simplify the modus operandi for creating new companies.

Corporate governance may contribute to value creation in diverse ways. It is certain that it impacts both economic stability and growth prospects (Ehlers & Lazenby, 2010). Boards of directors have made great contributions in especially start-ups (Clarysse et al., 2007). They also play a significant role in forging the strategic orientation of a company (Brunninge et al., 2007). There is a huge necessity need for the extent of governance in organizations to be widened so as to include more controls on inter alia, ownership and control, financial reporting, share options, and stakeholder and agency theory. It is also important to have a group of independent directors on the board as this generally contributes towards ensuring confidence in the market to the benefit of the organization.

## **CONCLUSIONS AND RECOMMENDATIONS**

This research established that there are generally positive perceptions about employee share options and that in certain cases these motivated employees to remain committed to their company, principal and shareholders. Problems could however arise when other stakeholders are not considered. Care must thus be taken, to make share options viable and sustainable when it comes to obtaining the buy-in of all stakeholders. Share options should also not simply be a façade of supporting BBBEE so as to comply with legislation and be discriminatory in any sense.

Much of the theory in corporate finance assumes that organizations function under the constraint of an efficient and effective civil and criminal justice system. This is however clearly not the case in some environments where there is outright and large-scale fraud and theft is accepted as a standard operating procedure. Fortunately South Africa is not at this juncture yet. The findings of this article suggest that share option plans are very popular as a way of compensating certain CEOs and directors and they link pay with performance and invariably have important implications for organizations. Share option incentives are used to align the principal's, CEO's and shareholders'



interests but salary levels have consequently rocketed and not all stakeholders benefit. In fact there is usually strife in organizations as a result and this in turn leads to share prices dropping. When shares drop, CEOs tend to lose interest and are not generally fired-up as when shares are climbing steeply and thus more vulnerable to the possibility of acting unethically. The predominantly American-British shareholder value orientation and the offering of share options to CEOs and directors often have a negative impact on developing nations. The boards of directors do often not have the requisite influence to curtail self-seeking CEOs who espouse the ethic of self-preservation at all costs. Where the principal of a company demonstrates commitment there is greater firm performance (Uhlener et al., 2007) and less likelihood of the CEO being able or willing to abuse authority. Researchers have discovered that CEOs rewarded predominantly with share options relative to restricted stock were more likely to make poor acquisitions, had more hits and misses that led to more volatile financial results, and were even acknowledged as having more accounting irregularities (Finkelstein, 2009).

The pay of CEOs and directors should be performance related in a world where shareholder value is growing but share options should be carefully considered in any overall remuneration plan, and incorporated into existing reward schemes, but not to the detriment of any of the stakeholders. Executives should be rewarded well but this should not be excessive and they should be totally accountable and ethical in all their processes and transactions. It is advisable to conduct sufficient groundwork so as to try to establish which incentives CEOs would in fact prefer and when share options are sought why is this indeed the case?

The role and functions of a board in corporate governance need to be clearly spelt out but essentially it should serve as the focal point for Corporate Governance and ensure that the company acts and is seen to be a responsible corporate citizen which considers all stakeholders and possesses a noteworthy ethical corporate culture. The board should undoubtedly serve the best interests of the company and its stakeholders and manage potential conflicts of interest. All financial reporting should be based on effective risk-based internal audits and the integrity of the organization should be a given. An effective compliance framework and process must be adhered to. The board of directors could also promote ethical action more by prescribing a formula be used for a CEO that would make his or her share options and even bonus dependent on the attainment of specific courses of action supporting all stakeholders as well as the obtaining of both short and long term objectives and leading to value creation (Huse, 2007). A problem in this approach is that a board may consider some happenings to be beyond the scope of the CEO's jurisdiction and so this could cause problems as the CEO would still be awarded share options. Furthermore, it is not really clear if share options are indeed motivators for CEOs and directors to seek the good for all stakeholders in an organization. Where there are extremes of economic inequality, there is bound to be social upheaval. Generally, excessive executive remuneration is not justifiable and CEOs and directors need to be held far more accountable than is currently the case. Unrestricted pay and share options policies should be rejected outright on the basis of distributive justice. Remuneration packages should be proportionate and no CEO or director should receive more than 75 times more salary than an employee at the lowest level in an organization and even then, there should be very strong grounds for such a ratio to exist at all. When there is culpable failure in an organization the executives should be held totally accountable (Higginson & Clough, 2010). Where there are inordinate payouts to CEOs and directors and often mid-level managers, these should be subject to exigent performance criteria reflecting the objectives and performance relative to all the stakeholders of the organization, and social justice must prevail. This is not to say that shareholders should not also benefit. The different functions, structures and processes of corporate governance that exist in organizations, imply that there is indeed a necessity to draw on an assortment of theoretical viewpoints beyond the customary agency theory approach.



Before principals and boards of directors consider share options as compensation plans, they should select appropriate metrics and direct the plans so they align themselves with long-term shareholder and stakeholder value creation. They will also need to scrutinize cash flow, the real return on investment and cash value added to the company before approving share option payouts. If CEOs are to be offered share options these need to be gradually phased in based on excellent organizational performance and they should essentially be part of a long-term incentive scheme and not discounted. CEOs should also not be able to cash shares in under a period of at least 4-5 years.

There should be transparent and simple models of executive remuneration that will make the facilitation of accountability a lot easier. While share options are widely used attraction and retention incentives, they should be carefully considered before implementation and all financial statements should be carefully analyzed before a CEO is paid out. Share options are also highly controversial as there should undoubtedly also be more concern for the pay meted out to workers in general and to the uplifting of all stakeholders where possible. CEOs should not be appointed who are likely to put their own interests above those of the stakeholders in general, and who are at variance with the principals who appoint them. Clearly, share option plans do not always have the desired effect of motivating employees with a personal stake in the accomplishments of an organization. There are cases where the offering of share options is seen as simply an attempt by an organization to fulfill BBBEE requirements and obligations and it is otherwise a façade. Share options are ineffective tools and financial instruments if they are not carefully controlled and simply handed out indiscriminately without links to any kind of benchmark. Share option grants should in any event, be linked to the relative and not absolute, performance of an organization.

Business Ethics is undoubtedly an important aspect which ensures that an organization becomes successful (Arjoon, 2005). Consequently, ethical codes of conduct should assume a major role in an organizations policy formulation (Fleege & Adrian, 2004). Code of ethics are essential in supporting the control of inter-alia employee behaviour clarify the objectives that an organization pursues, and expounds on its norms and values and upholds the things for which it should be accountable and they also to an extent legitimate a trustworthy public image and prevent public criticism (Stevens, 1994). South Africa requires sufficiently educated and competent directors and where there are currently ill-equipped CEOs in positions beyond their levels of competence, training should be available. In addition the culture of self-preservation that pervades the upper echelons of many organizations needs to be stamped out as this greed and self-seeking interest is the breeding ground of corruption which immediately inhibits growth and international investment thus inhibiting growth. Where CEOs are corrupt stakeholders and shareholders suffer immensely so risk management must be used as a process that utilizes internal controls as a measure to diminish and manage risk.

The Code of Ethics is one tool which will spell out how and why an organization lays emphasis on its responsibilities towards society in general. It should spell out that an organization is obliged to be committed to managers who take interest in the welfare of society as well as their own interest. Apart from being a moral obligation, it makes economic sense as part of a company's life cycle (Jawahar & McLaughlin, 2001) to support all stakeholders since it is more cost efficient to deal with social issues before they consume a large portion of management's time and money (Jones, 1995). The implications of what this article states about effective corporate governance and the effective managing of share options plans, for example, makes it clear that it is time to leverage the opportunities presented in South Africa since the King Reports. It is time to allow fundamental transformation to rule or let go of a chance to make South Africa economically stable and safe and corruption free to a greater extent. Share options are but one tool to motivate employees and other means of motivating and incentivizing employees should be considered. A trustworthy, moral and ethical environment will be the magnet which attracts foreign investors to help us develop the rich natural endowment of South Africa, to the betterment of all stakeholders.



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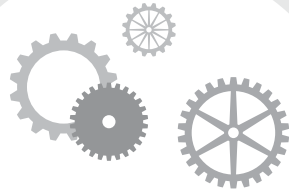
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**MUNICIPAL MANAGEMENT OF PROPERTY VALUATIONS FOR RATES PURPOSES:  
A MARKET-BASED MUNICIPAL ASSESSMENT MODEL VERSUS  
AN ATTRIBUTES-BASED HEDONIC PRICE MODEL**

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**ABSTRACT**

The municipal valuation roll contains the municipal appointed valuator's estimates of the market prices of residential houses within a metropolitan area. These estimates are used, in part, to determine municipal property rates. In this study, the municipal valuation roll for one neighbourhood in Port Elizabeth, Walmer, is used to compare its assessed values with those generated by an attributes-based hedonic model, which employed the actual market price as the dependent variable. Comparisons are based on both in-sample and out-of-sample prediction performance. The study finds that in terms of in-sample prediction, the municipal assessed values, on average, are 13.89 percent higher than actual market prices, whereas the hedonic values are 1.2 percent higher. In terms of out-of-sample prediction, the municipal assessed values, on average, are 13.6 percent higher than actual market prices, whereas the hedonic values are 6.1 percent less. Based on these results, it appears that an attributes-based hedonic model provides better market value predictions than the assessment model currently employed by municipal valuers.

**KEYWORDS**

Municipal property valuation, Hedonic pricing

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## INTRODUCTION

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An important issue regarding residential property relates to the question of whether a municipality's residential property valuations for property tax purposes reflect the properties' true market values. These property valuations have a direct effect on residential property owners' wealth, since monthly property rates are, in part, determined by them.

The Municipal Property Rates Act (2004), hereafter referred to as the "Rates Act" stipulates that all municipalities ensure that all properties falling within their municipal jurisdiction be subjected to a valuation process. Furthermore, the Rates Act specifies that these valuations are to reflect the properties' market values. According to the Rates Act, the Nelson Mandela Bay Municipality (the metropolitan area considered in this paper) needs to prepare a new valuation roll every four years<sup>1</sup> for the purpose of determining municipal rates (Nelson Mandela Bay Municipality: 2010/2011 Property Rates Policy, 2011). These municipal rates provide the necessary funds in order to provide services that benefit the community within a municipality. These services include: construction and maintenance of streets, roads, sidewalks, lighting and storm water drainage facilities, building and operating clinics, parks, recreational facilities, cemeteries and municipal administration (Nelson Mandela Bay Municipality: 2010/2011 Property Rates Policy, 2011).

Many homeowners have recently argued that there is very little equivalence between municipal valuations and true market values. This controversy is evidenced by the complaints and objections received by various municipalities regarding their valuation rolls. For example, the uMngeni (Howick) Municipality received a total of 2 194 objections relating to the 2008 valuation roll, representing 10 percent of the total properties valued (Jansen, 2011). The eThekweni Metropolitan Municipality received approximately 55 000 objections and the valuation roll "was widely condemned for allocating incorrect values and having glaring omissions" (Mbonambi, 2012). In Nelson Mandela Bay, for example, residents of the suburb of Walmer lodged a total of 396 objections, representing an objection rate of approximately 15 percent (Weyers, 2011). These objections highlight the fact that many properties may have been valued incorrectly, leading to incorrect property tax calculations (Municipal Valuation Roll Chaos, 2009).

In what follows, Section 2 describes the problem investigated in this paper. 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 presents the managerial recommendation.

### PROBLEM INVESTIGATED

The objections lodged by Walmer residents regarding the 2007/2008 valuation roll indicate that the valuator's estimates may not be in line with true market values. The aim of this paper is to assess the accuracy of the 2007/2008 municipal property valuations carried out by the Nelson Mandela Bay municipality for property rates purposes. In addition to this, an attributes-based hedonic price model is developed in order to determine whether it provides a more accurate assessment of residential property market values.

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<sup>1</sup> Supplementary valuations are undertaken twice during each financial year. Additional supplementary valuations can take place at the discretion of the CFO (Weyers, 2011)



## RESEARCH OBJECTIVES

The specific objectives of this paper are to:

- 1) Assess the accuracy of the 2007/2008 municipal property valuations carried out by the Nelson Mandela Bay Municipality for property rates purposes.
- 2) Determine whether an attributes-based hedonic price model provides better predictive capabilities than the current valuator's model.
- 3) Provide recommendations on the management of valuation rolls for property rates purposes.

## LITERATURE REVIEW

### Previous studies

A number of international studies have been conducted in order to assess the accuracy of assessed values and owner provided estimates (Kiel & Zabel, 1999). Kish and Lansing (1954) found that, using a national sample, owners overstated the value of their homes by 4 percent compared to assessed values. A similar comparison was made by Kain and Quigley (1972) for homes located in a single city. The study found that owners tended to underestimate the value of their homes by 2 percent. Another study by Robins and West (1977) concluded that a 5 percent difference was present between assessed values and owner provided estimates (owners overstated by 5 percent). Ihlanfeldt and Martinez-Vazquez (1978) developed an attributes-based hedonic price model in order to compare predicted property values obtained from the model with owner provided estimates. The study found a 16 percent difference between the predicted values generated from the model and the values provided by owners. A study by Goodman and Ittner (1992) analysed actual market transaction data and compared these values with those provided by homeowners. Homeowners were found to overestimate the value of their homes by approximately 6 percent.

### Background information on the Nelson Mandela Bay Municipality's valuation and property rates policy

Approximately 1.3 million people inhabit the Nelson Mandela Bay Municipal area and are housed in a wide variety of property types, including approximately 200 000 single residential properties (Weyers, 2011). Many of these properties have never been formally valued and the main purpose of the valuation procedure was to achieve equity in the property tax system.

The Rates Act states that a municipality must designate a person as municipal valuator. This may be one of the municipal officers or a person in private practice (Municipal Property Rates Act, 2004). If the municipality decides to secure the services of a contractor, an open, transparent and competitive process must be adhered to. For the purposes of the 2007/2008 valuation<sup>2</sup> (the specific valuation roll considered in this study) the Nelson Mandela Bay Municipality outsourced the valuation task, which was awarded to eValuations (Weyers, 2011).

<sup>2</sup> The valuations applicable in this study became effective (for property rates purposes) on 1 July 2008.

A thorough compilation of guiding principles has been established in order to assist municipalities with the rating of municipal property. Impartiality, fairness, equity and bias-free estimates are the core values that need to be adhered to when rating property as well as when setting criteria for exemptions, reductions, and rebates (Nelson Mandela Bay Municipality: 2011/2012 Property Rates Policy, 2011).

**With regard to the calculation of municipal rates, the following equation is used:**

$$\text{Monthly general rates} = (\text{market value} - \text{reduction}) * \text{rating factor} / 12 \quad (1)$$

The market value in Equation 1 refers to the market value of the property as determined by the municipality. The reduction is determined by the category of owner. The following criteria are used in this regard: income of the owner, source of income of the owner, employment status of the owner and use of the property. The category of property also influences the rates levied (the rating factor). This is based on the use, ownership and geographical area. The following broad categories of properties<sup>3</sup> are recognised: residential property, industrial property, business/commercial property, farm property (residential, business/commercial and industrial), smallholding property (residential, business/commercial and industrial), public service infrastructure property, public benefit organisations property, vacant land, game parks and agricultural property (Nelson Mandela Bay Municipality: 2011/2012 Property Rates Policy, 2011).

For the purposes of the 2007/2008 valuation, the Nelson Mandela Bay Municipality supplied the contractor with the following property information: existing GIS data, existing valuation records and rolls (in Alchemy format), existing aerial photographs and existing building plans. The following data were also made available in the case of single residential properties: property ID, property description/category, property use, owners details, physical address, erf size, dwelling size, sale information, garage area, granny flat area, servants quarters area and swimming pool if applicable. Additional data collected for the 2007/2008 valuation roll included information on the security system, view, topography, roof covering, condition and number of stories (Smoothey, 2011; Weyers, 2011).

Individual home owners may argue that there is little equivalence between a property's true market value and the valuation determined by a municipality. For this reason, and in terms of the Rates Act, all municipalities must establish a board of appeal. The main functions of this board are to review the decisions made by the municipal valuator and to hear and decide appeals against these decisions. The appeals board must consist of a chairperson with the relevant legal qualifications and experience in justice administration (Municipal Property Rates Act, 2004).

If an individual has an objection with the rates levied (due to an incorrect valuation or rating category), the individual may appeal the decision made by the municipal valuator. If this appeal is successful, the appropriate adjustment will take place. In terms of the processing of these objections, the municipal valuator must consider all objections within a prescribed procedure, decide on objections based on fact and adjust or add to the valuation roll accordingly. If an upward/downward adjustment of more than 10 percent takes place, the municipal valuator must provide the municipal manager with written reasons for the discrepancy (Municipal Property Rates Act, 2004). In addition to this, the municipal manager must submit all relevant documentation (including the valuator's decision) to the appeal board. The matter then lies with the appeal board, which must confirm, amend or revoke the valuator's decision. The chairperson of the appeal board must ensure that the valuation roll is adjusted accordingly.

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<sup>3</sup> This study focuses on residential property, which is formally defined as "land owned by a person or entity which is zoned for single family houses, multi-family apartments, townhouses, condominiums and/or co-ops" (Brooks and Tsolacos, 2010).

## RESEARCH METHODOLOGY

### The hedonic price model

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>4</sup>, number of rooms, etc.) (Haab & McConnell, 2002). A few attributes such as air pollution or proximity to an airport are non-market induced (Haab & McConnell, 2002).

The hedonic price model relies on the systematic variation in house prices due to differing attribute combinations (Epple, 1987; Haab and McConnell, 2002; Sirmans, Macpherson & Zietz, 2005). A hedonic price function (predictive equation) is estimated by means of regression analysis (Rosen, 1974).<sup>5</sup> The hedonic price function can be specified as:

$$P = f(S, L, M) \quad (2)$$

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.

As can be seen from Equation 2, the price of a house is typically determined by its characteristics. In addition to these characteristics, the transaction price of a house is partly determined by transaction prices of prior sales within its vicinity (Can & Megbolugbe, 1997; Brasington & Hite, 2005). This spatial relationship is appropriate because an individual will often base his/her offer bid after having researched the prior transaction prices in the surrounding area (Brasington & Hite, 2005). This practice, known as “comparable sales”, is often employed by real estate experts when trying to estimate the market value of a specific property (Can & Megbolugbe, 1997).

In order to capture this spatial interplay, a spatial autoregressive term can be included in the hedonic regression (Can and Megbolugbe, 1997). This term can be formally defined as:

$$\sum_j W_{ij} P_{j,t-m} \quad (3)$$

where:  $W_{ij} = (1/d_{ij}) / \sum_j (1/d_{ij})$  (inverse function of the distance,  $d$ , between the subject property,  $i$ , and a prior transaction,  $j$ .)

$P_{j,t-m}$  = price of a transaction,  $j$ , occurring within the prior 6 months of the subject property,  $i$ .

Of critical importance is how  $W_{ij}$  is defined (Can & Megbolugbe, 1997). This is due to the fact that the value of  $W_{ij}$  will determine which houses should be considered neighbouring and the extent to which these houses influence the price of the specific house in question (Tu, 2005). It is assumed that the further away a neighboring house is located from the specific house in question, the less of an influence it would have on the house in question. It is thus hypothesised that  $W$  is an inverse function of the distance,  $d$ , between the subject property,  $i$ , and a prior transaction,  $j$ .  $W_{ij}$  can be specified as:

$$W_{ij} = (1/d_{ij}) / \sum_j (1/d_{ij}) \quad (4)$$

In practice, it is recommended that all transactions concluded within the prior 6 months of the subject property transaction be included in the compilation of the spatial autoregressive term (Can & Megbolugbe, 1997). Exploratory work on spatial structure conducted by Can and Megbolugbe (1997) also indicated that spatial dependencies were located within a radius of 3.2km of the subject property.

<sup>4</sup> Erf size can be defined as the size a plot of land, marked off for building purposes.

<sup>5</sup> It is standard practice to include the classic references in hedonic price studies.

An added benefit of including the spatial autoregressive term in the hedonic model is that it captures the influence of omitted variables<sup>6</sup> (Brasington & Hite, 2005). Examples of such variables include air pollution, presence of shopping centres, highways, etc. Unmeasured influences help to determine the value of neighboring houses, which, in turn, are related to the subject house. These unmeasured influences on neighboring houses are similar to the unmeasured influences on the subject house. Thus, by including the spatial autoregressive term, the influence of omitted variables is incorporated into the hedonic price equation.

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### Functional form selection and the Box-Cox transformation

Hedonic price theory provides very little guidance on the selection of an appropriate functional form for the hedonic model (Bender, Gronberg & Hwang, 1980; Cropper, Deck & McConnell, 1988; Haab & McConnell, 2002). Generally, a goodness-of-fit criterion has been used when selecting an appropriate form for a specific hedonic function (Cropper et al., 1988). If the primary objective of the research is to value a good's attributes, a functional form should be selected that most accurately estimates the marginal implicit prices of the attributes (Cropper et al., 1988). In terms of goodness-of-fit and accuracy of marginal price estimates, the application of a linear Box-Cox function has proven to be the functional form of choice (Cropper et al., 1988; Haab & McConnell, 2002).

For  $Y^{(\lambda)}$ , a basic Box–Cox transformation on a single variable ( $Y$ ), the transformation<sup>7</sup> can be defined as

$$Y^{(\lambda)} = \frac{y^{\lambda-1}}{\lambda} \text{ for } \lambda \neq 0 \text{ or} \quad (5)$$

$$Y^{(\lambda)} = \ln Y \text{ for } \lambda = 0 \text{ (Haab \& McConnell, 2002).}$$

For transformation of both sides of the equation with different parameters<sup>8</sup>, a more complex version is used. This transformation can be represented as

$$\frac{y^{\lambda-1}}{\lambda} = \alpha + \sum_{i=1}^k \beta_i \frac{x_i^{\theta-1}}{\theta} + \sum_{s=1}^j \gamma_s D_s + \epsilon \text{ for } \lambda \text{ and } \theta \neq 0 \quad (6)$$

For the purposes of this study, Equation 6 is referred to as an unrestricted Box–Cox model (uBC). For a restricted Box–Cox model (rBC), both sides of the equation are transformed by the same parameter. Thus, the rBC is equal to the UBC, with the restriction that  $\lambda = \theta$ :

$$\frac{y^{\lambda-1}}{\lambda} = \alpha + \sum_{i=1}^k \beta_i \frac{x_i^{\lambda-1}}{\lambda} + \sum_{s=1}^j \gamma_s D_s + \epsilon \text{ for } \lambda \neq 0 \text{ or} \quad (7)$$

$$\ln Y = \alpha + \sum_{i=1}^k \beta_i \ln X_i + \sum_{s=1}^j \gamma_s D_s + \epsilon \text{ for } \lambda = 0$$

<sup>6</sup> Other attempts to overcome omitted variable bias include “focusing on narrow geographic areas where many influences are already controlled for” and vast data collection procedures which attempt to capture all explanatory variables (Brasington, 2000; Brasington and Hite, 2005).

<sup>7</sup> Only positive variables can be transformed. Thus, dummy variables that can take on a value of zero cannot be transformed.

<sup>8</sup> In this study,  $\lambda$  represents the Box-Cox transformation parameter on the dependent variable and  $\theta$  represents the transformation parameter on independent variables.

The Box–Cox model that transforms only the dependent variable (leaving the independent variables unchanged) is known as the left-hand Box-Cox model (lhBC):

$$\frac{y^{\lambda-1}}{\lambda} = \alpha + \sum_{i=1}^k \beta_i X_i + \sum_{s=1}^j \gamma_s D_s + \epsilon \text{ for } \lambda \neq 0 \text{ or} \quad (8)$$

$$\ln Y = \alpha + \sum_{i=1}^k \beta_i X_i + \sum_{s=1}^j \gamma_s D_s + \epsilon \text{ for } \lambda = 0$$

The right-hand Box–Cox model (rhBC) transforms only the continuous independent variables, leaving the dependent variable unaltered:

$$Y = \alpha + \sum_{i=1}^k \beta_i \frac{X_i^{\theta-1}}{\theta} + \sum_{s=1}^j \gamma_s D_s + \epsilon \text{ for } \theta \neq 0 \text{ or} \quad (9)$$

$$Y = \alpha + \sum_{i=1}^k \beta_i \ln X_i + \sum_{s=1}^j \gamma_s D_s + \epsilon \text{ for } \theta = 0$$

In each of the above models, maximum likelihood estimation is used to select the parameter values with the best fit (Williams, 2008). The use of the Box-Cox functional form allows the data to be accommodated in multiple functional forms (Cropper et al., 1988). Certain Box-Cox parameter values are associated with basic functional forms such as the linear, semi-log and double log forms (Haab & McConnell, 2002). Since the Box–Cox regression is able to represent a variety of different functional forms, it can be used to test for the most appropriate functional form (Haab & McConnell, 2002). The Box-Cox regression can also be used as a functional form itself (Cropper et al., 1988).

## THE DATA AND EMPIRICAL RESULTS

### The study area

The suburb of Walmer, Nelson Mandela Bay was the residential area considered for this study. The upmarket Walmer neighbourhood is situated approximately 10 minutes by vehicle from Port Elizabeth's main beaches. The suburb is home to longstanding Port Elizabeth families and its history dates back to the early 1800s. Various amenities are located in close proximity to it. These include the Port Elizabeth airport, the Walmer Park shopping centre, the little Walmer Golf Club, and various primary and high schools. The area is well catered for in terms of residential property. Free standing homes, townhouse complexes, security complexes and guesthouses can be found in the area.

### The data

Data on the 2007/2008 assessed values of properties were purchased from the Nelson Mandela Bay Municipality. Historical sales price data for residential property stands in the neighbourhood of Walmer, Nelson Mandela Bay that were traded at least once during the period 1995 to 2009 were also obtained.<sup>9</sup> These data were purchased from the South African Property Transfers Guide (SAPTG). Data from the ABSA house price index (Port Elizabeth and Uitenhage) were then used to

<sup>9</sup> All transactions that were not arms-length ones were excluded from the analysis. Some property transactions are conducted for reasons other than profit maximisation. In the SAPTG database three pieces of information are provided which could reveal property deals that were not at arms-length, namely the price, the seller, and the buyer. For example, a property was sold by a person to his trust for an amount of R40.

adjust assessed values and house prices to 2009 constant rands to control for real estate market fluctuations. Adjusting sales prices to control for house price inflation is a relatively common approach when the data originate from different years (Cummings & Landis, 1993; Carroll and Claretie, 1999; Leggett & Bockstael, 2000; Cho, Bowker & Park, 2006; Cotteleer & van Kooten, 2012).

The Walmer neighbourhood has a total of 2 625 residential properties and a total of 1 326 transactions took place from 1995 to 2009 (excluding repeat sales) (South African Property Transfer Guide, 2011). The population in this study was, thus, limited to the 1 326 transactions that took place over the study period. Of these transactions, a simple random sample of 170 was drawn<sup>10</sup>, which was used to generate the hedonic price predictive equation.

### The choice of hedonic variables

The selection of appropriate structural and neighbourhood characteristics was guided by the Sirmans et al. (2005) study. A total of 11 independent variables were thought to influence house prices in the Walmer neighbourhood, namely the number of bedrooms, the presence of a garage, the presence of air-conditioning, the number of bathrooms, the age of the house, the size of the erf, the number of stories, the presence of an electric fence, the presence of a swimming pool, the distance to the Walmer Township and the distance to the nearest school.

In terms of structural characteristics, the number of bedrooms, the presence of a garage, the presence of air-conditioning, the number of bathrooms, the erf size, the number of stories, the presence of an electric fence, and the presence of a swimming pool were all expected to have positive impacts on house prices. With regard to the neighbourhood characteristics (distance to the nearest school and distance to the Walmer Township), proximity to the nearest school was expected to have a positive impact on house prices and proximity to the Walmer Township was expected to have a negative effect. As these proximity effects were measured in metres, the hypothesised sign for distance to the nearest school was negative (i.e. the further away a house is situated from the nearest school, the lower its price is expected to be, *ceteris paribus*), whereas the hypothesised sign for distance to the Walmer Township was positive (i.e. the further away a house is situated from the Walmer Township, the higher its price is expected to be, *ceteris paribus*).

### 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.

<sup>10</sup> The sample size was determined by employing the following equation:

$$n = N/1 + Ne^2(10)$$

where: n = sample size  
N = population size  
e = level of precision

Using Equation 10, the sample size was determined with a level of precision of 5.2 percent, which ensured a representative sample from the population, because the generally accepted level of precision for representative samples is 10% or less (Fink, 2003).



**TABLE 1: SUMMARY STATISTICS**

Variable	Min	Max	Mean	Standard deviation
Sales price	193 600	4 926 800	1 626 395	774 758
Assessed value	500 500	3 976 700	1 784 135	600 255
<i>Structural characteristics</i>				
Erf_size	380	4 600	1 776	629
Stories	1	2	1.18	0.39
Swim	0	1	0.8	0.401
Elec fence	0	1	0.26	0.44
<i>Neighbourhood characteristics</i>				
Dist wal	500	3 200	1 799	599
Autoregressive term	511 995	4 572 982	1 597 708	674 505

As is evident from Table 1, the average house in the sample has an erf size of 1776 square metres, has 1.18 stories and is located 1 799 metres from the Walmer Township. The majority of houses in the sample have a swimming pool, although less than half of the houses have electric fencing. The average sales price is R1 626 395 and the average assessed value is R1 784 135.

Seven functional forms were employed for the estimation of the reduced spatial hedonic model – three conventional models (linear, semi-log and double-log) and four Box-Cox transformations (unrestricted, restricted, left-hand side only and right-hand side only). As tests of functional form, the Box-Cox regressions eliminated the standard linear, double log and semi-log forms. The Akaike Information Criterion (AIC) and Bayesian Information Criterion (BIC) were used to select the appropriate Box-Cox model. The lhBC had the lowest values for the AIC and the BIC, suggesting it is the most appropriate model. However, because it is preferable to transform both sides of the hedonic equation, the uBC transformation was selected for use in this study, as it had lower AIC and BIC values than the rBC (Williams, 2008). The results of the uBC estimation results are presented in Table 2.

**TABLE 2: REGRESSION RESULTS (STANDARD ERRORS IN PARENTHESES)**

	<b>uBC Model</b>
<b>Variable</b>	
Constant	111.84
<i>Structural characteristics</i>	
Erf_size	0.013? (57.537) <sup>d</sup>
Stories	9.545? (8.914) <sup>d</sup>
Swim	13.74? (17.497) <sup>d</sup>
Elec_fence	7.26 <sup>b</sup> (6.454) <sup>d</sup>
<i>Neighbourhood characteristics</i>	
Distance to Walmer Township	0.005498? (11.398) <sup>d</sup>
Autoregressive term	0.00000207 <sup>c</sup> (3.337) <sup>d</sup>
<i>Transformation parameters</i>	
??	0.272? (0.101) <sup>d</sup>
??	1.03? (0.296) <sup>d</sup>
Log likelihood	-2467.03

Notes: a Significant at the 1-percent level  
b Significant at the 5-percent level  
c Significant at the 10-percent level  
d Chi-square values in parentheses<sup>11</sup>

<sup>11</sup> The Box-Cox produced probability values for the coefficients on the basis of chi-square tests (as the use of ordinary least squares estimates of variance may produce inaccurate measures of significance when used with Box-Cox transformations) (Williams, 2008).

The results from the hedonic regression 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.

The hedonic function used in this study can thus be represented by the following (uBC) equation:

$$\frac{y^{\lambda-1}}{\lambda} = \alpha + \sum_{z=1}^k \beta_z \frac{x_z^{\theta-1}}{\theta} + \sum_{s=1}^j \gamma_s D_s + \epsilon \text{ for } \lambda \text{ and } \theta \neq 0 \quad (10)$$

### The accuracy of the Nelson Mandela Bay Municipality's 2007/2008 property valuations versus the attributes-based hedonic price model predictions

The two management questions in respect of municipal property assessments are dealt with in this section: firstly, are assessed values<sup>12</sup> accurate proxies for actual market prices (actual sales prices), and secondly, is the hedonic price model developed in this study more effective than the official assessor's model in terms of predictive capability (or, put differently, should a multi-attribute hedonic price model be used instead of the official assessor's model to value properties for property rates purposes). These two questions are answered simultaneously by comparing three sets of prices, namely actual market prices, assessed values, and house prices as predicted by the hedonic price model developed in this paper (see Equation 10). The comparisons are carried out over the same period<sup>13</sup> and are described in two ways: first, graphically, and second, according to the distribution for the percentage difference among the respective values. For completeness' sake, both an in-sample and an out-of-sample<sup>14</sup> predictive capability comparison is carried out.

In order to execute the in-sample comparison, municipal assessed values of all the 170 houses in the sample were used, as well as the predicted values estimated from the hedonic price regression (Equation 10). Figure 1 graphically presents the in-sample comparison of the respective prices. The market price for each house in the sample has been arranged in ascending order.

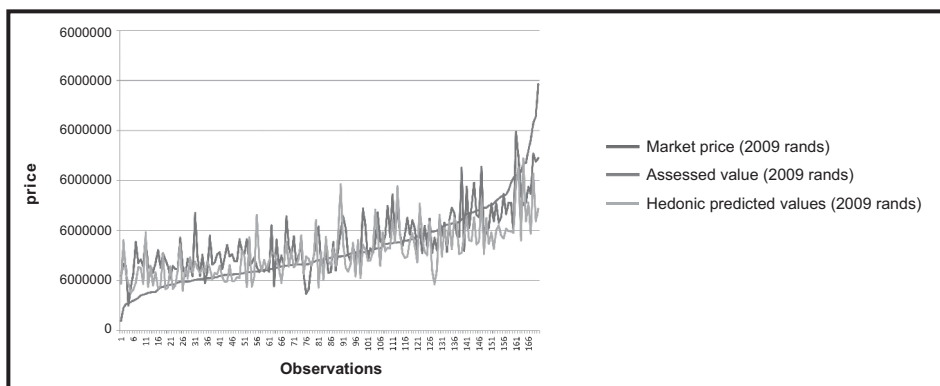


FIGURE 1: MARKET PRICES, ASSESSED VALUES AND HEDONIC PREDICTED VALUES (IN-SAMPLE)

From Figure 1, it is clear that discrepancies exist among the market prices, the assessed values, and the hedonic price predictions. In order to compare the relative size of these discrepancies, percentage differences were calculated. Tables 3 and 4 present the distribution for the percentage difference between the market price and the assessed value, and the market price and the hedonic predicted value, respectively.

<sup>12</sup> The 2007/2008 municipal valuations are used in this study.

<sup>13</sup> For the purposes of this comparison, the 2007/2008 assessed values were adjusted to 2009 constant rands, using the ABSA house price index.

<sup>14</sup> A total of 25 houses from the suburb of Walmer were randomly selected. These houses were not part of the original data set of 170 houses. Additional house specific data were collected for the additional 25 houses. This data included information on all the variables required to populate Equation 10, namely, the number of stories, the presence of a swimming pool, the presence of an electric fence, the erf size and the distance from the Walmer Township. In addition to the structural and neighbourhood variables, an autoregressive term was estimated.

**TABLE 3: DISTRIBUTION OF THE PERCENTAGE DIFFERENCE BETWEEN ACTUAL MARKET PRICES AND THE MUNICIPAL ASSESSED VALUES (IN-SAMPLE)**

	Value (%)
<b>Mean difference</b>	13.89
<b>Percentile</b>	
Smallest value	-57.0
1%	-47.4
5%	-28.3
10%	-22.2
25%	-6.7
50%	10.2
75%	33.5
90%	51.6
95%	64.8
99%	98.6
Largest value	139.8

Table 3 shows that there is a 13.89 percent difference, on average, between market prices and municipal assessments (on average, the assessed values are 13.89 percent higher). The median value of 10.2 percent is less than the mean, meaning the distribution is skewed right<sup>15</sup>. One quarter of houses in the sample appear to be overvalued by more than 33.5 percent and a number of houses are overvalued by more than 100 percent (Table 3).

**TABLE 4: DISTRIBUTION OF THE PERCENTAGE DIFFERENCE BETWEEN ACTUAL MARKET PRICES AND THE PREDICTED VALUES FROM THE HEDONIC PRICE REGRESSION (IN-SAMPLE)**

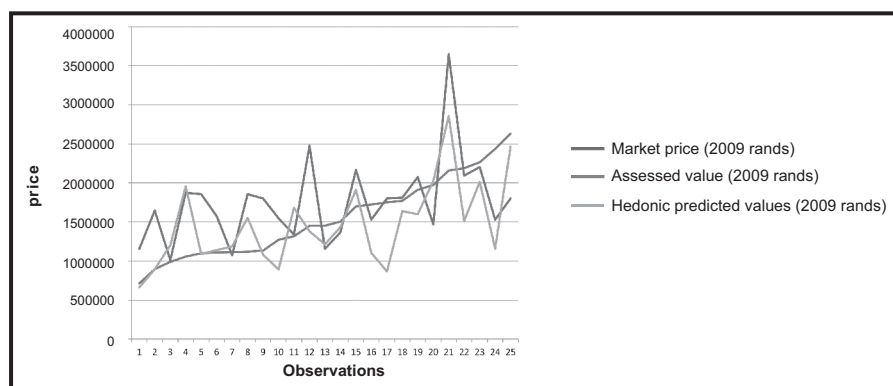
	Value (%)
<b>Mean difference</b>	1.2
<b>Percentile</b>	
Smallest value	-72.9
1%	-67.7
5%	-46.4
10%	-35.8
25%	-21.2
50%	-1.1
75%	16.8
90%	39.7
95%	56.1
99%	120.0
Largest value	131.5

Table 4 shows that discrepancies also exist between the market prices and the values predicted by the hedonic price model, but the differences appear to be smaller than those displayed in Table 3. More specifically, a mean difference of 1.2 percent exists between market prices and the predicted hedonic price values (the latter are, on average, 1.2 percent greater). The median value of -1.1 percent is less than the mean, implying a skewness to the right. Approximately half of the houses in the sample are undervalued by 1.1 percent and one quarter of the houses are overvalued by more than 16.8 percent (compared to 33.5 percent from the municipal assessments). A number of homes are also overvalued by more than 100 percent according to the hedonic price model (Table 4).

The results from the in-sample comparisons show that the hedonic price model, developed as part of this study, provides more accurate predictions of property prices compared to the municipal assessment model.

<sup>15</sup> The distribution is asymmetrical with the tail of the distribution on the right side.

In order to assess the validity of the above analysis, out-of-sample comparisons were also made. Figure 2 graphically presents the out-of-sample comparison of the respective prices.



**FIGURE 2: MARKET PRICES, ASSESSED VALUES AND HEDONIC PREDICTED VALUES (OUT-OF-SAMPLE)**

Not unlike Figure 1, Figure 2 also shows that clear discrepancies exist among the market prices, the assessed values, and the hedonic price predictions. In order to compare the relative size of these discrepancies, percentage differences were once again calculated. Tables 5 and 6 present the distribution for the percentage difference between the market price and the assessed value, and the market price and the hedonic predicted value, respectively.

**TABLE 5: DISTRIBUTION OF THE PERCENTAGE DIFFERENCE BETWEEN ACTUAL MARKET PRICES AND THE MUNICIPAL ASSESSED VALUES (OUT-OF-SAMPLE)**

	Value (%)
<b>Mean difference</b>	13.6
<b>Percentile</b>	
Smallest value	-45.7
1%	-45.7
5%	-37.5
10%	-29.6
25%	-4.5
50%	2.74
75%	47.3
90%	52.2
95%	55.8
99%	59.0
Largest value	59.0

On average, the municipal assessed values are 13.6 percent higher than the market prices (Table 5). The median value of 2.74 percent is less than the mean, which means that the distribution is skewed to the right. Approximately one quarter of the houses appear to be overvalued by at least 47.3 percent. No houses in the sample are overvalued by more than 100 percent, although a few houses are overvalued by 59 percent (Table 5).

**TABLE 6: DISTRIBUTION OF THE PERCENTAGE DIFFERENCE BETWEEN ACTUAL MARKET PRICES AND THE PREDICTED VALUES FROM THE HEDONIC PRICE REGRESSION (OUT-OF-SAMPLE)**

	Value (%)
<b>Mean difference</b>	-6.1
<b>Percentile</b>	
Smallest value	-71.0
1%	-71.0
5%	-67.8
10%	-43.8
25%	-17.8
50%	-5.0
75%	6.4
90%	27.9
95%	32.5
99%	59.7
Largest value	59.7

The mean difference between market prices and the hedonic price model's predicted values (-6.1 percent) is less than the mean difference calculated for the municipal assessed values (13.6 percent) (Table 5). In fact, the hedonic price model's predictions are, on average, 6.1 percent smaller than the actual market values. Only one tenth of the houses are overvalued by more than 27.9 percent (compared to 52.2 percent for the municipal assessments).

Not unlike the in-sample comparisons, the results of the out-of-sample comparisons reveal the predicted property values (generated using Equation 10) are more consistent with actual market prices compared to the municipal assessed values. This may be due to the fact that the hedonic price approach incorporates property-specific, non-market attributes which are known to affect market values whereas the municipal assessment model does not (Cotteleer & van Kooten, 2012).

## CONCLUSIONS

The hedonic price model developed and estimated in this study was used to examine the accuracy of the Nelson Mandela Metropolitan Municipality's 2007/2008 property valuation roll. The examination was confined to municipal assessments for a single neighbourhood, namely the Walmer neighbourhood. This study reveals differences between the 2007/2008 municipal valuations and the comparable market prices (based on actual sales data). On average, the 2007/2008 municipal valuations were 13.89 percent higher than the prices revealed by the market for the in-sample comparison and 13.6 percent higher for the out-of-sample comparison. The predicted property prices obtained from the hedonic price equation appeared to be more in line with actual market prices, with a discrepancy of 1.2 percent (in-sample) and -6.1 percent (out-of-sample). This finding, with respect to the accuracy of the municipal valuations, is subject to two qualifications. Firstly, only sales transactions for the Walmer neighbourhood were considered. Secondly, a fairly small data set was used.

## MANAGERIAL RECOMMENDATION

Concerning the management of municipal valuations for property rates purposes, it is recommended that policy makers consider the option of adopting an attribute-based hedonic price model for the purposes of municipal property valuations, as opposed to the current assessor model.<sup>16</sup> Ideally, attribute-based hedonic price models should include location and neighbourhood variables. This could ensure that properties within the metropolitan regions of South Africa are subjected to property valuations that are more in line with true market values, as stipulated in the Rates Act.

<sup>16</sup> A more thorough critical assessment of the municipal assessment model is not possible since the assessment is outsourced to a privately-owned contractor who is under no obligation to release the details of its operation.



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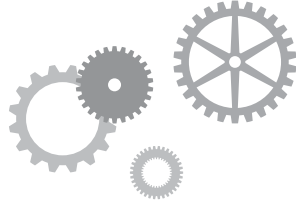
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## SAIMS Conference programme

**SUNDAY EVENING: 15 SEPTEMBER 2013**







Registration and welcome cocktail at Willows Garden Hotel

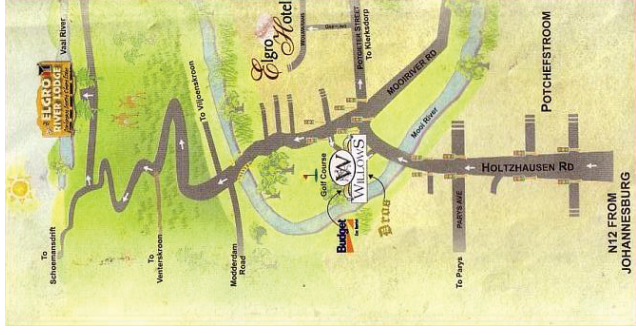
<b>16:30-18:00</b>	<b>REGISTRATION: Willows Garden Hotel</b> Mrs Mariza Richards
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<b>18:30 for 19:00</b>	<b>Welcome cocktail sponsored by Oxford University Press Southern Africa</b>
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**CONFERENCE VENUES**

-  Entrepreneurial Resilience  
Room: G41
-  Marketing Management Resilience  
Room: G42
-  Human Resource Management Resilience  
Room: G40
-  Information / Technology Resilience  
Room: G39
-  Financial/ Economic Management Resilience  
Room: G38
-  Research Resilience  
Room: G37





**MONDAY MORNING: 16 SEPTEMBER 2013**

<b>08:00 for 08:30</b>	<b>Registration</b> Foyer of the JCC building, Hoffman Street, North-West University, Potchefstroom
<b>08:30 for 09:30</b>	<b>PLENARY SESSION:</b> JCC building G42 <b>Official word of welcome:</b> Prof Susan Visser (Dean: Faculty of Economic and Management Sciences) <b>Annual General Meeting:</b> Southern African Institute for Management Scientists: Prof Elmarie Venter (Chairperson: SAIMS Board) <b>SAIMS CONFERENCE 2014:</b> Prof C Niewenhuizen
<b>09:30 for 10:00</b>	<b>TEA/COFFEE:</b> Served in the tent behind G42
<b>10:00 - 10:50</b>	<b>GUEST SPEAKER:</b> JCC building G42 Dr Johan Van Zyl, President and CEO Toyota South Africa <b>" The roadmap towards 1.2 million vehicles and achieving international competitiveness"</b>

	SESSION 1 Entrepreneurial Resilience Room: G41	SESSION 2 Marketing Management Resilience Room G42	SESSION 3 Human Resource Management Resilience Room: G40	SESSION 4 Tourism Management Resilience Room: G39	SESSION 5 Financial/ Economic Management Resilience Room: G38	SESSION 6 Human Resource Management Resilience Room: G37
SESSION CHAIR	<b>A Henrico (NWU)</b>	<b>C Boshoff (US)</b>	<b>F Rangongo (CPUT)</b>	<b>P van der Merwe (NWU)</b>	<b>J Kroon (NWU)</b>	<b>C Botha (NWU)</b>
11:00-11:25	Selected relational-based factors influencing the satisfaction and commitment levels of non-family employees in family businesses <b>E Venter &amp; S Farrington</b> CP109 NMMU	Some theoretical perspectives of co-creation and co-production of value by customers <b>NS Terblanche</b> CP 83 US	Demands, exhaustion and absenteeism: comparing management, professionals and administrative occupations <b>L de Beer &amp; J Pienaar</b> CP 5 NWU	Managing the relationship between mining and ecotourism destinations with specific reference to a world heritage site in the Limpopo Province of SA <b>A de Klerk &amp; E Heath</b> WIP 20 Limpopo, UP	A review of the dividend payments of South African listed companies (1977-2011) <b>S Viviers &amp; C Muller</b> CP 3 US	The impact of leadership and organisational structure on perceived organisational effectiveness: a case study <b>A Messaris &amp; M Maritz</b> WIP 40 RHODES
11:30-11:55	The impact of entrepreneurial orientation on the perceived implementation of return on investment in corporate training divisions of selected South African Banks <b>MD Botha &amp; SP van der Merwe</b> CP 8 NWU	Investigating demographic and patronage differences with regard to the spreading of online word-of-mouth of cell phones <b>N Cunningham, M Bogaards &amp; CF De Meyer</b> CP 35 UJ	Assessing readiness for change: analysing the sequential nature of change models in relation to change readiness <b>MB Bedser &amp; NJ Pearse</b> CP 7 RHODES	The determinants of corporate entrepreneurship for firms in adventure tourism sector in the Eastern Cape Province: South Africa <b>C Chigamba, RE Rungani &amp; C Mudenda</b> CP 30 UFH	The impact of SADC Customs Union on Zimbabwe <b>G Mugano, M Brookes &amp; P le Roux</b> CP 50 NMMU, Middlesex University	An investigation of pay levels determinates for specialist manager professionals in the South African finance and business services <b>M Mpofu, NM Dodd &amp; R Elliott</b> WIP 41 UFH

12:00-12:25	Developing a framework for the most important criteria used by banks when granting loans to the SMEs in SA <b>S Zindiye &amp; T Nyachowe</b> WIP 59 RHODES	Cultural orientation as antecedent of openness towards mobile marketing in African cultures: How does culture shape mobile importance? <b>A Goneos-Malka, A Strasheim &amp; A Grobler</b> CP 116 UP	Key soft success factors for continuous improvement implementation and employee attitudes in a manufacturing concern <b>LTB Jackson &amp; P Vahed</b> CP 55 NWU	Determinants of visitor spending at the Africa Bike Week <b>M Kruger, A Viljoen &amp; M Saayman</b> WIP 31 NWU	Investigation into the risk profile of residential students compared to Oppidam students at Rhodes University: a risk assessment and risk analysis <b>N Simenda, P Moleme &amp; M Maritz</b> WIP 52 RHODES	Perceptions of organisational politics at a national electricity providers in Southern African development community (SADC) <b>C Botha, E Mutambara &amp; C Bisschoff</b> WIP 43 NWU
12:30-12:55	The marketing tasks of small business owners in Nelson Mandela Bay <b>B Gray, M Carelsen &amp; E Venter</b> CP 51 NMMU	A framework to investigate private label brands at Pick 'n Pay stores <b>M Struwig &amp; A Marriott</b> CP 101 NMMU	The relationship between leadership and employee engagement in a SA automotive dealership network <b>C Page, MJ Louw, TL Amos &amp; J Baxter</b> CP 18 RHODES	The management of estuarine recreational services in South Africa: the Sundays river estuary <b>DE Lee</b> CP 38 NMMU	The naked truth: creditor understanding of business rescue: a small business perspective <b>I le Roux &amp; K Duncan</b> CP 63 UP	Situational variables and work related attitudes in a manufacturing company in the Gauteng Province <b>LTB Jackson &amp; S Mukondiwa</b> CP 54 NWU

13:00 - 14:00

LUNCH BREAK at Alumni Hall above the Student Centre



# MONDAY AFTERNOON: 16 SEPTEMBER 2013

	SESSION 1 Entrepreneurial Resilience Room: G41	SESSION 2 Marketing Management Resilience Room: G42	SESSION 3 Human Resource Management Resilience Room: G40	SESSION 4 Information / Technology Resilience Room: G39	SESSION 5 Financial/ Economic Management Resilience Room: G38	SESSION 6 Research Resilience Room: G37
SESSION CHAIR	<b>E Venter (NMMU)</b>	<b>M Roberts-Lombard (UJ)</b>	<b>A Drotskie (UJ)</b>	<b>C Marnewick (UJ)</b>	<b>S Viviers (US)</b>	<b>G Goldman (UJ)</b>
14:00-14:25	A proposed Risk management Framework: Assessing corporate social responsibility initiative amongst SMEs in Makana District, Eastern Cape <b>E Adendorff &amp; M Maritz</b> WIP 7 RHODES	How weekly rates of product consumption affect the way we respond to price information <b>D Prillaid</b> CP 37 UCT	Suggestions system as an HRM tool to be successful in organisations: Some empirical evidence in New Zealand <b>AJ du Plessis, AE Marx &amp; CJ Botha</b> CP 41 UNZ, NWU	Are there cultural orientation differences in terms of online information privacy? <b>Y Jordaan, M Wiese, E v Eeden &amp; D Fourie</b> CP 57 UP	Post-crisis economics, institutions and entrepreneurs: firm level evidence from Zimbabwe <b>M Matthee, W Krugell &amp; M Mzumara</b> WIP 30 NWU	A model of work related well-being of workers in a South African agricultural organisation <b>DN Asiwe, LI Jorgensen, S Rothmann &amp; C Hill</b> WIP 62 NWU, UJ
14:30-14:55	Improving the trading environment of the SA hawkers industry <b>S Perks</b> CP 84 NMMU	How we respond to price information across dimensions of experience <b>D Prillaid</b> CP 36 UCT	Managers' attitudes towards workplace trade unionism at a coal mining company <b>A Drotskie, E Mphahlele &amp; E Swanepoel</b> CP 39 UJ	The linkage between M-commerce acceptance dimensions and usage frequency: an international perspective <b>N Dlodlo</b> CP 4 VUT	Valuing banks in emerging markets: A review of the literature and some initial findings <b>K Sabilika, J Hefer &amp; S Zindiye</b> CP 95 RHODES	A holistic and context specific perspective of constraints to research productivity in the South African context <b>CW Callaghan &amp; D Coldwell</b> CP 27 WITS
15:00-15:25	Establishing student perceptions of an entrepreneur using word associations <b>JE Goliath, SM Farrington &amp; SB Saunders</b> CP 45 NMMU	The influence of trust and commitment on customer loyalty - an application to the four major banks and Capitec bank <b>B Le Coultre, M Roberts-Lombard &amp; E van Tonder</b> CP 86 UJ, MILPARK	The use of the balanced scorecard to enhance performance culture in a NZ information technology organisation <b>AJ du Plessis, G Tachiwona, S Sukumaran &amp; JR Marriot</b> CP 42 UNZ	Information disclosure and online privacy concerns amongst Facebook users <b>G van Heerden, S Martin &amp; A Szytko</b> CP 107 UP	Determination of net interest margin drivers for SA banks <b>K Mudzamiri &amp; N Smith</b> CP 98 MISA; UJ	Developing a business sustainability index - a multi-country effort <b>HB Klopfer, DJ Petzer, G Svensson, C Padin, JCS Varela, B Wagner &amp; NM Hogeveid</b> WIP 25 MONASH, NWU, OSLO, VIGO UNIV, UNIVERSIDAD DEL TURABO, STRATHCLYDE UNIV

15:30 - 15:45

TEA/COFFEE: Served in the tent behind G42



	SESSION 1 Entrepreneurial Resilience Room: G41	SESSION 2 Marketing Management Resilience Room: G42	SESSION 3 Human Resource Management Resilience Room: G40	SESSION 4 Business Management Resilience Room: G39	SESSION 5 Financial/ Economic Management Resilience Room: G38	SESSION 6 Human Resource Management and Research Resilience Room: G37
SESSION CHAIR	<b>S Perks (NMMU)</b>	<b>E North (NWU)</b>	<b>L Jorgensen (NWU)</b>	<b>S Farrington (NMMU)</b>	<b>AM Smit (NWU)</b>	<b>L de Beer (NWU)</b>
15:50-16:15	The role of culture and generation in networking: at a Gauteng mine <b>K Bean, J Kroon &amp; S de Klerk</b> CP 60 NWU, USW	Black generation Y students' attitudes and purchase intentions towards store versus manufacturer brands <b>TT Mareka, AL Bevan-Dye &amp; J Dubinlela</b> WIP 5 VUT, NWU	The relationship between an acute bout of moderate aerobic activity and cognitive performance <b>J Trollip &amp; T Amos</b> WIP 56 RHODES	The impact of firm and entrepreneurial characteristics on access to debt financing by SMEs in Nkonkobe municipality <b>K Gift &amp; EC Rungani</b> WIP 23 UFH	The developmental role of migrant worker remittances: a case study of Tsholotsho district in the Matabeleland North Province of Zimbabwe <b>D Nzima</b> WIP 4 UFH	Differences in ethical beliefs and intentions of university students - a case study perspective <b>M Roberts-Lombard &amp; G Goldman</b> CP 91 UJ
16:20-16:45	An assessment of the impact of entrepreneurial orientation on the success of selected public secondary schools <b>S van der Merwe &amp; J Malan</b> CP 17 NWU	Service brand equity and brand relationships in the fast food industry <b>N MacKay, C Williams, H Spies, LRJ v Rensburg &amp; DJ Petzer</b> CP 82 NWU	Exploring occupational stereotypes within various South African organisations <b>L Brink &amp; JA Nel</b> WIP 45 NWU	An assessment of the enforcement of environmental precautions, and health and safety regulations at South African e-waste recyclers: A case study <b>C Mugova &amp; BZ Kutsu</b> WIP 21 UJ, UP	Sustainability and triple bottom line reporting in the banking industry <b>AM Smit &amp; PA Galamadien</b> CP 117 NWU	A balanced scorecard approach to performance measurement in a SA government department <b>C Mafini &amp; RID Poore</b> CP 69 VUT

DINNER AND DRUMMING at LA BOHEME  
SPONSORED BY NORTH-WEST UNIVERSITY

18:00



# TUESDAY MORNING: 17 SEPTEMBER 2013

 <b>SESSION CHAIR</b>	<b>SESSION 1</b> Entrepreneurial Resilience Room: G41	<b>SESSION 2</b> Marketing Management Resilience Room: G42	<b>SESSION 3</b> Human Resource Management Resilience Room: G40	<b>SESSION 4</b> Tourism Management Resilience Room: G39	<b>SESSION 5</b> Education Resilience Room: G38	<b>SESSION 6</b> Marketing Management Resilience Room: G37
<b>SESSION CHAIR</b>	<b>S de Klerk (USW)</b>	<b>R Jansen van Rensburg (NWU)</b>	<b>A Drotskie (UJ)</b>	<b>L du Plessis (NWU)</b>	<b>L van Staden (NWU)</b>	<b>M Wiese (UP)</b>
08:00-08:25	The influence of selected demographic variables on entrepreneurial orientation <b>TM Matchaba-Hove, SM Farrington &amp; G Sharp</b> CP 72 NMMU	<b>Prof C Boshoff</b> Editor: Management Dynamics <i>Becoming a rated researcher</i> 	The impact of human resource practices on employee commitment and retention in the health sector <b>S Terera &amp; T Marufu</b> WIP 54 UFH	The impact of private game farms on local community development <b>A Giampiccoli, P van der Merwe &amp; M Saayman</b> CP 49 DUT, NWU	A competency framework for the business rescue practitioner profession <b>M Pretorius</b> CP 87 UP	Social networking: a profile of undergraduate students in Tshwane <b>T Maree</b> CP 103 UP
08:30-08:55	Remote consulting system to support disabled entrepreneurs in SA <b>W Chiliya &amp; N Chiliya</b> WIP 17 UFH	Gender differences in research productivity as a form of job performance in the South African context <b>CW Callaghan</b> CP 28 WITS	An ecotourism model for SA National Parks <b>L de Witt &amp; P van der Merwe</b> CP 62 VUT, NWU	The relationship between entrepreneurial intention and entrepreneurial education among students at a higher educational institution in SA: an exploratory study <b>E Venter &amp; S Farrington</b> CP 108 NMMU	The influence of gender on the expectations of black generation Y clients towards their banks' CRM efforts <b>E Theron &amp; R Ebersohn</b> CP 105 US	Managing trust in an unwanted service environment - the special case of pregnancy termination counselling services <b>E Theron &amp; R Ebersohn</b> CP 105 US
09:00-09:25	Non financial performance measures in SMEs' supply chain management <b>ML Matoso &amp; OH Benedict</b> CP 73 CPUT	Personal branding: a framework for brand growth amongst SME owners <b>A Blake &amp; HB Klopper</b> WIP 11 MONASH	The predictive validity of a psychological test battery for the selection and development of managerial employees in the Zimbabwean financial industry <b>SF Chamisa</b> WIP 14 UFH	The impact of social entrepreneurship towards rural tourism and community development in SA <b>C Chigamba &amp; C Mudenda</b> WIP 15 UFH	An exploratory study of perceptions of goal setting support among students at a University of Technology in SA <b>C Chipunza, DY Dzansi, LT Chipunsa &amp; S Om</b> WIP 18 CUT, WITS	The influence of gender on the expectations of black generation Y clients towards their banks' CRM efforts <b>M Bresler &amp; CF de Meyer</b> CP 118 UJ



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09:30-09:55	Corporate entrepreneurship in the public sector <b>MJ Mabala &amp; D Groenewald</b> CP 66 UJ	The use of storytelling in quantitative research reports: a marketing research firm perspective <b>V Martiz, D Petzer &amp; CF de Meyer</b> CP 70 UJ, NWU	The impact of skills shortages on propensity to leave in South African gold mines <b>EE Smith, NE Mazibuko &amp; L Zingwana</b> CP 43 NMMU	Determinants of spending at a live music performance in South Africa <b>M Kruger &amp; M Saayman</b> CP 81 NWU	Towards an ideal HR curriculum <b>CK Hlatswayo, N Dodd &amp; R Elliott</b> WIP 26 UFH	Marketing activities and customer relationship management during different phases of the business cycle in South Africa: the case of investment managers <b>S Zindiye, J Hefer, T Ndhlovu, R Otukile &amp; M Rochat</b> CP 114 RHODES

**10:00 - 10:30 TEA/COFFEE: Served in the tent behind G42**

	<b>SESSION 1</b> Entrepreneurial Resilience Room: G41	<b>SESSION 2</b> Marketing Management Resilience Room: G42	<b>SESSION 3</b> Human Resource Management Resilience Room: G40	<b>SESSION 4</b> Tourism Management Resilience Room: G39	<b>SESSION 5</b> Human Resource Management Resilience Room: G38	<b>SESSION 6</b> Marketing Management Resilience Room: G37
<b>SESSION CHAIR</b>	<b>S van der Merwe (NWU)</b>	<b>C De Meyer (UJ)</b>	<b>C Callaghan (Wits)</b>	<b>M Kruger (NWU)</b>	<b>C Mayer (Rhodes)</b>	<b>Y Jordaan (UP)</b>
10:30-10:55	Assessing the entrepreneurial attributes of undergraduate business students at the NMMU <b>SB Saunders &amp; SM Farrington</b> CP 96 NMMU	The influence of seeking opinion leadership on the purchasing intention of black township consumers <b>M Bogaards &amp; D Petzer</b> WIP 12 NWU	The impact of training on employee retention in higher education <b>S Terera &amp; H Ngrirande</b> WIP 61 UFH & UL	An assessment of food safety knowledge, barriers and practices of guesthouse managers <b>S Kruger</b> CP 100 NWU	Exploring the attainment of career success: The role of organisation <b>S Visagie &amp; E Koekemoer</b> WIP 29 BDCE, NWU	Resident co-creation: a reflective perspective <b>HB Klopper &amp; A Berndt</b> WIP 28 MONASH & JIBS

11:00-11:25	The link between learning orientation and innovation: Insights from small accommodation businesses in developing economies LT Chipunza, T Naong & DY Dzansi WIP 19 CUT	A gender perspective of brand loyalty in the South African cell phone industry PG Mostert, DJ Petzer, S du Plessis & L Kruger CP 79 NWU	An enquiry into the retention of core, critical and scarce skills in the Energy industry of South Africa PF Mabuzza & CN Genwel Proches CP 68 ESKOM, UKZN	A visitor profile of Mapungubwe National Park and World Heritage Site UP Hermann CP 106 TUT	The impact of organisational culture and leadership styles on the quality of work life: an exploratory study of Chinese organisations in SA RC Handley & MJ Louw WIP 24 RHODES	The development of an impulsive buying behaviour structural model for high involvement products T Mariri, R du Preez & B Mahembe WIP 33 US
11:30-11:55	Perceptions regarding ethical and social responsibility practices: A SME perspective EE Smith & R Muller CP 44 NMMU	A student perspective on irritation: Aspects in the shopping environment N Mashaba, J Caldeira & J Woolfrey CP 71 UP	Personality, gender and workplace bullying: a case study of the MTN and Vodacom call centre operators and supervisors in JHB T Chikungwa & SF Chamisa WIP 16 UFH	Tourism community relationships: a case study of Stormsvier Adventures and the Storms River community S van Zyl & H Lloyd WIP 58 NMMU	The relationship between servant leadership, affective team commitment, organisational citizenship behaviour and team effectiveness B Mahembe & T Mariri WIP 34 US	The influence of marketing communications, location and offerings on the pricing strategies of short term accommodation enterprises within the Makana District, SA: an empirical study M Theijssen, T Ross & M Maritz WIP 55 RHODES
12:00-12:25	Strategic planning and its relationship with the performance of small and medium enterprises in Gauteng Province M Sandada WIP 50 VUT	Role perceptions of selling teams in the supply chain of a fast moving consumer goods organisation M Frazer & C Jooste CP 65 UJ	Individuals' perception towards Facebook and LinkedIn as recruitment tools: an exploratory study WH Gallant & M Renard CP 48 NMMU	Exploring the methodology for evaluating intangible value created at business events P Thomas & E Slabbert CP 122 NWU	The determinants for the success of Workers Cooperatives as a means of economic and community development in SA R Oelofse & L van der Walt WIP 49 NWU	An exploratory study into the factors affecting university student gamers T Ramchandra, B Thornycroft & M Maritz WIP 47 RHODES
12:30-12:55	The pursuit of work life balance by SA women: is entrepreneurship the answer SE Raja WIP 51 CPUT	A comparative analysis of brand loyalty of common household products CA Bisschoff & AI Moolla CP 78 MANCOSA, NWU	Investigating the influence of expected rewards on the career intentions of accounting students TG Beck & PJW Pelle CP 20 NMMU	Assessing the importance of the tangible and intangible social impacts of tourism on selected communities M Scholtz & E Slabbert WIP 67	Chinese organisations in SA: Resource seeking or human capital development? N Pretorius & L Louw WIP 63 RHODES	Different venues, different markets; different experiences: evidence from live music performances in South Africa B Manners, M Kruger & M Saayman WIP 60 NWU



13:00 - 14:00

LUNCH BREAK at Alumni Hall above the Student Centre

**TUESDAY AFTERNOON: 17 SEPTEMBER 2013**

	SESSION 1 Small Business Management Resilience Room: G41	SESSION 2 Marketing Management Resilience Room: G42	SESSION 3 Human Resource Management Resilience Room: G40	SESSION 4 Tourism Management Resilience Room: G39	SESSION 5 Business Management Resilience Room: G38	SESSION 6 Strategic Management Resilience Room: G37
SESSION CHAIR	C Niewenhuizen (UJ)	M Bogaards (UJ)	C Botha (NWU)	P Viviers (NWU)	D Groenewald (UJ)	C De Meyer (UJ)
14:00-14:25	The validation of a scale to measure entrepreneurial orientation and perceived success in public secondary schools <b>S van der Merwe &amp; J Malan</b> CP 9 NWU	Interpersonal influence of and psychological motivations for buying behaviour and its influence on sales growth <b>C Arnolds, O Dayan &amp; L Wessels</b> CP 19 NMMU, WITS	Health is your investment: sense of coherence, health and its promotion in a SA organisation <b>L Louw &amp; C Mayer</b> CP 11 RHODES	Perceived vs actual contribution to the arts at two SA arts festivals <b>SC Pretorius, PA Viviers &amp; K Botha</b> CP 115 NWU	Victims of xenophobia or martyrs? A critical elucidation on the violence on some foreigner owned small businesses in SA <b>H Benedict, R Benedict &amp; E Benedict</b> WIP 9 CPUT, UJ, UFS	Strategy as practise: the great white shark of strategy research <b>K Stander, M Pretorius &amp; L Stander</b> WIP 66 UNISA
14:30-14:55	Factors affecting capital structure decision: a small business perspective <b>K Mphelo, K Kekena, J Hefer &amp; L Bailey</b> CP 14 RHODES	Eight internal marketing elements and their influence on brand awareness in the car rental industry <b>ES Conradie, M Roberts-Lombard &amp; HB Klopper</b> CP 34 UJ, MONASH	Strategic qualities of women in top management positions within the financial services sector in a post democratic SA <b>D Makatsa, R Rijamampianina &amp; Z Ndaba</b> CP 16 WITS	An analysis of community support for tourism in Swaziland <b>XH Dlamini, WJL Coetzee &amp; PS Khunon</b> CP 125 TUT, NWU	The role that networks play in the wholesale and retail sector: a case study <b>J-M Stidworthy &amp; S de Klerk</b> WIP 53 NWU	Strategic planning processes: A Gauteng soccer clubs' perspective <b>SK Bhoya</b> WIP 6 UNISA

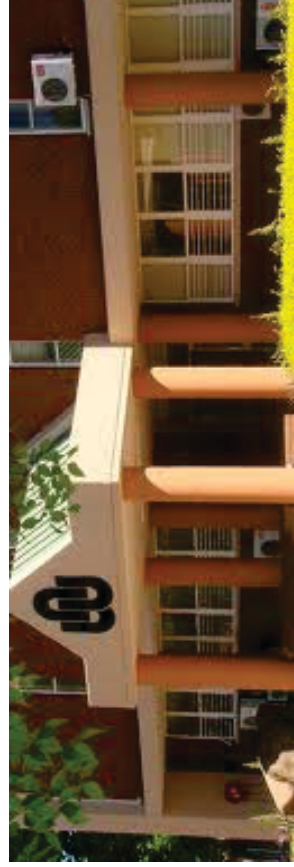




	Corporate Governance Resilience	Partnerships between Higher Education Institutions, Government and Private Enterprises in the Cape Metropolis	Project management Resilience
15:00-15:25	<p>The role of neuro linguistic programming in improving organisational leadership through intrapersonal communication development</p> <p><b>C Oberholzer &amp; L van der Waldt</b> WIP 57 UP</p>	<p>Assessing corporate governance and executive remuneration using share option plans</p> <p><b>A Nicolaides</b> CP 126 VUT</p>	<p>The disparity between project success and project managers competencies</p> <p><b>J Arendse &amp; C Marnewick</b> CP 1 UJ</p>
15:30-15:55	<p>The relationship between business start-up factors in the SA small enterprise sector</p> <p><b>S Radipere &amp; S Dhlwayo</b> CP 123 UNISA, UJ</p>	<p>Determining the feasibility of a landowner enterprise in the Western Baviaanskloof: an external stakeholder analysis</p> <p><b>K Wiles, HP Bakker &amp; L Louw</b> WIP 27 RHODES</p>	<p>Increasing the success of ICT projects with knowledge management practice and social media tools</p> <p><b>D Medjo</b> WIP 39 WITS</p>
	<p>Consumer ethnocentrism and its determinants among a young SA consumer market segment</p> <p><b>J Dubihlela</b> WIP 22 VUT</p>	<p>Municipal management of property valuations for rates purposes: a market based municipal assessment model versus an attributes based hedonic price model</p> <p><b>M Sale &amp; M du Preez</b> CP 75 NMMU</p>	
	<p>The relationship between SMMEs and insurance providers in Nelson Mandela metropolitan area SA</p> <p><b>K Chodokufa, N Chiliya &amp; B Afolabi</b> CP 31 UNISA, WITS</p>		
	<p>A content analysis of the effectiveness of websites of members of the national funeral directors association of SA: Ease of use perspective</p> <p><b>CA Coetzee, T Maree &amp; CH van Heerden</b> CP 32 TUT</p>		
	<p>The importance level of specific skills as perceived by small and medium business owners</p> <p><b>JM Mwepu Mbuya &amp; M Bounds</b> CP 24 UJ</p>		

10:00 - 10:30

TEA/COFFEE: Served in the tent behind G42



GALA DINNER at CRISTA-GALLI

SPONSORED BY JUTA

18:30 FOR 19:00



# SAIMS 2013 Conference Proceedings

Southern African Institute for Management Scientists

The Southern Africa Institute for Management Scientists (SAIMS) celebrated 25 years of existence in 2013. This was a momentous occasion which coincided with the annual conference held in Potchefstroom. This publication is based on the refereed papers delivered at the conference. The theme for the conference was *Celebrating 25 years of Management Resilience*. This showcased the sustainable existence of this organisation and conference over this period of time.

It was necessary at this conference to reflect on where the management sciences came from and what the future holds for this research field. This is especially relevant given the economic changes that so many countries and organisations are facing. The papers focused mainly on business management, marketing management, financial management, human resource management and tourism management research questions.

The proceedings produced a basis for a thought-provoking conference with presenters from various universities. The papers included in these proceedings lifted the bar in terms of standard, quality and creativity.

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