

**Business Administration and Business Economics****Characteristics of the Emergent Slow Tourism Sector in Thailand:  
Evidence from Samut Prakan****Chantip Chamdermpadejsuk<sup>1</sup>, Fuangfa Amponstira<sup>2</sup>, John Walsh<sup>3</sup>**

**Abstract:** Slow tourism is an emergent concept that investigates ways in which people can reject the tenets of mass tourism with its ever increasing velocity of consumption and expenditure. Instead, it offers way in which people can engage with local customs, institutions and people at a pace which is also less damaging to the environment. However, the facilities and services that such a form of tourism requires is little known to destination managers (although perhaps not to specific facility managers) in both the private and public sectors. In order to determine the extent to which understanding of this issue is widespread in Thailand, which is a country where the tourism industry is vital in maintaining the economy, and where a range of different types of tourism have become available. The province of Samut Prakan has been selected for this purpose and a convenience sample of 400 respondents was taken in a total of four different destinations using a questionnaire based on the UNWTO's Recife Declaration on Slow Tourism. It is found that Thai slow tourists in the sample demonstrate some spiritual qualities in their desire for experiences that are not accounted for in the original declaration and it is suggested that this be adjusted accordingly.

**Keywords:** elderly tourism; slow tourism; pilgrimage; Thailand; tourism

**JEL Classification:** Z32

**1. Introduction**

Although tourism is understood to be a vital dynamic factor sustaining Thailand's flagging economy, most attention has been paid to the international sector. The domestic sector is often overlooked by policy-makers yet it is still important in its own right. One recent estimate shows domestic tourism to have increased by 8.0% in 2017, following 8.3% growth in the preceding year (Kasikorn Research, 2017).

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Domestic tourists made between 158.2-159.7 million trips within the country in 2016 (Kasikorn Research, 2017). While it is possible to envisage domestic and international decision as alternative decisions for consumers based on relative costs (e.g. Tol, 2007; Eugenio-Martin & Campos-Soria, 2011), there are reasons to consider these two to be quite distinct options in the case of Thailand and, presumably, offer countries with societies considered to be high-context in nature (e.g. Gudykunst & Nishida, 1986). People in high-context cultures, it is argued, do not view different tourism destinations or experiences as being subject to a simple arithmetic of monetary values and standard forms of satisficing behaviour means that advanced computations are not considered. In part, this is due to asymmetric benefits accruing from specific tourist experiences that mean more to people, principally Thai people, who are more closely attuned to them and their meaning. This is most closely seen with respect to aspects of the Buddhist philosophy, which is the professed belief of the majority of the population. Beliefs concerning specific local effects of Buddhist monks or relics have been assimilated by many Thai people to an extent that is much less likely for other people. It is argued, therefore, that the characteristics of domestic tourism in Thailand are different than for international tourism, although there may be shared characteristics with domestic tourism in other countries with a high-context cultural background.

When searching for a suitable model of tourist sector development that would assist in the promotion of Thailand's domestic tourism, one possibility is the slow tourism paradigm that has emerged in recent years around the world. Slow in this case implies a less-frenetic or fraught method of decision-making, encouraging quite literally slower forms of travel with higher levels of engagement with local people and institutions. This approach is more likely to result in money spent on local products and companies rather than bleeding out of the local area via chain businesses. It is also likely to result in less severe environmental impacts both on the local area and, also, on the physical environment overall (Caffyn, 2012).

Slow tourism seems to bear some similarities with well-established features of Thai domestic tourism: that is, there is a focus on land rather than air travel, focus on a specific local destination and willingness to indulge in local specialities directly and in the form of souvenirs. Caffyn (Caffyn, 2012) describes the typical pattern: "[It] ... suits the type of break and holiday where people continue to move round rather than base themselves in one place. With slow tourism more emphasis is usually placed on a single destination. The model might perhaps be of a holiday where visitors venture out from a central base to explore the nearby locale over a period of several days, perhaps enjoying a range of activities but probably coming back to the same accommodation. This type of tourism experience is commonly adopted by elderly travelers, when elderly people are able to enjoy tourist activities. This provides an important commercial opportunity for Thailand's tourism industry but, in an ageing society, represents an important measure of social equity. The World

Tourism Organization's Recife Charter on Senior Tourism (UNWTO, 1996) explicitly drew the link between ageing and social ills including loss of freedom, relative deprivation, loss of status and so forth which might all be countered by the experiences of tourism (Dann, 2002).

Consequently, this paper focuses on the conjunction of slow tourism and the elderly in Thailand with a local base offering several types of nearby activity. One province has been selected as the research site and a quantitative method of data collection was employed. It is anticipated that the analysis will lead to the formulation of useful recommendations for different stakeholders within the Thai tourism industry.

## 2. Literature Review

Contemporary tourism is a capitalist venture and necessarily, therefore, involves creative destruction of the resources it employs. It has become part of the neoliberal project of advancing capitalism through, in part, the commodification of nature. Ecosystems, social as well as physical, become bound into a world of accounting: "As ecosystem science increasingly serves as a metrical technology for the commodification of ecosystem services, its fine and fragile distinctions increasingly bear the weight of capital circulation (Robertson, 2006)." Given the dominance of neoliberal thought, it seems to be a pragmatic strategy to apportion economic value to natural resources with a view to promoting the understanding of diversity and sustainability (Gómez-Baggethun & Ruiz-Pérez, 2011).

In such circumstances, the governance of tourism must make its treasures available to those who are tourists in as sustainable a way as possible using market and price mechanisms to regulate access (Cousins, Evans & Sadler, 2009). Nevertheless, there are various forces that contribute to tourism being a force promoting uneven development and enhancing economic inequality (e.g. King & Dinkoksung, 2014). These include the concentration of revenue-gathering activities in a few hands, mostly out-of-area interests, together with the generally low level of local entrepreneurial skills and the generation of mostly low-skilled and low-waged jobs associated with tourism. Many such jobs are created in the hotel and recreation sector and involve both domestic and cross-border migration (Joppe, 2012). A study of the emerging tourism market in Louang Prabang found that other jobs were generated in the informal transportation sector and other service activities, while the bulk of the revenue generated left the area through the owners of larger accommodation units (Southiseng & Walsh, 2011). The development of the tourism sector, therefore, has multiple forms of impact upon the development of a country as a whole and it certainly affects the unevenness of both development and of inequality and of life opportunities. One particular example of this is in the case of tourism opportunities for the elderly. As the world moves towards an era of ageing societies – the number

of older persons in the world (i.e. 60 years or above) was 917 million in 2017 and this number is expected to rise to 2.1 billion in 2050 and then 3.1 billion in 2100 (UN, 2018). The population of ageing people in Thailand is now estimated to be approximately 8 million (13% of total population) and was expected to rise in line with international trends (AgeingAsia, n.d.). The provision of social services to elderly people is limited, irrespective of the comparatively high level of reverence and deference paid to older people in Thailand. Nevertheless, older people suffer from declining lifestyle opportunities and experience as they become older. This issue was addressed directly by the UN's Recife Charter on Senior Tourism, which acknowledged on the one hand the potential problems faced by elderly people, in terms of declining status, income and opportunities for self-realisation and, on the other hand, the opportunities provided for tourism development by a new cohort of tourists who might have pent-up desire to explore the world and accumulated income, supplemented by pensions, to do so (of course, not all the elderly in a society or indeed in any country have the opportunity to accumulate surplus income and pensions). However, there are indicators that senior citizens in a number of countries do have considerable spending power and, in a world with changing demographic characteristics and regulatory frameworks concerning inheritance, the willingness to spend that income.

Elderly people are still people, of course and, as such, make consumption decisions in the same way that consumer behaviour models would indicate (e.g. Kristensen, Mortenson & Gronholdt, 1999). Nevertheless, studies have been made seeking to identify more clearly specific features of the people involved in elderly tourism. For example, in a sample of South Korean tourists, Kim, Woo and Uysal (2015) found that there were significant interrelationships between trip experience, leisure life satisfaction, involvement, perceived value, overall quality of life and revisit intention. Shoemaker (1989) found that the elderly tourist market overall was heterogeneous in nature and consisted of various distinct segments. Jang *et al.* (2009) meanwhile, concluded that a sample of Taiwanese tourists were motivated to travel primarily by the desire for novelty. These studies represent a changing demographic segment which has, in some but not all cases, much greater agency over their movements, more resources to invest in self-enrichment activities and, because of the development of tourism-related infrastructure, opportunities to visit more places and undertake more varied types of activity. By contrast, influential works from the past, whose shadows may still be seen in contemporary literature, tend to focus on the negative aspect of ageing (e.g. Cumming & Henry, 1961). It is perhaps not surprising that much of the literature dealing with senior tourism derives from East Asia because rapid economic development in that region has made possible opportunities people could not have imagined previously and, further, possess strong neo-Confucianist influences that promote reverence for older people. It is evident that people from a society with little experience of tourism tend to behave in ways

that people with more experience do, as the move from group travel by coach to individual exploration attests. Since elderly tourism is still a comparatively recent phenomenon, it is deemed appropriate to use a model that bridges the past and the present. The Recife Declaration outlines the factors that destination and tourism managers should bear in mind when planning for senior tourists:

- basic quality factors (e.g. safety and security, sanitation and health, environmental considerations, independence, accessibility, services and facilities and consumer protection standards);
- interaction with the people and places visited;
- educational and cultural experiences;
- entertainment and outdoor activities;
- facilities for social activities and
- appropriate pacing and format of tourism leisure activities (UNWTO, 1996).

This schedule of requirements has formed the basis of the questionnaire that was used to collect data to explore the relationship between customer satisfaction and the provision of services and facilities for senior tourists in Thailand.

### **3. Methodology**

#### **3.1. Method**

This project adopted a quantitative method of research because an existing theoretical framework was available for testing in a new environment, Samut Prakan province in Thailand. Determining the extent to which this framework is confirmed or otherwise in this new environment represents the claim for contribution to academic knowledge in this paper.

Since the respondents to the questionnaire were Thai people in Thailand, it was deemed appropriate to convert the questionnaire to the Thai language. A pilot test and reverse translation technique were used to ensure accuracy and ability to understand and respond clearly. The original questionnaire was based on the Recife Declaration as described above, with the addition of some demographic characteristic questions necessary to understand the nature of the sample obtained and for hypothesis testing.

The Yamane equation suggests that a sample size of 400 would be sufficient to represent a large population with a 95% level of confidence. Consequently, convenience samples of 100 each were collected at the four research sites described

below. The researchers aimed to obtain a good representation of both men and women and also people in all the various age categories described below.

Once all questionnaires had been collected, data was entered into the open access statistical programme PSPP for analysis with a series of different techniques. The results of this analysis are included in section 4 below.

### 3.2. The Research Sites

Bangkok dominates the statistics for both domestic and international tourist visits. As many as 3.2. million visits by Thai tourists were recorded in 2017 (Ministry of Tourism and Sports, 2017), which showed an annual rise of 3.4% and revenue of 34,000 million baht (approximately US\$1,133 million), which represented an annual increase of 9.2%. By contrast, the province of Samut Prakan received over the same period 145,000 visitors (+5.0%) with revenue of 219 million baht (US\$7.3 million) (+10.9%). Located to the south of Bangkok and with a coast on the Gulf of Thailand, Samut Prakan is a relatively popular destination for day trippers and offers a combination of different kinds of resorts attractive to Thai tourists, including renowned Buddhist temples and a well-known seafood restaurant. These attractions are not necessarily attractive to international tourist, since signage and styling are only Thai in nature. However, lacking the international renown not just if the capital but regional centres such as Chiang Mai and Pattaya and the famous beaches of islands such as Samui and Phuket, Samut Prakan seems destined to remain of secondary importance only in terms of tourism overall. There is an opportunity, in other words, to develop senior tourism in Samut Prakan as a specialist destination by understanding the needs of this segment of customers and then seeking to develop the necessary services and facilities as required. To gather the necessary data to use as a basis for this purpose, four disparate locations were selected. These are as follows:

**Crocodile Farm and Zoo:** the Crocodile Farm was Thailand's first and built in 1950. It houses some 60,000 crocodiles in various locations and there is a variety of different animal shows and exhibitions, with elephants, tigers and chimpanzees also available. Car parking is provided for coaches and some international tourist (mostly coach parties of Chinese tourists) are to be found there. An entrance fee of 80 baht is charged for adults and 40 baht for children.

**Erawan Museum:** this museum was built by a private collector so as to house his own collection and showcase it to future generations. Most of the exhibits are sacred objects that are likely to resonate more with Thai people than international visitors who do not have a background in Buddhist history. The admission fee is 150 baht for adults and 50 baht for children.

**Muang Boran (Ancient Siam):** this site provides replicas of numerous buildings and activities from Thailand's past, when it was known as Siam. Many different

performances and events are provided. Adults pay 700 baht, children pay 350 baht and there is an entrance fee for vehicles of 400 baht.

**Bang Poo:** this area of land is owned by the Royal Thai Navy but is made available for members of the public to visit without charge. The grounds include a beach, mangrove swamps and a note seafood restaurant. There are no admission fees.

These four research sites are all quite popular with domestic tourists and the Crocodile Farm has some visibility with international tourists: the highway linking it to Bangkok means that it is suitable for a day trip destination. Each has a different appeal to different categories of tourist.

## 4. Findings

### 4.1. General Findings

It is possible to construct mean scores for each of these results, with 1 point given to an answer of ‘very low’ up to a peak of 5 points for an answer of “very high.” The following summary table provides these mean scores, with the higher scores indicating more importance perceived by respondents and lower scores denoting less importance.

**Table 1. Importance of Different Tourism Themes; source: Original Research (n = 400)**

Theme (mean)	Crocodile Farm	Bangpoo	Erawan	Muang Boran	Overall
Nature and Culture	3.51	4.64	4.39	4.14	4.17
Sports and Leisure	2.33	3.80	2.55	2.85	2.86
Food	3.02	4.37	3.32	3.40	3.53
Spirituality and Religion	3.09	3.57	4.77	4.39	4.21
Health and Wellbeing	3.14	3.42	3.47	3.79	3.46
Overall Mean Scores	3.02	3.96	3.70	3.71	3.65

It is evident from these figures that spirituality and religion and nature and culture are the most important factors in the minds of the respondents here. On the other hand, sports and leisure is considered by respondents to be the least important theme by some distance. The other factors are located in the middle of the spectrum of importance. Visitors to the Crocodile Farm are clearly less likely to think any of the factors is important, by some distance, while visitors to Bangpoo were most likely to find themes overall to be important.

In a manner similar to the previous section, it is possible to calculate mean scores for all factors in each location to indicate the relative importance of

each factor to each set of respondents. The results for this process are shown in the table below.

**Table 2. Mean Scores of Different Service Factors; source: Original Research (n = 400)**

Factor (mean score, 5 = high)	Crocodile Farm	Bangpoo	Erawan	Muang Boran	Overall
Clean sites	3.33	3.05	4.21	4.28	3.72
Working hours of sites	3.69	2.96	4.09	4.17	3.73
Use and availability of audio-visual media on-site	3.10	2.99	3.84	3.88	3.46
Guide services	2.96	2.87	3.75	3.79	3.35
Easy access to sites	2.85	2.94	3.84	3.81	3.37
Provision of personal facilities	3.08	2.94	3.65	3.96	3.51
Variety of activities	4.20	3.34	3.75	3.30	3.73
Affordable cost of the sites	4.22	3.49	4.53	4.26	4.13
Variety of sports offered	2.36	3.07	2.08	2.43	2.49
Variety of food events	2.94	4.22	3.23	3.31	3.43
Quality of offered activities	4.34	3.63	4.03	3.66	4.13
Variety of spiritual and religious activities	3.20	3.24	4.66	4.52	3.91
Quality of services offered by specialized personnel	2.71	2.40	2.74	3.27	2.83
Overall	3.31	3.16	3.72	3.74	3.52

These figures reveal that the most important factors are affordable cost and quality of offered activities (both at 4.13), while the least important are variety of sports offered (2.49) and quality of services offered by specialized personnel (2.83). For visitors to the Crocodile Farm, the most important factors were quality of offered activities (4.34), affordable cost of the sites (4.22) and variety of activities (4.20). For visitors to Bangpoo, the most important factors were variety of food events (4.22) and quality of services offered (3.63). For visitors to Erawan, the most important factors were the variety of spiritual and religious activities (4.66), affordable cost of the sites (4.53), clean sites (4.21), working hours of sites (4.09) and quality of offered activities (4.03). For visitors to Muang Boran, the most important factors were the variety of spiritual and religious services (4.52), clean sites (4.28), affordable cost of the sites (4.26) and working hours of sites (4.17).

The next section of the questionnaire asked the respondents to rate the relative level of importance of various general factors and aspects of tourism infrastructure using similar Likert-type scales to those employed in the previous section. The results of these questions are contained in the tables following in this section.



**Table 3. Relative Importance of General Factors and Tourism Infrastructure; source: Original Research**

Factor	Very unimportant	Unimportant	Neither important nor unimportant	Important	Very Important	N
Cuisine	0	1.3	21.3	57.5	20.0	400
Natural environment	0	0	13.3	58.8	28.0	400
Local culture	0.3	0.5	13.5	58.3	27.5	400
Hotel accommodation	41.5	46.3	6.5	5.5	0.3	400
Cottage accommodation	43.0	56.0	0.8	0.3	0	400
Camping	41.8	56.3	0.8	1.0	0.3	400
Security	0.5	1.3	10.8	40.3	47.3	400
Local transportation	23.0	38.3	17.3	9.8	11.8	400
Healthcare and medical services	0.3	11.0	59.5	23.5	5.8	400
Street level experience	0	5.3	53.0	36.8	5.0	400
Available and reliable tourism information	0	7.0	51.0	35.3	6.8	400
Opportunities for socializing	0	2.8	57.5	33.5	6.3	400
Support of guide(s)	0	9.5	50.5	33.5	6.5	400
Quality of airport services	22.5	55.8	28.5	2.0	1.3	400
Sustainability and environmental friendliness	0	2.8	44.3	35.8	17.3	400

These factors may be divided into three broad groups. The first is for those factors which tourists overall consider to be important, with more than 50% of respondents considering them to be “important” or “very important:” cuisine, natural environment, local culture, security and sustainability and environmental friendliness. The second group is of those factors which respondents consider to be unimportant, with 50% or more of respondents overall considering them to be “unimportant” or “very unimportant:” hotel accommodation, cottage accommodation, camping, local transportation and quality of airport services. The third group of factors is those which are generally considered neither important nor unimportant, with no great majority for either side: healthcare and medical services, street level experience, available and reliable tourism information, opportunities for socialising and support of guide(s). These results are indicative to the most common forms of slow tourism, which involve day trips by road vehicle to areas which are comparatively well-known.

Subsequent analysis by demographic characteristics revealed the following:

**Table 4. Significance Levels of General Factors and Tourism Infrastructure Cross-Tabulated with Demographic Characteristics; source: Original Research (n = 400)**

% age	Location	Gender	Age	Education	Marital status	Travel group
Cuisine	0.000**	0.390	0.032*	0.679	0.000**	0.181
Natural environment	0.000**	0.576	0.064	0.264	0.065	0.005**
Local culture	0.000**	0.593	0.531	0.908	0.001**	0.000**
Hotel accommodation	0.000**	0.073	0.093	0.096	0.679	0.000**
Cottage accommodation	0.000**	0.248	0.130	0.067	0.677	0.000**
Camping	0.000**	0.262	0.075	0.203	0.183	0.000**
Security	0.000**	0.443	0.156	0.405	0.008**	0.000**
Local transportation	0.000**	0.294	0.022*	0.468	0.157	0.000**
Healthcare and medical services	0.000**	0.623	0.000**	0.911	0.482	0.233
Street level experience	0.000**	0.962	0.000**	0.877	0.388	0.194
Available and reliable tourism information	0.000**	0.642	0.000**	0.739	0.656	0.082
Opportunities for socializing	0.000**	0.552	0.000**	0.997	0.224	0.527
Support of guide(s)	0.000**	0.321	0.000**	0.764	0.034*	0.517
Quality of airport services	0.000**	0.926	0.000**	0.020*	0.288	0.000**
Sustainability and environmental friendliness	0.000**	0.775	0.000**	0.011*	0.183	0.001**

It is clear from these results that, together, there are three demographic characteristics that help explain the variations in the data (i.e. significance levels of below 0.05 that demonstrate that null hypotheses of no relationship between the variables may be rejected). These are the location of the site, the age of the respondent and the nature of the people with whom the respondent is travelling. There are five significant results with respect to marital status, two for education level and none at all for gender. When designing strategies, therefore, the issue of location should be considered first and then the age of respondents and the nature of the group travelling.

The following tables indicate the analysis of those results which have been shown to be statistically significant above. In this analysis, a mean score has been calculated for each sub-group in the same manner as before, with a score of 1 for an answer of 'very unimportant' up to a score of 5 for 'very important' and the sum divided by the sample size. The results of this are as follows:

**Table 5. General Factors and Tourist Infrastructure Cross-Tabulated with Location; source: Original Research**

Mean scores	Crocodile Farm	Bangpoo	Erawan	Muang Boran	Overall
Cuisine	3.53	3.91	4.16	4.25	3.96
Natural environment	3.84	4.12	4.22	4.41	4.15
Local culture	3.76	4.08	4.24	4.41	4.12
Hotel accommodation	1.51	2.16	1.74	1.66	1.77
Cottage accommodation	1.47	1.77	1.72	1.37	1.58
Camping	1.47	1.84	1.73	1.39	1.62
Security	3.92	4.19	4.13	4.50	4.33
Local transportation	1.71	2.90	2.90	2.45	2.49
Healthcare and medical services	2.85	3.08	3.41	3.60	3.24
Street level experience	2.96	3.19	3.75	3.76	3.42
Available and reliable tourism information	3.00	3.09	3.78	3.80	3.42
Opportunities for socializing	3.06	3.18	3.70	3.79	3.43
Support of guide(s)	2.93	3.09	3.73	3.73	3.37
Quality of airport services	2.59	1.68	1.76	2.12	2.04
Sustainability and environmental friendliness	3.20	3.41	3.96	4.13	3.68
Overall	2.79	2.63	3.26	3.29	3.11

There is a general pattern here that shows that visitors to each destination generally perceive the relative levels of importance of each factor to be the same. However, visitors to Muang Boran and to Erawan find nearly all the factors to be more important than the visitors to Bangpoo and, particularly, the Crocodile Farm do (which is reminiscent of the results already reported).

#### 4.6. Hypothesis Testing

Various factors have been examined to try to estimate their importance to the overall level of satisfaction recorded by respondents. The list of specific and general factors is as follows:

Clean sites
Working hours of sites
Use and availability of audio-visual media on-site
Guide services
Easy access to sites
Provision of personal facilities
Variety of activities
Affordable cost of the sites
Variety of sports offered
Variety of food events
Quality of offered activities
Variety of spiritual and religious activities
Quality of services offered by specialized personnel
Cuisine
Natural environment
Local culture
Hotel accommodation

<b>Cottage accommodation</b>
Camping
<b>Security</b>
Local transportation
<b>Healthcare and medical services</b>
Street level experience
<b>Available and reliable tourism information</b>
Opportunities for socializing
<b>Support of guide(s)</b>
Quality of airport services
<b>Sustainability and environmental friendliness</b>

Which of these factors – and which categories of factor – are most important for trying to explain overall satisfaction? To try to answer these questions, a two-stage process has been adopted. First, the factors are arranged into categories and, second, the impact of these factors is estimated by linear regression and then by factor analysis.

The first step is to arrange the factors into categories:

Tourist infrastructure: easy access to sites; affordable cost of sites; quality of services offered by specialised personnel; hotel accommodation; cottage accommodation; camping; security; local transportation; healthcare and medical services; quality of airport services

Destination management: clean sites; working hours of sites; use and availability of audio-visual media on-site; provision of personal facilities; variety of activities; quality of offered activities; available and reliable tourism information; support of guides

Travel experience: variety of sports offered; variety of religious and spiritual activities; cuisine; natural environment; local culture; street level experience; opportunities for socialising; sustainability and environmental friendliness.

The hypothesis testing then continued with the linear regression, the results of which are as follows.

**Table 6. Linear Regression Results for Hypothesis Testing; source: Original Research (n = 400)**

<b>Tourist Infrastructure</b>	<b>Beta</b>	<b>Sig</b>	<b>Destination Management</b>	<b>Beta</b>	<b>Sig</b>	<b>Travel Experience</b>	<b>Beta</b>	<b>Sig</b>
<b>Easy access to sites</b>	0.02	0.853	Cleanliness of sites	0.01	0.928	Variety of sports offered	0.02	0.606
<b>Affordable cost of sites</b>	-0.12	0.024*	Working hours of sites	0.07	0.376	Variety of religious and spiritual activities	-0.01	0.911
<b>Quality of services offered</b>	-0.13	0.017*	Use and availability of	0.11	0.187	Cuisine	0.11	0.076

<b>by specialised personnel</b>			audio-visual media on-site						
<b>Hotel accommodation</b>	0.03	0.653	Provision of personal facilities	- 0.05	0.469	Natural environment	- 0.06	0.537	
<b>Cottage accommodation</b>	0.15	0.183	Variety of activities	- 0.12	0.012*	Local culture	- 0.01	0.903	
<b>Camping</b>	-0.02	0.627	Quality of offered activities	0.06	0.213	Street level experience	0.10	0.291	
<b>Security</b>	0.05	0.332	Available and reliable tourism information	- 0.27	0.007**	Opportunities for socialising	0.14	0.209	
<b>Local transportation</b>	0.01	0.781	Support of guides	0.11	0.272	Sustainability and environmental friendliness	- 0.05	0.392	
<b>Healthcare and medical services</b>	0.02	0.733							
<b>Quality of airport services</b>	-0.06	0.187							

These results indicate that there is comparatively little influence on the overall level of satisfaction represented by the individual categories identified here. It appears to be true that the actual location visited is more influential in explaining the overall level of satisfaction of the slow tourists visiting them.

The hypothesis testing results are:

H1: there is a relationship between tourist infrastructure and overall satisfaction: partly supported

H2: there is a relationship between destination management and overall satisfaction: partly supported

H3: there is a relationship between travel experience and overall satisfaction: not supported

Since the categories proposed here have not proved very successful in identifying the influence on overall satisfaction, it is possible to question whether a different arrangement of factors would be more successful in this regard. In a case such as this, factor analysis may be used to explore the main groupings of factors existing within the sample. This is explored in the next section.

Using varimax rotation, the analysis extracted four factors with Eigenvalues exceeding 1.0 and these factors combined explained 59.75% of total variance. This is quite a confidence inspiring result.

**Table 7. Variance Explained by Extracted Factors**

Component	Eigenvalue (rotation sum of squared loadings)	Variance explained (%)
1	5.54	31.74
2	2.35	13.45
3	1.31	7.51
4	1.23	7.04

*Source: Original Research (n = 400)*

The first of the factors is the most important of all the extracted factors, much more so than the second factor with the third and fourth lagging further behind and with approximately equal importance. Examination of the factor loadings revealed the following:

**Table 8. Factor Loadings of Principal Components Extracted**

Component	Variable	Loading
<b>1: Pilgrims</b>	Variety of religious and spiritual events	0.79
	Cleanliness of sites	0.72
	Provision of personal facilities	0.70
	Easy access to site	0.64
<b>2: Tourists</b>	Local transportation	1.07
	Hotel accommodation	0.64
<b>3: Experiencers</b>	Variety of food events	0.75
	Variety of sports offered	0.57
<b>4: Activists</b>	Variety of activities	0.68
	Quality of offered activities	0.48
	Quality of airport services	0.38

*Source: Original Research*

It is evident that, in this case, it is possible to use the factors extracted by the analysis to identify four segments of actors within the overall sample of slow tourists. The first of these has been labelled 'pilgrims' and they are particularly interested in the variety of religious and spiritual events, as well as the cleanliness of sites, the provision of personal facilities and easy access to sites. The second group has been referred to as tourists, since they are mostly interested in local transportation and hotel accommodation. It is possible to consider these tourists to be more independently minded and willing to spend longer in the destination, with interest in multiple possible destinations. The third group has been labelled as experiencers since they are interested mostly in the variety of food events available and the variety of sports offered. It seems likely that these two variables are related to sea activities, with food involving fish and seafood and sports relating to coastal and maritime activities. The fourth group has been labelled as activists and this is the only group to attach importance to the quality of airport services, suggesting that this group is

more likely to fly in from a more distant location and to have done so based on the variety and quality of activities offered.

#### **4.7. Summary of Research Findings**

The quantitative research consisted of 400 questionnaires completed by face-to-face interviews with slow tourists by the researcher at four different locations in Samut Prakan province. One hundred questionnaires were completed at each of the four research sites and efforts were taken to obtain a broadly representative sample in terms of gender, age and mode of travel.

It has been found that there are distinctive group of people visiting the different research sites and they appear to be interested in different aspects of the travel experience depending on where it is that they have gone. There are opportunities to improve the services provided to different groups based on their expressed preferences.

The literature informing the development of tourism in developing economies has not been very effective in describing the experience of slow tourists in Thailand in this sample. New ways of looking at the meaning of slow tourism are required and these are considered in the discussion section below.

### **5. Discussion**

The era of slow tourism may be seen to have developed from the rise of 'new tourism,' which was a reaction to the mass tourism that developed as a result of low cost international flights, blue-sky inter-governmental agreements and the development of tourism infrastructure in terms of ease of booking, awareness of facilities and information, money-changing and the development of new destinations so as to provide a range of options that may be segmented according to demand. This form of mass tourism had negative impacts in terms, for example, of the physical impact on locations that became completely dependent on incoming tourists and the environmental impact. The new tourism movement was a response to this and was initially characterised by societal and environmental consciousness and the search for authenticity (Poon, 1989). Authenticity was viewed as a means of entering the back region of a destination when the mass tourist enters the front region (MacCannell, 1973). New tourists sought opportunities that were small in scale and minimal in impact, often being associated with niche segments such as sports, ethnic and diaspora tourism (Conway & Timms, 2010).

This approach further developed with the emergence of the slow living concept, which rejects many of the trappings of the contemporary world in the form of fast food, surface impressions and the intermediation of social media between observer and the real world. This movement offers not just a way to enjoy life more but a

means of reassessing the position of the individual with respect to society, identity, neo-liberal models of rationality and the shift towards market-driven politics in the advanced countries where this phenomenon is most commonly witnessed (Leitch, 2003).

In the tourism context, slow tourism relates to the mode and purpose of travel and the ways in which services and experiences are consumed by those involved. There is a clear link between this concept and mindfulness, which is an important part of the Theravadin Buddhism that is dominant in Thailand. This context is composed of three parts:

- (i) Sati: awareness of the present moment;
- (ii) Appamada: awareness suffused with a sense of ethical care and
- (iii) Sampajanna: awareness suffused with a sense of spiritual development (Lomas, 2016).

It may be argued that only the first of these three meanings has been understood and adopted by western society. That means there are differences between normal tourism, slow tourism and Thai slow tourism (see Table x below):

**Table 9. Characteristics of Normal, Slow and Thai Slow Tourism**

Characteristic	Normal Tourism	Slow Tourism	Thai Slow Tourism
<b>Mode</b>	Integrative	Non-integrative	Non-integrative physically but integrative spiritually
<b>Experience</b>	Maximised overall	Individual episodes maximised	Individual experiences integrated
<b>Satisfaction factors</b>	Experience, hygiene, value for money	Authenticity	Spiritual and physical hygiene
<b>Physical and environmental impact</b>	Significant	Reduced	Aim to contribute

*Source: Original Research*

This table, based in part on the literature discussed in Chapter 2 and based in part on the research presented in this chapter, indicates the differences not just between normal and slow tourism but also between slow tourism and Thai slow tourism. It is evident from this that, in order to increase the prevalence of Thai slow tourism and its success, the following should be borne in mind:

- Thai slow tourists want to explore their spiritual lives in various ways;
- Physical characteristics of destinations are important but issues of spiritual hygiene are also important;
- Thai slow tourist aim not just to minimise their physical impact on the environment but aim to improve the situation.

The identification of this sector represents a contribution to knowledge.



## 6. Conclusion

This paper has reported on quantitative research involving 400 completed questionnaires from four tourism destinations in Samut Prakan province in Thailand aimed at determining whether a conceptual framework linking customer satisfaction and service and facilities provision based on the UNWTO's Recife Declaration accurately describes the beliefs and experiences of Thai slow tourists included in the convenience sample achieved. It was found that Thai slow tourists have some additional spiritual beliefs and behaviours that were not fully incorporated in the original declaration, which should, as a result, be updated to reflect this reality and in the case of other societies where similar phenomena may also be discerned.

Of course, research of this nature is always subject to various limitations of time and space which are acknowledged here. There is certainly a need for future research to explore the extent to which the results obtained here might be replicated elsewhere. This might happen in Thailand and also in other countries where Theravadin Buddhism is also influential in society.

The gap between the desires of Thai slow tourists as expressed in this research and those services and facilities currently available indicate various ways in which tourism destination managers and members of relevant government agencies could improve the offerings currently available. In particular, awareness of what kinds of services and experiences slow tourists actually would enjoy should be investigated thoroughly in the context of how these services might be monetised.

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## Analysis of Competitiveness Impact on Sustainable Economic Growth

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**Abstract:** The aim of this paper is to conduct an analysis that addresses the issue of competitiveness from the perspective of macroeconomic stability and gross domestic product growth over a period of 17 years (January 1, 2000 - October 31, 2017), quarterly values. Our objective is to determine the impact of competitiveness, measured by the indicators: exchange rate, inflation, interest rate, unemployment rate, volume of imports and export volume, on the evolution of gross domestic product using multiple linear regression. The results of this analysis confirm the importance of competitiveness on economic growth and can be used as a starting point for other researchers that want to analyze the evolution of the economic environment and the impact factors. The research is highlighted by the fact that it analyzes sustainable growth from a new and authentic perspective, while showing the importance of competitiveness in the general economy.

**Keywords:** exchange rate; inflation; interest rate; gross domestic product

**JEL Classification:** O1; L4; L26; L11

### 1. Introduction

The EU Cohesion Policy supporting regional and sectoral investment in economic development has been an important factor during the last 20-25 years in the process of helping poorer regions to compete in the single European market and to reach the most prosperous regions economic. The winner of the Nobel Prize for Economy, Michael Spence, said that Europe has an obligation to share its regional development experience with other countries in the world (Spence, 2011; Dawid, Herbert et al., 2013). Moreover, given the fact that literature highlight the implication of European identity as a result of interdependence between institutions of its Union, that intervenes in citizens' everyday lives, and citizen's values (Capello, 2018).

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Cohesion policy is the main investment policy of the European Union 12 (Gunasekaran et al., 2011; Samila et al, 2011). This policy addresses all regions and cities in the European Union, supporting job creation, business competitiveness, economic growth, sustainable development and improving the quality of life. Cohesion policy has a strong impact in many areas. Investments contribute to many other EU policy goals (Schwab, 2010; Balkyte & Manuela, 2010; McCann, 2016). Cohesion policy is complementary to other Union policies such as education, employment, energy, the environment, the single market, research and innovation. Cohesion policy provides, in particular, the framework and the investment strategy needed to meet the agreed growth targets (Bradley, 2015; Mendez, 2013; Ketels, 2013, Europe 2020 Strategy).

By 2020, the EU is pursuing five concrete objectives - related to employment, innovation, education, social inclusion and climate/energy. Each Member State has adopted its own national targets in these areas. Over the 2014-2020 period, € 351.8 billion - about one third of the total EU budget - was allocated to cohesion policy to meet these objectives and meet the diverse needs of all regions of the EU. Most of the funds available to cohesion policy are geared towards less developed European countries and regions, with a view to supporting them in order to recover and reduce the economic, social and territorial disparities still existing at the level of the European Union.

Cohesion policy is a catalyst for additional funding from public and private funds, as this requires Member States to co-finance from the national budget and also confers investor confidence (Stam, 2015; Colombo, 2016, p. 9; Kadocsa, György & László Borbás, 2010). Taking into account national contributions and other private investment, the impact of cohesion policy for 2014-2020 is estimated at around € 450 billion.

## **2. Cohesion Policy Objectives and Achievements**

The Cohesion Policy has 11 thematic objectives for growth in the 2014-2020 period:

1. Strengthening research, technological development and innovation;
2. Improving access to information and communication technologies and improving their use and quality;
3. **Increasing the competitiveness of SMEs;**
4. Supporting the transition to a low-carbon economy;
5. Promoting adaptation to climate change as well as risk prevention and management;

6. Preserving and protecting the environment and promoting resource efficiency;
7. Promote sustainable transport and improve network infrastructures;
8. Promote sustainability and quality of jobs and support workers' mobility;
9. Promoting social inclusion, combating poverty and any form of discrimination;
10. Making investments in education, training and lifelong learning;
11. Improving the efficiency of public administration;

The objectives of cohesion policy are achieved through three main funds:

- The European Regional Development Fund (ERDF): seeks to strengthen economic and social cohesion at regional level by investing in growth-enhancing sectors in order to generate greater competitiveness and job creation. At the same time, the ERDF finances cross-border cooperation projects;
- The European Social Fund (ESF): invests in people, with a focus on improving employment and education opportunities. It also aims to support disadvantaged people facing the risk of poverty or social exclusion;
- The Cohesion Fund: invests in green growth and sustainable development and improves interconnection in Member States with a GDP below 90% of the EU-27 average. These are, together with the European Agricultural Fund for Rural Development (EAFRD) and the European Maritime and Fisheries Fund (EMFF), the European Structural Funds and European Investment Funds (ESI) ([ec.europa.eu/esif](http://ec.europa.eu/esif)).

In order to establish the objectives, the Commission is working with Member States and regions to develop partnership agreements and operational programs outlining investment priorities and development needs. The managing authorities in the Member States manage the programs and select the individual projects. In line with this, literature highlight that funds have implications on annual growth, and can reduce regional disparities in terms of the Gini index (Fiaschi et al., 2018).

Granting funds is made according to the following steps:

- Managing authorities select individual projects. Any project with a total cost exceeding EUR 50 million must be submitted for approval to the Commission;
- At the beginning of each year, the Commission provides funds to enable countries to start investing in projects;
- Expenditure authorized by national bodies is paid by the Commission;

- Programs are constantly monitored. This includes on-the-spot audits and controls carried out by the Commission and the Member States. Both, the Commission and the Member States, must report over the entire period.

ERDF investments will support all 11 objectives, but Objectives 1-4 are the main investment priorities;

The main priorities of the ESF are Objectives 8-11, although the Fund also supports Objectives 1-4;

The Cohesion Fund supports Objectives 4 to 7 and 11;

Cohesion policy generates benefits for all EU regions (Colombo et al; 2016; Mason et al, 2013). The level of investment reflects the development needs of the Member States. Regions are classified according to their gross domestic product (GDP) in more developed, transition or less developed regions. According to this classification, funds provide between 50% and 85% of the total funding of a project. The remaining financing needs may come from public (national or regional) sources or private sources. The overall policy objective is to boost the competitiveness of Europe's regions and cities by encouraging growth and job creation.

Cohesion policy encourages regions and cities in different EU Member States to collaborate and learn from each other through joint programs, projects and networks with concrete effects on every aspect of economic life, including innovation, accessibility, education, enterprise, employment workforce or the environment. Cross-border, transnational and interregional programs are funded by the ERDF. People living outside the EU also benefit from cross-border pre-accession cooperation programs. At the same time, international cooperation can take place through a “macro-regional strategy”, an integrated framework for addressing the common challenges faced by Member States in defined geographical areas (MacKinnon, 2011; Dawley, 2011).

### **3. Analysis of the Impact of Competitiveness on Economic Growth**

Next we aim to analyze the subject of competitiveness from the point of view of macroeconomic stability and the growth of gross domestic product. In the following lines we will analyze the impact of competitiveness, measured by the indicators: exchange rate, inflation, interest rate, unemployment rate, import volume and export volume, on the evolution of gross domestic product.

#### **3.1. Presentation of Time Series**

Given that time series in their gross form has different units of measure, we will proceed to logarithm. One reason that implies the logarithm of the variables is the attenuation of the multicollinearity phenomenon. For time series that have only

positive observations, the logarithm shall be based on the command "x = log (x)" and for the time series containing both positive and negative observations, the logarithm of the series will be based on the command "x = @recode (x > 0, log (1 + x) - log (1-x))". The variables in the logarithm form will have the name "l\_x", and in the differentiated form "dl\_x".

### 3.2. Stationarity of Time Series

In order to achieve an econometric analysis, we have to consider the stationarity of the time series used. A series is considered to be stationary if the constancy conditions of the mean and variance of the time series are met. In other words, the observations used should oscillate around the average.

From an economic perspective, a series of times is stationary if a shock on it is temporary and absorbed over time. Most time series are non-static, they are considered to be I-series integrated and are denoted by I (1). In econometric terms, these time series have a single unit root (verification of stationarity is done by accepting or rejecting the null hypothesis (H0) existence of a unitary root).

The stationarity of a series of times it is made through the differentiation operation, by making the difference between the value of the variable at time t + 1 and at time t. The number of differentiation operations coincides with that of the unit rows of the series. Thus, a series that is integrated by order II (I (2)) requires a double differentiation. In this case, the differentiation will be done on the new logarithm series (the logarithm is made using the eview program).

The most well-known and used stationary tests are:

- ADF (Augmented Dickey-Fuller);
- PP (Phillips-Perron).

To test if a series of time is stationary, we run the Unit Root Test using the eview program. In the first phase we will select test for unit root in" in the "level" option. If the resulting prob \* is below the level of relevance chosen by the researcher then it means that the time series is already stationary. Otherwise, we repeat the Unit Root Test and at "Test for unit root in" we select the "1st difference" option. If, following this test, the corresponding prob is below the level of relevance then it means that our series is an integrated 1 st series and has a single root. Otherwise, the test will be replicated and selected at "Test for unit root in-2nd difference". The new resulting series will be integrated into the 2nd order and will have two single roots.

**Table 1. Synthesis of the ADF and PP stationarity test for the variables presented**

Variable description	Stationarity (ADF)	Test	Variable name after stationarity	Prob* ADF	Prob* PP
Evolution of GDP (mil. Eur)	<b>Non-stationary</b>		dl_gdp_mil	0,0262	0,0001
Evolution of GDP over the same period last year	<b>Stationary</b>		l_gdp_	0,0155	0,0486

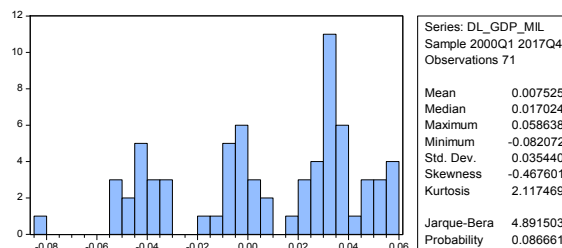
Evolution of the exchange rate (EUR/USD)	<b>Non-stationary</b>	dl_exrate	0,0000	0,0000
Evolution of Inflation Rate	<b>Non-stationary</b>	dl_hicpl	0,0000	0,0000
The evolution of the interest rate on the money market	<b>Non-stationary</b>	dl_interest_rate	0,0024	0,0014
Evolution of the unemployment rate (% of the active population)	<b>Non-stationary</b>	d2l_unempl_rate	0,0030	0,0001
Unemployment evolution (thousands of people)	<b>Non-stationary</b>	d2l_unempl_mii	0,0011	0,0001
Evolution of imports (mil. euro)	<b>Non-stationary</b>	dl_import_mil	0,0003	0,0000
Evolution of imports over the previous period	<b>Stationary</b>	l_importst_1	0,0025	0,0001
Evolution of imports over the same period last year	<b>Stationary</b>	l_importsprev	0,0038	0,0291
Evolution of exports (mil.eur)	<b>Non-stationary</b>	dl_export_mil	0,0005	0,0001
Evolution of exports over the previous period	<b>Stationary</b>	l_exportst_1	0,0017	0,0001
Evolution of exports over the same period last year	<b>Stationary</b>	l_exportprev	0,0025	0,0467

Out of the 13 variables proposed for analysis, only 5 of them were stationary in the logarithm form, for the other 9 variables we needed to generate new series and differentiate them to obtain a stationary form.

### 3.3. Distribution of Time Series

The distribution of a time series can be tested via the Histogram and the Jarque-Bera test. After processing in Eviews, the output will generate: distribution histogram, mean, median, minimum and maximum values, standard deviation, skewness coefficient, kurtosis coefficient, and Jarque-Bera test value. For the analyzed time series dl\_gdp\_mil we get the following output:

**Figure 1. Histogram of the variable dl\_gdp\_mil**





Skewness coefficient describes a normal distribution when it is zero. In the example above, the distribution of the quarterly GDP growth of the gross domestic product shows a negative asymmetry to the right.

Kurtosis coefficient describes a normal distribution if it is 3. If this indicator takes a higher value than 3 then we have a leptocurtic distribution and if it takes less than 3 then the distribution is platocurtic. In our case, the value is less than 3, which means that this distribution is platocurtic.

The Jarque-Bera test tests whether a distribution is normally distributed. The test measures the difference between skewness coefficient and kurtosis coefficient with those of the normal distribution. The test has a null hypothesis: the series is normally distributed. Thus, if the probability associated with the test is higher than the chosen relevance level (1, 5 or 10%), then the null hypothesis is accepted. In the example below, as the probability value is less than the 10% relevance level, the null hypothesis that the series is normally distributed is rejected.

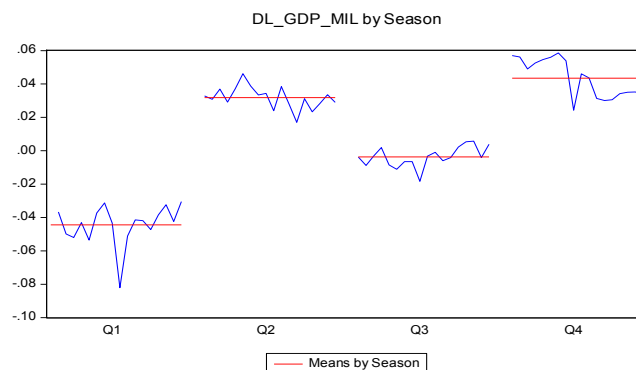
For the other variables we synthesized the main results obtained from the time series distribution tests.

**Table 2. Synthesis of time series distribution analysis**

Variable description	Variable name	Skewness value	Kurtosis value	Jarque-Bera	Prob.*
Evolution of GDP (mil. Eur)	dl_gdp_mil	-0,467601	2,117469	4,891503	0,086661
Evolution of GDP over the same period last year	l_gdp_	-1,629447	4,910706	42,813580	0,000000
Evolution of the exchange rate (EUR/USD)	dl_exrate	-0,640111	3,436213	5,411532	0,068190
Evolution of Inflation Rate	dl_hicp2	-0,083143	5,541926	24,637370	0,000004
The evolution of the interest rate on the money market	dl_interest_rate	-2,084548	10,707900	227,179700	0,000000
Evolution of the unemployment rate (% of the active population)	d2l_unempl_rate	-0,702601	2,350736	6,988730	0,030368
Unemployment evolution (thousands of people)	d2l_unempl_mii	-0,643060	2,526266	6,325120	0,042351
Evolution of imports (mil. euro)	dl_import_mil	-0,656489	5,273245	20,387510	0,000370
Evolution of imports over the previous period	l_importst_1	-0,174975	1,701380	5,426640	0,063160
Evolution of imports over the same period last year	l_importsprev	-1,484231	4,132983	30,286260	0,000000
Evolution of exports (mil.eur)	dl_export_mil	-0,866954	5,680817	30,154940	0,000000
Evolution of exports over the previous period	l_exportst_1	-0,357267	1,855182	5,463502	0,065105
Evolution of exports over the same period last year	l_exportprev	-1,968599	6,360215	80,377740	0,000000

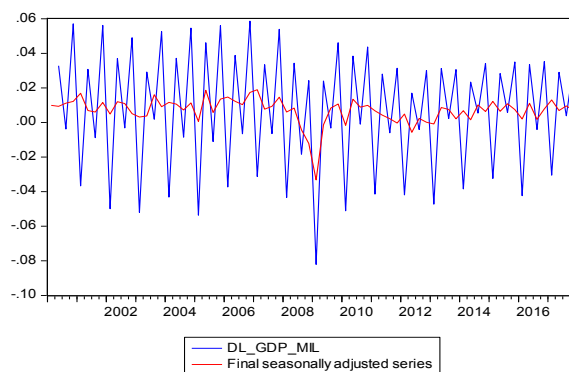
### 3.4. Seasonal Adjustment of Time Series

The seasonality of a time series refers to its relatively identical behavior in certain periods. To determine the seasonality of a time series, you can choose the graphical representation from the Eviews program for the seasonal average.



**Graph 2. Graphical representation of the seasonality of the variable  $dl\_gdp\_mil$**

The graph above represents the evolution of gross domestic product per quarter and the average of observations for each quarter (horizontal line). If the differences between quarterly averages are significant (as is the case here) then the series presents seasonality. The series can be adjusted using Eviews Seasonal Adjustment. The best known and used seasonal adjustment methodologies are Tramo / Seats (which we will use below) and Census X12. Following the use of the Tramo / Seats method, a new adjusted series will be generated that will have the ending "\_SA". The two series, the non-seasoned and the seasonally adjusted, are shown in the chart below.



**Graph 3. The graphical representation of the non adjusted series ( $dl\_gdp\_mil$ ) and the seasonally adjusted series ( $dl\_gdp\_mil\_SA$ )**

Analogously, the other variables were adjusted. Using the Tramo/Seats method, a new series with the ending “\_SA” was generated for each variable that required seasonal adjustment. These variables were:

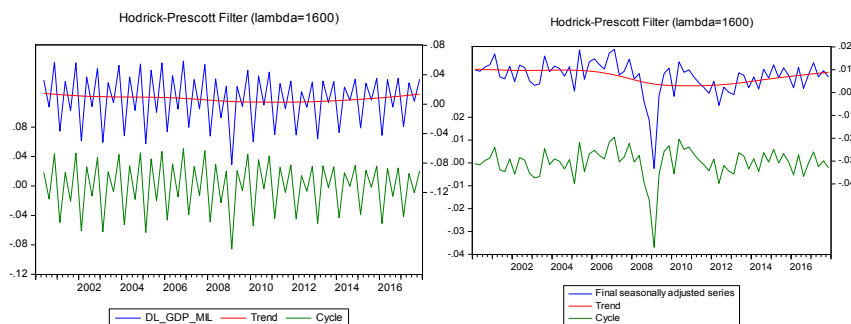
**Table 3. Time series that were seasonally adjusted using the Tramo/Seats method**

Variable description	Variable name	Variable name after seasonal adjustment
Evolution of GDP (Million Euro)	dl_gdp_mil	DL_GDP_MIL_SA
Evolution of the unemployment rate (% of the active population)	d2l_unempl_rate	DL2_UNEMPL_RATE_SA
Unemployment evolution (thousands of people)	d2l_unempl_mii	DL2_UNEMPL_MII_SA
Evolution of imports (million euro)	dl_import_mil	DL_IMPORTS_MIL_SA
Evolution of imports over the previous period	l_importst_1	L_IMPORTST_1_SA
Evolution of exports (EUR million)	dl_export_mil	DL_EXPORT_MIL_SA
Evolution of exports over the previous period	l_exportst_1	L_EXPORTST_1_SA

\* The time series that do not appear in this table did not require seasonal adjustment, so they remained in a logarithmized and differentiated form.

### 3.5. Trend of Time Series

The trend is considered to be the long-term component of a time series. The most commonly used method for delineating the trend component and trend deviation (which is calculated as the difference between the actual series and the trend series) is the Hodrick-Prescott filter. It is recommended that prior to determining the trend of a time series, make a seasonal adjustment if applicable (as we have done above).



**Graph 4. Evolution of the variables dl\_gdp\_mil (a) and dl\_gdp\_mil\_SA (b) trend and deviation trend, Hodrick-Prescott filter**

We can see from the two graphs that the seasonal adjustment reduces the large variations between the time series and its trend. Due to this adjustment we can say that the time series does not deviate significantly from the trend than in a single moment. If we look at the graph, we can see that the deviation is justified in terms of the period in which it manifests itself - the economic crisis of 2008-2009.

### 3.6. Linear Multiple Regression

Simple linear regression is the basis for analyzing the relationship between a dependent variable and several independent variables. The form of a multiple regression equation is the following:

$$Y_t = C + a_1 * X_{1t} + \dots + a_k * X_{kt} + \varepsilon_t \quad (1)$$

Where Y represents the dependent variable, X is independent variable, a is coefficients that indicate the type of connection between variables (direct or indirect), C is the constant and  $\varepsilon$  is the error term. Thus, by means of multiple linear regression, it is shown how independent variables contribute to the formation of the dependent variable, or else it shows how much the variable dependent on modifying a unit of the independent variable changes when the other independent variables remain constant. If the variables are expressed as natural logarithms, then the coefficients are interpreted as elasticity and will show how much the dependent variable changes if the independent variable changes by 1%.

For the purpose of performing the regression analysis, an equation for the evolution of gross domestic product in millions of euro (*dl\_gdp\_mil\_SA*) for the period 2000-2017 (quarterly values) will be estimated according to:

- *interest rate evolution* - through the *dl\_interest\_rate* time series. The series is logarithm and differentiated (I);
- *exchange rate evolution* - through the time series *expired*. The series is logarithm and differentiated (I);
- *Inflation rate evolution* - through the *dl\_hicp1* time series. The series is logarithm and differentiated (I);
- *The evolution of exports* - through the time series *l\_export\_prev*. The series is logarithm;
- *The evolution of the unemployment rate* - through the *dl2\_unempl\_mii\_SA* time series. The series is logarithm, differentiated (II) and seasonally adjusted.

The evolution of the Gross Domestic Product (the dependent variable) is represented in the regression by the time series ***dl\_gdp\_mil\_SA***, this variable has been logarithmized, stationarized and adjusted seasonally during the work. Following eviews processing, the results of multiple linear regression are:

**Table 4. The result of multiple linear regression**

Variable	Coefficient	Std. Error	t-Statistic	Prob.
DL_INTEREST_RATE	0.027026	0.008976	3.010806	<b>0.0037</b>
DL_EXRATE	0.030550	0.015159	2.015346	<b>0.0480</b>
DL_HICP1	-0.011653	0.005703	-2.043320	<b>0.0451</b>
L_EXPORTPREV	0.002200	0.000737	2.986063	<b>0.0040</b>
DL2_UNEMPL_MII_SA	-0.097440	0.033167	-2.937882	<b>0.0046</b>
C	0.004493	0.001335	3.365731	<b>0.0013</b>
R-squared	0.546432	Mean dependent var		0.006900
Adjusted R-squared	0.511542	S.D. dependent var		0.007506
S.E. of regression	0.005246	Akaike info criterion		-7.581902
Sum squared resid	0.001789	Schwarz criterion		-7.390690
Log likelihood	275.1575	Hannan-Quinn criter.		-7.505863
F-statistic	15.66163	Durbin-Watson stat		2.019605
Prob(F-statistic)	0.000000			

According to the regression analysis results, there is a direct link between the dependent variable *dl\_gdp\_mil\_SA* and the independent variables *dl\_interest\_rate*, *dl\_exclude*, *l\_exportprev* and between independent variables *dl\_hicp1* and *dl2\_unempl\_mii\_SA* and the dependent variable, an indirect variable. Taking into account a 5% relevance level, it can be argued that the respective coefficients are statistically significant. With the help of Test F, we can tell how well independent variables explain the evolution of the dependent variable. It determines whether all coefficients of regression at the same time have a statistically zero value.

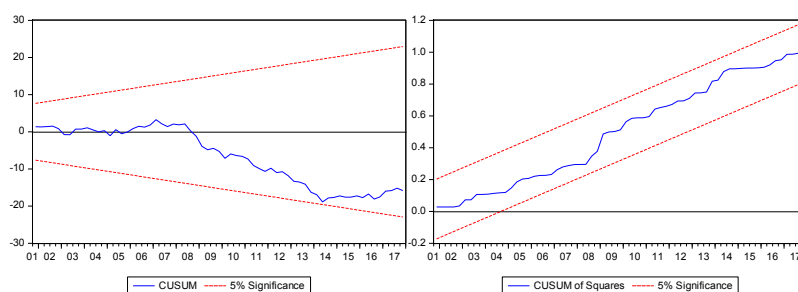
Test F has a null hypothesis: all coefficients in the regression are zero. If the probability value (Prob (F-statistic)) is lower than the assumed level of relevance, then the null hypothesis is rejected, which means that at least one of the coefficients is statistically significant. However, if the probability value is higher than the level of relevance, then the null hypothesis is accepted, which means that all regression coefficients are considered statistically insignificant (equal to zero). In the present case with a 5% relevance, we can say that all coefficients in the regression are statistically significant (Prob (F-statistic) = 0,000000).

Another relevant indicator that shows whether the regression model is well-specified is the determination ratio  $R^2$ . It shows how much of the total variation of the dependent variable is due to independent variables.  $R^2$  can take values between 0 and 1. The closer it is to 1, the more regression is better. Each time we introduce a new independent variable that is as little correlated with the dependent variable,  $R^2$  increases. An improved measure of  $R^2$  is adjusted  $R^2$  which can decrease with the introduction of new independent variables, penalizing those that have little relevance to the dependent variable. In our case, we can say that the independent variables used in the regression have a significant influence on the gross domestic product, about 51%.

The Durbin Watson State (DW) indicator is a statistical test that tests the serial error correlation. If the errors are not correlated, then the pointer will register a value around it. In our example, the DW value is 2.01, indicating that there is no serial correlation of the errors.

### 3.7. Testing the Stability of the Equation and Estimated Coefficients

To test the stability of the equation and estimated coefficients, CUSUM and CUSUM of Squares Tests are typically used. In the first case, the CUSUM test is based on the cumulative sum of recursive errors of the regression equation. In Eviews, the graphical representation of this test includes the cumulative sum of recursive errors along with critical lines of 5%. The equation parameters are considered stable if the cumulative sum of the recursive errors does not go beyond the two critical lines.



**Graph 5. Testing the stability of coefficients of CUSUM and CUSUM of Squares Tests**

According to the results of both tests we can state that the equation and its coefficients are stable.

## 4. Conclusion

Competition is an important factor in increasing economic sustainability, a factor that must be taken into account by economic agents. In a more plastic manner, we can say that through competition, firms are forced to adopt economically efficient positions, offer the widest range of products and services at advantageous prices, while also facilitating an optimal allocation of resources in society.

According to the results highlighted in this study, we can say that the competitive advantage of SMEs is a combination of: European Union support actions; adopting a competitive behavior towards other competitors on the market; the degree of business and location performance; and last but not least the degree of development of the country in which they operate.

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## Revisiting Wagner's Law in the South African Economy

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**Abstract:** As South Africa deals with the challenges associated with modelling and adopting the appropriate policy for its economic system, the underlying structural and institutional imbalances within the economy have continued to impede the effects of government expenditure on economic growth, thereby misdirecting the focus of the government. This study empirically revisits the validity of Wagner's law in the South African economy, as indicated by previous literature. The cointegration, Granger causality, impulse response function and threshold analysis were used as the estimation techniques, employing quarterly time series data for the period 1970Q1 to 2016Q4. While the cointegration results show the existence of long-run equilibrium relationship, Granger causality findings indicate a bi-directional causality between the two variables, supported by variance decomposition and impulse response analysis. The threshold regression lines conform to similar findings. This implies that in reality, Wagner's law does not apply to the South African economy, given other social factors existing in the economy. This study therefore suggests that in order to determine the real direction of causality between the two variables, there needs to be a balance in the allocation of government expenditure, especially for investment purposes, as well as to curtail the huge portion that goes towards consumption.

**Keywords:** Wagner's law; Keynesian hypothesis; Government expenditure; Economic growth; Granger causality

**JEL Classification:** H50; H53; H54; C32; C51

### 1. Introduction and Background

In recent years, the nature of economic research has shifted from determining the optimal size of government expenditure to examining the forces that drive the expansion of the size of public economy. As South Africa struggles with adopting the best economic approach in relation to its structure, in order to ensure improved productivity and growth, the question arises as to whether, in reality, Wagner's law applies to the country's economic situation. In other words, does economic growth

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as a result of increased industrialisation causes government expenditure to increase in South Africa, or is the reverse the case? Policy analysts believe that a good knowledge of which leads the other will be a determining factor in modelling and adjusting the macroeconomic framework, especially in developing economies. This implies that for South Africa to have an appropriate development strategy in place, the real direction of causality needs to be established between government expenditure and economic growth. Therefore, an analysis of the cause and effect relationship between the variables will be insightful in balancing policies, as well as maintaining an adequate allocation of government funds.

Keynes (1936) argued that increases in government spending help to boost growth by injecting purchasing power into the economy, which increases aggregate demand. Furthermore, government could reverse economic downturns by borrowing money from the private sector, and return it back through various spending programmes. Trotman (1997) believed that this theory promoted the failure of laissez-faire economic liberalism, which supports non-government intervention in the operations of the market and private sector.

Adolph Wagner (1958) proposed the theory of rising public expenditure, by analysing trends in the growth and size of government expenditure, which became known as Wagner's law. The ideology behind the law is that the expansion of government activities within an economy is endogenously determined by economic growth and development (Magableh, 2006). Therefore, increases in government activities respond positively to changes in economic growth, and as a country's income increases, the size of its public sector relative to the whole economy also increases. This implies that in the industrialisation phase, the share of government activities in the economy would increase at a greater rate than that of the national income.

Bearing the above in mind, the ideas contained in Wagner's theory, in this context, override the macroeconomic assumption that productive government expenditure will not only lead to increased output, but can substantially increase economic growth.

Several global studies have attempted to explain the causal relationship between the two variables. While some (Antonis, 2013; Kamasa & Abebrese, 2015; Masan, 2015) conclude that it is economic growth that causes an increase in government expenditure, in support of Wagner's law, others (Ebaidalla, 2013; Adil et al., 2017) indicate that the direction of causality runs from government expenditure to economic growth, in accordance with Keynesian theory. On the other hand, some studies (Tang, 2009; Magazzino, 2015) have concluded that there is a bi-directional causality between government expenditure and economic growth. However, other studies, such as Bagdigen and Centintas (2004), found no relationship at all between these variables.

In South Africa, although government has identified the shifting of the majority of its expenditure towards bridging the economic gap as one of its main targets, a significant proportion of this expenditure goes towards consumption. This is in marked contrast to the initial plan after democracy, namely that a large portion of the budget would be directed towards investments, and used for productive purposes. Government consumption expenditure as a percentage of GDP in South Africa has increased from 13% in 1970 to 14% in 1980 and 20% in 1990, with an all-time high of 21% in 2009, since 1960 (National Treasury, 2016). Within the fiscal years of 2013 and 2014, the overall budget rose to R1.15 trillion, and then to R1.25 trillion in 2014/2015, with about R682 billion being allocated to social spending, such as transferred payments, housing and free education for the poor, amongst others (Budget speech, 2013, cited in Odhiambo, 2015). Leshoro (2017) maintained that while it was stated that a huge proportion of the budget was to be earmarked for productive expenses, such as education, health and improving the country's rail infrastructure, very little has been achieved - therefore, there has been little or no significant effect on the economic growth of the country. This implies that excessive consumption expenditure, combined with other social factors in the economy, could reduce the impact of government expenditure on economic growth.

The existing South African literature (Ziramba, 2008; Odhiambo, 2015; Odo et al., 2016; Leshoro, 2017; Molefe, 2017) has provided an extensive empirical analysis of the direction of causality between government expenditure and economic growth, and validates the applicability of Wagner's law to the economy. However, none of the literature employed the impulse response function in their analysis, since the Granger causality test may not provide complete information on the interactions between the variables of a system (Algaeed, 2017). Molefe (2017) applied the impulse response technique, but it was between the GDP and other variables, including government expenditure, which might not show the real response, because shocks from other variables might have affected the outcome. Therefore, in the midst of constant GDP growth decline in the South African economy, it will be useful to determine the response of gross government expenditure to an impulse from real economic growth or vice versa. Since it is assumed that if one variable reacts to an impulse in another variable, this will mean that the latter causes the former. Furthermore, much attention has been given to other factors dampening the impact of government expenditure on economic growth in the country, without necessarily determining the sustainable level of government expenditure required for growth. Against this background, this study is different from others because, apart from using the Granger (1981) causality test, it measures the response of one variable to an impulse in another, using the impulse response technique developed by Sims (1980), and applies the threshold of the natural logarithm of government expenditure to measure the size of government required for the needed economic growth.

The remainder of the study is structured as follows: section 2 presents the theoretical framework, methodology and estimation techniques used in the study, as well as the data analysis. The estimation results are discussed in section 3, and section 4 concludes the study with policy recommendations.

## 2. Theoretical Framework, Methodology and Data Analysis

### 2.1. Theoretical Framework

Since the objective of this study is to determine the validity of Wagner's law or Keynesian theory in the South African economy, the theoretical framework adopted is Wagner's law and the Keynesian hypothesis. The benefit of this approach is that whichever theory is validated, effective economic planning and forecasting will be possible, considering the current economic situation in South Africa. The two theories have been adopted in studying various countries' economic positions, both developed and developing, as contained in the stylised facts in section one. However, results still remain inconclusive. With the above in mind, the Granger causality test is based on the assumptions that: the future cannot cause the past, but the past causes the present or future, and a cause contains unique information about an effect not available elsewhere (Lin, 2008:1). Therefore, for the purpose of this study, the test for the two stationary variables  $x$  and  $y$  can be written as follows:

$$Y_t = \alpha_0 + \alpha_1 Y_{t-1} \dots + \alpha_i Y_{t-i} + \beta_1 X_{t-1} + \dots \dots \dots \beta_i X_{t-i} + \mu_{1t} \quad (2.1)$$

$$X_t = \lambda_0 + \alpha_1 X_{t-1} \dots + \alpha_i X_{t-i} + \delta_1 Y_{t-1} + \dots \dots \dots \beta_i Y_{t-i} + \mu_{2t} \quad (2.2)$$

Where the subscript  $t$  denotes time periods  $\mu_{1t}$  and  $\mu_{2t}$  in equations 2.1 and 2.2, and the error terms are assumed to be uncorrelated. The constant parameter  $\lambda_0$  represents the constant growth rate of  $Y$  in equation 2.1 and  $X$  in equation 2.2. The trend in the variables can be interpreted as general movements of cointegration between  $X$  and  $Y$ . While equation 2.1 shows that current  $Y$  is related to past values of itself and that of  $X$ , equation 2.2 postulates that current  $X$  is related to past values of itself and that of  $Y$ . The four possible causal directions between  $x$  and  $y$  are: bilateral, independent, unidirectional from  $x$  to  $y$ , and unidirectional from  $y$  to  $x$ . The equation for orthogonalised impulse responses can be formulated as follows:

$$y_t = B\varepsilon_t + \sum_{i=1}^{\infty} \theta_i \varepsilon_{t-i} \quad (2.3)$$

Where  $\theta_i = \phi_i B$ ,  $i = 1, 2, \dots$ . The  $\varepsilon_t$  has a diagonal or even unit covariance matrix, and is contemporaneously uncorrelated, that is, orthogonal. Moreover, the shocks from  $\varepsilon_t$  may give a clear understanding of the reactions in the system (Durlauf et al., 2010:146).

## 2.2. Methodology

The method of estimation employed in this study is the Granger causality test and impulse response function. The estimate involves the impulse response analysis of restricted VAR (VECM), in accordance with Johansen's (1995) estimation process, using the orthogonalised Cholesky ordering technique. The procedure for conducting the Granger causality test starts with analysing the time series properties of the data, using the Augmented Dickey Fuller (ADF) (1971, 1981) and Philips-Perron (PP) (1988) unit root tests. The cointegration analysis introduced by Granger (1981), Engle and Granger (1987), and Johansen and Juselius (1990), was also employed to establish whether there is a long-run equilibrium relationship among the variables. Thereafter, since it is assumed that the cause cannot come after the effect, the Granger causality test was applied to analyse the causal relationship between the variables under consideration, and a further analysis of the variance decomposition was done, in order to confirm the results. To determine the response of one variable to an impulse in another, the impulse response function introduced by Sims (1980) was further employed. This approach has been used by other researchers, such as Glass (2009), Algaed (2017) and Molefe (2017), amongst others, to examine the response to shocks between variables. Lastly, a relationship line was fitted between gross government expenditure and real economic growth, in order to determine the level of government expenditure required for sustainable economic growth.

From the assumptions contained in the theoretical framework chosen for this study, namely Wagner's law and the Keynesian hypothesis, the models to be estimated in this study were specified as follows:

$$GE_t = \alpha_0 + \alpha_{1t} \Delta GDP_t + \varepsilon_t \quad (2.4)$$

$$GDP_t = \alpha_0 + \alpha_{2t} \Delta GE_t + \varepsilon_t \quad (2.5)$$

Where  $GE_t$  represents government expenditure as a percentage of GDP at time  $t$ ,  $GDP_t$  is the real gross domestic product at time  $t$  as a measure of economic growth.  $\Delta GDP_t$  describes changes in the real gross domestic product as a result of changes in increases in government expenditure at time  $t$ , and  $\Delta GE_t$  describes changes in government expenditure as a percentage of GDP as a result of increases in GDP at time  $t$ .  $\varepsilon_t$  is the error term of the stochastic variable, which considers inexact relationships between economic variables.  $\alpha_0$ ,  $\alpha_1$ , and  $\alpha_2$  are the unknown parameters to be estimated.

The log-linear form of the model to be estimated is written thus:

$$GE_t = \alpha_0 + \alpha_{1t} LN\_ \Delta GDP_t + \varepsilon_t \quad (2.6)$$

$$GDP_t = \alpha_0 + \alpha_{2t} LN\_ \Delta GE_t + \varepsilon_t \quad (2.7)$$

Based on the models specified above, the variables employed in this study are the real domestic product (GDP) and gross government expenditure (GEXP) recurrent and capital proxy for total government expenditure.

### 2.3. Data Analysis

The data employed in this study consist of quarterly time series data sourced from the South African Reserve Bank (SARB). The data covered the period 1970Q1 to 2016Q4, based on the availability of data. All data were expressed in natural logarithm form, and were accessed in 2017.

## 3. Empirical Analysis

### 3.1. Unit Root Test

Based on the methodology adopted in this study, the stationarity of the variables was tested using the ADF and PP unit root tests. The findings, as shown in table 3.1 revealed that GDP and GEXP were not stationary at level, which implies the

**Table 3.1. Unit root test results**

Series	Model	ADF		PP		Order of integration I(d)
		Level	First difference	Level	First difference	
GDP	None	4.314276 (1.0000)	- 4.997578*** (0.0000)	4.355800 (1.0000)	-8.672438*** (0.0000)	I(1)
	Constant	-0.412420 (0.9033)	- 10.35813*** (0.0000)	-0.592723 (0.8681)	-10.61092*** (0.0000)	I(1)
	Constant and trend	-1.553294 (0.8075)	- 10.33125*** (0.0000)	-1.734960 (0.7319)	-10.58704*** (0.0000)	I(1)
GEXP	None	- 3.962626*** (0.0001)	-2.290501** (0.0216)	- 9.916996*** (0.0000)	-11.19561*** (0.0000)	I(1)
	Constant	- 4.476359*** (0.0003)	- 5.223749*** (0.0000)	- 4.150595*** (0.0010)	-15.16693*** (0.0000)	I(1)
	Constant and trend	0.496655 (0.9993)	- 13.03684*** (0.0000)	0.159997 (0.9976)	-16.53575*** (0.0000)	I(1)

Notes: Null: Unit root (Automatic - based on SIC, maxlag=14): ADF (t-statistic)  
Null: Unit root (Newey-West automatic using Bartlett kernel): PP (adjusted t-statistic)  
\*\*\*, \*\* and \* are 1%, 5% and 10% significance levels respectively

Source: Author's calculation from Eviews 7

presence of random walk stochastic components in the variables, and if used for estimation, this would lead to a spurious regression. Further tests at first difference showed that the series is stationary at first difference, with a 99% confidence level. This means that the variables are integrated of order [1(1)].

### 3.2. Cointegration test

Since part of the objectives of this study includes determining whether there is a relationship between the variables under consideration.

**Table 3.2. Cointegration test results**

Trace test				Maximum Eigen value test			
H <sub>0</sub>	H <sub>1</sub>	$\lambda$ -trace statistic	p-value	H <sub>0</sub>	H <sub>1</sub>	$\lambda$ -max statistic	p-value
<b>GDP and GEXP</b>							
$r=0$	$r \geq 1$	202.9419	0.0000*	$r=0$	$r \geq 1$	68.39722	0.0000*
$r \leq 1$	$r \geq 2$	70.19847	0.0014*	$r \leq 1$	$r \geq 2$	37.83343	0.0059*

Notes: \*Rejection of the null hypothesis of no cointegration at least at 10% level of significance.

Source: Author's calculation from Eviews 7

The cointegration analysis was used in this regard, and the results from the cointegrating vectors in Table 3.2 show the presence of cointegration. The trace-statistic and the maximum Eigen statistics show that the equations are statistically significant at the 10% significance level. Therefore, this study does not accept the null hypothesis that there is no cointegration and, allowing for a linear trend, there is a long-run equilibrium relationship among the variables. This implies that the variables have the ability to assert either negative or positive effects on each other in the long-run.

### 3.3. Granger Causality Test

The Granger causality test was carried out using the F-statistics at 1%, 5% and 10% significance levels, as shown in Table 3.3, in order to validate the applicability of Wagner's law or the Keynesian hypothesis to the South African economy. This study

**Table 3.3. Granger causality test results**

Null hypothesis	Observations	F-statistic	p-value	Direction of relationship observed
GDP does not Granger cause GEXP	174	2.67111	0.0017***	
				GDP $\leftrightarrow$ GEXP
GEXP does not Granger cause GDP		1.80668	0.0426**	

Notes: \*\*\*, \*\* and \* are 1%, 5% and 10% significance level respectively

Source: Author's calculation from Eviews 7

adopted the approach as its main objective, in that it will help the country to formulate a policy plan that will be directed towards eliminating the mismatch in the economy. The results revealed that there is a bi-directional causality between GDP and GEXP in South Africa within the period under investigation. Considering the percentage, more causality runs from GDP to GEXP at 99% confidence level, and less causality runs from GEXP to GDP at 95% confidence level. This does not conform to previous conclusions drawn by Odhiambo (2015); Odo, et al. (2016); Leshoro (2017) and Molefe (2017) in relation to the South African economy.

### 3.4. Variance Decomposition

To further analyse the pass-through of external shocks in each economic variable under study, variance decomposition was used, and the findings, as presented in Table 3.4, revealed that for the 22 periods tested between GDP and GEXP.

**Table 3.4. Variance decomposition results**

Period	Variables		
	SE	GDP	GEXP
<b>Panel A: Variance Decomposition of GDP</b>			
1	0.008868	100.0000	0.000000
2	0.014318	99.98004	0.019955
3	0.018589	99.97286	0.027144
4	0.022121	99.96783	0.032170
5	0.025165	99.96403	0.035970
6	0.027866	99.96078	0.039222
7	0.030313	99.95781	0.042190
8	0.032562	99.95499	0.045009
9	0.034651	99.95225	0.047751
10	0.036609	99.94954	0.050458
15	0.044983	99.93590	0.064100
16	0.046448	99.93309	0.066908
17	0.047858	99.93025	0.069752
18	0.049219	99.92737	0.072634
19	0.050534	99.92445	0.075554
20	0.051807	99.92149	0.078513
21	0.053042	99.91849	0.081513
22	0.054240	99.91545	0.084553
<b>Panel B: Variance Decomposition of GEXP</b>			
1	0.034183	1.114707	98.88529
2	0.044233	1.883203	98.11680
3	0.052950	2.304714	97.69529
4	0.060263	2.601541	97.39846
5	0.066735	2.824754	97.17525
6	0.072573	3.008202	96.99180
7	0.077925	3.167746	96.83225
8	0.082883	3.312296	96.68770
9	0.087517	3.446999	96.55300
10	0.091875	3.575032	96.42497
15	0.110629	4.168158	95.83184
16	0.113916	4.282726	95.71727
17	0.117081	4.396884	95.60312
18	0.120135	4.510853	95.48915



19	0.123086	4.624806	95.37519
20	0.125942	4.738875	95.26112
21	0.128709	4.853169	95.14683
22	0.131394	4.967772	95.03223

Note: Orthogonalised Cholesky ordering technique was used

*Source: Author's calculation from Eviews 7*

One tenth of the periods is assumed to be the short-run period, and the remainder is the long-run period. In panel A of the table, the response of GDP to shocks shows that at period 10, in the short-run, own shocks cause 99.949% fluctuations and 99.915% fluctuations in the long-run. In the short-run, shocks in GEXP cause 0.050% fluctuations in GDP, while in the long-run, shocks in GEXP causes 0.085% variations in GDP. These results imply that own shocks of GDP contributed a larger portion of variations in GDP in both short-run and long-run periods. Panel B of Table 3.4 shows the fluctuations in GEXP, and the empirical results revealed that in the short-run, own shocks contributes 96.425% variations in GEXP, and 95.032% in the long run.

The innovations in GDP cause 3.575% fluctuations in GEXP and 4.968% fluctuations in the long run. The results show that own shocks of GEXP contributes a higher proportion of variations in GEXP in the short-run, as well as in the long-run.

The implication of these findings is that shocks in GDP to variations in GEXP are larger than shocks in GEXP to variations in GDP in the years under consideration. This validates the findings from the Granger causality test that GDP has a higher impact on GEXP than otherwise.

### **3.5. Impulse Response Function Results**

To ensure that shock in one variable is uncorrelated with other variables, the cholesky transformation was employed to orthogonalise the impulses. Table 3.4 presents the degree of reaction of the endogenous variables in the restricted VAR system to standard deviation shocks or innovations, that is, the stochastic components.

**Table 3.5. Impulse response function results**

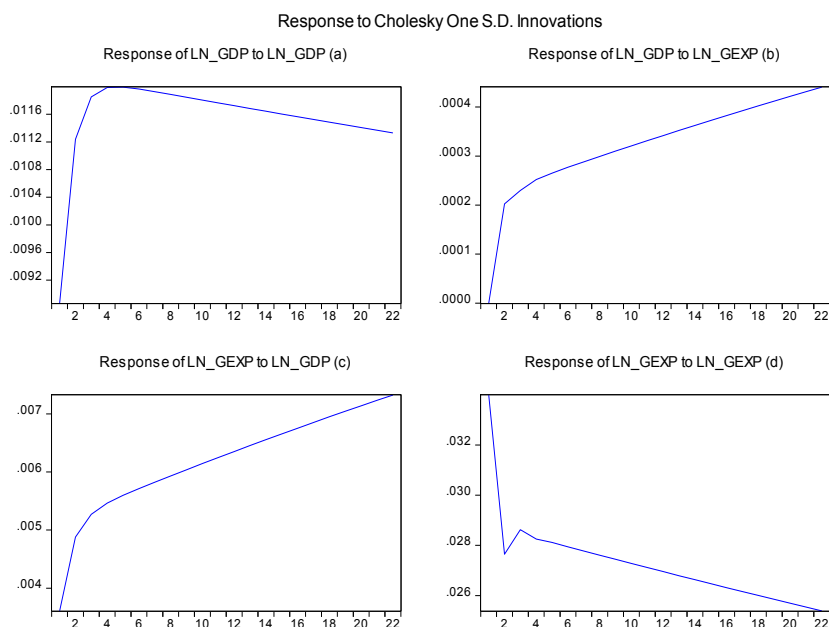
Period	Variables	
	GDP	GEXP
<b>Panel A: Response of GDP</b>		
1	0.008868	0.000000
2	0.011240	0.000202
3	0.011853	0.000230
4	0.011988	0.000252
5	0.011994	0.000265
6	0.011966	0.000277
7	0.011928	0.000288
8	0.011888	0.000299
9	0.011847	0.000310
10	0.011806	0.000321
15	0.011605	0.000373
16	0.011565	0.000383
17	0.011525	0.000393
18	0.011486	0.000402
19	0.011447	0.000412
20	0.011408	0.000422
21	0.011369	0.000431
22	0.011330	0.000441
<b>Panel B: Response of GEXP</b>		
1	0.003609	0.033992
2	0.004881	0.027645
3	0.005270	0.028625
4	0.005464	0.028249
5	0.005597	0.028118
6	0.005713	0.027942
7	0.005824	0.027775
8	0.005932	0.027608
9	0.006039	0.027442
10	0.006145	0.027278
15	0.006656	0.026472
16	0.006755	0.026314
17	0.006853	0.026158
18	0.006950	0.026002
19	0.007046	0.025847
20	0.007140	0.025694
21	0.007234	0.025541
22	0.007326	0.025390

Note: Orthogonalised Cholesky ordering technique was used

Source: Author's calculation from Eviews 7

The empirical findings in panel A revealed that GDP reacted to own one standard shock positively in the short-run, but negatively in the long-run, and declined steadily from period 6 to period 22. The results also showed that GDP is positive throughout, as shown in Panel A and Figure 3.1(a) respectively. GDP reacted positively to one standard deviation shock in GEXP from period 1 to period 22 in the short-run and long-run periods. Panel B of Table 3.4 shows the reaction of GEXP to one standard deviation shock in own shocks and GDP. The findings further revealed that GEXP reacted negatively to one own standard deviation shock in both the short-run and long-run periods, as shown in Figure 3.1(d). The one standard deviation shock in GDP in the short-run and long-run causes positive reactions to

GEXP in the short-run and long-run, as shown in Panel B of Table 3.4 and Figure 3.1(c).

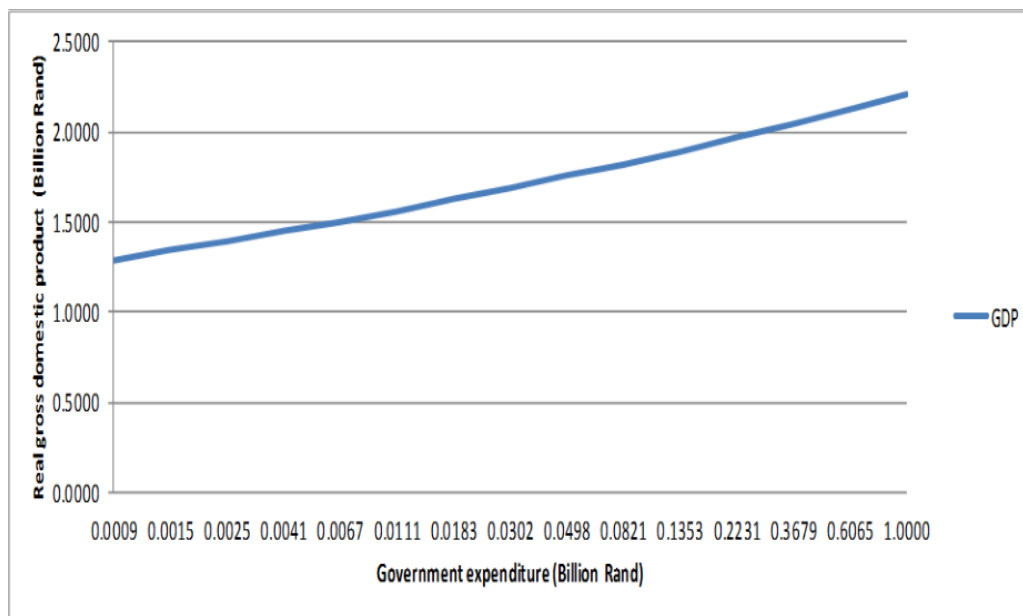


**Figure 3.1. Impulse response function**

*Source: Author's calculation from Eviews 7*

### 3.6. Threshold Analysis Results

From the Granger causality test results, it has been determined that there is a bi-directional causality between GDP and GEXP in South Africa within the period investigation. Although the findings indicate that GDP causes GEXP, this under study considers GEXP as the key determinant of economic activities, since budgets of Ministries, Departments and Agencies (MDAs) play key roles in socioeconomic activities in South Africa. Therefore, it will be imperative to measure the sustainable level of GEXP required for GDP growth in South Africa. This was estimated from the long-run regression estimates of the GDP model, by fitting a relationship line between GDP and GEXP.



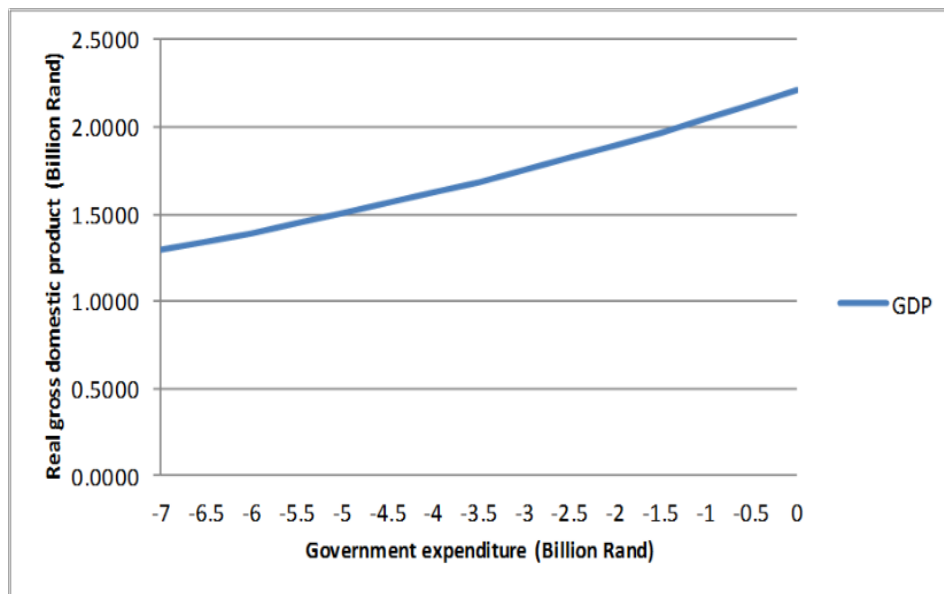
**Figure 3.2. Relationship line between GDP and GEXP**

*Source: South African Reserve Bank Database (2017)*

The threshold of the natural logarithm of GEXP ranges from -7 to 0 in South Africa, with -7 to -4 representing low GEXP, -3.5 to -0.5 representing moderate GEXP, and 0 and above representing high GEXP in South Africa.

The empirical results show that when GEXP stood at R0.0009 trillion, South Africa recorded R1.2901 trillion of GDP, and when GEXP rose to R0.0183 trillion on the trend line, the GDP increased to R1.6247 trillion in South Africa. The results further show that when GEXP reaches R0.6065 trillion, a GDP of R2.1262 trillion is attainable. For the South African economy to attain the maximum GDP of R2.2095 trillion, a GEXP of about R1.0000 trillion needs to be maintained.

From the threshold results, for an annual GDP of at least 4% to be achieved in South Africa, more than 64% of GEXP must be maintained annually. This implies that all the income streams in the economy need to be maximised. Moreover, government needs to be more efficient in generating revenue for the federation account, which can be spent on development.



**Figure 3.3. Threshold of natural logarithm of GEXP**

*Source: South African Reserve Bank Database (2017)*

#### 4. Conclusion and Recommendation

We revisit the belief that Wagner's law applies to the South African economy. Although previous studies have validated the law, none have considered that the economy's underlying social factors might have been limiting the impact of government expenditure on economic growth. This is particularly important because the budgets of Ministries, Departments and Agencies (MDAs) play key roles in socioeconomic activities in the economy.

In this study, cointegration analysis, the Granger causality test, impulse response and threshold analysis were used to determine the causal relationship between government expenditure and economic growth in South Africa. The analysis was carried out using quarterly time series data from 1970Q1 to 2016Q4. The estimation that was performed portrayed a bi-directional causal relationship between gross GEXP and real GDP. However, the stylised facts contained in section 1 showed that structural and institutional factors hindered the positive effect of GEXP on GDP.

The main findings of this study revealed the following:

Firstly, there is a long-run equilibrium relationship between GDP and GEXP. This implies that within the South African economic environment, gross government expenditure and real economic growth have the ability to impact each other negatively or positively in the long-run. Therefore, the conclusion drawn in previous studies that it is only GDP that can assert pressure on GEXP is countered by this analysis.

Furthermore, the findings from the Granger causality test, variance decomposition, and impulse response function confirmed that a bi-directional causality exists between GDP and GEXP. However, in the long-run, GDP causes GEXP by a small margin of 99% to 95% confidence level. This small margin between GDP and GEXP can be attributed to other structural and institutional factors inhibiting the effects of GEXP on GDP in South Africa. For example, there is excessive government consumption expenditure, whereby a huge portion of this consumption expenditure is directed towards transferred payments, instead of investments. This has allowed individuals to continue to make themselves eligible for such payments, without necessarily contributing to increased productivity and economic growth. This explains why, despite the increase in government spending, there is no significant effect on economic growth. As noted earlier in the stylised facts, with evidence from previous studies, increasing government consumption expenditure can be detrimental to the growth of any economy. This study concludes that gross government expenditure is the key determinant of economic activities. Therefore, in reality, it is the Keynesian hypothesis that holds in the South African economy, not Wagner's law. This is partly in contrast to the results of Ziramba (2008), using the ARDL bounds testing and annual data, suggesting that both the Keynesian hypothesis and Wagner's law are not applicable in the South African economy

This study therefore highlights the need for the South African government to balance the allocation of its expenditure, especially for investment purposes, as well as to curtail the huge portion that goes towards consumption. In addition, functionality and various individual contributions need to be encouraged more, by checking various forms of transferred payments in the economy.

Further studies can break the data into different periods to allow for changes to allow for different economic periods in South Africa.

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## Fosters of Innovation in Services and Manufacturing Firms: The Case of Kosovo

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**Abstract:** The purpose of this study is to discover, compare and contrast the fosters of innovation in the services and manufacturing firms in Kosovo. This study is exploratory and a mixed methodology is used, while the findings are compared and contrasted with the current state of knowledge. Based on the findings, the main fosters of innovation identified are mechanisms of continuous learning, knowledge creation and the development of employees skills. Regarding the differences between these two sectors, findings indicate that employee incentives and awards are highly esteemed in the manufacturing sector whereas strong leadership is found to be the main foster of innovation in the services sector. Additionally, good communication and discipline are among the key success factors in the manufacturing sector, however, these factors aren't found to be of paramount importance in the services sector. The contribution of this research is in enriching and extending the current state of knowledge regarding the fosters of innovation in the services and manufacturing firms. Moreover, this is a unique contribution for academics and practitioners of developing countries.

**Keywords:** Enablers of innovation; service firms; manufacturing firms; innovation; Kosovo

**JEL Classification:** L26; L6; L80; O3

### 1. Introduction

Global changes in the business environment are causing an increase in competition and thus making it compulsory for businesses to adapt on a fast rate to costumers shifting preferences. To achieve this adaptation, organizations have to engage in product, services or business model innovations (Navickas & Kontautiene, 2013). Moreover, global recession and slow economic growth are becoming a major reason for companies to innovate (Sawhney et al., 2006). Evangelista and Vezzani (2012) confirm that innovations have a positive impact generally and specifically in job creation in the services and manufacturing sectors.

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The significance of innovation is still increasing due to globalization and required changes in the internal environment of businesses. Moreover, customer behavior is changing and day-by-day expectations from producers and service providers are increasing. So, it is an indispensable need for businesses to innovate in order to decrease their costs, enhance their productivity (Baird et al., 2011; Fallah & Lechler, 2008) and remain competitive in the market (Oksanen & Rilla, 2009; Song et al., 2010).

The need to study innovation, especially among EU countries is increasing dramatically. In particular, the focus on innovation enablers is highly increasing. This is becoming one of the hot topics of the EU agenda due to the lag behind the US in innovation and high growing firms (Bartelsman et al., 2005). According to Oke (2004) innovations in services are lagging behind innovations in manufacturing and he argues that knowing the enablers of innovation in each sector could help explain the reasons behind this difference. Bringing the discussion on the local level where the study is focused, it is appropriate to stress out that little is known about the fosters of innovation in Kosovo's services and manufacturing firms.

Thus, in this paper, the fosters of innovation among Kosovo's services and manufacturing firms will be identified, discussed and compared. In this study, there will be used both, theoretical and empirical approaches. Since the nature of the study is exploratory, the theoretical part will be covered by a general discussion on the fosters of innovation. A relevant literature review will explain the importance and significance of studying the fosters of innovation in the services and manufacturing firms. Then, a methodology justification, sampling, and data analysis will continue toward the end of this paper with findings, conclusion, and recommendations.

The research objectives to achieve understanding and analyzing the query are:

- O1. Discover the fosters of innovation in Kosovo's services and manufacturing firms;
- O2. Compare and contrast the fosters of innovation between services and manufacturing firms;
- O3. Compare and contrast the findings with the existing literature.

## **2. Literature Review**

### **2.1. Enablers of Innovation**

It is necessary to explore the literature on the factors that foster innovation in the services and manufacturing firms. This is justified by the fact that managers of innovation processes should have knowledge of the factors that foster innovation in their firms. Moreover, to develop a culture of innovation requires having knowledge

of the factors that foster innovation (Ariss & Deilami, 2012). Among the most common fosters of innovation found in the literature include organizational culture, organizational structure, leadership, human resource and human capital, openness towards risk-taking, employee rewards, incentives, and state policies. Each of these factors will be discussed individually.

### **2.1.1. Organizational Culture**

An innovation culture embedded in an organization is one of the most influential factors in fostering innovation. This is supported by many studies carried out by Voelpel et al. (2005), Sarros (2007), Chesbrough (2010), Vilà and MacGregor (2010) and more recently Sharifirad and Ataei (2012). A culture of innovation integrated within an organization can stimulate innovation and it can facilitate the way top management implements its innovation strategy (Sharifirad & Ataei, 2012).

March-Chorda and Moser (2009) suggest that top management should also maintain their focus on innovation management and encourage a creative mind among employees, thus a culture of innovation will be developed. Cummings and Oldham (1997) suggest that top management should create an innovation-friendly environment where employees can express themselves freely, can experiment with complex tasks, are independent and are simultaneously driven by the competitiveness of their co-workers (Dobni, 2008).

### **2.1.2. Organizational Structure**

Among other factors, organizational structure plays a significant role in enabling innovation. Tidd and Hull (2006) argue that hierarchical organizational structures can be successful mainly in manufacturing industries. This argument is criticized by March-Chorda and Moser (2009) who claim that hierarchical organizational structures have implied positive effects on innovation regardless of the sector (manufacturing or services). This finding breaks the argument of rigid structures as inhibitors of innovation and it suggests that organizational innovativeness is not related to organizational structure. Nowadays the tendencies are to avoid the traditional designs of organizational structures and outdated principles of hierarchy and formality, instead, innovative contemporary designs are flourishing towards network structures (Phelps, 2010) and learning organizational structures as the main fosters of innovation (Jiménez-Jiménez & Sanz-Valle, 2011).

Cosh and Fu (2012) in their study about centralized and formal structures influence on innovation performance found that in conventional larger firms, decentralized but formal structures tend to have a higher impact on innovation performance. No matter the long tradition of a firm, this form of organizational structure has shown higher advantages against other designs. In contrast, March-Chorda and Moser (2009) suggest that managers should assess their organizational structures when planning to develop an innovation culture.

### **2.1.3. Leadership**

Another strong link to innovation performance is leadership or top management's support for innovation practices (Paulsen et al., 2013; Steiber & Alänge, 2013; Vila & MacGregor, 2010; Makri & Scandura, 2012; Hunter & Cushenbery, 2011). It is common knowledge that different types of leadership exist. However, there are different views among scholars regarding the question of what leadership type will fit best in fostering innovation. Leadership will undoubtedly effect innovation, especially in the dimensions of quality, quantity, and novelty. Traditional leadership has been criticized for its lack of aspiration for transformation and its surviving instinct. Therefore, according to Makri and Scandura (2012), traditional approaches of leading are not fitting with innovation. They suggest more tailored leadership approaches in order to manage the innovation process. They define two types of contemporary leaders, operational and creative leaders. According to them, a leader who focuses on developing the human capital and supports an innovation culture is considered a creative leader who supports risk-taking and experimentation. Hence, it is acclaimed that a leadership approach which enables employee empowerment and shows less control and authority will in default foster innovation (Spreier et al., 2006).

According to Paulsen et al. (2013), the best leadership style to support and foster innovation is the transformational leadership style. This style will boost levels of innovation within companies due to its focus on "team climate" and "identification". According to Paulsen et al. (2013), managers should positively accept transformational leadership and recommend adapting this style, especially during the phase of organizational change. Encouraging employees to build a team identity and a positive environmental climate will lead to creating sustainable innovation and boost innovation performance.

### **2.1.4. Human Resources and Human Capital**

Human resources are an integrative part in the innovation process. Human resources are the key factors that enable and boost innovation through idea generation, processing and realization. Human resources are the drivers of innovation performance and overall organizational success (Bornay-Barrachina et al., 2012; Alpkan et al., 2010). Thus, discovering and recruiting talented and creative employees, will in return nurture the innovation culture in an organization.

### **2.1.5. Employee Rewards and Incentives**

The literature suggests that stimulating employees with rewards could foster innovation (Cabrales et al., 2008). Cabrales et al. (2008) suggest that employee incentives stand in positive relationship with a surge in performance. Moreover, according to Ederer and Manso (2013), rewards are in a positive relationship with an increase in innovation performance, especially if payment schemes are

simulative. Manso (2011) argues that innovation is a product of exploration and experimentation, which is characterized by failures too. Therefore, top management should support this process and reward employees who constantly explore and experiment with new ideas and practices.

#### **2.1.6. Openness towards Risk Taking**

Openness towards risk-taking activities is one of the elements that characterize an innovation culture within an organization. According to Merton (2013), being able to beat the threat of risk and willing to take a risk instead, is one of the main fosters of innovation.

It is unquestionable that fear from failing and risk aversion are among the main reasons for lack of innovation. This is proven by Cabrales et al. (2008) who state that encouraging employees to take risks could lead to breakthrough innovations. As noted by Manso (2011), managers should be tolerant toward failure in experimentation and open towards learning and exploring. According to Merton (2013), there should be a wise reservation when it comes to innovation since innovation carries risks with itself, therefore a good assessment of risks and associated factors and a wise "modeling of consequences" could be very helpful in preventing failures and boosting innovation performance.

#### **2.1.7. State Policies**

Authors like Blind (2012) have found a strong association between state policies and innovation development. This relationship is mainly attributed to the environment and legislation frameworks which enable/disable innovation. According to Dolfisma and Seo (2013), governments should adopt policies based on the type of innovation. Therefore, adopting a legislative environment, which supports innovation, is a top priority of a modern state.

### **3. Methodology**

In this study, a mixed methodology was utilized. Based on the literature, using mixed methods or multiparadigmatic methods (Mangan et al., 2004) can utilize the strengths of both methodologies and can give the researcher more freedom for choosing the approach to best extract what they are looking for and according to (Johnson et al., 2007) mixing methods can provide "the most informative, complete, balanced, and useful research results" (p. 129).

In order to satisfy the research objectives of this study, two research instruments were implemented. In principle, there is a structured survey questionnaire and an open-ended questionnaire for interviews. The quantitative instrument is developed based on the research instrument used by Ozgen and Olcer (2007) in their research regarding innovation management in Turkish firms. The qualitative component of

the research instrument is an open-ended questionnaire related to the topic and the main objectives of this study. The qualitative research instrument is derived from the original questionnaire used for quantitative data collection although important changes and improvements have been made. The interview section or the qualitative research questionnaire is comprised of five questions related to the enablers of innovation in Kosovo's services and manufacturing firms.

Due to the topic under research, most of the representative services and manufacturing firms are included in the sample. According to Tether (2005), innovation in services can be studied using the same tools developed for studying innovation management in manufacturing companies. The structure of the sample includes medium and large firms in Kosovo within two major sectors, the services and manufacturing sector. Both sectors are taken as a whole in the study.

Due to resource limitation, the questionnaire is distributed to almost 37% of the total population. Since the nature of the study is not confirmatory, a smaller number would also be acceptable and in this case, the contacted number of participants amounts 102. Regarding the qualitative part, four interviews are carried in accordance with the criteria's set in order to achieve equity between the sectors.

**Table 1. Participation of businesses according to activities**

<b>Activities</b>	<b>Distribution</b>
Mining	1%
Industry	11%
Productions, distribution of electricity, gas and water	0%
Construction	6%
Wholesale and retail trade, repair of vehicles and household equipment	48%
Hotel and restaurants	8%
Transport, post and telekommunations	8%
Businesses services	10%
Other services	8%
<b>TOTAL</b>	<b>100%</b>

Regarding the sampling procedure, due to limited information and public data availability, random sampling for quantitative analysis was unlikely; therefore the sample is based on convenient factors (contact details), judgment factors (size and sector) and snowball sampling strategy (networks) to find participants. The data for all medium and large companies based on the employee number was obtained from the Tax Administration of Kosovo (TAK).

Due to the topic under research, the quantitative data collected were analyzed through the SPSS while ATLAS.ti was used for qualitative data analysis. Based on the methodological path, data analysis was focused in comparing both types of data consequently where quantitative analysis will offer a statistical view and it will be

more explanatory bounded while the qualitative analysis will provide a more exploratory understating of the topic under research.

## 4. Research Findings

### 4.1. Sample Size and Composition

The total number of sample population according to statistical data was 279 firms. Total questionnaires distributed were 102, from which filled and valid are 86, bringing the response rate up to 84% and the sample size up to 31% of the total population. All questionnaires were completed successfully and none of the questionnaires were rejected.

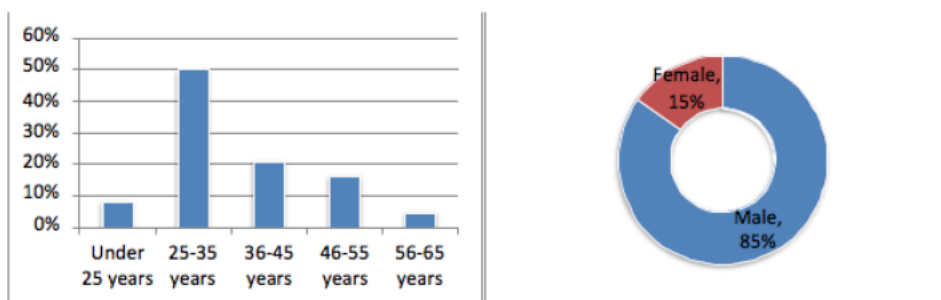
**Table 2. Sample size and response rate**

<b>Total number of Medium and Large Firms</b>	279	100%
Distributed questionnaires	102	37%
Valid questionnaires	86	31%
Response rate		84%

Regarding the composition of the sample, 60.5% of surveyed companies were services while manufacturing firms represent 39.5% of the total population. Based on the company size, the majority of firms are midsize companies (83.7%) from 50 to 249 employees while 16.3% are large companies with over 250 employees.

### 4.2. Demographics and Participant Characteristics

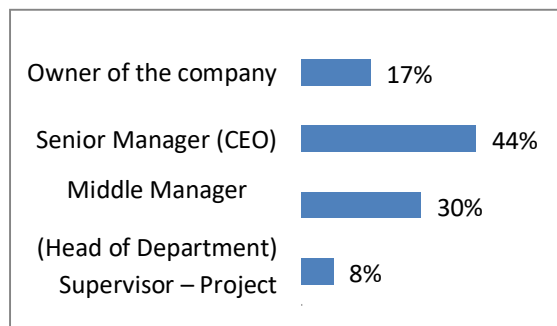
Almost half of the sample (50%) is between 25 to 35 years while roughly 80% are under 45 years. The distribution based on gender shows a significant discrepancy between male (85%) and female (15%).



**Figure 1. Age of participants**

**Figure 2. Gender of participants**

Analyzing the education variable, more than half of managers have a masters degree while only 2% have a Ph.D. However, in sum, 57% of the participants are highly educated.



**Figure 3. Participants position within organization**

The sample is divided into four main groups based on the job position of the participants within their organizations. The majority of the sample includes Senior Managers and Heads of Departments while 18% are owners of their companies and only 8% are Supervisors or Project Managers.

#### **4.2. Fosters of Innovation**

After analyzing the data, findings suggest that continuous learning mechanisms are among the most important fosters of innovation. The second most important factor that enables innovation is leadership, which stands almost in equal position with knowledge creation and accumulation. Generation of new ideas is found to be one of the most impactful innovation enablers. Within the top five enablers of innovation are improvements of employee skills while right beneath this factor is open communication within organizations.

Less important factors according to the survey are change management, business strategy, and openness toward risk. Not meaning that these aren't factors that foster innovation but they are less important according to the majority of managers surveyed. While analyzing the qualitative data, it can be found that managers put much more emphasis in the internal fosters of innovation. They see customer resistance as one of the main barriers and therefore a well-informed customer is seen to be one of the main facilitators of innovation.

Interviewee P2 states: *“One of the most success factors would be the increase in awareness or consciousness of the clients regarding the understanding of the nature of the work design”* whereas interviewee P3 adds *“advertising in various forms through the media and via the internet would boost the innovation success of Kosovo firms”*.



**Table 3. Fosters of innovation in Kosovo's services and manufacturing firms**

<b>Fosters of innovation</b>	<b>Mean</b>
Continuous learning mechanisms	4.44
Strong leadership	4.41
Knowledge creation, accumulation and management	4.38
Generation of new ideas	4.37
Improvement of employee skill sets	4.34
Open communication	4.33
Multidisciplinary team work	4.27
Flexible organizational structure	4.27
Cooperation between various stakeholders	4.24
Fostering the culture of creativity	4.23
Information technology management	4.19
Funds \ resources allocated to innovation	4.19
Awarding employees for innovation achievements	4.17
Customer expectations and market research	4.16
Clear understanding by all employees on company's innovation objectives	4.12
Change management	4.1
Business strategy implementing innovation objectives	4.09
Openness to take calculated risks	4.09
Systematic and continual innovation	4.05
Procedural innovation strategy (written processes)	4

Therefore, good planning, different marketing activities and trust are additional findings regarding the fosters of innovation in Kosovo's services and manufacturing firms. In sum, the top fosters of innovation found by both methodologies include but are not limited to:

- Continuous learning mechanisms;
- Strong leadership;
- Knowledge creation, accumulation and management;
- Generation of new ideas;
- Improvement of employee skill sets;
- Good planning;
- Appropriate marketing activities and;
- Trust.

Although these factors are positioned as the main fosters of innovation, they appear to be pretty close to other factors and therefore the relationships between each other should always be taken into consideration.

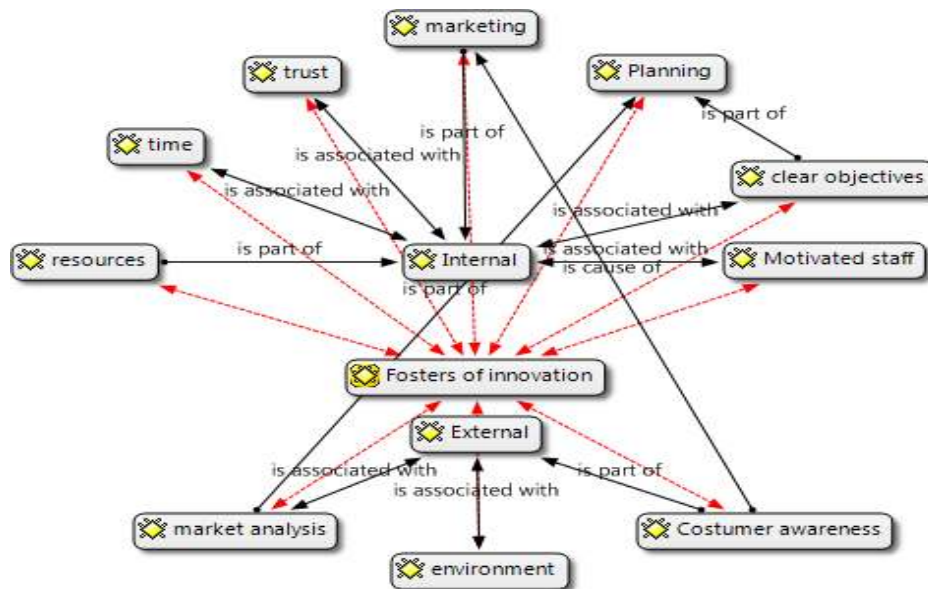


Figure 4. Fosters of innovation (Qualitative analysis)

### 4.3. Differences between Fosters of Innovation

Regarding the fosters of innovation among the services and manufacturing firms, findings suggest that there are differences, particularly on the top five fosters of innovation.

Significant differences can be noticed among several fosters of innovation however statistically significant differences can be noticed only among three fosters of innovation, namely multidisciplinary team-work, awarding employees for innovation achievement and funds and resources allocated for innovation. Multidisciplinary teamwork and awarding employees for innovation achievement are perceived as one of the main fosters of innovation in manufacturing while funds and resources allocated for innovation are important in fostering innovation in the services sector. Apart from multidisciplinary teamwork and employee incentives, good communication and discipline are significant fosters of innovation in the manufacturing sector whereas strong leadership is important in the services sector due to the loose nature of services.

**Table 4. Differences between fosters of innovation in the services and manufacturing firms**

Fosters of innovation	Services	Manufacturing
Continuous learning mechanisms	● 4.46	● 4.41
Knowledge creation, accumulation and management	● 4.42	● 4.32
Strong leadership	● 4.42	● 4.38
Generation of new ideas	● 4.38	● 4.35
Funds \ resources allocated to innovation	● 4.35	○ 3.94
Improvement of employee skill sets	● 4.31	● 4.38
Open communication	● 4.29	● 4.38
Flexible organizational structure	● 4.27	● 4.26
Information technology management	● 4.27	● 4.06
Cooperation between various stakeholders	● 4.19	● 4.32
Fostering the culture of creativity and the value of creation	● 4.19	● 4.29
Clear understanding by all employees on company's innovation	● 4.12	● 4.12
Change management	● 4.10	● 4.12
Multidisciplinary team work	● 4.10	● 4.53
Customer expectations and market research	● 4.08	● 4.29
Openness to take calculated risks	● 4.08	● 4.12
Systematic and continual innovation	● 4.04	● 4.06
Awarding employees for innovation achievements	○ 4.02	● 4.41
Business strategy implementing innovation objectives	○ 3.98	● 4.26
Procedural innovation strategy (written processes)	○ 3.92	● 4.12

In addition to that, generation of new ideas is found to be the top-ranked factor that fosters innovation in services firms. This indicates that the idea generation phase is more problematic in the services sector than in the manufacturing sector and this may come mainly because of the intangibility and ambiguity of the process.

In general, the framework of the innovation process tends to be similar while significant differences tend to occur in different phases and perspectives between these two sectors.

## 5. Discussion and Conclusions

Based on the data analysis, the main fosters of innovation are mechanisms of continuous learning and knowledge creation. These findings are in line with Sharifirad and Ataei (2012) findings that deem continuous learning as one of the main fosters of innovation. Therefore it is an indispensable need to support mechanisms of continuous learning within organizational paradigms, including knowledge creation and tolerance to explorations as recommended by Manso (2011). In addition to that, managing knowledge is found to be a top enabler of innovation, which finding is supported by many authors (Alegre et al., 2013; López-Nicolás & Meroño-Cerdán, 2011; Martín-de Castro et al., 2011) who argue that maintaining

and disseminating knowledge in an organization has a powerful effect on the innovation process.

Findings suggest that another major factor that fosters innovation is improving employees skills set. This finding is supported by Herrmann and Peine (2011) who claim that innovations cannot be originated from employees who lack professional skills and this is especially true in the initial phase of idea generation.

Regarding the differences between the services and manufacturing sectors, findings reveal significant similarities and differences between these two sectors in terms of innovation enablers. In the manufacturing sector, employees are highly motivated by an increase in their salaries (Ederer & Gustavo, 2013; Ederer et al., 2009; Cabrales et al., 2008), whereas in the services sector strong leadership has been found to be the main driver of motivation among employees. Apart from incentives and awards, good communication and discipline are among the key success factors in the manufacturing sector, however this finding doesn't hold true for the services sector.

## **6. Recommendations**

Based on the literature and findings, continuous learning and knowledge creation are found to be among the most important fosters of innovation (Sharifirad & Ataei, 2012), thus the top management of Kosovo's services and manufacturing firms should focus on creating the necessary space and provide the necessary resources for their employees to keep growing by learning and experimenting. Continuous learning and experimentation are necessary for firms that want to remain competitive in the market. Another important recommendation directed to top management focuses on investing in employees who lack the necessary skills to think out of the box, which recommendation is also supported by different authors (Bornay-Barrachina et al., 2012). Findings indicate the employees in Kosovo's services and manufacturing firms lack the necessary skills to contribute sufficiently in the innovation process. In addition to that, it is recommended for the top management to create a supportive environment that encourages employees to be creative and innovative. It is also essential to empower employees and thus increase their level of trust, which is also highly supported by authors (Drejer & Jorgensen, 2005; Madrid-Gujarro et al., 2009).

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## **An Examination of the Importance of Hotel Innovation on Guest Loyalty in Cape Town, South Africa**

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**Abstract:** Guest loyalty is important for hotel brand, image and differentiation but the understanding of the real motive for guest loyalty is conflated by hotel innovation and loyalty decisions. Although other service components may be important determinants of guest loyalty, the importance of hotel innovation is examined to improve understanding of dimensions of loyalty decisions that drives innovation in hotel services and strategies. Previous studies provided limited evidence on the relationship between innovation and loyalty despite increased guest appetite for innovative services and the adoption of innovation in hotels. This paper examined evidence of loyalty decisions to understand the importance of hotel innovation as a strategic option to meet and exceed increased guest appetite for innovation induced loyalty. To achieve this objective, a quantitative study design was undertaken, using a systematic random sampling to administer a semi-structure questionnaire to approximately 242 respondents staying in graded hotels. The data were analysed using descriptive and inferential statistics. The study found that innovations are important to guest loyalty decisions with technological and human-oriented innovations having greater importance amongst mediating variables. This paper concludes that innovation can be used as a strategy to improve service quality to support and promote brand image differentiation.

**Keywords:** Loyalty programs; hotel industry; innovation dimensions; incremental and radical innovations

**JEL Classification:** M31; Z32; Z33

### **1. Introduction**

For decades, hotel innovation is believed to be a vital strategic approach for building strong hotel brands (Zhang et al., 2018), responding to severe competition, improving accessibility of offerings and renewing hotel attractiveness (Titomir & Danylova, 2018) and achieving guest loyalty (Victorino & Verma, 2005). While such innovative hotel offerings may add value to guest experiences, innovation

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importance on patronage and loyalty decisions remains unknown. The limited knowledge on the importance of innovation for leisure, business and other travellers visiting hotels with high service expectations remains topical. With the increase in tourism activities, and the evolution in technology-enabled hospitality services, such as has been the increase in research in hospitality innovation focused on firms' strategic use of innovative services to attract, inform and stimulate loyalty decision (Sundbo, 1997, pp. 432-455). The innovation strategy determines experiences important to patron (Ottenbacher & Gnoth, 2005, pp. 205-222). Although other factors such as service quality and referral are important, the use of innovation as a strategy to stimulate patronage and loyalty decision remains an aspect of forward-looking strategy in the hotel industry (Ottenbacher, Gnoth & Jones, 2006, pp. 344-363) to create superior value and gain competitive advantage. In recent studies by Marti'nez-Ros and Orfila-Sintes (2009, p. 632) suggest that business vision focused on technological innovations are market-driven strategies aimed at trend-setting and aligns guest behaviour, value and lifestyle important to patronage and loyalty decision. Also, Perera (2014, pp. 241-264) addressed hotel innovations toward creating an online presence with the look and feel features that resonate with guest value and lifestyle – to attract, inform, demand their attention. Sandvik, Duhan and Sandvik (2014, pp. 165-185) explored the correlation between hotel innovativeness and patronage, profitability and found a strong correlation where increase innovation led to a corresponding increase in patronage, profit and loyalty.

## **2. Literature Review**

Numerous studies on innovation, hotel innovation approaches, and hotel offerings seek to understand guest loyalty decisions. Some studies found both service-quality and patronage-innovation as strategies impacting on loyalty decisions in the hospitality industry at large. Hence the importance of hotel innovation dimensions: hotel ambience (design), Wi-Fi around hotel facilities, business centres, innovative loyalty programs associated permitting flexible checking times, and staff innovativeness (human resources), capabilities to excite, and deliver unique guest experiences needs to be contextualised as a strategy for achieving guest loyalty and hotel success.

### **2.1. Innovation in Hospitality Services**

The earlier view by Schumpeter (1934) postulates different approaches through which businesses can innovate by continuous integration of new products or services and structural flexibility. Theories on service innovation ascribe to salient strategic approaches to innovation in tangible products and research gaps still exist related to hotel innovation (Carlborg et al., 2014). Hotel innovations are new competitive ideas implemented in a systematic process (Hall & Williams, 2008, p. 55) aimed at

improving current offerings and providing unique guest experiences (Ottenbacher & Gnoth, 2005, p. 206). On the other hand, contemporary authors such as Zbigniew (2015) identified innovation benefitting hotel operational efficiency and productivity (Sanchez, Garcia & Mendoza, 2015). Whilst Souto (2015) argued that such efficiencies leverage hotel capabilities on staff innovativeness and management's ability in problem solving when complaints (Smiljana & Daniela, 2012, p. 338). Thus, innovation strategy brings adaptation to guest needs and expectations (Sanjeev & Jauhari, 2012), whilst keeping pace with technological requirements (Di'az-Chao, Miralbell-Izard & Torrent-Sellens, 2016).

## **2.2. Incremental and Radical Hotel Innovations**

Various authors have put forward different arguments about innovative approaches for hospitality at large. Kim, Kumar & Kumar (2012) argue that innovation in hotels can be incremental or radical whilst Sundbo, Sorensen and Fuglsang (2013) suggested that innovation in hotels is often incremental rather than radical. To obtain clarity, Norman and Verganti (2012, p. 5) argued that incremental innovation involves improvements on current offerings, whilst radical innovation involves changing the offerings resulting in discontinuity of past offerings. Such discontinuity give rise to new competitive advantage (Souto, 2015). In order to understand hotel innovation approaches and as applied, different authors drew an inference in the context of the hospitality offerings. Yilmaz and Bititc (2006, p. 378) argue that hospitality offerings resemble attributes of physical and intangibles in terms of skills, behaviours (Jen-Son, Yong, Peter & Chia-Wei, 2017). Reuland, Coudrey and Fagel (1985), as cited in Debasish & Dey (2015, p. 2) emphasised employee abilities during execution standardised of service journeys and hotel looks and feel, art and state-of-art floor layout. Furthermore, Weiermair (2006) cited in Carvalho & Costa (2011, p. 25) argued that hotel offerings are measured most dominantly by experiences as guest consumes during service delivery.

## **2.3. Guest Loyalty in the Hotel Industry**

Achieving guest loyalty has become the primary goal for most hospitality businesses if they are to maintain sustainable occupancy levels. Loyal guests are believed to be influential to decision making of other travellers (Nejad et al., 2014, p. 187). The contributing factors to guest loyalty are unclear (Lalicic & Weismayer, 2018). Contemporary studies by Crnogaj et al., (2014) established that modern guests' lifestyles and travelling behaviours generally demands innovative offerings if hotels are to satisfy, exceed the higher expectations. Thus studies have shown that loyalty programs are designed to focus exclusively to a particular target group who have a sense of social status and expectation to receive special attention for the duration of hotel stay (Drèze & Nunes, 2009, p. 890).

#### **2.4. Dimensions of Hotel Innovation (Variables)**

The examination focused on importance of four major hotel innovation dimensions: hotel physical design, technological, marketing, and human resources innovations (Hjalager, 2010; Ottenbacher & Gnoth, 2005). Hotel design has become a key strategic investment focus for boutique and luxury hotels. Unique décor and ambience (exterior and interior) turned hotels to be different tourism destinations with potential to attract and increasing repeat patronage (Reiwoldt, 2006, pp. 11-12), differentiation and customised guest experiences (Cheng & Liu, 2016) building brand image and guest brand association (Hall & Williams, 2008). The innovative technologies have revolutionised hotels as destinations (Nejad & Bilgihan, 2015) and modern travellers depend on smartphones and computers for social and business communication. Deependra (2016, pp. 469- 478) argued that these communication methods require efficient data and hence, so does the importance of offering guests well-functioning modern computer technologies (Dzhandzhugazova et al., 2016). Previous studies argued that marketing innovations are aimed at attracting potential guests, increasing awareness of hotel offerings (Titomir & Danylova, 2018), and sustaining long-term relationship. Wikhamn et al., (2018) argued that structural and operational flexibility influence hotel's ability to implement marketing innovations such as flexible checking times. Such flexibility has gained popularity as a strategy gain loyalty from mainly business travellers with specific scheduled flight and travel bookings. Hence, this study clarifies the uncertainty on loyalty programs and flexible checking times (Lal and Bell, 2003), cited in Danna (2008, p. 169).

Over a decade ago, Ottenbacher and Goth (2005) has put forward staff as an important component of hotel service delivery, hence described staff as business's "human capital". Similar sentiments were recently echoed by Kim, Park and Jee (2012) that staff are crucially responsible for serving various "artistic hotel services hotel and creating guest experiences. Therefore, staff wellbeing may not be neglected as the innovativeness of staff depends on motivational factors such as pay, work hours, workloads, role stress levels, and work schedules (Karatepe & Karadas, 2012). One can argue that competent staff eliminates guest dissatisfaction associated with sluggish service and incorrect order processing. In fact, Chiang-Ming Chen & Yu-Chen Lin (2012, p. 1332) established a direct relationship between what is perceived as bad or excellent hotel experience and sales volume. Irrespective of luxurious hotel design and ambience, the success of a service is mainly hinged on staff abilities and poor service deters guest retention and loyalty. This paper focused on importance of innovative staff and management participation during service delivery on guest loyalty.

Thus, as articulated from literature discussion above, this study examined the following research questions which are unclear:

- (1) how important are hotel innovations on guest patronage and loyalty decisions?

(2) to what extent are hotel innovations important to guest patronage and loyalty decisions?

(3) which hotel innovations are more important to guest patronage and loyalty decisions for on leisure, business, and other purposes?

### 3. Methodology and Design

An explanatory research was undertaken with primary data obtained guided by a quantitative survey approach using a self-administered questionnaire (Song et al., 2015, p. 325). The questionnaire was designed with consideration of previous related studies undertaken and constituted Five-Likert (1932) closed-ended type of questions (ticking a box) and few questions which required respondents to write their opinions in more than one-word answers. A systematic random sampling was followed to the administered questionnaire to approximately 250 respondents from an infinite population (Kumar, 2005, pp. 180-183). A systematic approach was followed after obtaining the first respondent at random. The data was collected at Kirstenbosch Gardens with every third guest passing the entrance gate subjected to screening questions to establish the relevancy of the responses (Veal & Darcy, 2014, p. 282), increasing response rate and whilst eliminating interviewer variability.

#### 3.1. Data Analysis

The quantitative methods of analysing data from closed-ended and textual open-ended questions were followed. Data was loaded on Microsoft Excel and subjected to descriptive analysis using a statistical software (SPSS version 23). To establish relationships, inferential statistics were applied with Pearson (1916) and Fisher's (1922) Chi-Square Tests ( $\chi^2$ ) the significance (nominal data) of individual innovation variable. The  $\chi^2$  was compatible analytical model for data obtained using systematic random sampling procedures, with independent, mutually exclusive categorical data (Fisher, 1922). The Binary Logistic Regression Analysis (LRA) logistic regression predicted outcomes of continuous categorical based on predictor variables (Sandro, 2014; Hosmer & Lemeshow, 1989). Thus, guest loyalty measured by likelihood of repeat patronage (Yes or No responses) could enable establishing the importance of combined innovations. Therefore, based on the statistical models applied,  $\chi^2$  and/or Logistic p-value lower than 0.05 presents innovation variable with statistical significance on guest loyalty. Quantitative content analysis of textual open-ended responses (Züll, 2016, p. 1; Çakır & Cengiz, 2016) and was adopted as stipulated by Miles, Huberman & Saldana (2014, pp. 107-119). The frequency of each clustered was done to obtain ideas and draw inference on the importance of each innovation dimension on guest loyalty.

#### 4. Results and Discussion

Results representation and discussion below draws on empirical data collected through systematic selection of sample demographics mainly guest of participating hotels. Demographic are divided into gender dimensions to enhance understanding of innovation enabled loyalty decision. Demographical data analysis has shown major gender-based differences in guest loyalty levels of likelihood for repeat patronage. Guest loyalty by gender shows that 85 of 112 males and 100 of 127 female respondents swayed towards returning to the same innovative hotel. Such gender differences are consistent with Fischer et al. (2004, p. 87) who established varying value perceptions and preferences between males and females.

##### 4.1. Analysis of the Importance of individual Innovations

Table 1 below presents the results of the importance (important, neutral and unimportant) and significance of the individual innovation variables under study. Noticeably, business centres with advanced technological facilities and staff friendliness are significantly important to guest loyalty decisions ( $\chi^2$  p-value=0.001) and ( $\chi^2$  p-value = 0.04, respectively).

**Table 1. Innovation variables, descriptive and Chi- Square results (N=237)**

Q#	Innovation importance Variables	Response parameter (Totals)				Chi -Square ( $\chi^2$ )		
		Important	Neutral	Unimportant	Total (n)	Value	df	Significance (2-sided)
04.1	Hotel physical design	25	94	117	236	3.319a	2	.19
04.2	Staff calling guest by name	21	72	144	237	10.079a	2	.04
04.3	Loyalty innovative programs	21	95	120	236	5.627a	2	.06
04.4	Free Wi-Fi access around hotel facilities	26	45	166	237	1.989a	2	.37
04.5	Direct management participation	43	103	91	237	4.566a	2	.10
04.6	Business centres	26	45	166	237	19.471a	2	.01
04.7	Staff providing options	14	84	137	235	4.416a	2	.11
04.8	Flexible checking times	16	40	181	237	1.516a	2	.46

Table 2 below presents the return intentions for each response parameter (important, neutral and unimportant) in relation to the importance of each innovation dimension.

**Table 2. Would you return to an innovative hotel (N= 237)?**

	YES			NO		
	Important	Neutral	Unimportant	Important	Neutral	Unimportant
<b>Would you return for:</b>						
Hotel physical design (ambience)?	18	69	97	7	25	20
Access to free Wi-Fi?	23	34	127	3	11	39
Hotel business centres?	26	108	48	6	16	31
Loyalty innovative programs?	13	80	91	8	15	29
Flexible check times?	12	34	138	4	6	43
Staff friendliness (calling guests by name)?	11	54	119	10	18	25
Staff providing options (Upselling)?	14	63	105	0	21	32
Management participation?	35	85	64	8	18	27

Table 3 below illustrates the results of the LRA to establish the importance of each innovation dimension when combined at significant level of 0.05.

**Table 3. Variables in the LRA equation (combined importance)**

Variable description	Response Yes(1); No(2)	Score	df	p-value
Each visit you stay in a room with a different design	Q04.1	2.860	2	.239
	Q04.1(1)	.124	1	.725
	Q04.1(2)	2.221	1	.136
Staff calling you by name (friendliness & smiles)	Q04.2	10.175	2	.004
	Q04.2(1)	8.670	1	.003
	Q04.2(2)	.347	1	.556
Loyalty card (VIP status) with membership benefits	Q04.3	5.131	2	.077
	Q04.3(1)	3.395	1	.065
	Q04.3(2)	3.061	1	.080
Availability of free Wi-Fi (internet access) around hotel	Q04.4	3.076	2	.215
	Q04.4(1)	2.974	1	.085
	Q04.4(2)	.356	1	.551
Direct management involvement during service delivery	Q04.5	4.905	2	.086
	Q04.5(1)	.752	1	.386
	Q04.5(2)	2.305	1	.129
Business canters with latest computer technology	Q04.6	20.297	2	.001
	Q04.6(1)	.253	1	.005
	Q04.6(2)	14.693	1	.001
Employees provide options during service delivery	Q04.7	4.335	2	.114
	Q04.7(1)	4.247	1	.003
	Q04.7(2)	.459	1	.498
Flexible check-in and checking- out times	Q04.8	1.528	2	.466
	Q04.8(1)	.188	1	.665
	Q04.8(2)	1.444	1	.229
Overall Statistics		46.074	16	0.001

#### **4.2. Results and Analysis of Innovative Physical Hotel Design (N=236)**

Analysis for importance of hotel design (table 1 above) shows that majority (117) of respondents regard innovative physical hotel design to be unimportant although 97 are likely to return to an innovative hotel. Also, hotel design on its own and when combined with other innovations has insignificant importance to guest loyalty decisions ( $\chi^2$  p-value = 0.190) and table 3, (logistic p-value=0.239).

#### **4.3. Results and Analysis of Technological Innovations (N=237)**

Table 2 above indicates that the majority of respondents (124) were neutral about the importance of business centres with technological facilities on their loyalty. While of the 235 total respondents, only 32 said hotel business centres are important to their hotel choice; 81% (26) swayed to return to an innovative hotel. Thus, despite an ongoing argument in academic circles on the future of business centres in hotels, the study establish that business centres have significant importance on guest loyalty ( $\chi^2$  p-value = 0.001) and when integrated with different innovations (logistic p-values < 0.05). Furthermore, only a minority (23) regarded free Wi-Fi as important to their hotel choice although the overall majority (184) would return to a hotel stayed before. Concurring with Nejad et al., (2014), free Wi-Fi may not be relied on as a sole innovation important as guest have moved to next big trends, greater proportion of guests would return to a hotel regardless statistical significance of free Wi-Fi access ( $\chi^2$  p-value > 0.05), and (logistic p-value = 0.215).

#### **4.4. Results and Analysis of Hotel Marketing Innovations (N=237)**

Descriptive results presented in Table 1 above illuminates that over half of respondents (120 of 236) consider hotel loyalty innovative programs unimportant to their hotel loyalty decisions. Supporting the growing popularity of such marketing programs, 78% alluded that they prefer returning to a hotel despite associated innovative loyalty rewards offered by the hotel. However, statistically, loyalty programs have insignificant importance on loyalty decisions ( $\chi^2$  p-value = 0.060) and (logistic p-value > 0.05). On the other hand, majority of the respondents (12) regarded flexible checking times as important, 34 respondents were neutral, whilst the biggest proportion (138) said flexibility is unimportant. Furthermore, inferential statistics shows an insignificant importance exist between innovativeness in checking times and guest loyalty to the hotel ( $\chi^2$  p-value = 0.469) and (logistic p-values > 0.05).

#### **4.5. Results and Analysis of Innovative Human Service Delivery**

The three major innovations related to human service delivery have been analysed and results presented in Table 1 and 2 above. As articulated in the literature review, innovative service delivery is assumed to be a measure of quality of the hotel experience (Smiljana, P. & Daniela, 2012, p. 338). The study is consistent that staff competences, friendliness, calling guests by name important (64 guests), neutral (85

guests) and a strong statistical significant importance existing ( $\chi^2$  and a logistic p-value less 0.05). Concurring to Tang et al., (2015), variables related to competences of human resources in service delivery, staff providing options (upselling), has high likelihood to result in guest retention. Furthermore, of the total respondents (n=237), 43 said management participation during service delivery is important on loyalty, and 35 of them would return to a hotel offering such management participation ( $\chi^2$  p-value = 0.102). Therefore, one can argue that might guests focus on direct service from staff when deciding on hotel to stay. Therefore, training and development of staff on service delivery skills is important to achieve guest loyalty (Shilpa, 2016, p. 1706).

#### **4.6. What Innovations are Important on Guest Hotel Choice?**

As discussed in the literature review, response parameters were derived from broad innovation categories (Table 1) and responses were coded into to reduce multiple meanings (Miles & Huberman, 2014, p. 9). Categorisation of open-ended responses enhanced data filtration and to be useful to the study Therefore, from analysis majority of respondents (19% of 174) were consistent with Shilpa, (2016) that people-oriented innovations are important including management pro-activeness (Tang, 2016, pp. 56), and ability to improve service delivery are the most important consideration for hotel patronage choices. Therefore, staff innovativeness during service delivery provides a hotel unique strategic capabilities against industry competition (Kim et al., 2012). Innovative physical hotel design (25%) and technologically related innovations (13%) have shown to have more guest considerations when choosing a hotel. Noticeably, only 11% of the respondents suggested that innovative marketing strategies (loyalty programs and flexibility checking times) are important to their hotel choice. Therefore, drawing an inference from past studies and the results, from the result, one can argue that innovations related to the development of staff unique competencies (Ottenbacher & Gnoth, 2005), and management support service delivery guarantees quality guest experiences important to guest hotel choice (Smiljana & Daniela, 2012, p. 338)

### **5. Conclusion**

Hotel innovation is important for guest loyalty. This conclusion was based on the examination of the importance of innovation in relation to guest loyalty decision dimension as well as technology and human-oriented innovations. While choosing a hotel to stay remain guest decision, innovative services and strategy is an important dimensions of decision making process that should be leverage to increase hotel image in consumer decision making. A hotel with fitted business centre equipped with modern facility, relate to condition necessary for business traveller. Similarly, staff innovativeness during service delivery through strong product knowledge,



executing hotel service journeys in a “supreme” way, calling guest by name, and serving with a smile providing guests with unique service experience is important element of friendliness and professionalism. Innovation that creates friendship and professionalism enables hotel brand image and provide the base for differentiation necessary for guest loyalty decision.

The current study was not without weaknesses, the general application of results must take cognisance with major limitations associated with usage of self-administered survey questionnaires compared to data from face-to-face interviews. Therefore, future studies should exhaust explicitly innovations important to guests with different cultural backgrounds. With the growth of global environmental awareness, a replica study should focus on environmental and new innovation dimension and industry technologies being tested.

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## Leaderships Styles, Preferences and Effectiveness: Empirical Evidence from the Cyprus Banking Sector

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**Abstract:** This study investigates the perceptions of employees in the banking sector of Cyprus with regards to the style of leadership (i.e. democratic or autocratic) management adopts and the level of effectiveness of each style. For this purpose, a sample of 493 participants, working in various banking departments in Cyprus, was used. Data were collected using a structured questionnaire which included multiple choice and scale questions. Results show that employees perceive the prevailing leadership style in the Cyprus banking sector to be the autocratic leadership style. On the other hand, it was shown that the respondents are of the opinion that the managers who adopt a democratic leadership can lead to, even if to a very small extent, more positive results.

**Keywords:** democratic; autocratic; Cyprus banking sector; effectiveness

**JEL Classification:** E50

### 1. Introduction

Leadership is perhaps one of the most contentious issues in organizational research (House & Aditya, 1997; Judge et al., 2004; Northouse, 2012; Pfeffer, 1977). The importance of leadership within organizations may have recently become strongly prevalent in management (e.g. Avolio et al., 2004; Cooper, 2011; Graham et al., 2015) and organizational psychology (e.g. Pierro et al., 2013; Wagner, 2013) but can be traced back to studies conducted in the late 1930s. Significantly, there seems to be no consensus among scholars over what leadership is or how it should be studied and there is little agreement on what are the best strategies for developing and exercising leadership (Bennis, 2007; Hackman & Wageman, 2007; Vroom & Jago, 2007). Nonetheless, if one had to speak of a dominant paradigm within the leadership literature then that would be the Transformational and Transactional leadership paradigm (Bass, 1985; Bass & Avolio, 1995). Moreover, the concept of leadership can be said to be both ambiguous and difficult to measure (Pfeffer, 1977). However,

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scholars have suggested that leadership impacts corporate culture (Bryman, 1986; Bolton et al., 2013), employee commitment and job satisfaction (Belias & Koustelios, 2014) and consequently organizational performance (García-Morales et al., 2012). Therefore, it is obvious that organizations need to delineate what leadership methods and styles are the most effective for them in order to develop and thrive. Effective leadership is crucial for the success of an organization and can potentially help organizations improve their operations and make efficient use of their resources. It is an essential component of organizational success as it helps in creating a committed workforce which is eager to take on challenges and improve. Leadership increases organizational productivity and profitability but the extent to which leadership can lead to success depends on the style of the leader and the manner in which s/he modifies the environment so as employees can perform best. Leadership style is, simply, the manner in which the leader provides direction, implements plans, and motivates people. Given the overall importance of leadership to organizational performance and success, it is not surprising that leadership style is one of the most widely studied topics in management and industrial psychology.

### **1.1. Leadership Styles**

Due to leadership's importance to organizational success, determining the effectiveness of leaders is crucial (Bryman, 1992, Jung & Solik, 2006). Although several theories on what leadership entails have been proposed and despite, as already mentioned, the lack of an undisputed definition of leaders or leadership, it seems that most leadership theorists (e.g. House, 1971; Turner & Muller, 2005) agree that there are three dominant leadership theories: traits theory, style theory, and contingency theories (for an overview of these, see Horner, 1997). One of the earlier studies of leadership styles was conducted by Lewin et al. (1939). They developed a framework of leadership styles which includes three broad categories:

- Autocratic;
- Democratic;
- Laissez-Faire.

According to Lewin et al. (1939), autocratic leaders tend to be aggressive, hostile and dominative towards their followers. Such leaders also exhibit a high demand for attention. On the other hand, leaders that adopt a democratic leadership style tend to be more spontaneous, fact-oriented and have friendly interactions with their followers. Importantly, these leaders tend to treat their followers on an equality basis and decisions are taken collectively. In other words, this is a participative style of leadership. The democratic leader may take the final decision but everyone is involved and contributes in the decision making process, leading to increased job satisfaction and skill development. Finally, leaders that adopt a laissez-faire

leadership style give complete freedom of decision making to their followers without interfering. A laissez-faire leadership style is, perhaps paradoxically, non-leadership.

Lewin et al. (1939) believed that democratic style is more effective but some scholars have taken issue with this assumption. For example, Tannenbaum and Schmidt (1973) argued that the leader should adjust his/her behavior to fit the organizational circumstances. In case of time pressure or great skill difference between the leader and his/her subordinates, they argued, the autocratic leadership style is preferable. The literature suggests that there is no 'one best way' to effective performance (e.g. Goffee & Jones, 2000; Higgs, 2003). Moreover, the effectiveness of each particular leadership style depends on the criterion which is used to assess the effectiveness of leadership and on the organizational context. Scholars have identified and discussed both the limitations and advantages of the autocratic leadership style (Hicks & Powel, 1976; Whetten, 1980) and the democratic leadership style (Hackman & Johnson, 1986; Luthar, 1996; Mullins, 1999). Simplifying, if team work is important and high employee morale and quality is the goal, the democratic leadership style seems more appropriate. On the other hand, if productivity and speed of delivery is the goal, the autocratic leadership style is more effective. However, we need to acknowledge that the democratic versus autocratic leadership style is a narrow aspect of leadership behavior compared to the "task-oriented" versus 'interpersonally oriented' leaders approach as developed by Bass (1990). Indeed, in the 1980s and 1990s various attempts at enriching our understanding of leadership styles were made, leading researchers to distinguish between transformational and transactional leaders. That effort initially begun with Burns' (1978) critique of the existing leadership studies which, according to his view, were neglecting other important styles and elements of leadership.

Therefore, there are various approaches with regards to leadership styles but for the purposes of this study, we will focus on Lewin et al. (1939) classic study (on the continuing importance of Lewin et al's (1939) pioneering work, see, for example, Burnes, 2009; Cremer, 2006) and only autocratic and democratic leadership styles will be considered and measured. This approach is, we believe, still valid and is still being utilized to assess, for example, group member satisfaction in organizations (Foels et al., 2000) or the role of gender in leadership styles (Eagly & Johannesen-Schmidt, 2001).

## 2. Objectives of the Study

- To determine which leadership style is more commonly adopted by managers in the banking sector of Cyprus.
- To determine whether employees in the banking sector of Cyprus consider the leadership style of their managers effective.

*Hypothesis Testing 1* - Assessment of the managerial effectiveness of the democratic leadership style

H1: In a study examining employee perceptions, the democratic leadership style is related to higher managerial effectiveness.

H0: In a study examining employee perceptions, the democratic leadership style is not related to higher managerial effectiveness.

*Hypothesis Testing 2* - Assessment of the managerial effectiveness of the autocratic leadership style

H1: In a study examining employee perceptions, the autocratic leadership style is related to higher managerial effectiveness.

H0: In a study examining employee perceptions, the autocratic leadership style is not related to higher managerial effectiveness.

*Hypothesis Testing 3* - Preferable Leadership Style

H1: In a study examining employee perceptions, leaders with democratic leadership style characteristics are preferred over those with autocratic leadership style characteristics.

H0: In a study examining employee perceptions, leaders with democratic leadership style characteristics are not preferred over those with autocratic leadership style characteristics.

### **3. Method**

#### **3.1. Participants**

The sample size of this survey is 493. The participants worked in 65 different branches in Cyprus, 42% of the branches were located in Nicosia, 24.7% in Limassol, 15.1% in Larnaca, 9.6% in Paphos, and 8.6% in non-occupied area of Famagusta. Of the 493 participants 308 were female and 185 of them were male and the corresponding percentages are 62.5% and 37.5%. The participants are categorized in four different groups according to age. The corresponding percentages of these categories are: a) (0-29) 17.20%; b) (30-39) 37.65%; c) (40-49) 34.40%; and d) (over 50) 10.75%. In addition, the years of employment of the respondents have to be noted. The four following categories were identified: a) less than 5 years of work experience 13.98%; b) 6 to 11 years work experience 19%; c) 11 to 20 years work experience 34%; and d) more than 20 years work experience 19%.

The sample represents the pattern of actual distribution of employees within the banking sector of Cyprus, with female workers being predominant. Participants were

asked to assess the leadership styles used by their direct managers/supervisors as well as some variables related to the effectiveness of the supervisors.

### **3.2. Instruments**

The questionnaire we used is divided into two parts. The first part of the questionnaire was for demographic details, while the second part measured the styles of leadership (i.e. democratic and autocratic).

### **3.3. Leadership Measures**

We used quantitative method and the data were collected through a questionnaire that contains multiple choice and scale questions. We followed Molero et al.'s (2007) questionnaire in order to measure the leadership styles. Molero et al. (2007) used five questions in order to measure the democratic style and four questions in order to measure the autocratic style. The final reliability of Cronbach = 0.63 for autocratic and Cronbach = 0.84 for democratic. The range of each variable (of the questions) is between 1 and 5, where 1 = not at all, and 5 = almost always, as in the case of Molero et al. (2007).

### **3.4. Validity**

There will always be doubts about the extent to which the outcomes of a research are valid and reliable. In order to assess the validity and credibility of the whole study the following criteria should be considered:

- The branches and the participants are randomly selected;
- Giving questionnaires to employees rather than to managers. In previous studies, the employees were often asked to assess the leadership styles of their managers in order to ensure the collection of more objective opinions;
- The questions considered the supervisor's behavior;
- The questionnaire was successfully used by previous studies (Molero et al., 2007).

### **3.5. Actual Leadership Style**

A questionnaire with score from 1 to 5 is utilized in order to measure the leadership styles. We used 9 variables in order to measure the styles of leadership. The first four statements measure the autocratic leadership style and the next five measures the democratic leadership style. The actual leadership style of the supervisor being assessed, as perceived by employees, was evaluated on the basis of different aspects that related to his/her behavior towards his/her subordinates.

The first four statements corresponded to the autocratic leadership style:

1. My manager directs the group in an austere way;



2. All policies regarding group activities and procedures are determined by the manager;
3. Activity steps and techniques are communicated by the manager;
4. The manager takes responsibility for assigning the activity tasks of and the colleagues for each group member.

The next five statements were used to measure the democratic leadership style:

1. Policies are determined after group decision and discussion is encouraged by the manager.
2. The manager endeavors to be a regular group member;
3. The manager passes information to the group members;
4. The manager encourages the choices made by group members;
5. Everyone is at liberty to work with whomever they choose to and the division or responsibility is left up to the group members.

From the results (Appendix A) it can be concluded that the highest responses correspond to the autocratic leadership style rather than to the democratic style. In order to verify that the overall mean of the autocratic and democratic styles were calculated. Using SPSS, the overall mean scores for the leadership styles (4 for the autocratic and 5 for the democratic) were calculated. Descriptive analysis was used in order to identify the overall mean for leadership styles. Specifically, the scores were as follows:

- Autocratic leadership style (mean = 3.86; SD = .369);
- Democratic leadership style (mean = 3.03; SD = .470);

This shows that the respondents believe that their direct managers have a more autocratic leadership style within the workplace. Comparing the overall mean scores, it can be concluded that the style of direct managers is more autocratic rather than democratic.

#### **4. Results and Discussion**

As already mentioned, the designed questionnaire was divided into two parts. The first part was designed for demographic purposes. The second part was itself divided into two parts. One part corresponds to the autocratic leadership style and the other part corresponds to the democratic leadership style. Based on the data gathered, it was shown that the value of the mean of the autocratic leadership style (mean = 3.86) was greater than the value of democratic leadership style (mean = 3.03). Therefore,

the most prevalent leadership style in the banking sector of Cyprus is the autocratic. Nevertheless, importantly, when participants were asked regarding the effectiveness of each leadership style it was shown that the democratic leadership style prevailed. Specifically, the mean of the democratic leadership style is equal to 3.32, whereas the mean of the autocratic leadership style is equal to 3.2.

From Hypothesis test 1, it can be concluded that of the 493 participants the 202 participants (44,5%) consider their direct managers as having democratic leadership style characteristics and the mean was 3.32, therefore the null hypothesis is accepted (greater than three).

From Hypothesis test 2, it can be concluded that of 493 participants the 291 (55.5%) consider the direct managers as having autocratic leadership style characteristics, and the mean response was 3.2, therefore the null hypothesis is accepted (greater than three).

From Hypothesis test 3, based on the above results and findings, it is concluded that bank employees in Cyprus prefer that their managers would use an autocratic leadership style within the workplace; hence, the null hypothesis is rejected. Specifically, the mean of autocratic leadership style is equal to 4.01, whereas the mean of democratic leadership style is equal to 3.88.

Moreover, it has to be noted that there is a correlation between the different age groups and the work experience of the participants and their opinions. It was found that young participants with fewer years of work experience tend to be directed by their managers in a strict way, while participants with substantial work experience tend to be led in a more lenient manner. Therefore, we may argue that leaders in the banking sector of Cyprus adjust their leadership style according to the age groups of their subordinates.

The main goal of this investigation was to analyze and evaluate the leadership styles in the banking sector of Cyprus. To do that we utilized Lewin et al.'s (1939) classic study of leadership styles and followed Molero et al. (2007) on the design of the questionnaire. To our knowledge, there is no previous study concerning the leadership styles in the banking sector in Cyprus, therefore this research fills an important gap in the available literature. We concluded that in the banking sector of Cyprus the autocratic leadership style prevails despite the fact that the respondents considered the democratic leadership style as more effective. This means that in the banking sector of Cyprus managers tend not to adopt the most effective leadership style.

#### **4.1. Limitations and Future Directions**

We believe that future investigations might benefit from utilizing newer theories of leadership styles such as the transformational and transactional leadership (Bass 1999). As is known, this is the current paradigm of leadership studies and has been

extensively applied. However, again, there seems to be no such study available in Cyprus.

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**Appendix A**

<b>Questionnaire Results - Actual Leadership Style (as perceived by the employees)</b>						
		N	Minimum	Maximum	Mean	SD
1.	My manager directs the group in an austere way	493	1	5	3.11	1.124
2.	All policies regarding group activities and procedures are determined by the manager	493	3	5	4.08	.727
3.	Activity steps and techniques are communicated by the manager	493	3	5	4.22	.520
4.	The manager takes responsibility for assigning the activity tasks of and the colleagues for each group member	493	3	5	4.04	.906
5.	Policies are determined after group decision and discussion is encouraged by the manager	493	1	5	3.24	1.019
6.	The manager endeavors to be a regular group member	493	1	5	3.36	1.056
7.	The manager passes information to the group members	493	1	5	3.08	1.177
8.	The manager encourages the choices made by group members	493	1	5	2.98	1.046
9.	Everyone is at liberty to work with whomever they choose to and the division or responsibility is left up to the group members.	493	1	4	2.48	1.031

## The Impact of Organizational Changes on Increasing Smes Competitiveness

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**Abstract:** Nowadays, changes are compulsory for an organization in order to survive and stay competitive. This paper discusses the aspects of understanding the general framework for the effective and efficient implementation of organizational changes, as well as their multiple impacts on motivation, employment, responsibility, dominant abilities, and comparing the measurable units for capacity development for organizational change. Also, it will focus on creative dimensions and change management, new organizational knowledge, remuneration systems, managerial manifestations, a model of organizational culture as a fruit of change. The methodology used in this research paper is a combination of qualitative and quantitative data. Results of the research are processed data of 200 SMEs that implement their activity in Kosovo. These data were processed with the help of IBM SPSS software. A well-managed change helps SMEs to be more successful in relation with the competition. In modern terms, organizations must innovate and change, not to prosper, but rather, to survive in a world of growing competition. The biggest challenge facing any successful manager is constantly directing the organizational system towards highest phases in overall development. Also, results have shown that the change in organizational dimensions factors will increase the SMEs competitiveness and will decrease the firm's operating costs; as well change on organizational characteristics factors increase the SMEs competitiveness and decrease the firm's operating costs.

**Keywords:** organizational changes; small and medium-sized enterprises (SME); competitiveness; organizational dimensions, operating costs.

**JEL Classification:** L16; M21

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## 1. Introduction

The globalized world market allows the appearance of small and medium-sized enterprises that become the driving force of economic development. The last decades of the 20th century have led to a change in the dominant business philosophy, even in the most developed countries of the world, and hence their actuality in the countries in transition, as well as the Balkan region as a whole. Nowadays organizations are more exposed to the increasing global competition, customer expectations and changes (Jakupi, 2008; Islami et al., 2015). To address these pressures, many organizations are in the situation either change or bankrupt (Beer & Nohra, 2000).

The dynamics of the global economic trends impose new forms of organizational changes, application of new knowledge for their management, particularly financing new technologies to provide competitive products on the global market, therefore, as key features for small and medium enterprises possession are imposed: flexibility; independence; rapidity in business relations; opportunities of creating new jobs; creativity of individuals, realization of their ideas and adaptation of the market needs. The importance of having these factors results from internationalization of the markets, which leads to an increase of complexity of factors in specific markets of different places as a consequence of dependence between global economies. In the meantime, the world has become more and more dynamic, as a result of information explosion and rapid communication in the whole world (Zeffane, 1996). The firm will lose its competitive abilities by not applying the organizational changes. Without presenting adequate changes in time and in ethic manner, organization will be faced with hard times and can decrease their chances of long-term survival (Christian & Stadlander, 2006).

Organizational changes are an acceptable process from managers as well as organizational employees. According to (Susanto, 2008) the effort of change supported from managers is an essential factor for organizational changes. Armenakis, et al. (1993) found out that the scale in which the policies and organizational practices support the change can be an important factor in understanding how ready the employees for the changes are. In complete accordance (Beckhardt & Harris, 1987; Schneider et al., 1992), the study of Eby et al., (2000), points out that for successful organizational changes must be included policies and flexible procedures, as well as systems and supporting logistics (for example the amount of equipment, machines and financial resources). McManus, et al. (1995) also found out that the scale of trust in management can feed the perception that the organization can face the rapid changes. Changes are accepted by the employees with more readiness if they are convinced that the change will be profitable for them (Susanto, 2008). Even though it is worth mentioning that the change is not realized to be profitable by a lot of employees. In such cases the employees are only



concerned about immediate results. On the other hand, the profits as a result of change can be enjoyed for a certain period of time. According to, Smith (2005) the development of understanding the nature and reasons of change in early stages can secure a healthy base for later changes and a higher steadiness to take risks even beyond limits. As a result decreases the operating costs of SMEs.

A huge number of research papers treat organizational changes in general aspect and are focused in the aspect of influence of outside environment factors. By noticing that there is a lack of existing literature that treats simultaneously organizational changes in two aspects: increasing competitiveness of SME-s as a result of organizational changes and the impact of these changes in operating the cost of the firm. The study is done exactly to contribute in literature enrichment for organizational changes by analyzing the abovementioned fields of changes. In order to clarify to the readers the term “employee” is referred to all employees in a SME, it includes managers of all levels and other employees that are directed from these managers. So, in this study employees are considered all the staff that helps in operating the work of SMEs. Also in the second part of this study session, 2.2 operating cost of the firms, is analyzed only the aspect of employees, since implementing the changes from employees is an important factor that increases the operating cost of the firm.

The contribution of this research paper is to create a theoretical-methodological and applicative understanding of the concept of organizational changes in the SMEs and its organizational development, as well as determining the degree of influence of the change on the SMEs competitiveness.

## **2. Literature Review**

Change has become an important part of strategic management in many organizations, because leaders have understood that we live in a temporary society and by bringing constant changes they could give a competitive advantage to the organizations they lead, in both the domestic business environment and global business environment (Stadtländer, 2006, Islami et al., 2015). Woods & Joyce (2003), from the study of 267 firms, have found that organizations that use strategic management systems make faster decisions and successfully undertake the organizational change. Organizational change affects every part, area, or every component of the organization (Islami et al., 2015). However, the three general areas of an organization that must be adapted to change are: the structure of organization and projections, technology and operations, and the people (Griffin, 2005). According to Ashmarina & Zotova (2015) economic, political, social, regional, sectorial and contenders system are the main factors affecting the willingness of enterprises to implement changes. Organizations are continually confronted with the

need to implement changes in strategy, structure, process, and culture (Armenakis et al., 1993).

### **2.1. Methodology for Creating Competitive Capability in SME**

Competitiveness, in essence, is the ability to achieve market success in order to increase living standards and survival over a longer period of time. In order to support SMEs in the environment in which they are located, in the developed and developing countries, a core should be created to create and use a competitive advantage in SMEs. According to (UNCTAD, 2001), the following areas which must change in order to increase the SMEs competitiveness are: a) Automation - involves the use of advanced technology that encompasses internal processes, just like e-business. All processes must be reviewed and adapted to achieve high efficiency and cost-effectiveness. b) Distribution - channels must be structured in order to meet customer needs and provide access to dedicated services. Also, the branch network must be differentiated according to consumption segmentation, and in particular the needs of a highly capable management. c) Marketing - must be based on an efficient sales culture; hence prices should be in line with the risk structure, which must take into account the needs of SMEs. d) Credit policy - must be supported by the achievement of credit stability, as well as the creation of methodological tools for its evaluation. Commercial banks in developing countries must alter these methodological techniques, in line with the environment and the development needs of SMEs. e) Top management - needs a clear vision of the business development model. In developing countries, management should take a clear position on the conditions of functioning of SMEs and must support this field.

The country's mission with regard to competitiveness is defined by (Directorate for Development of SMEs, 2011) as: Improvement (change) of the competitiveness factors that directly and indirectly influence the overall development of small and medium enterprises in terms of products and services.

Teece & Pisano, (1994) put the arguments in an advanced level by pointing out that strategic dimensions change of firms are managerial including organizational process, current position as well as the available ways. By managerial process is referred the manner of how the works are done in the firm, what is called its "routine", or actual practice models and learning. On the other hand, position refers to actual technology and intellectual property, as well as its base of consumers, also in relation with the supplier. Whereas, by available ways is referred the strategic alternative in firm's favor and its attraction of opportunities that are ahead (Teece & Pisano, 1994). It is thought that the advantage of competing firms comes from dynamics, abilities stamped in higher performance routines that operate inside firms, part of firm processes and conditioned by its history. Since the imperfect factors of the market or precisely not-showing the "soft" assets as cultural values and

organization experience, these abilities in general cannot be bought, they must be built (Teece & Pisano, 1994).

In environments that change rapidly, undouble that a huge value is given to the ability in understanding the need to reconfigure the firms' structure, in order to make the necessary changes inside and outside (Amit & Schoemaker, 1993; Langlois, 1994). This requires continuous observation of the market and technologies and a complete steadiness to adopt the best organizational practices. In this aspect, benchmarking is a considerable value as an organized process for realization of such endings (Camp, 1989). In dynamic environments, self-satisfied organization with their actual state happened to be damaged. The capacity to reconfigure and transform is a self-formed organizational ability. The more it is practiced the easier it is to realize.

The change is costly and the firms must develop processes to maximize the profit. The ability to measure the request of change and to realize the necessary regulation is depended from the ability: to analyze the environment; to evaluate the market, the competitors and to realize a rapid configure and transform before competition does. Decentralization helps these processes (Teece & Pisano, 1994).

## **2.2. The Impact of Changes in Smes on Employment and Firm's Operating Costs**

According to (Susanto, 2008; Kotter, 1995) organizational changes must follow a vision and a clear perception of direction in which the organization wants to move. Without a clear vision, the efforts of the organization change can be adjusted in a confusing list and in unacceptable project and as a result the organization can take a wrong direction that will be more costly (Kotter, 1995). The people in an organization have the same aspiration for changes that is inevitable (Susanto, 2008). According to, Strebel (1996) a lot of efforts to change fail because the leaders and employees of the organization see the change as difficult. Employees as an object of change are essential for the success of attempts to change because attitude, abilities, motivation and their based knowledge includes an important component of organizational environment in which the change must be tried (Smith, 2005).

Moreover, the employees perception for readiness of organizational changes are identified as an important factor in understanding the meaning of the source of resistance toward change in a wider scale (Eby et al., 2000). These processes can relief or damage the effectiveness of an interrupted change (Armenakis et al., 1993; Lewin, 1951). McDonald & Siegal (1993), Iacovini (1993), and McManus, et al. (1995) suggested that the attitude of employees toward an expected change can influence in the moral, productivity and the distribution aims. Employees' perception for the scale in which their organization has the flexibility to reach the change and the scale in which they participate actively and really in the process are an important factor in reaching successful changes (Smith, 2005).

Through including actively, continuously and meaningfully in the process of change people can distinguish the connection in between their personal work, attitude and general organizational performance and employees can be encouraged to embrace their personal responsibilities in order to reach the change (Smith, 2005). Personal valence that clarify the inside and outside profits of change, can help in developing a moment of change. In special manner, where employees percept how they are going to profit from the change they'll start to seek other methods to improve transition (Bernerth, 2004). Even though, for a lot of employees, change can create feelings of anxiety and tension, and when the change starts to take form, the members of organization can feel insecure and confused (Bernerth, 2004).

All organization members must have the privilege to propose or to start the necessary changes. But in the end the organizational leader is the one that must decide and start the required changes. The organization leaders become leaders because of their abilities of planning and their abilities of predicting and communicating a better future (Zeffane, 1996). Although the people in the organization must be given the opportunity to be included in all aspects of project of change and must be given the opportunity to give feedback (Waddel & Sohal, 1998). This first step is essential because the start of a transformation requires the cooperation of a lot of individuals (Kotter, 1995).

Management support also can be a reflection of how is the change decided from the management through re-organizing of performance evaluation and employees compensation with the initiative program of change. Change requires sacrifices from employees. Through the process of change, employees must feel themselves comfortable in the new environment. So, sacrifices, participation and work from the organization members should be rewarded through performance evaluation and compensation. The action of management toward each obstacle in treating the process of change reflects the scale of management support. The trust that management has taken optimal steps to overcome obstacles mirrors the level of steadiness for the change (Susanto, 2008).

A well-planed change cannot be realized without the support of a clever and hard-working change agent. Beckard & Harris (1987) augmented that the abilities new-spread include knowledge, abilities and organizational abilities in general to fulfill the necessary request for successful application of changes (Jones et al., 2005).

Pardo del Val & Fuentes (2003) has identified five essential sources, concretely: direct cost of change (Rumelt, 1995); cannibalism costs, meaning, the success in one product brought by the change, but in the meantime brings failure for others, so it is required a kind of sacrifice (Rumelt, 1995); included is subvention because the need for a change is compensated through higher rate taken without change in another different factor, so there is not a real motivation to change (Rumelt, 1995); past failures that leave a pessimistic image to future changes (Lorenzo, 2000); and

different interest in between employees and management or lack of employees motivation that evaluate change and result less than the managers that evaluate them (Waddell & Sohal, 1998). If SME managers use the right techniques in particular moments, this offers the enterprise the opportunity to realize an effective change and to precede with competitor's enterprise or even to pass them in positive aspect in the market (Islami, 2015).

### 3. Survey Hypotheses

Based in the abovementioned literature in this section the hypotheses of the study will be presented. From testing the current study hypotheses a gap will be filled in the existing literature that deals with the relationship of organizational changes with competitiveness and operating costs of SMEs.

In setting up the underlying research hypotheses, the analytical approach are presented using the following tabular analytical assumptions: hypothesis on the usefulness of the investigated dimensions of change; research hypothesis for the demographic variables of change; research hypothesis about the function of the creative dimensions of the changes; research hypothesis for dependent variable variables, i.e. of operating costs and competitive advantage; a research hypothesis about the internal abilities to implement organizational changes, the hypotheses below have to be tested:

**H<sub>1</sub>:** Change in organizational dimensions has a positive relationship with increasing of firm's competitiveness;

**H<sub>2</sub>:** Change in organizational characteristics has a positive relationship with increasing of firm's competitiveness;

**H<sub>3</sub>:** Change in organizational dimensions has a negative relationship with increasing of firm's operating costs;

**H<sub>4</sub>:** Change in organizational characteristics has a negative relationship with increasing of firm's operating costs.

### 4. Methodological Approach

To realize this study, a methodology consisting from a combination of primary and secondary data has been used. The article has been prepared using the analysis of secondary resources (scientific publications and articles from specialized databases, such as Science Direct, Emerald and ProQuest) and primary resources in the form of results of the quantitative survey conducted in a sample firms that operate their business activities in republic of Kosovo. For the empirical analysis of the study, the

data were gathered from a self-administered questionnaire. The participants were randomly chosen. To measure the impact in between variables in this study SPSS program has been used. The research procedure is conducted over a representative sample of employees in: joint-stock companies, limited liability companies of one person, and partnership. The participant companies were not only of domestic capital but also and foreign capital; and entities of the SME sector that result from a partnership of the central or state government with a certain private interest.

In detailing the constituent elements for the development of the defined topic and theses, a complete instrumentation of research methods, used as tools and techniques of research, was used in order to obtain more complete and better data from the research. The very commitment of the deepest and pivotal elements of the functioning of SMEs aimed to collect very high quality data and information, in order to serve them in the process of making business decisions within the SME sector.

#### 4.1. Data Collection

Empirical testing of the SMEs in Kosovo is of exceptional importance. It was conducted with a representative sample of 200 small and medium businesses.

The collected extensive statistical material has been processed in a qualitative and quantitative statistical manner, mostly using the E-views software package. In this sense, the basic intention of statistical determination is awareness of the following characteristics of the empirical sample of Kosovo SMEs, i.e.: setting up the hypothesis for research within the created model of dependence on the elements of the questionnaire; determining the dominant frequencies and correlations; regression analysis as well. The scale used in questionnaire is based on 5-point Likert scale. Likert scale (1- not at all, 2- low, 3- moderately, 4- to a large extent, 5- to a very large extent).

**Table 1. The determination of the variation of variables by category is determined using the following variables**

Dependent Variables		
COMPET		Firm's competitiveness
COST		Firm's operating cost
Independent variables		
INTCAP	d	Internal facilities for organizational change
MANAGKNOW	d	Knowledge and abilities of managers
EMPLOYKNOW	d	Knowledge and abilities of employees
USE	d	Degree of utilization of organizational changes
MANIF	d	Manifesting managerial behavior
OWNER	c	The owners have responsibility for the implementation of the changes
MANAG	c	Managers are responsible for the implementation of the changes
EMPLOY	c	The employees have responsibility for the implementation of the changes
AGENT	c	Responsibility for the implementation of changes has change agents

EXPERT	c	Experts have responsibility for the implementation of the changes
GOVERN	c	Responsibilities for implementing the changes have external stakeholders
CREATIV	c	Systematic management of creative initiatives
<b>Control variables</b>		
PRODUCT	c	The enterprise operates in the production sector
INCENTIV	c	Promoting reward systems
ORGST	c	Flexible organizational structure
EVAL	d	Evaluation and revaluation
IMPACT	d	The influence of the company in the environment

Note: d- dimensions; c- characteristics

Changes in organizational dimensions include the change in these factors: EMPLOYKNOW; EVAL; IMPACT; INTCAP; MANAGKNOW; MANIF; and USE.

Changes in organizational characteristics include the change in these factors: AGENT; CREATIV; EMPLOY; EXPERT; GOVERN; INCENTIV; MANAG; ORGST; OWNER; and PRODUCT.

#### 4.2. Instrument Design

To make the regression analysis firstly we have to present the link between the independent variable. If the correlation between variables is within the limits (-0.7 to 0.7), from the general rule of correlation on the contrary if the value is outside these limits, variables have strong connection between them, that produces incorrect estimated results. We have multicollinearity when we have a high correlation between independent variables (Hair et al., 1998; Lind et al., 2002; Islami et al., 2018).

#### 4.3. The Model Used and Variables

In the created research model, the following quantitative methodological analytical instruments are used to perceive the relationship of independent, dependent variables, and control variables:

$$y_i = \alpha + \beta_1 x_{1i} + \beta_2 x_{2i} + \dots + \beta_n x_{ni} + \delta_1 d_{1i} + \delta_2 d_{2i} + \dots + \delta_n d_{ni} + \ddot{e}_i$$

$$y_i = \alpha + \beta_1 * EMPLOYKNOW + \beta_2 * EVAL + \beta_3 * IMPACT + \beta_4 * INTCAP + \beta_5 * MANAGKNOW + \beta_6 * MANIF + \beta_7 * USE + \ddot{e}_i$$

$$y_i = \alpha + \beta_1 * AGENT + \beta_2 * CREATIV + \beta_3 * EMPLOY + \beta_4 * EXPERT + \beta_5 * GOVERN + \beta_6 * INCENTIV + \beta_7 * MANAG + \beta_8 * ORGST + \beta_9 * OWNER + \beta_{10} * PRODUCT + \ddot{e}_i$$

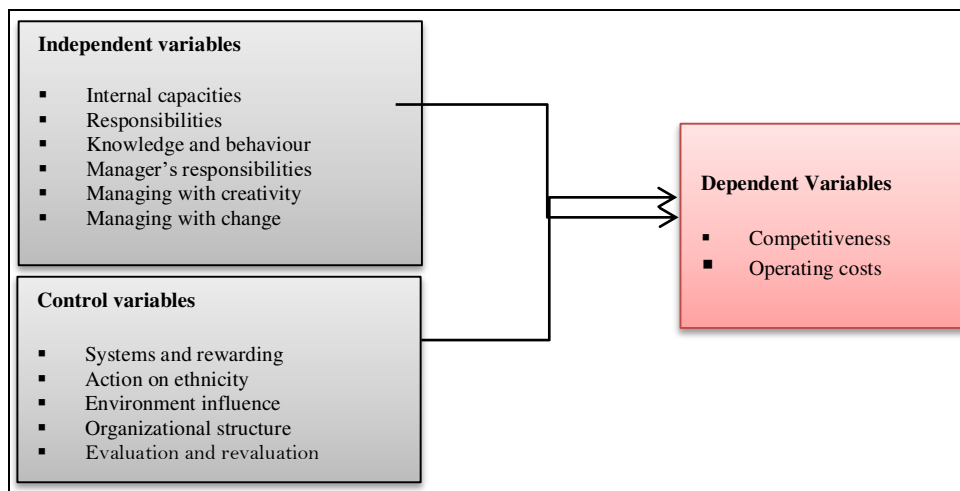


Figure 1. Conceptual model

#### 4.4. Research Methods

The questionnaires were developed by emphasizing the categories of expected dimensions and tendencies, in order to elicit multiple responses that would clarify the need for formulating future recommendations, with the full use of one-way and multidirectional quantitative and qualitative analysis.

The basic research methods in this research paper include the methods of induction and deduction, analysis and synthesis, and the comparative analysis. The deductive method, in this research paper is used as a fundamental method of reasoning, on the basis of which is the necessity of setting the hypothesis of the investigated problem, but on the basis of causality in determining the basics of such research. The inductive method, or even more commonly known as the method of inductive logic, is set as the object of use when the applicative dimensions of the research hypothesis are tested. The main purpose of its use is to see the channeling of the conclusions. The method of analysis, aims to break down the individual dimensions of research in order to draw relevant conclusions, starting from the individual to the general. In contrast, the method of synthesis is used as an addition, that is, on the basis of general knowledge and conclusions approaching an individualized perception of the defined research problem. The method of comparative analysis is used to compare organizational changes in different stages of organizational development in order to determine the future of competitiveness and employment in the SME sector.



## 5. Results

The basic usefulness of the empirical data obtained has an initiation, i.e. general use value, as well as benefits that will be subject to quantitative and qualitative analysis of the sample.

The analyses of the so-called, general research parameters for the covered statistical sample refer to the following distributions, prepared according to the covered criteria: business category - micro, small or medium; the location of a small or medium business; his dominant, i.e. dominant activity as well; respondent category - owner or manager.

The initial categorization of covered and investigated SMEs was conducted according to the criterion of belonging in one of the subcategories within the SME segment, presented in the following tables:

**Table 2. Distribution of the surveyed sample of SMEs by category (n=200)**

Category	Number of businesses	Percentage participation
Micro businesses	124	62%
Small businesses	54	27%
Medium businesses	22	11%

Based on the Table 2, it is perceived that the dominant category of entities within the surveyed sample is micro businesses, with 62%, followed by small businesses with 27%, and the least represented are medium-sized business entities, with an overall participation of 11%.

**Table 3. The scope of SMEs from the aspect of their dominant activity (n=200)**

Category	Number of businesses	Percentage participation
Manufacturing activities	52	26%
Trade	80	40%
Services	48	24%
Construction	9	4,5%
Other activities	11	5,5%

It is evident from the Table 3, that the overall research structure is dominated by trade with 40% participation, followed by manufacturing activities with 26%, services with 24%, construction with 4.5% and the category containing other activities with 5.5%. Undoubtedly, in the future, this distribution should move in the direction of greater representation of manufacturing and services, especially those from high value-added areas, which are based on strong expertise.

Extremely interesting is the cross-sectional analysis of the territorial belonging together with the main activity, where extraordinary knowledge is extracted (relationship between Table 2 and Table 3): The category of micro entities is oriented

mainly towards trade, with 58%, followed by services with 34%, trade activities with 4% and other activities with 4%. Small business segment is focused mostly on production, with 43%, followed by trade with 33%, services with 13%, construction with 9% and other activities with 2%. And the category of medium-sized businesses is mostly oriented towards services with 38%, followed by production with 26%, trade with 21%, and construction with 6%.

And finally, from this general research approach, is categorized the analyzed SMEs according to the criterion of the category of the respondent - owner and/or manager, presented in the following table:

**Table 4. Distribution of the surveyed sample of SMEs according to the respondent (n=200)**

Category	Number of businesses	Percentage participation
Owner, not a manager	43	21,5%
Manager, not owner	21	10,5%
Owner and manager	136	68%

As, it is presented in Table 4, is evident that among the majority of Kosovo SMEs from the sample, the authorization to respond to the questionnaire is set for a person who is a personal union - at the same time a dominant owner and manager with 68% representation, followed by owners who do not perform the management function with 21.5%, and last are managers who are not dominant owners with a share of 10.5%, which speaks enough about the concentration of authorizations around the owner, while at the same time pointing to a lack of separation of ownership from management.

In order to analyze data and to test hypotheses it is used the regression analysis. To complete the regression analysis IBM SPSS statistical software is used. Despite, regression analysis, descriptive data have been presented. Empirical results are going to be presented below.

Based on the detailing of the elements of the responses in both segments of the Questionnaires, the following quantitative and qualitative insights are derived, which will be illustrated through the details of the following elements: the distribution of the highest frequency of individual responses; regression analysis of the impact of organizational dimensions and characteristics on both dependent variables: “firm’s competitiveness” and “firm’s operating costs”.

**Table 5. The largest distribution of individual factors that induce change (n=200)**

<b>Dimension of change</b>	<b>Number of answers</b>	<b>Frequency</b>
Support in securing the placement of your products/services	117	58,5%
The need to build a high degree of independence from big businesses and not depend solely on their relationships	94	47%
All employees have the responsibility for quality management of organizational changes	109	54,5%
The dominant model of organizational culture is very little changed	92	46%
The increased number of employees partially possesses the necessary scope of knowledge, skills, experiences and abilities	113	56,5%
The degree of risk that organizational change has the greatest potential for quality management of them	125	62,5%

Based on Table 5, it is perceived that the leading factor that encourages change is the risk that the change brings with it as an impetus for its management with 62.5%, followed by the support of the employees in securing a higher ranking as a result of the change, with 58, 5%, followed by the dimension according to which the change is necessary because the increased number of employees partially possesses the necessary volume of knowledge, skills, experiences and abilities with 56.5%.

In this paper is presented the analytical dimension of the degree of mutual correlative utility in the investigated representative sample using the following table:

**Table 6. Maximum descriptive relationships of change dependence, on the surveyed sample (n=200)**

<b>Categories of dependencies in change</b>	<b>Result in %</b>
The dimensions of quality management of organizational change depend on the processes through which the organizational knowledge is exhausted	79%
Implementation of signals for consumer change depends on the utilization of the change in order to increase the competitiveness	84%
The motivation for increasing the competitiveness depends on the form of the awards for the employees	77%
The factors contributing to greater employment depend on the manner of valuation and assessment of the implemented changes	69%
Managers use changes to change processes and relationships depend on signals coming from consumers about the dimensions of change	91%

Based on the analysis of the elements in the Table 6, it can be seen the greatest dependence on the individual issues noted in managerial use of process changes and relations as the result of signals from consumers, with 91%, followed by the dependence of the implementation of signals for changes in use of the change to increase competitiveness with 84%.

### 5.1. Regression Analysis

In this part of the paper, it will be presented the representation of the competitiveness dependence on the organizational dimensions and characteristics.

In order to measure the impact of independent variables in dependent variable “firm’s competitiveness” multiple regression analysis has been used. Regression analysis is presented in Table 7. According to regression analysis independent variables that enter in analysis explain 67.4% of dependent variable “firm’s competitiveness”.

As it shown in Table 7, measured with regression analysis the impact of change on organizational dimensions on SMEs competitiveness independent variables “EMPLOYKNOW”, “MANIF”, and “USE” are moved from further analysis because the significant values are larger than ( $p= 0.01$ ;  $0.05$ ; or  $0.10$ ). Whereas, two other independent variables “IMPACT” and “INTCAP” are significant in value ( $p=0.10$ ). And two independent variables “EVAL” and “MANAGKNOW” are within the significant level ( $p=0.05$ ).

Independent variable “EVAL” is positively connected with dependent variable “firm’s competitiveness” by predicting it for 36.5% ( $b=.365$  &  $p=.032$ ). Independent variable “INTCAP” is positively related with dependent variable “firm’s competitiveness” by predicting it for 41.7% ( $b=.417$  &  $p=.050$ ). Independent variable “IMPACT” is negatively related with dependent variable “firm’s competitiveness” by predicting it for -20% ( $b=-.200$  &  $p=.092$ ). As well independent variable “MANAGKNOW” is positively related with dependent variable “firm’s competitiveness” by predicting it for 39% ( $b=.390$  &  $p=.009$ ). If it is analyzed closely Table 7 can be concluded that independent variable “INTCAP” has a higher impact than all other independent variables in firm’s competitiveness.

**Table 7. Regression analysis of the impact of change in organizational dimensions on firm’s competitiveness (n=200)**

Variables	Coefficients	Default error	t-statistics	Probability
Constant	0.222701	1.053745	0.211342	0.0333
EMPLOYKNOW	-0.010248	0.138125	-0.074196	0.9411
EVAL	0.365939	0.167196	2.188686	0.0321
IMPACT	-0.200924	0.117811	-1.705483	0.0927
INTCAP	0.417928	0.209564	1.994271	0.0501
MANAGKNOW	0.390796	0.146406	2.669261	0.0095
MANIF	-0.065991	0.110726	-0.595984	0.5532
USE	0.044076	0.105431	0.418055	0.6772

Based on Table 7, it is clearly perceived as a moderate right - a proportional influence on the internal capacities for changes, assessment and evaluation systems, as well as the knowledge and abilities of the managers, their competitiveness, and the weakly

inverse - proportional influence on the influence of the particular enterprise on the environment.

As is presented in Table 8, measured with regression analysis the impact of change on organizational characteristics on firm's competitiveness independent variables "EMPLOY", "EXPERT", "GOVERN", "ORGST" and "PRODUCT" are moved from further analysis because the significant values are larger than ( $p= 0.01$ ;  $0.05$ ; or  $0.10$ ). Whereas the other independent variables are analyzed with significant level by ( $p=0.05$ ).

If it is analyzed closely Table 8, can be concluded that independent variable "OWNER" has a higher impact than all other independent variables in firm's competitiveness.

**Table 8. Regression analysis of the impact of change in organizational characteristics on firm's competitiveness (n=200)**

Variables	Coefficients	Default error	t-statistics	Probability
Constant	3.839383	0.333708	11.50521	0.0000
AGENT	-2.643732	0.983084	-2.689222	0.0091
CREATIV	0.530613	0.202380	2.621867	0.0109
EMPLOY	0.276241	0.258339	1.069298	0.2889
EXPERT	0.668581	0.850035	0.786534	0.4344
GOVERN	0.503231	0.320608	1.569612	0.1214
INCENTIV	0.600367	0.271027	2.215160	0.0303
MANAG	-0.547691	0.226812	-2.414738	0.0186
ORGST	-0.226810	0.265909	-0.852958	0.3968
OWNER	-0.739329	0.245788	-3.007995	0.0037
PRODUCT	-0.299249	0.209615	-1.427615	0.1582

The analytical perception of the Table 8, testifies to a significant right - a principled influence on the responsibility for the implementation of changes by experts, the system of rewarding incentives and systematic management of creative initiatives, in contrast to significantly vice versa proportional impact of the responsibility for implementing changes from change agents, as well as the same responsibility of the owners of the capital.

As it shown in Table 9, measured with regression analysis the impact of change on organizational dimensions on firm's operating costs independent variables "EMPLOYKNOW", "IMPACT", "INTCAP", and "USE" are moved from further analysis because the significant values are larger than ( $p= 0.01$ ;  $0.05$ ; or  $0.10$ ). While, two other independent variables "EVAL" and "MANAGKNOW" are significant in value ( $p=0.10$ ). And independent variable "MANIF" is within the significant level ( $p=0.05$ ).

Independent variable "EVAL" is negatively connected with dependent variable "firm's operating costs" by predicting it for  $-17.4\%$  ( $b= -.174$  &  $p=.067$ ).

Independent variable “MANAGKNOW” is positively related with dependent variable “firm’s operating costs” by predicting it for 16.2% ( $b=.162$  &  $p=.052$ ). As well independent variable “MANIF” is positively related with dependent variable “firm’s operating costs” by predicting it for 13% ( $b=.131$  &  $p=.038$ ). If it is analyzed closely Table 9, can be concluded that independent variable “EVAL” has a higher impact than all other independent variables in firm’s operating costs.

**Table 9. Regression analysis of the impact of change in organizational dimensions on firm’s operating costs (n=200)**

Variables	Coefficients	Default error	t-statistics	Probability
Constant	-0.049494	0.591991	-0.083607	0.0336
EMPLOYKNOW	-0.017945	0.077598	-0.231253	0.8178
EVAL	-0.174730	0.093930	-1.860219	0.0672
IMPACT	-0.092192	0.066186	-1.392921	0.1682
INTCAP	0.063306	0.117733	0.537707	0.5925
MANAGKNOW	0.162440	0.082251	1.974943	0.0523
MANIF	0.131281	0.062206	2.110438	0.0385
USE	0.055434	0.059231	0.935893	0.3526

The deeper analysis of Table 9, indicates the elementary knowledge of low regressive relationships of dependence, whether rightly proportional or vice versa - proportional to the operating costs of organizational dimensions, in conditions of poorly-linear influence on assessment and evaluation systems, as well as knowledge and abilities of managers. As is presented in Table 10, measured with regression analysis the impact of change on organizational characteristics on firm’s operating costs all independent variables are moved from further analysis because the significant values are larger than ( $p= 0.01$ ;  $0.05$ ; or  $0.10$ ), except independent variable “GOVERN” which is significant in value ( $p=0.10$ ). Independent variable “GOVERN” is positively related with dependent variable “firm’s operating costs” by predicting it for 31.5% ( $b=.315$  &  $p=.075$ ).

**Table 10. A regression analysis of the impact of change in organizational characteristics on firm’s operating costs (n=200)**

Variables	Coefficients	Default error	t-statistics	Probability
Constant	-0.221983	0.181567	-1.222601	0.0259
AGENT	-0.520348	0.534884	-0.972825	0.3342
CREATIV	-0.094587	0.110112	-0.859001	0.3935
EMPLOY	0.049461	0.140559	0.351891	0.7261
EXPERT	-0.424921	0.462494	-0.918762	0.3616
GOVERN	0.315325	0.174439	1.807653	0.0753
INCENTIV	-0.188048	0.147462	-1.275230	0.2068
MANAG	-0.116167	0.123405	-0.941343	0.3500
ORGST	0.228644	0.144678	1.580366	0.1189
OWNER	0.126437	0.133730	0.945461	0.3479
PRODUCT	0.171088	0.114049	1.500131	0.1384

Based on the previous regression analysis from Table 10, a conclusion is drawn about the significant reverse - proportional influence of the category responsibility for the implementation of change from realtors for changes, versus moderate inverse - proportional influence of the category responsibility for the implementation of changes from experts, which speaks enough the limited impact of internal capabilities to implement the change-over operating costs.

## 6. Discussion

The contemporary categorization of the instigators of change usually takes into account the impact of the pressure on competition on the change, the tendencies of globalization, the international instability, especially the financial, growing needs for greater and clearly emphasized transparency and accountability, the sustainability of the development initiated by the change, the lack of confidence in the institutions of the system, productivity, technology, e-business, consumer revolution, social trends, responses human resources, increasing the relative importance of stakeholders etc.

Based on the results of this study, the firms should be focused on the fact that it is necessary first to determine the goals of the concrete changes, and only then to think about the mechanisms for their realization, because the organizational policy for their realization depends on the inner feeling that the employees will acquire for organizational changes. Wherever there is a necessity for the expertise of a larger number of employees, they should be consulted about the whole process of change management, not just in the implementation phase. So, systemic management of new creative initiatives, as well as attracting quality employees to implement change, should largely become rooted in the root causes of change management rather than the dominant cost reduction, especially operational ones.

Based on the identified trends in the development of SMEs in Kosovo, which were empirically rationally tested, is needed to clarify the specific modality of change that is most appropriate, according to the diagnosis of the stage in the life cycle in which they are located, as well as the internal and external conditions they face. Namely, in any organizational change, regardless of whether it is a current or planned change, the initial dimension is the awareness that its manifestation is to the greatest extent appropriate, from the following manifestations of the types: evolutionary (transactional) or revolutionary (transformational) (Connie, 1991).

The underlying dimension of diversity lies in the knowledge that the evolutionary project involves changing within the existing business model without substantial changes in the levels of authority and responsibility and is reflected in forms such as reconstructions, adaptations, moderation, etc. In contrast to the evolutionary, transformational organizational change presupposes the establishment of new,

organic relations, with the essential change of the dominant business model, as well as real improvement of the quality of processes and relations in SMEs.

Organizational culture, to a greater extent, provides effective change of employees' awareness of the potential of organizational changes, for transition to the ideal form of organization. Signals coming from consumers should be more relevant to the dissatisfaction of their real needs, motives and desires in the consumption of the product/service and the restriction of the post-sale support, rather than the dominant of the payment terms that the current SME owns.

Although most of Kosovo's SMEs would volunteer to engage in evolutionary changes, according to their diagnosed state, most of them, i.e. 65% must gradually face transformational changes as the only model for building their competitiveness. In this model, employee access to change is crucial, i.e. the way they see, feel and accept it. In the guidelines for the improvement of the organizational change management model, in the surveyed sample from Kosovo, the system for promotion and development of human resources has a separate meaning and influence.

The initial treatments of each employee in an SME imply the existence of their continuous and effective training and development. As a way to ensure the development of skills among people, that is to develop them from within, training should focus on facilitating learning, not just the inadvertent imposition of new functional knowledge. In addition to the training, emotional intelligence, sympathy, and integrity are considered as important, which in some situations are more important than the development of processes and skills. But, not always training, development and motivation of employees, as a conventional method of organizational change for human resources development, manage to yield the expected results. Unilateral imposition of new skills for human resource changes is not effective due to too great personal goals and employee preferences, in circumstances where some of their personal convictions may even be contrary to those of the organization. What will always apply to the development of human resources in SMEs is that employees will never comply with incomprehensible or inapplicable organizational goals, especially those that are not transparent to the majority of employees.

## **7. Conclusion**

We can say that in general change management is relatively a new area. In this paper we analyze the effect of organizational changes in dimensions and characteristics on SMEs competitiveness and firm's operating costs. Results have shown that the change in organizational dimensions factors will increase the SMEs competitiveness and will decrease the firm's operating costs; also change on organizational



characteristics factors will increase the SMEs competitiveness and decrease the firm's operating costs.

First hypothesis: according to the statistical test results for individual coefficient control we get the result ( $t_1=0.211$  and  $p=0.033$ ) individual coefficients show that independent variables included in organizational dimensions have a significant contribution in this model. As seen by multiple regression equation, as well as without standardized  $\beta$  coefficients, change in organizational dimensions affecting firm's competitiveness. In this way we can say that the hypothesis  $H_1$ : is accepted by showing that organizational dimensions have a positive relationship and is important statistically with firm's competitiveness ( $H_1\uparrow$ ). The most important factor which has the larger impact on firm's competitiveness as is shown in Table 7, is "INTCAP" that has positive relationship, which would mean that if the "INTCAP" increase to 0.1 will increase the firm's competitiveness for 4.17 %, if other variables remain unchanged, it follows by reason that more internal facilities for organizational change are the easier to achieve SMEs competitiveness.

Second hypothesis: as is shown in Table 8, according to the statistical test results for individual coefficient control we get the result ( $t_2=11.505$  and  $p=0.000$ ) individual coefficients showed that independent variables included in organizational characteristics have a significant contribution in this model. As seen by multiple regression equation, as well as without standardized  $\beta$  coefficients, change in organizational characteristics affecting firm's competitiveness. In this way we can say that the hypothesis  $H_2$ : is accepted by showing that organizational dimensions have a positive relationship and is important statistically with firm's competitiveness ( $H_2\uparrow$ ).

Third hypothesis: according to the statistical test results for individual coefficient control we get the result ( $t_3=-0.083$  and  $p=0.033$ ) individual coefficients showed that independent variables included in organizational dimensions have a significant contribution in this model. As seen by multiple regression equation, as well as without standardized  $\beta$  coefficients, change in organizational dimensions affecting SMEs competitiveness. In this way we can say that the hypothesis  $H_3$ : is accepted by showing that organizational dimensions have a negative relationship and is important statistically with firm's operating costs ( $H_3\uparrow$ ). The most important factor which has the larger impact on firm's operating costs as is shown in Table 9, is "EVAL" that has negative relationship, which would mean that with the "EVAL" increase to 0.1 the firm's operating costs will decrease for 2.31 %, if other variables remain unchanged, it follows by reason that more evaluation and revaluation as a part of continued control will decrease the firm's operating costs.

Fourth hypothesis: as is shown in Table 8, according to the statistical test results for individual coefficient control we get the result ( $t_4 = -1.222$  and  $p=0.025$ ) individual coefficients show that independent variables included in organizational dimensions

have a significant contribution in this model. As seen by multiple regression equation, as well as without standardized  $\beta$  coefficients, change in organizational characteristics affecting firm's operating costs. In this way we can say that the hypothesis H<sub>4</sub>: accepted by showing that organizational characteristics have a negative relationship and is important statistically with firm's operating costs (H<sub>4</sub>↑).

This study makes a significant contribution to the scientific and academic value, by linking the organizational changes with SMEs competitiveness and operating costs in Kosovo, in the region and beyond.

## 8. Limitations of the Study

This study contributes in literature enrichment related to the relationship between change in organizational characteristics and dimensions with firm's competitiveness and operating costs, but it has its limitation. Study limitations are:

The size of selected SME that participated in the study is low (200). For this reason, a close attention must be paid in trying to generalize the data of this study.

Factors used in this study are not the only that influence in SMEs competitiveness and firm's operating costs. There are also other factors which are used.

The data gathered in a moment of time, not in different periods of time. The value of the study would have been higher if the data had been gathered in different periods of time with the purpose of observing.

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## The Impact of Process Innovation on Organisational Performance

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**Abstract:** Innovation has been a major driver of economic and social development as the rise of modern industrial powers in North America and Europe as well as the economic success of many developing countries is based on rapid increases on the speed of technological process and managerial innovations. As such, the study endeavours to determine if Process Innovation has significant effect on organisational performance and also to examine if there is a significant relationship between process service modification and sales volume. 114 copies of questionnaire were administered to major telecommunication operator employees in Lagos State, Nigeria to get primary data that treated and tested appropriate research questions and hypotheses accordingly. The study adopted survey method and Cronbach Alpha for test retest reliability. SPSS was also employed in testing the research hypothesis. The study found out that process innovation has a significant effect on organisational performance and there exist a significant relationship between service modification and sales volume. The study recommends that there should be clarified objectives with the process innovation project which helped to visualize a future layout and also a clear linkage between suppliers and uncertainty reduction in the process innovation must be observed which reduced uncertainties in process times for the current state and the future.

**Keywords:** Innovation; Process Innovation; Process design; Organization

**JEL Classification:** M10; M19

### 1. Introduction

The importance of being innovative cannot be overemphasized, thus, (Vankessel et al., 2014) states, "Innovation has become a mantra: Innovate or Die. A company can't outgrow its competitors unless it can out-innovate them. Surely everyone knows that true corporate growth springs from innovation. Process innovation is a type of process development which is the development of a firm's manufacturing processes (Raza, 2014), and has been defined as the creation and implementation of

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new concepts and methods in manufacturing companies (Shahzad et al., 2012). This involves a number of heterogeneous activities such as introduction of equipment, new management practices, and changes in the production process (Tejada & Moreno, 2013). Performing a process innovation of a larger scale often causes the involvement of both organizational and technological changes (Cheng, 2014). To complete such a task, Kupper (2012) stresses the high importance of having a formal work method. This implementation sometimes also triggers supportive construction projects (Zakuan et al., 2010). The firm's ability to achieve process innovation depends on a set of parameters. For example on what overall method or strategy the company priorities, their cost focus, and to what extent the management is involved in the process innovation process (Wei, Minglang & Kim, 2014). A growing manufacturing strategy is the sustainability-related, which has been proven to be linked more to plant visibility compared with traditionally competitive strategy priorities such as cost, quality, and flexibility. (Thakur, Hsu & Fontenot, 2012) Plant visibility encompasses a greater international ownership or labour intensity, and being more responsive to stakeholder perceptions and pressure. This fosters managers to develop a strategy that goes beyond customer and suppliers, and nurtures positive environmental practice and outcomes (Sadikogln & Zehir, 2010). There are various sources of uncertainty. In the product context, it could be a matter of uncertainty in technology, durability or reliability. These uncertainties are however deeply tied to a trade-off between life cycle cost and the product specification (Al-Matari, Al-Swidi & Bt fadzil, 2014). Shaharoun et al. (2010) agree with this and stress that technology uncertainty directly affects the cost of the product and its development negatively. Another source is the individual, where uncertainty varies depending on the differences in cognitive processes and behavioural responses and repertoires. In addition, social expectation for the perception of uncertainty and the perceived characteristics of the environment can fuel uncertainty (Becker & Eager, 2013). This mean that the individual who lacks required knowledge, rules, skills, or information necessary to exchange with team members, also can be sources of uncertainty (Zakuan et al., 2010).

## **1.2. Statement of Research Problem**

In the contemporary business environment, organisations experience stiff competition and fierce rivalry in virtually every industry. In order for these companies to remain relevant in the market, they must develop and adopt new strategic plans aimed at developing, implementing and providing Process innovations (Angel, Merorio & Lopez, 2013). The relevance of Process innovation to companies can therefore not be overemphasised as it serves as a vital competitive tool in manufacturing and oriented industries (Bogers, 2009). The following are the basic research questions which this study seeks to answer on whether process innovation have significant effect on organisational performance and to determine if

there exist a significant relationship between process service modification and sales volume?

### **Hypothesis One**

$H_{01}$  : Process Innovation has no significant effect on Organisational Performance.

### **Hypothesis Two**

$H_{02}$  : There is no significant relationship between Process Service Modification and Sales Volume

## **2.1. Review of Literature on the Concept of Innovation**

The concept of innovation is one which can be defined on several bases which includes the essence of innovation, characteristic of innovation, innovation as a process, and so on. In essence, innovation involves intelligence (Alegre, Lapieda & Chiva, 2006). Today, a multitude of global challenges make policy goals centered on technological innovation even more important. Armbruster posit that global growth slowing as a result of the recession and commodity prices increasing due to geopolitical uncertainties, effective innovation can act as the vanguard against poverty resulting from these challenges. In addition, with the threat of climate change increasing, innovation and technology can act as a buffer in protecting the most vulnerable countries (Arshed, Asif & Baloch, 2012) While many governments recognize the importance of technological innovations, they often have a difficult time in clearly defining the concept of innovation and innovation policies. In addition, many misconceptions exist regarding the key constituents of these policies and how government can play a role in fostering innovation (Broad, 2006).

### **2.1.1. Purpose of Process Innovation**

There are different reasons for using process innovation; the most common one is rivalry with the competitive companies that produce similar of the same product (Arshad, Asif & Baloch, 2012). Process innovation can slow down competitors by giving the company advantages from the manufacturing context, such as cost efficiency, production speed, and quality consistency (Chen & Queater, 2006). Caraco and Crifo (2014) agree on the possibility to gain competitive benefits by implementing process innovations, further adding that the innovation is an important source of increased productivity. Having an increased level of process innovation can also enable the evolvement of the company's products, and from this create more innovation project in the form of product innovation (Brettel, Mauer, Engelen & Kupper, 2012). However Doran & Ryan (2014) concluded that there is often focus groups within an organization that identifies areas of improvement for process innovation but introduction of new products could also be a trigger or opportunity to improve the production.

Hatmann (2006) brings up four types of benefits of effective process development efforts:

- First, benefits of the market position, meaning that the company is able to set the standard for the industry that becomes barriers to competitors;
- The second benefit is applying new technologies, which enable the company to overcome past weaknesses, and the process to reach its full potential. This is summarized as resource utilization. Renewal and transformation of the organization;
- The third benefit emphasizes organizational benefits. Positive outcomes associated with the process capture commitment, innovation, and creativity of the whole organization. In addition, it fosters new thinking, and increase the organizational ability to recruit the best people;
- Fourth advantage is the ability to speed up time to market, which provides a competitive edge, or delay development to acquire better information to bring products to the market better suited for the customers.

### **2.1.2. Challenges in Process Innovation**

Process innovation can be a costly and difficult practice if the knowledge and experience is lacking. Letangule & Letting (2012) suggest that companies should invest in both technical and managerial innovations synchronously. Adoption of new technologies cannot be realized unless they work in harmony with new organizational processes and systems, since performance depends on how well innovation of different types advances organizational goals together. Corters et al (2012) also discuss how formalized roles in process innovation projects can have the adverse effect on its success. On the other hand, formalized processes are beneficial for reducing uncertainty. However, Shahzad et al. (2012) see a problem with introducing new process technology, other than all the uncertainties that need clarification, and planning that needs to be applied. The issue being that the company's products could suffer both from stops and quality. With an inflexible process line or a highly specific process solution, new process technology can possibly hinder product innovation. Product innovation and process innovation are considered to be interdependent (Ravichandram, 2007; Zakuan et al., 2010). Uma, Vinod, Danuta & Franck (2009) separates process innovation and product innovation, stating that industrial companies put resources into product innovation instead of process innovation, mainly because process innovation is communicated as a consequence of new developed products. By not having a focus on process innovation, disadvantages such as short time frames, decreased resource availability, increased maintenance demand rises when it is time to develop the production system. Thakur, Hsu & Fontenot (2012) claims that not even half of companies have a set of working methods when it comes to process innovation, accentuating that one important reason for this is the lack of effort and capital put into process innovation



in comparison to product innovation. Prajago and McDermot (2005) and Vankessel et al, (2006) both discuss the implications of using suppliers and external specialists. Raza (2014) argue for the usage of specialists both external and internal, since they bring an expertise to the project and view data in a different manner. Michal (2011) however, see the input from suppliers as something positive as they often strive to innovate, but using an external specialist or customer as a knowledge source could decrease the likelihood of a process innovation. An extreme form of outsourcing operational activities is virtual operations, which is relying on a network of suppliers that last as long as the project itself. The downside is the difficulty for a company to hold onto and develop technical expertise (Pokharel & Choi, 2015). This is also highlighted by Ota, Hazuma and Samson (2013) that barrier such as time, organizational structure, linguistic limitations, and cognitive effort is common. They suggest that this can be reduced by rotating staff in the organization. Although research effort has been spent in understanding the antecedents and consequences of process innovation (Vankessel et al., 2014). Managing uncertainties in this context of high uncertainties is common in current process innovation projects. Thus, it is regarded as one of the bigger issues for larger companies (Slack, Chamber & Johnston, 2006). Prohalad & Hamel (2011) posit that process innovation technologies themselves often are unfamiliar to companies, achieving accuracy can be challenging when comparing two alternatives. Adding up with a limited specification of new processes makes it difficult to determine the technologies systematic impact of process ideas. This, together with weighing potential cost versus benefits can mean that a technology for process innovation gets excluded from further investigation (Sadikogln & Zehir, 2010). This is aligned with Galbraith (1973), stating that when engineers create new processes, the line requires rebalancing and more information processing. Lastly, Raymond, Aaron and Bertha (2006) suggests that there is a risk when trying to implement a manufacturing strategy based on sustainability since this is commonly more talk than action.

### **2.1.3. Forms of Uncertainty in Process Innovation**

Galbraith (1973) defines uncertainty as the difference in the amount of information required to be processed among decision makers in order to perform the task at hand, and the amount of information the organization has. According to Zakuan et al. (2010) uncertainty arises in situations that are non-routine based. Thus, when uncertainty is high, the demand of information processing increases (Hung, 2007). Consequently, the presence of uncertainties pressures decision makers to search for additional information to commit to a decision (Maletic, 2014). The uncertainty is used both to express the probability of that defined assumptions during the design phase are incorrect, as well as the presence of unknown fact that can impact the future state of a product or system. Known uncertainties are often related to product properties, while unknown often are linked with an external context, both of them worth attention (Hatmann, 2006). This has led to the identification of numerous types

of uncertainties as pointed out by (Ota, Hazuma & Samson, 2013). Erkutlu (2011) specify bad planning, strategies and decision making can evolve uncertainties in the long term. For example changes in available resources. Fotopoulous & Psomas (2010) identify three factors that get affected by uncertainty; task characteristics, task environment, and inter-unit task interdependence. This was seen by Vankesselet al. (2014) pointed that uncertainties are caused by changes in the understanding of the problem in a task, or in the interaction with others who have a different understanding of the task itself. In addition to uncertainties related to products and people, there is also external uncertainty. External uncertainty can emerge from a market context, meaning that competitors, environment, and suppliers can be the source, or from political and cultural context such as regulations and warfare (Slack, Chamber & Johnston, 2006). Tejada & Moreno (2013) connects market related uncertainty to the ability to forecast, both the demand in resources and utilization, and the financial prospective return of projects. Uncertainty is evoked by equivocality. Bozena, Jens & Jorgen (2003) define uncertainty as the issue of different people or stakeholders experience altered interpretations of the same information. This, if handled poorly, could cause lessened clarity which could lead to even more misinterpretations. Furthermore, equivocality impacts the demand of qualitative information to perform tasks, both in the amount, and its richness (Broad, 2006). Equivocality is also an important factor for understanding the relationship between product development processes, structures, and performance (Shaharoun, et al., 2010).

#### **2.1.4. Reduction of Uncertainty**

Firstly, the relevance of knowledge changes quickly, and it is therefore important to address new situations and build an understanding around them (Slack et al., 2006). When it comes to uncertainty reduction tools, many have been suggested. For example checklist for capturing uncertainty depending on its form, resolvability, discreteness, and modeling approach, to reduce uncertainties (Ravichandram, 2007). Matrix that defines current and future uncertainties that can be converted to assumptions and tested (Raza, 2014). Sometimes, it is about using knowledge based behavior through trial and error (Wei, Minglang & Kim, 2014). Earlier research focuses more in the information processing to reduce uncertainty. For example Prajago & McDermot (2005) states that balancing the amount of information processing with the process requirements from uncertainty and equivocality, information processing capabilities and requirements will reach efficiency. Gavrea & Stegrean (2011) suggests two approaches to deal with information processing; either reduce the amount that needs to be processes, or increase the capacity to handle more information. Reduction can be achieved by creating slack resources, meaning increased resources such as time available in production to avoid missing targets, or by creating self-contained tasks, meaning that each group in the organization has all resources they need to perform their tasks. Increase capacity to handle more

information can be done by investing in a vertical information system, which enable to collect and direct information at appropriate time and places so that decision maker in the hierarchy does not get an information overload. The other way is to create lateral relations which are to decentralize decision-making without creating self-contained groups. This strategy has also been presented as a way of building common understanding of both the problem and the core process (Herrmann et al., 2006), and can ensure that the manufacturing process works properly during the product ramp-up (Ota et al., 2013). There are two types of uncertainties, organizational and resource, which especially fit into a process innovation setting. Raymond, Aaron & Bertha (2006) postulates that organizational uncertainty can be found within and between projects in the relationship between units and the transition from radical innovation to operations. Resource uncertainty is more focused on competence gaps. Zakuan et al (2010) conclude that by modeling the relationship between uncertainty levels and design process outcome helps in managing design processes and understand causes of delay. It also helps to show the relationship between the evolution of uncertainty levels and the organizations' ability in making decisions. In settings which are of non-routine character, people cannot rely on skills. Instead, knowledge based behavior through trial and error is used to reduce uncertainty (Maletic, 2014).

#### **2.1.5. Managing Process Innovation**

The development of process innovation is deeply connected to external factors, Wheelwright (2010) suggests three external forces that drive this development. Fotopoulos & Psomas (2010) emphasized that technology managers have to deal with more technology innovation, mainly since the innovation in manufacturing companies has increase along with the overall concerns about sustainability. This means that the technology manger's role is to support management and staff in order to understand, develop and implement process innovation technology for the sake of the firm and its surrounding stakeholder. This requires that the technology manager needs to be educated on how to manage teams, data analytics, and development techniques. The competitive market nurtures firms to be responsive to changes in customer expectation and technology. This also requires being fast on identify opportunities and bring products to the market. This development of the competitive market also means that fewer resources are being utilized to each development project which there by puts demand on efficient engineering, design, and development activities (Erkutlu, 2011).

According to Doran & Ryan (2014) point that there exist three different types of innovation with mutually dependent capabilities:

- Process driven: Traditional mature industries, relatively little product innovation, and intense process innovation focused on products at lower costs.

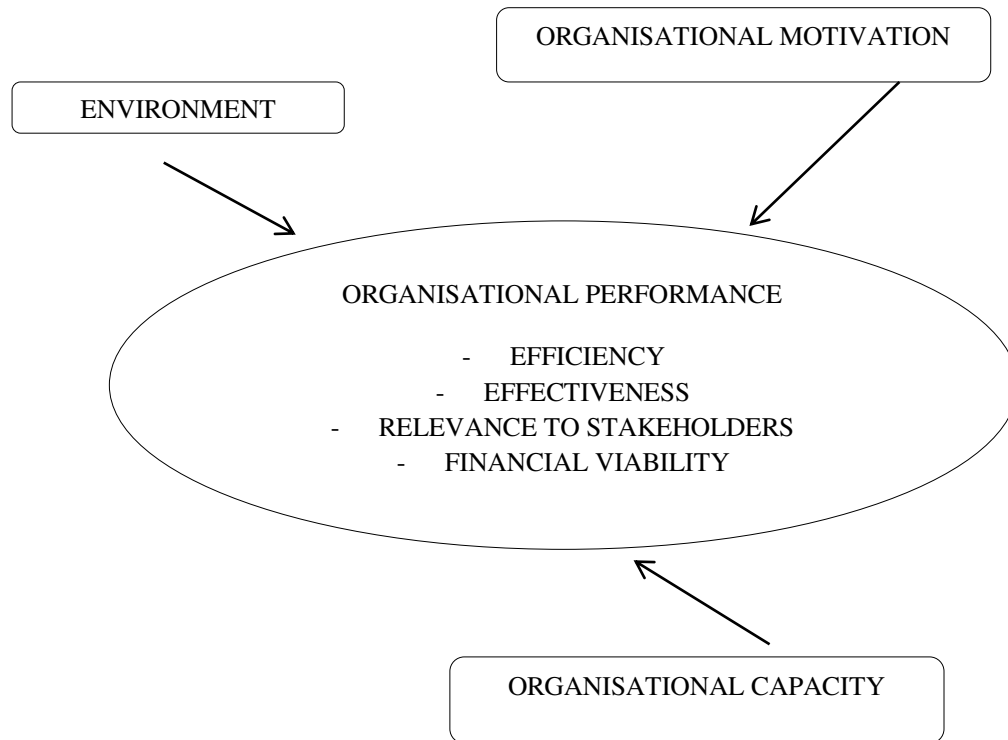
- Product driven: Industries with flourishing product innovation, and stable process technologies.
- Process enabling: Product and process technologies evolve rapidly and needs to be synchronized.

#### **2.1.6. Process Design**

Process design is more of an activity, where the form gets more detailed with time, with emphasis on understanding design objectives before proceeding. Haneda, Motheb & Thic (2014) also resembles process innovation with a project that consists of defined activity, unique task setup, and constellations of team members. Shaharoun, et al. (2010) postulates that resembles process innovation consists of defined activity, unique task setup, and constellations of team members. Firms that are able to introduce different types of innovations in tandem and have the ability to combine these are more likely to outperform firms that are not able to do so (Michal, 2011). One tool for improving processes design is process maps. By mapping processes, activities can be examined and cut down the unnecessary, which can reduce process time (Slack, Chamber & Johnston, 2006).

#### **2.1.7. Conceptual Framework of Organizational Performance**

As sourced from Prajago and McDermott (2005), the diagram below depicts the organisational performance framework



Source: Prajago and McDermott (2005)

Organisational performance is affected by capacity to achieve the performance desired. These capacities may result from internal sources like quality machinery, effective human input, and financial prowess. Capabilities may also result from the relations, partnerships, and alliances that an organisation has established with other firms over time.

### 2.1.8. Features of an Organization

Vankessel et al (2014) opined that Organisations, whether private business or government entities, profit-oriented or non-profit-oriented essentially have common features:

- It involves a group of people i.e human elements;
- Common interest shared among members of the organisation;
- Set objectives and goals which the organisation sets out to achieve.

Ota, Hazuma & Samson (2013) states other features of an organisation which emerge from the three aforementioned features include:

- **Organisational Structure:** It refers to the planned composition of the various elements that constitute an organisation in an order manner. Organisational structure consists of personnel, resources, communication channel, hierarchy of authority, plans, procedure, and programmes systematically assembled together towards achieving predetermined objectives.
- **Organisational Strategy:** Organisational strategy can be said to be ploys and tactics usually developed by top level management which is geared towards achieving planned goals of an organisation. There are three levels of strategy that exists in organisations. They include;
  - Corporate-level strategy: otherwise known as grand strategy. It takes into consideration the organisation as a whole, comprising of several sub-strategies of the different sub-units/organisational divisions.
  - **Business-level strategy:** which addresses a single business unit called Strategic Business Unit (SBU). This level of strategy focuses on the best ways of competing within a given business and also complements the corporate strategies
  - **Functional-level strategy:** these are strategies that deal with the basic course of action at functional areas of the organization. It comprises of administrative, marketing, production, information technology, and human resources management strategies.

### 3. Methodology

Primary and secondary data was employed for the study. The population of the study was the staff of Etisalat Telecommunications Company, Nigeria with primary focus on the NNPC-Ikoyi branch. The questionnaires were structures in form of strongly agree (SA), Agree (A) Undecided, (U), Disagree (D) Strongly Disagree (SD). The study employed Yard's formula. This formula is concerned with applying a normal approximation with a confidence level of 95% and a limit of tolerance level (error level) of 5%.

To this extent the sample size is determined by  $[n = \frac{N}{1+N_e^2}]$

Where: n = the sample size

N = population

e = the limit of tolerance

Therefore,  $n = \frac{160}{1+160(0.05)^2}$

$$\begin{aligned}
 &= \frac{160}{1+160(0.0025)} \\
 &= \frac{160}{1+0.4} \\
 &= \frac{160}{1.4} \\
 &= 114 \text{ respondents}
 \end{aligned}$$

A sample of one hundred and fourteen (114) employees out of the one hundred and sixty (160) employee population of the selected Ikoyi-Lagos Office branch of Etisalat Nigeria as calculated above. Cronbach's Alpha method was also used for measuring questionnaire reliability and SPSS was employed for the research in testing the research hypothesis.

#### 4. Data Presentation

**Table 4.1. Distribution of Respondents and Response Rate**

Respondents Occupation	Questionnaire administered (sampled)	Percentage of total response (%)
Supervisory	45	50.0
Managerial	42	46.7
Executive	3	3.3
Total	90	100.0
Gender/Category	Questionnaire administered (sampled)	Percentage of total response (%)
Male	57	63.3
Female	33	36.7
No of Returned	90	78.95
No of Not Returned	24	21.05
Total no of Questionnaires	114	100

*Source: Field Survey 2017*

**Table 4.2. Descriptive statistics of Process Innovation on Organisational Performance**

Responses	Total (N)	Mean
Process Innovation & Organizational Performance		
Innovation is a key on-going element in your organizational culture	90	4.66
What are the likely outcomes for a company that continuously implements innovation in products/services?	90	3.88
Internet technology is relevant to the day-to-day official operations in your organization	90	3.82
Your organization encourages staff to be creative in discharging their day-to-day responsibilities	90	3.79

New ideas are always welcome by management	90	3.66
Service Modification & Sales Volume	Total (N)	Mean
The organization modifies its product offerings (services) frequently to suit the needs of the customers	90	3.87
With the adoption of automated service delivery tools (like computers and mobile phones), your organisation has been delivering higher quality services	90	3.78
The sales volume of your organisation is relatively small compared to other competing companies	90	3.47
In the last two years, your organisation has experienced steady increase in sales	90	3.58
Your organisation has flexible policies	90	3.73
Automation of service delivery system (i.e replacing human effort with electronic tools in service delivery) is largely adopted your organisation	90	3.42

Source: Field Survey 2017

### Test of Hypothesis and Interpretation of Results

Regression analysis was used to measure the effect of the independent variable to the dependent variable of hypothesis 1, while in hypothesis 2 Correlation analysis was used to measure the significance of the relationship between the dependent and independent variables.

### Test of Hypothesis One

$H_{01}$  : Process Innovation has no significant effect on Organisational Performance.

#### Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.721(a)	.519	.485	.64386

Source: Field Survey 2017

Mode		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	37.192	6	6.199	14.952	.000(a)
	Residual	34.408	83	.415		
	Total	71.600	89			

Source: Field Survey 2011

a) Predictors: (Constant): internet technology usage, automation of service delivery, use of toll-free communication.

b) Dependent Variable: organisational performance.



### Interpretation of Results

The results from the tables above revealed that the extent to which the variance in organisational performance can be explained by service process innovation is 51.9% i.e (R square = 0.519) at 0.0001 significance level.

### Decision

The significance level below 0.01 implies a statistical confidence of above 99%. This implies that service process innovation has a significant effect on organisational performance. Thus, the decision would be to reject the null hypothesis (H<sub>0</sub>), and accept the alternative hypothesis (H<sub>1</sub>).

### Test of Hypothesis Two

H<sub>02</sub> : There is no significant relationship between Process Service Modification and Sales Volume

### Correlations

		The organisation modifies its product offerings (services) frequently to suit the needs of the customers	In the last two years, your organisation has experienced steady increase in sales
The organisation modifies its product offerings (services) frequently to suit the needs of the customers	Pearson Correlation	1	.408(**)
	Sig. (2-tailed)		.000
	N	90	90
In the last two years, your organisation has experienced steady increase in sales	Pearson Correlation	.408(**)	1
	Sig. (2-tailed)	.000	
	N	90	90

Source: Field Survey 2017

### Coefficient of Determination (C.O.D)

$$C.O.D = r^2 \times 100\%$$

Where r = Pearson Correlation

Thus;

$$C.O.D = (0.408)^2 \times 100\%$$

$$C.O.D = 0.19584 \times 100\%$$

$$C.O.D = 19.584\%$$

$r = 0.408$  which indicate 19.584% shared variance between process service modification and sales volume.

### **Decision**

{ $r = 0.408$ ,  $p < 0.01$ ,  $n = 90$ }. The study pointed out that there is exist a significant relationship between process service modification and sales volume, thus the null hypothesis (H0), is rejected and the alternative hypothesis (H1) is accepted.

### **Conclusion**

It was gathered from the field survey that to continuously improve on products/services, an organisation must be innovative in service rendering/product development and engage in continuous marketing research. suggestions also came from the field survey that increase in sales volume and market share are the likely outcomes for a company that continuously implements innovation in products process/services. Organisations that seek to improve on their overall performance should therefore embrace innovation in process by adopting internet technology, automating service delivery systems, using toll-free communication, and other innovative process tools. The study concluded that technology manger's role is to support management and staff in order to understand develop and implement process innovation technology for the sake of the firm and its surrounding stakeholder. This requires that the technology manager needs to be educated on how to manage teams, data analytics, and development techniques. The competitive market nurtures firms to be responsive to changes in customer expectation and technology. This also requires being fast on identify opportunities and bring products to the market. Thus, organisations should develop structures on process innovation basis so as to be better in responding to the requirements of the organization.

### **Recommendations**

- Firstly, process innovation should be driven by future environmental requirements and a desire to have a more sustainable pre-treatment process. The process innovation project must be supported through the creation of focus groups to strategically plan approach and to the process innovation. By conducting workshops the company will find new opportunities for innovation;
- Secondly, there should be clarifying of objectives with the process innovation project which helped to visualize a future layout. The uncertainties in process

innovation project mainly evoked from being first of its kind, the timeframe, lack of knowledge, and leadership;

- A clear linkage between suppliers and uncertainty reduction in the process innovation must be observed which reduced uncertainties in process times, for the current state and the future.

### Suggestions for Further Studies

- Further research could also be carried out to identify new trends in services, and innovative approaches for rendering services by organisations to their customers;
- A larger sample size comprising of several organisations as case study can be used in order to obtain the impact of process innovation on the performance of several organisation. This would generate wider findings and establish more reliable generalizations;
- A comparative analysis between the impact of process innovation in the public sector and that of private sector of an economy can be carried out to determine in which sector it is more efficient and effective.

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## **Barriers to Career Progression of Black African Middle Managers: The South African Perspective**

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**Abstract:** The primary objective of this research is to assess the perceptions of black African middle managers on barriers to career progression. While a number of studies have investigated barriers to career progression among previously disadvantaged individuals, no study has focused on the perceptions of middle managers on the barriers to career progression amongst black Africans in the workplace. The study was qualitative in nature, employing a purposive sampling approach. Data was collected by means of semi-structured interviews amongst 18 black African middle managers in two major South African banks. Results indicate that a lack of exposure to senior managerial duties, lack of career guidance and support, demographic composition of senior management, as well as perceived unequal career opportunities present barriers to career progression. The value of the research lies in the practical changes banks can make to Human Resource practices and policies to overcome current challenges. The paper is of value to managers and HR professionals in the banking sector by addressing a major South African labour market issue.

**Keywords:** South Africa; banking sector; career progression; management

**JEL Classification:** J24; O15

### **1. Introduction**

Under the period of Apartheid, employment in all sectors of South Africa was regulated on racial grounds, with policies such as job reservation precluding black South Africans from participating meaningfully in the economy (Martin & Durrheim, 2006). Coupled with geographic segregation, various pieces of legislation, such as the Industrial Conciliation Act 11 of 1924, Bantu Labour Amendment Act of 1970, Bantu Education Act, Coloured Persons Education Act and Indians Education Act, were implemented to avoid rivalry and tension along racial lines in the workplace (Hepple, 1963; Martin & Durrheim, 2006; Naidoo,

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Stanwix & Yu, 2014). While these divisive pieces of legislation were removed post-Apartheid in 1994, their effects are still felt in the labour market today (Naidoo et al., 2014). As a result, the South African government introduced new legislation to redress past inequalities and discriminatory practices, such as the Employment Equity Act (EEA) and Broad-Based Black Economic Empowerment (BB-BEE) Act, in an attempt to promote the meaningful participation of black people in the economy (Balshaw & Goldberg, 2005). The EEA aims to establish that suitable, qualified individuals from previously disadvantaged groups experience equal employment opportunities, as well as ensure equitable representation of all race groupings in the workplace.

The Department of Trade and Industry (2007) identified the low participation rate of black Africans in middle and top management positions in the financial services sector as a severe challenge facing the industry. As a result, this sector was the first in South Africa to voluntarily adopt a charter to reduce inequalities and introduce measures to transform voluntarily, while at the same time engaging in robust public discussions around issues of transformation (Ndzabela & Jones, 2013; Banking Association of South Africa, 2016). Despite these efforts, inequalities in the workplace persist until today. A number of studies have investigated the lack of representation of previously disadvantaged individuals in the private sector and have identified barriers to employment and career progression. Yet, to date, no study has focused on the perceived barriers to career progression amongst black Africans in the workplace, particularly at middle management level. This study therefore aims to explore and convey the barriers to career progression as perceived by black African middle managers in the South African banking sector.

This article is structured as follows: first, the problem statement is presented. This is followed by an overview of the literature relevant to the study. Relevant definitions, as well as an overview of the South African banking sector, are then provided. This discussion is followed by presentation of literature on career progression and associated barriers to career progression. Next, the methodology employed in the study is outlined, followed by discussion of the findings. Lastly, conclusions and recommendations are presented.

## **2. Problem Statement**

Various pieces of legislation introduced in post-Apartheid South Africa have the aim to redress the inequalities of the past, especially in the labour market. Yet the implementation of legislation such as BB-BEE has been largely unsuccessful in ensuring rapid advancement and adoption of the transformation agenda (Martin & Durrheim, 2006; Mthanti, 2017). In practice, opportunities for promotion are often afforded to candidates other than black Africans (Department of Labour, 2017). The banking sector specifically has witnessed an increase in representation of black



people (black Africans, Indian and Coloured people) at the junior and middle management levels, yet this has not translated into a corresponding increase in representation at senior management level. Paradoxically, a decline in representation of black people at senior management level has been noted (Banking Association of South Africa, 2017). The decline in participation is particularly troubling as junior and middle management levels are considered “feeders” to senior management roles.

### **3. Literature Review**

#### **3.1. Definitions**

The study makes reference to terminology relevant to South Africa. The terms “designated groups”, “black people”, “employment equity” and “Affirmative Action” are outlined next.

##### *Designated groups*

“Designated groups” are defined, according to the South African Employment Equity Act (1998:7) as black people, women and people with disabilities.

##### *Black people*

The Employment Equity Act (1998) further mentions that the term “black people” is generic in nature and refers to individuals of African, Coloured (mixed race) and Indian descent.

##### *Employment Equity*

The concept and purpose of employment equity (EE) is outlined in the Employment Equity Act No. 55 (1998, p. 11), which states the purpose of EE as the “promotion of equal opportunity and fair treatment in employment through the elimination of unfair discrimination, as well as the implementation of Affirmative Action (AA) measures to redress the disadvantages in employment that are experienced by designated groups, in order to ensure their equitable representation in all occupational categories and levels in the workplace”.

##### *Affirmative Action*

Affirmative action refers to “measures implemented to ensure qualified people from designated groups are afforded equal employment opportunities and are well represented in all employment levels in the workforce” (Employment Equity Act, 1998:16).

#### **3.2. South African Social Demographic Profile**

The population of South Africa is estimated to be 55.91 million (Statistics South Africa, 2016). The black African population comprises approximately 81% (45.11 million) of the total population. The next biggest population group is the Coloured group, which makes up approximately 9% (4.9 million) of the population. The white

population makes up approximately 8% (4.5 million) of the South African population. The smallest racial group is the Indian/Asian population group, which makes up approximately 2.5% (1.4 million) of the total South African population.

The South African government, and business, utilise the term “Economically Active Population” (EAP) to describe its available workforce. The EAP is used as a baseline to assist organisations in determining the levels of representation from different race groupings (Department of Labour, 2017). Employers at national and provincial level utilise this baseline to set equity targets for employers, in order to achieve equitable representation of designated groups (Department of Labour, 2017). The EAP is a useful baseline measure, complemented by relevant legislation, in the fast-tracking of opportunities for designated groups, in order to achieve a workforce profile representative of this baseline (Motileng, Wagner & Cassimjee, 2006). The latest EAP statistics are depicted in Table 1.

**Table 1. National economically active population (EAP) by population group and gender**

Population group	Male	Female	Total
African	42.8%	35.1%	78.0%
Coloured	5.3%	4.5%	9.8%
Indian	1.8%	1.0%	2.8%
White	5.3%	4.2%	9.5%
<b>Total</b>	<b>55.2%</b>	<b>44.8%</b>	<b>100%</b>

*Source: Statistics South Africa (2016)*

The private sector in South Africa is, by law, obligated to comply with relevant legislation, which influences a businesses’ operational capacities to compete effectively and efficiently. This includes transformational policies which influence not only operational capacities, but also access to government contracts, social capital, access to new markets and resource capacity (Alessandri, Black & Jackson, 2011; Horwitz & Jain, 2011; Kruger, 2013). Compliance against these targets are measured in a number of categories, such as ownership, management control, employment equity, skills development, preferential procurement, enterprise development and socio-economic developmental initiatives (Department of Trade and Industry, 2007). Past studies have found that organisation’s reflecting the EAP are more effective in satisfying the needs of their target market, while at the same time addressing significant business and societal issues (Nzukuma & Bussin, 2011; Daya & April, 2014).

### **3.3. The South African Banking Sector**

The banking sector in South Africa is dominated by four major banks, labelled the “Big Four”, who collectively employ 131 404 people. The Big Four echo their commitment to supporting transformation in the banking sector, as well as adherence

to the Financial Sector Charter. To ensure adherence to the EAP, each bank publishes its compliance statistics, outlined as a summary in Table 2.

**Table 2. Racial profile of employees employed at each bank**

Organisation	Population group			
	African	Coloured	Indian	White
Standard Bank	50%	17%	14%	19%
First National Bank	76% (Black employees)			24%
ABSA	68% (Black employees)			32%
Nedbank	47.5%	16%	14.7%	21.7%

*Source: Barclays Africa (2017); FNB (2017); Nedbank (2016); Standard Bank (2017)*

The Financial Sector Charter came into effect in January 2004 and outlines the industry's obligation to adhere to transformation objectives. The overall purpose of the charter is to promote a transformed, vibrant and globally competitive financial sector, reflective of South Africa's EAP (Banking Association of South Africa, 2017). The major objectives of the Financial Sector Charter (FSC) are to improve the quality of the pool of intellectual capital, attract new entrants and train existing and new black professionals and managers. Other objectives of the FSC include greater sectoral economic participation of black people living with disabilities, as well as furthering the development of strategic and operational black leadership, while at the same time improving skills of new and existing leaders and managers. The charter further states that black people should comprise 80% of junior management, 75% of middle management and 60% of senior management (Department of Trade and Industry, 2007). These targets have however not been achieved, with an analysis of the Big Four indicating small, but insignificant gains at senior management level. The representation of black people at various managerial is presented in Table 3.

**Table 3. Black representation at each management level at major banks in 2015**

Institution	Occupational level	Population group	Representation
Standard Bank	Junior Management	Black	81%
	Mid. Management		66.9%
	Senior Management		39.5%
Barclays Africa	Junior Management	Black	72.4%
	Mid Management		52.5%
	Senior Management		35.6%
Nedbank	Junior Management	Black African	56%
	Mid. Management		26%
	Senior Management		14%
First National Bank	Junior Management	Black	N/A
	Mid. Management		N/A
	Senior Management		37%

Source: Barclays Africa (2015); FNB (2015); Nedbank (2015); Standard Bank (2015)

Overall, Table 3 indicates that representativeness at senior management level is far below the targets set in the Financial Sector Charter, with adherence to EAP mainly being visible at junior management level. Representativeness according to EAP has however improved dramatically since the introduction of the Financial Sector Charter. The Banking Association South Africa (2017) states that black employees now comprise the majority of all managers in the sector. Most of the gains, however, have been at junior and middle management level. From 2012 to 2015, the number of black junior managers grew by 16 000, black middle managers grew by 6 000, while, the number of black senior managers grew by 800.

### 3.4. Career Progression

Career progression can be defined as the process of managing development of employees, as well as progress in learning and work over their lifetime (CiCA, 2016; Watts, 2016). Career progression is therefore mainly controlled by the employer, with some control and judgement by the individual employee, mainly driven by the need for personal contribution, recognition, avoidance of stagnation and self-realisation (Bown-Wilson & Parry, 2013). The concept can however be defined both subjectively and objectively. Subjectively, progress in the eyes of the individual can refer to attainment of one's potential through self-development, while objectively career progression can refer to professional recognition and reputation, as well as advancement in organisational hierarchy, job stability and adequacy of income (Santos, 2016). These views are consistent with other South African-based studies, such as by Visagie and Koekemoer (2014).

*Potential barriers to career progression*

A number of barriers inhibiting career progression have been identified in literature. One such barrier is the presence of a recruitment and promotion bias, which disfavours qualified, diverse candidates for leadership roles as a result of bias in promotion or hiring decisions (Martin, 2013). Prejudices and non-supportive cultures can also lead to a bias in promotion for existing candidates (Mathur-Helm, 2006).

Dessler (2015), as well as Steyn and Jackson (2014) argue that during the initial stages of job analysis and definition of job requirement, bias often occurs as the conceptions of an ideal candidate are shaped by the beliefs of the hiring manager. Furthermore, during the screening stage in promotion and hiring, the utilisation of non-job-related information, such as race and gender, can introduce bias in decision-making (Cascio, 2013; Steyn & Jackson, 2014). Also, past performance appraisals often act as the basis for promotion, remuneration and retention (Dessler, 2015). The bias of past evaluating managers can influence the decision to promote, not necessarily accurately reflecting the potential of a candidate (Dessler, 2015). Mobley (1982), as cited by Sharma (2016), states that a variance of 4.8% during performance appraisals can be attributed to employee and supervisor demographic differences. This is particularly important for the South African context, as Table 3 outlined severe demographic disparities between varying levels of management. Additionally, factors such as networking abilities, being part of the inner circle, strength of interpersonal skills and provision of opportunities by managers all pose potential barriers to career progression (Grimland, Vigoda-Gadot & Baruch, 2012; Visagie & Koekemoer, 2014; Santos, 2016; Wilson, 2016).

**4. Methodology**

This section delineates the research methodology used in this study. First, prominence will be given to the discussion on the research approach. Then the research design, research population and sampling approach will be discussed, as well as the data collection and data analysis methods outlined.

**4.1. Research Approach**

The primary objective of this paper is to ascertain the perceptions of black African middle managers about the barriers impeding their career progress into senior management in the South African banking sector. In line with this objective, the qualitative approach, which generates deeper insights and comprehension of the meanings associated with phenomenon of interest (Creswell, 2009), was deemed most appropriate for this study.

#### **4.2. Target Population and Sampling**

Malhotra (2010, p. 372) defines a target population as the collection of elements that have the information required by the researcher. Therefore, in this study, approximately 17 000 black African middle managers who work for different banks in South Africa constituted the target population. The target population size was derived from the Big Four banks' annual reports (Barclays Africa, 2017; First National Bank, 2017; Nedbank, 2016; Standard Bank, 2017). From this population, purposive sampling, which is an effective method to utilise when interviewing a relatively small number of participants (Vogt, Gardner & Haeffele, 2012), was used to derive a sample size of 18 participants (i.e. black African middle managers). Interviews were conducted in two of the Big Four banks (Bank A and B), comprising a staff complement of 2 500 middle managers. In qualitative research, where the main objective is to understand a phenomenon in-depth, 15 to 30 interviews are usually deemed sufficient for analysis (Boddy, 2016; Dworkin, 2012).

#### **4.3. Data Collection and Analysis**

Semi-structured, face-to-face, in-depth interviews were conducted to unearth insights of black African middle managers on the factors hindering their career progression in the banking sector. According to Alshenqeeti (2014), as this approach allows the researcher to probe participants for more information, it is suitable for uncovering practical solutions to complex problems. An interview guide was developed to ensure that data collected is aligned with the study's research objective on career progression. Therefore, the interview guide comprised of six broad categories of questions to solicit views of participants on the career progression phenomenon. Probing questions were included to gain additional insight.

Data collection was conducted in line with ethical clearance parameters, which stipulated that participants and participating organisations had to grant permission prior to conducting interviews. Furthermore, all participants were made aware of their right to privacy, voluntary participation and right to refuse to answer questions they are uncomfortable with. Interviews were recorded using a mobile phone and dictaphone to ensure that participants' responses were not distorted. The recorded interviews were transcribed and the transcription was used to analyse the data.

### **5. Results**

A number of factors, discussed in this section, were identified by participants as presenting hindrances towards career progression of black African middle managers into senior management roles in the South African banking sector.

### 5.1. Demographic Variables

A total of 18 black African middle managers were interviewed for the purposes of this study. In terms of gender, both sexes were equally represented, with 9 male, and 9 female participants. The majority of participants were between the ages of 31-40 years (67%), followed by the 41-50 year age bracket (22%). The remainder of the participants were between the ages of 18-30 (6%) and 51+ years (6%). In terms of qualifications, most participants held an undergraduate degree (56%), with 25% holding a postgraduate qualification. The remainder held certificate and diploma qualifications at post-school level. Lastly, in terms of length of service with the current employer, a large proportion of participants (44%) were employed between 3-5 years, followed by a service length of 10 or more years (22%), and 6- 10 years (17%). The remainder of participants enjoyed a service length of between 1-2 years (17%).

### 5.2. Skills Set and Personal Attributes

The majority of participants (61%) indicated that skills and personal attributes such as leadership skills, diversity management skills and being sociable were fundamental. According to participants, they observed that senior managers are responsible for managing a diverse team, and therefore require leadership and diversity management skills to manage team dynamics effectively. Participants further indicated that if middle managers hold aspirations of progressing to senior management levels, they need to be sociable for the purposes of building industry networks and negotiating business deals. A summary of the required skills set and personal attributes is depicted in Table 4.

**Table 4. Required skills set and personal attributes**

Skills set	Personal Attributes
Leadership skills	High emotional intelligence
Financial acumen	Solution driven
Analytical thinking	Sociable
Strategy development	Open-mindedness
Negotiation skills	Trustworthiness
Diversity management	
Relationship management skills	
Entrepreneurial skills	

*Source: Research findings*

### 5.3. Training and Skills Development Program Awareness and Participation

Gauging from the gathered responses, a discrepancy between the awareness of training programs and participation by participants emerged. This is evident from that fact that despite 78% of participants being aware of training programs offered by their employer, only a mere 33% participated in these programs. When probed further on reasons behind non-participation in a training program, it transpired that

oftentimes these training programs were deemed more relevant to junior managers and therefore were not valuable to middle managers, who had ambitions of moving into senior positions.

**5.4. Future Career Plans**

Responses to the question which aimed at ascertaining if middle managers held aspirations of progressing into senior management revealed that approximately 72% expressed interest to occupy a senior position in future. While 28% of these managers indicated a timeframe of between 2 to 5 years to achieve this career goal, most managers (44%) did not provide clear career plans. The essence of these findings is illustrated in Table 5.

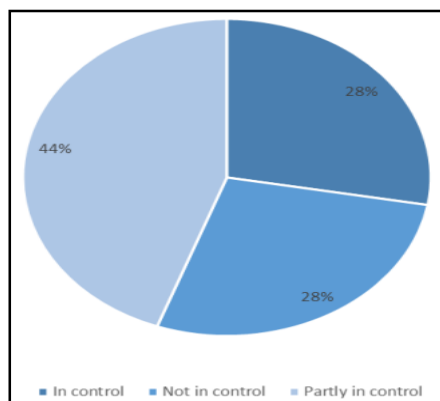
**Table 5. Future career plans**

Participants	Responses
<b>Participant 2</b>	“In 5 years, my plan is to be an operational executive. Within that 5 years, I want to move laterally and vertically in order to gain experience across various business units.”
<b>Participant 4</b>	“...I am not that ambitious to say, I see myself in a certain position. As long as my work is recognised.”
<b>Participant 6</b>	“I have 3 more years of formal employment. My future plans are outside of formal employment.”

*Source: Research findings*

**5.5. Level of Control of Own Career Advancement**

Participants were asked about the level of control they have over their progress in the respective banking institutions. Whereas 44% of participants believed they were in control of their own career advancement, 28% felt their progression was dependent on certain individuals (for example senior managers) and the organisation as a whole (for example policies). Figure 1 summarises these findings.



**Figure 1. Control of own career advancement**

*Source: Research findings*



### 5.6. Equal Opportunity

A question was posed in order to ascertain if participants believed that the policies of their respective banks afforded all racial groups equal opportunities for career advancement. An overwhelming 66% of participants indicated that, compared to other ethnic groups in their current organisation, they did not perceive to enjoy equal career advancement opportunities. These participants attributed this hindrance to various reasons, such as perceived lack of social capital, deeply entrenched corporate politics, as well as a lack of fairness in the implementation of recruitment and promotion policies. Structural issues were also discovered other studies (Goel & Lehal, 2014; Ibrat, 2015). Selected opinions of participants about these barriers are portrayed in Table 6.

**Table 6. Equal opportunity**

Participants	Responses
<b>Participant 9</b>	“Myself, personally, I have had a fair opportunity to move up the ladder but, I do not think it is the norm or equal.”
<b>Participant 1</b>	“There are certain positions that it looks like they are reserved for particular race groups and there are those that seem acceptable to be headed by certain race groups, because the company will not fall over if it is managed by that race group.”
<b>Participant 15</b>	“No. I do not think corporate believes that Africans have what it takes to succeed in any sphere of business and there is a ceiling. If you get to middle management at the bank, you have overachieved actually.”

*Source: Research findings*

### 5.7. Demographic Composition of Senior Management

According to most participants in this study, the current demographic composition of senior management in the South African banking sector appear to be a relevant factor affecting progression into senior management positions. Eighty-three percent of participants in this study indicated that their prospects of progression into senior roles were affected by demographic factors, mainly on the basis of race.

### 5.8. Other General Barriers to Career Progression

Participants in the study indicated not being exposed to daily responsibilities of senior managers, thus lacking exposure to strategic duties, which can prepare them for senior management roles in the future. Participants indicated that senior management often does not seem eager to facilitate career progression. Other participants also indicated a lack of camaraderie and support.

In reputable and established organisations such as major financial institutions, shareholders are tasked with the responsibility of appointing board members, who in turn hire the Chief Executive Officer (CEO). The CEO is afforded latitude to

assemble the executive team. Based on the participant's statements, it is in this process that bias in the appointment of key senior positions is introduced, in order to preserve the interests of shareholders. Lastly, participants also indicated the presence of bias on racial grounds during performance appraisals, with these appraisals normally conducted by business unit managers.

## **6. Conclusion and Recommendations**

Transformation in the South African labour market, private sector and specifically in the banking sector has been a topical issue for a number of years. Despite best efforts by legislators and industry-specific associations, the rate of transformation has remained painfully slow. The South African banking sector pioneered such efforts, evidenced by most banks meeting, and some even exceeding, employment equity targets at junior management levels. While an improvement in representation at middle management level has been noted, the same cannot be stated for senior managerial roles. The purpose of this study was therefore to determine the perceptions of black African middle managers on the barrier to their progression into senior managerial roles. Findings revealed that demographic make-up at senior management level, lack of exposure to senior managerial duties, a lack of support amongst colleagues, existing ownership structures, as well as biased performance appraisal systems contribute to the barriers experienced by black African middle managers when seeking promotion. Collectively, participants in the study noted possessing the appropriate skill set for senior managerial positions. Those that did not possess the requisite skills were enrolled in appropriate training programs.

Based on the findings of the study, a set of practical recommendations can be developed. Firstly, it is recommended that bank-led initiatives be undertaken to address the identified barriers. Such initiatives can include improved training and development programs. Training programs relevant to each management level need to be introduced, focusing on building requisite skills such as analytical thinking, relationship management, strategy development, leadership and advanced report writing skills. Development and implementation of such programs would therefore require an internal skills audit. Further, participation in such training programs can be subsidised by the employer. Secondly, to reduce attrition rates in the sector, implementation, monitoring and enforcement of a succession planning tool is recommended. Implementation of such a tool can assist in strategically charting the career trajectory of junior and middle managers. Thirdly, the introduction of diversity management training is recommended in order to sensitise managers at all levels to cultural and language differences amongst their employees. Fourthly, the establishment of a transformation committee at each bank is recommended. The committee would be tasked with the setting and monitoring of transformation targets.

Lastly, stricter implementation of the Employment Equity Act and Financial Sector Charter is necessary to ensure compliance by industry.

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## Attitudes towards Online Shopping: Application of the Theory of Planned Behaviour

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**Abstract:** A wide-range of products are available for consumers to shop online conveniently, anytime from anywhere in the world. While e-commerce has shown exponential growth over the past decade, there is evidence in literature that suggests consumer resistance and reluctance in engaging in online shopping, mainly for privacy and security reasons. Using the theory of planned behaviour (TPB), this paper aims to investigate consumer attitudes towards online shopping in an emerging economy, South Africa. This study followed a descriptive and quantitative research method. Primary data was collected from a sample of 215 consumers in Gauteng, South Africa. Correlation analysis and structural equation modelling (SEM) were used to analyse the data. The results of the study indicate that trustworthiness, privacy and security concerns determine consumer attitude toward online shopping, which, in turn, influences online shopping behaviour. Beliefs about self-efficacy in conducting online transactions influenced consumers' perceived behavioural control, which ultimately influenced the online shopping behaviour of consumers. Furthermore, the study found that normative beliefs are the immediate antecedent of subjective norms, which, in turn, influence online shopping behaviour. Marketing practitioners need to address the issues of real and perceived privacy issues and the security concerns of current and potential online shoppers if they are to fully benefit from the spoils of the internet.

**Keywords:** online shopping; consumer attitudes; theory of planned behaviour; South Africa

**JEL Classification:** G21

### 1. Introduction

The internet is creating a unique opportunity in making a wide range of products available for consumers to shop online conveniently, anytime from anywhere in the world. It is changing the way businesses conduct their business, and consumers are afforded a wide variety of choices, and can purchase any product form anywhere in the world at competitive prices from the comfort of their homes. According to Statista (2018), e-commerce's revenue worldwide amounted to 3.3 trillion US dollars in 2018, and the revenues are projected to grow to 5.4 trillion US dollars in 2022.

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The e-commerce phenomenon is also showing a similar trend in South Africa. South Africa is a member of BRICS (major emerging national economies that include Brazil, Russia, India, China and South Africa). Mitchley (2018) reports that e-commerce is exploding in South Africa, and it is estimated to amount to approximately R10bn (approximately \$769m) during 2017, and this massive growth is driven by “high mobile phone penetration, rising consumer confidence in online transactions, and the expansion of brick and mortar retailers into the online sphere by adopting a multi-channel approach”. Top online shopping sites available for South African consumers include Yuppief Chef, Zando, H&M, ASOS, Woolworths, Amazon, Makro, MRP and Exclusive Books (Finder, 2018). Other popular online sites include Zana, Superbalist, Hello Pretty, Fortune, Mys Scattered Hear and Retail Box (Shesaid, 2018). Various products are offered online, such as groceries, fashion, kitchen cookware, furniture, home decor, books and jewellery.

Over the past decades, research on consumers’ use of information technology (IT) has generated numerous competing models that explain user attitudes, perceptions and beliefs and eventual use of such a technology (Venkatesh Morris, Davis & Davis, 2003; Meade & Islam, 2006). The most widely used models include the diffusion of innovations (Rogers, 1995), the theory of reasoned action (TRA) (Ajzen & Fishbein, 1980), the theory of planned behaviour (Ajzen & Madden, 1986), the decomposed version of the theory of planned behaviour (Taylor & Todd, 1995), the technology acceptance model (Davis, Bagozzi & Warshaw, 1989) and the extended version of technology acceptance model (Venkatesh & Davis, 2000). The theory of reasoned action and theory of planned behaviour are regarded as the crucial steps in the history of attitude theories (Armitage & Conner, 2001). This paper, therefore, aims to investigate consumer attitudes towards online shopping in an emerging market, South Africa, using the theory of planned behaviour. Therefore, in the next section, a review of theoretical and practical application of the theory of planned behaviour is pursued.

## **2. Theoretical Framework and Hypothesis Formulation**

The TRA is the precursor to the TPB. It was developed in 1980 by Ajzen and Fishbein to predict an individual’s intention to engage in certain behaviour (actual behaviour) at a specific time and place. The models attempt to predict consumer behaviour through normative and informational variables as the antecedents of behavioural intention of consumers (Parkinson, Russell-Bennett & Previte, 2017). According to the (TRA), the intention to perform a certain task is a function of two constructs, viz. attitude and subjective norms. The TPB, as an extension of the theory of reasoned action, incorporates a third construct, namely perceived behavioural control, as an antecedent of consumer intentions to perform a certain

task and actual consumer behaviour (Ajzen, 1985; 1991). A brief description of the constructs of the TPB is presented in the following section.

### ***Attitudes***

Within this conceptual framework (i.e. TPB), the first construct, attitude, refers to the degree to which an individual person has a favourable or unfavourable evaluation of the behaviour of interest (Ajzen & Fishbein, 1980). The evaluation could result to a negative or positive outcome. It can also be described as the subjective evaluation of behaviour (Eagly & Chaiken, 1993). Therefore, it entails a consideration of the outcomes of performing the actual behaviour. Within the TPB, a person's attitude towards certain behaviour is determined by two variables, namely behavioural beliefs and evaluation of an outcome, and the attitude construct is an immediate antecedent that predicts an individual's intention to engage in certain behaviours (Ajzen, 1985).

### ***Subjective Norms***

The second construct in the TPB, subjective norms, can be described as the belief about whether most people accept or reject of a certain behaviour (Ajzen & Fishbein, 1980). Subjective norms relate to an individual's beliefs about whether other important people such as family and friends approve or disapprove one's behaviour. Subjective norms are determined by the person's perception of normative norms, and the motivation to comply with certain behaviour. Subjective norms act as an immediate antecedent to an individual's intention to engage in certain behaviour (Ajzen, 1991).

### ***Perceived Behavioural Control***

The third construct in TPB, perceived behavioural control, can be described as an individual's perception of the level of difficulty in performing or conducting the required behaviour of interest (Ajzen, 1991). The perception of ease or difficulty with which the individual can perform the task is crucial in determining the actual behaviour of the consumer. Perceived behavioural control is a similar concept to Bandura's concept of perceived self-efficacy (Bandura, 1997). Typically, it varies in different circumstances, which results in the individual having fluctuating perceptions of behavioural control depending on the circumstance. Perceived behavioural control itself is determined by control beliefs and perceived power. Perceived behavioural control is a direct antecedent of an individual's intentions and actual behaviours.

### ***Behavioural Intention***

According to Ajzen (1985), behavioural intention are motivational factors that influence an individual's behaviour. The theory postulates that the stronger the intention of doing a certain task, the more likely the task will be performed. The



intention to perform a certain task is the immediate antecedent of the actual consumer behaviour (Ajzen, 1991).

### ***Empirical Research Studies that Applied the TPB***

The TPB has been widely used in information systems-related studies (Tylor & Todd, 1995; George, 2004, Gangwal & Bansal, 2016). The TPB has been used in different contexts such as understanding consumer behaviour with regards to the environment and energy conservation (Macovei, 2015). Records of empirical research studies show attitude, subjective norms and perceived behavioural control as the immediate antecedents of customer intention in adopting information technology relation products.

Applying the decomposed the TPB, Gangwal and Bansal (2016) found attitude, subjective norms and perceived behavioural control to be the immediate antecedents of intention to adopt mobile commerce in India. In addition, Gangwal and Bansal (2016) also confirmed the influence of trust, perceived usefulness, perceived ease of use and perceived ease of use on consumer attitude, the influence of normative beliefs on subjective norms, and the influences of self-efficacy on perceived behavioural control.

George (2004) conducted a study to empirically test the constructs of the TPB on internet purchasing in the United States, and found attitude and perceived behavioural control to be predictors of internet purchasing; subjective norm was not found to have a significant influence on internet purchasing. Furthermore, George (2004) confirmed the influence of normative structure on subjective norms. The influence of internet trustworthiness on attitudes was confirmed; however, the unauthorised use of beliefs was not found to be an antecedent of attitudes towards internet purchasing. The influence of self-efficacy on perceived behavioural control was confirmed as hypothesised.

In line with the TPB, and the empirical research cited in the preceding paragraphs, especially that of George (2004), the following alternative hypotheses are postulated:

*H1: Normative beliefs positively influence subjective norms of consumers in online shopping;*

*H2: Subjective norms positively influence online shopping behaviour of consumers.*

*H3: Internet trustworthiness positively influences consumer attitudes towards online shopping;*

*H4: Privacy and security concerns of transacting online negatively influence consumer attitudes towards online shopping;*

*H5: Attitudes positively influence online shopping behaviour of consumers;*

*H6: Self-efficacy positively influences perceived behavioural control of consumers in online shopping;*

*H7: Perceived behavioural control positively influences online shopping behaviour of consumers.*

As indicated earlier, the unauthorised use of belief did not play a significant role in influencing consumer attitudes with regards to internet purchasing in George's (2004) study. Therefore, the present study uses an easily understood term, "privacy and security concerns" as hypothesised, to negatively influence consumer attitude towards online shopping (H4). Due to the nature of the study being cross-sectional (data collected at one point in time), the intentions component of the TPB is not incorporated in the study.

The following section describes the research methodology followed in the study.

### **3. Research Methodology**

This study followed a descriptive and quantitative research method.

#### ***Sampling, Data Collection and Research Instrument***

Probability sampling was not possible due to the absence of a sampling frame. Instead, the researcher opted for a non-probability technique, namely snowball and convenience sampling. A structured self-administered questionnaire was utilised to collect the data. The data was collected in February and March of 2018 in Gauteng, the economic hub of South Africa, through survey monkey, from a diverse group of online shoppers. Using this technique, 215 responses were obtained, sufficiently large to conduct a study of this nature (Blanche et al., 2006, p. 139; Malhotra, 2010, p. 377).

As elucidated earlier, this study employed the TPB to investigate consumer attitudes towards online shopping. Therefore, the study followed the conceptual framework of Azjen's (1985, 1991) theory as applied Taylor and Todd (1995) (George, 2004) within an Internet purchasing context. The questionnaire included scaled items captured in a six-point Likert scale as well as background and biographic information. The scaled part of the questionnaire included eight latent variables adapted from the TPB, four items for internet trustworthiness, four items for privacy and security, four items for attitudes towards online purchases, three items for normative structure, two items for subjective norms, four items for self-efficacy, three items for perceived behavioural control and three items for online purchasing.

#### ***Data Analysis***

The statistical analysis utilised in this study include descriptive statistics, correlation analysis and confirmatory factor analysis through structural equation modelling

(SEM). The statistical program IBM SPSS with AMOS, version 25 for Microsoft Windows was used to analyse the data.

## 4. Results and Discussion

### 4.1. Descriptive Analysis

Information regarding age, gender and products purchased through online shopping is reported in Table 1. Table 1 also reports on the mean and standard deviation of the constructs of the study. The data was captured in a six-point Likert scale ranging from 1 = strongly disagree to 6 = strongly agree, and therefore the results, as shown Table 1, indicate normal distribution. As is evident from Table 1, most of the respondents indicated that they shop online for fashion, branded products and overseas products (products not available in local markets). A significant number of the respondents indicated that they shop online for local products and athletic products.

**Table 1. Sample description and descriptive statistics**

Age	%	Products	%	Constructs	Mean	Standard deviations
18-24	23	Fashions	93.00	O. Purchase	4.10	1.30
25-34	41	Oversea products	85.00	Trustworthiness	3.90	1.35
35-44	25	Branded products	80.00	Privacy & Security	2.75	1.49
Above 45	11	Athletic products	65.00	Attitude	4.10	1.26
<b>Gender</b>		Local products	65.00	S. Norm	4.20	1.10
Male	53	Books	45.00	N. Structure	4.32	1.23
Female	47	Other	37.00	Self-efficacy	4.53	1.56
		Grocery	20.00	P.B. Control	4.45	1.60

### 4.2. Correlations, Reliability and Validity Analysis

The Cronbach's alphas ( $\alpha$ ) were calculated to assess the internal-consistency reliability of each construct used in the study. The Cronbach's alpha is widely considered the most commonly used index of reliability when scaled items are involved (Nunnally, 1978; Beckstead, 2013). The results in Table 2 show that the Cronbach alpha coefficients for all the constructs were above 0.70, indicating acceptable internal-consistency reliability of the scales used (Hair, Black, Babin & Anderson, 2010).

An average inter-item correlation for all the constructs fell between 0.15 and 0.50, suggesting a convergent and discriminant validity of the scale (Clark & Watson, 1995). All the standardised loading estimates for all the items of the constructs were well above the 0.5 level, supporting convergent validity (Clark & Watson, 1995; Hail et al., 2010). In addition, composite reliability (CR) and average variance extracted (AVE) were computed to assess the validity of the model. The CR and AVE exceeded the threshold of 0.70 and 0.50, respectively highlighting, the existence of

convergent validity. The AVE is shown on a diagonal line, highlighted in bold font in Table 2. It is also evident, as illustrated in Table 2, that there were statistically significant ( $p \leq 0.05$ ) linear associations between each pair of the TPB constructs, pointing towards nomological validity (Malhotra, 2010). None of the correlation coefficients were higher than 0.90, thus there were no obvious multicollinearity problems (Hair *et al.*, 2010). Before proceeding with the structural equation modelling, additional collinearity diagnostics were also computed. Each of the constructs of the TPB returned tolerance values above the 0.10 threshold level, and the variance inflation factor (VIF) below the cut-off of 10, providing further support of the non-existence of multicollinearity between the constructs (Pallant, 2013).

**Table 2. Correlations coefficient, Cronbach's alpha, CR and AVE (on diagonal)**

Constructs		$\alpha$	CR	MIIC	F1	F2	F3	F4	F5	F6	F7	F8
O. Purchase	(F1)	0.95	0.91	0.45	<b>0.95</b>							
Trustworthiness	(F2)	0.85	0.84	0.41	0.66	<b>0.801</b>						
Privacy & Security	(F3)	0.79	0.77	0.40	-0.63	-0.59	<b>0.850</b>					
Attitude	(F4)	0.91	0.84	0.44	0.75	0.73	-0.69	<b>0.812</b>				
S. Norm	(F5)	0.75	0.76	0.34	0.72	0.65	-0.54	0.68	<b>0.780</b>			
N. Structure	(F6)	0.78	0.79	0.32	0.65	0.55	-0.65	0.68	0.70	<b>0.765</b>		
Self-efficacy	(F7)	0.83	0.79	0.25	0.45	0.48	-0.65	0.48	0.55	0.45	<b>0.754</b>	
P.B. Control	(F8)	0.75	0.73	0.23	0.63	0.61	-0.62	0.56	0.67	0.70	0.67	<b>0.465</b>

Note:  $\alpha$  = Cronbach's alpha; CR = Composite Reliability; MIIC = Mean inter-item correlation

Having ascertained the absence of multicollinearity issues, the study then progressed to further investigate the linear associations detected through the correlations analysis and to test the hypothesised research model through SEM. Before conducting a confirmatory factor analysis through SEM, the Kaiser-Meyer-Olkin (KMO) measure of sampling adequacy and the Bartlett's test of sphericity were computed as additional measures to check the suitability of the dataset for factor analysis. The KMO was 0.812, and Bartlett's test of sphericity was significant ( $p < 0.05$ ), indicating the appropriateness of the dataset for factor analysis (Pallant, 2013).

#### 4.3. Measurement Model and Model Fit Assessment

SEM is "a second-generation multivariate analysis technique that is used to determine the extent to which a priori theoretical model is supported by the sample data" (Raykov & Marcoulides, 2000; Schumacker & Lomax, 2010). In this current study, the researcher aims, using the TPB, to investigate consumer attitudes towards

online shopping in South Africa. Therefore, as a collection of statistical techniques, it allowed the researcher to investigate the empirical relationships among directly observed variables, and the underlying theoretical construct (Raykov & Marcoulides, 2000). In accordance with the recommendations of Malhotra (2010) and Hair *et al.* (2010), the measurement model was specified and identified, and the measured indicator items were assigned to latent constructs of the TPB. Thereafter, a confirmatory factor analysis (CFA) was conducted. The CFA model for the for the TPB comprised eight (8) latent and manifest variables, namely: normative structure (three-item scale), subjective norm (two-item scale), internet trustworthiness (four-item scale), privacy and security (four-item scale), and attitude towards internet online purchasing (four-item scale), self-efficacy (four-item scale), perceived behavioural control (three-item scale) and online purchases (three-item scale). As indicated earlier, all items scored factor loadings above the minimum acceptable threshold of 0.50, and therefore no items were deleted.

The indices used to assess the goodness-of-fit of the structural model included goodness-of-fit index (GFI), adjusted goodness-of-fit index (AGFI), incremental fit index (IFI), Tucker Lewis index (TLI) and comparative fit index (CFI). It is often argued that index values closer to one (1) are said to represent a perfect fit, and index values closer to zero (0) to represent no fit (Malhotra, 2010; Hair *et al.*, 2010). For a good model fit, the root mean square error of approximation (RMSEA) should be less than or equal to 0.05 and for an adequate fit, RMSEA should be below 0.08 (Blunch, 2008). Two competing models were considered in the study (Model 1 and Model 2). As illustrated in Table 3, the fit indices for model 2, namely GFI, AGFI, NFI, TLI, CFI and IFC exceeded the threshold for an acceptable structural model (Hair *et al.*, 2010; Malhotra, 2010). The RMSEA (0.048) also fell well within the range and represents a good model fit. As is evident, the results in Table 3 show that, overall, structural model 2 portrayed a very good fit for the dataset as indicated by the chi-square value ( $\lambda^2/df$ ), the goodness-of-fit indices and RMSEA. The results of this paper provide additional support for the robustness of the theory of planned behaviour in explaining consumer attitude with regard to online shopping.

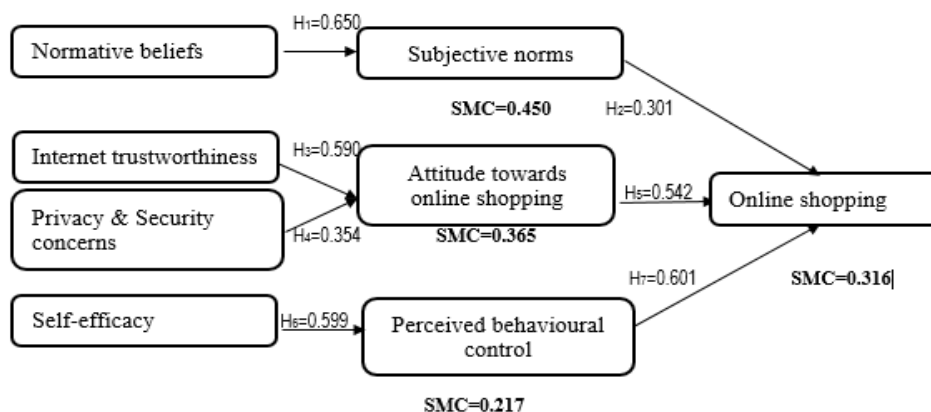
**Table 3. Structural model fit assessment**

Model fit indices		Model 1	Model 2	Acceptable value
Absolute fit indices	$\lambda^2/df$	4.652	2.576	< 3.00
	GFI	0.892	0.941	> 0.90
	AGFI	0.888	0.923	> 0.80
	RMSEA	0.083	0.048	< 0.08
Incremental	NFI	0.890	0.924	> 0.90
Fit indices	TLI	0.923	0.959	> 0.90
	CFI	0.924	0.971	> 0.90
	IFI	0.910	0.943	> 0.90

Source: Hair *et al.* (2010); Malhotra (2010)

#### 4.4. The TPB and Online Shopping

Figure 1 shows the path coefficients and the square multiple correlation (SMC) between various relationships of the TPB. As is evident from Figure 1 and Table 4,  $H_1$  postulated as ‘Normative beliefs positively influence subjective norms of consumers in online shopping’ is confirmed (path coefficient = 0.650,  $t = 4.350$ ). Normative beliefs explained approximately 45 percent (SMC = 0.450) of the variance in consumers’ subjective norm. In turn, consumers’ subjective norms were found to have a significant positive influence on the actual online purchasing behaviour of consumers (path coefficient = 0.301,  $t = 3.025$ ), confirming  $H_2$ . The strong relationship between normative structure and subjective norms and the impact of subjective norms on actual behaviour of consumers is a well-established phenomenon and is central to the TPB (Ajzen, 1985, 1991; Song & Zahedi, 2001).



**Figure 1. Proposed model (structural model 2)**

The results of the study further show that internet trustworthiness beliefs have a significant positive impact on attitudes towards online purchasing (path coefficient = 0.590,  $t = 6.572$ ), confirming  $H_3$ . Privacy and security concern had a significant negative impact on attitudes towards online purchasing (path coefficient = -0.354,  $t = -4.561$ ), confirming  $H_4$ . The SMC = 0.365 signifies that approximately 37 percent of the variance on consumer attitudes towards online shopping is explained by internet trustworthiness, and privacy and security concerns of consumers when transacting online. In turn, attitudes towards online purchasing have a significant positive impact on the actual online purchasing behaviour of consumers (path coefficient = 0.542,  $t = 6.587$ ), confirming  $H_5$ . Therefore, the sampled consumers think that internet trustworthiness and concerns about privacy and security issues do have a significant influence in shaping their attitudes towards online purchasing and their attitudes towards online purchasing, in turn, have a significant positive impact on their actual online purchasing behaviour in line with the assertions of the TPB (Ajzen, 1985; 1991). The influence of trust in shaping consumer attitudes is well-

documented in previous empirical studies (George, 2002; 2004; Suh & Hun, 2003), as is the influence of privacy concerns on consumer attitudes. The finding that attitude influences actual consumer behaviour is similarly a well-established phenomenon (Armitage & Conner, 2001). Furthermore, the results of this study demonstrate that H<sub>6</sub>, postulated as ‘Self-efficacy positively influences perceived behavioural control of consumers in online shopping’ is confirmed (path coefficient = 0.599, t = 5.400). Lastly, H<sub>7</sub>, posited as ‘Perceived behavioural control positively influences online shopping behaviour of consumers’ is confirmed (path coefficient = 0.601, t = 5.850). The result also indicates approximately 22 (SMC = 0.217) percent of the variance on perceived behavioural control is explained by perceptions of self-efficacy. Other studies within various contexts have reported the positive influence of self-efficacy on perceived behavioural control, and the positive influence of perceived behavioural control on actual behaviour of consumers (Battacherjee, 2000; Armitage & Conner, 2001). Lastly, as indicated in Figure 1, the SMC = 0.316 can be interpreted as the three variables, namely attitude towards online shopping, subjective norms and perceived behavioural control collectively explaining 32 percent of the variance on actual online shopping behaviour of consumers within the South African context. The finding of the present study gives further confirmation of the efficacy of the TPB.

**Table 4. T-statistics and standardised path coefficients: Hypothesis testing**

Path	Path coeff.	S.E.	t-value	Results of hypothesis
H <sub>1</sub> : Normative structure to subjective norm	0.650	0.085	4.350	Supported
H <sub>2</sub> : Subjective norm to online purchasing	0.301	0.067	3.025	Supported
H <sub>3</sub> : Internet trustworthiness to attitude	0.590	0.069	6.752	Supported
H <sub>4</sub> : Privacy and security to attitude	-0.354	0.062	-4.561	Supported
H <sub>5</sub> : Attitude to online purchasing	0.542	0.530	6.587	Supported
H <sub>6</sub> : Self-efficacy to perceived behavioural control	0.599	0.810	5.400	Supported
H <sub>7</sub> : Perceived behavioural control to online purchasing	0.601	0.79	5.850	Supported

Note: Statistical significance at p<0.05

## 5. Conclusion and Recommendations

As alluded to earlier, the study utilised the TPB in explaining consumer attitudes towards online shopping in an emerging economy, South Africa. In a nutshell, the results of the study are in line with the TPB and confirm the robustness of the theory within an e-commerce context. The results of the study indicate that trustworthiness, privacy and security concerns determine consumer attitude towards online shopping, which, in turn, influences online shopping behaviour. Beliefs about self-efficacy in conducting online transitions influenced consumers’ perceived behavioural control, which ultimately influenced the online shopping behaviour of consumers. Furthermore, the study found that normative beliefs are the immediate antecedent of

subjective norms, which, in turn, influence online shopping behaviour. Lastly, the study confirms that attitudes towards online shopping, subjective norms and perceived behavioural control collectively are important and immediate antecedents of the actual shopping behaviour of consumers in an online environment. Marketing practitioners are, therefore, recommended to address the issues of real and perceived privacy issues and security concerns of current and potential online shoppers if they are to fully benefit from the spoils of the internet. The study utilised self-administered questionnaires to collect data, which represents a self-report bias limitation. Future studies may consider testing data on online shopping using other theories that explain consumer perception, attitude and behaviour in order to deepen our understanding of the online/internet shopping phenomenon.

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## An Exploratory Study of the Level of Social and Environmental Disclosures by Listed Firms in Nigeria

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**Abstract:** This study examined the level of social and environmental disclosures in the annual reports of listed firms in Nigeria. It is an exploratory study utilising secondary data through the content analysis of annual reports of 84 sampled firms listed on the Nigerian Stock Exchange over a period of 2011 – 2016. Data were analysed using descriptive statistics. The study found that the level of SED in Nigeria has improved over the years with a slight improvement from previous years (n = 2056, 67.98%) even though social disclosure takes a higher proportion of such practices (n = 1668, 82.49%) compared to the level of disclosures on environmental issues (n = 388, 38.72%). The study recommends that government, regulatory agencies and financial institutions inspire responsibility on the part of firms towards environmental issues.

**Keywords:** Social; environmental; disclosure; Nigeria

**JEL Classification:** M40; Q01; Q2; Q4; Q25

### 1. Introduction

Globally, there is a growing concern for environmental responsibility among firms due to the negative impacts of firms' activities on the environment and society. Failure of corporate organisations to mitigate the negative impacts of their operations on the environment has resulted in worrisome environmental crisis around the world such as Bhopal chemical leak of 1984 and the Exxon Valdez oil spill of 1989. These events received worldwide media attention and increased concern over major issues regarding the environment (ACCA, 2015). Neglect of this role is the cause of unrest in the Niger Delta region of Nigeria (Iredele & Akinlo, 2015). The increasing spate of this crisis has therefore made it increasingly difficult for firms to ignore the problem of the environment in which they operate. Thus, it is expected that firms disclose in their annual reports of the intervention role to mitigate the negative impacts of their activities on the people and the environment. The central objective of preparing financial report is to provide information which should be comprehensible to those who have a reasonable understanding of business and

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economic activities and are willing to study the information with reasonable diligence (Alok, Nikhil & Bhagaban, 2008). However, these reports have been criticised for incompleteness because an assessment of the extent of environmental disclosures in annual reports of companies shows that this important role by firm is neglected. Gray, Kouhy & Lavers (1995) noted that the orthodox accounting paradigm is deficient because it fails to account for the full cost and impacts of business activity on a widely defined group of constituents. One of the inadequacies noted is in the area of providing copious information on the social and environmental impact of business organizations' activities and operations on society.

In response to the demand to provide greater accountability several global and national institutions like United Nation's Protocols and Agreements on Environment, Global Reporting Initiatives (GRI) and National Environmental Standards and Regulatory Enforcement Agency (Nigeria) have been created with the objectives of enunciating varying norms of interaction with environment, proposing standards for engaging stakeholders and developing frameworks for reporting on socially and environmentally impactful activities of organisations (Enahoro, 2009). As a result, within the past decade there has been a considerable increase in the number of companies that present information on their social and environmental activities.

In KPMG's international survey of Corporate Social Responsibility (CSR) reporting covering 34 countries, a notable increase was observed in the number of companies presenting CSR reports from 50% in 2005, to 80% in 2008 and 95% in 2011 (KPMG, 2011). KPMG's 2015 survey shows that countries are getting better at reporting the environmental and social trends and risks affecting their business. Emerging economies of India, Indonesia, Malaysia and South Africa have the highest Corporate Responsibility (CR) reporting rates in the world (KPMG, 2015). Unlike in 2011 survey, when only 20% of the companies included CR data in their annual report, almost 60% include CR data in annual financial reports by 2015. Thus, including CR data in annual financial report is now a firmly established global trend. It is predicted that reporting of non-financial information will soon become a required business practice and companies will need to focus on how best to integrate their financial and non-financial information

Although disclosure on social and environmental issues in annual reports seems to have increased in recent years, it appears that a wide disparity exists in the disclosure level among companies in many developing countries, including Nigeria (Uwuigbe, 2011; Iredele & Akinlo, 2015). The extent and nature of SED still varies significantly over the years, and across companies and sectors. This failure has necessitated an assessment of the current state of the level of social and environmental disclosures among listed firms in Nigeria. The objective of the study is therefore to examine the

nature and patterns of social and environmental disclosures among different industry groupings of listed firms in Nigeria.

The next section of this paper provides a brief review of literature and theoretical framework. This is followed by a discussion of the research methodology and then the data analysis and results. The final section provides the discussion and conclusion of the study.

## **2. Literature Review and Theoretical Framework**

### **2.1. The Concept of Social and Environmental Disclosure**

Social and environmental disclosures can be is an umbrella term that describes various means by which companies disclose information on their social and environmental activities to users of financial statements (Alok, Nikhil & Bhagaban, 2008). According to Iredele and Akinlo (2015), it is the process by which a corporation communicates information regarding the range of its environmental activities to a variety of stakeholders including employees, local communities, shareholders, consumers, government and environmental groups. Disclosures entail the release of a set of information relating to a company's past, current and future activities, performance and financial implications. The disclosure also comprises information regarding the implications resulting from corporate social and environmental management decision and actions. They may include issues such as expenditures or operating costs for pollution control equipment and facilities, future estimates of expenditures or operating costs for pollution control equipment and facilities. These may also include sites restoration cost, financing for pollution control equipment or facilities present or potential litigation, air, water, or solid waste releases; description of pollution control processes or facilities, compliance status of facilities; among others (Iredele & Akinlo, 2015).

### **2.2. Prior Empirical Studies**

Studies have been conducted in the developed countries focusing on environmental disclosure. For instance, Freedman & Jaggi (1995) carried out a study in which environmental disclosure was measured against six accounting ratios to measure financial performance, the result showed that there was no long term association between pollution performance and financial performance in the pulp and paper industry. However, for very large firms with poor financial performance the pollution disclosure are more detailed. Similarly, Clarkson, Overell & Chapple (2006) investigated proactive corporate environmental policies and financial performance. Only firms with sufficient financial resources and management capabilities can pursue proactive environmental strategy. These firms will enjoy better financial performance subsequently. In 2007, Zhang & Stern concluded that financial performance has a small positive impact on current environmental

performance. Financially well-performed firms tend to invest more in environmental activities.

In the developing countries, Imam (2000) conducted a study on environmental reporting in Bangladesh and reported that environmental disclosures remain at a minimal level. Other studies conducted in Bangladesh such as Shil & Igbai (2005); a study of the annual reports of 121 companies found that only 13 companies (11 percent) out of 121 disclosed the environmental related information in a qualitative way. Rahman & Muttakin (2005) also selected 196 companies in Bangladesh and gave the same result. In Finland, Niskala (1994) studied environmental accounting issues and concludes that issue relating to environmental accounting are just beginning to be evidently discussed in Finland. In Turkey, Surmen & Kaya (2003) examined environmental accounting and reporting found that like other developing countries Turkey has not seen environmental issues as a priority. In line with this, Nuhoglu (2003) also examined environmental reporting practices in Turkish companies and reported that Turkish companies' reports were lower standard and prepared under much less seriously vis-à-vis multinational companies reports. In Malaysia, Romlah et al (2002) studied the practices in Malaysian companies and showed that 74 out of 362 companies in environmentally sensitive industries provide environmental information in their annual reports. In line with this, Ahmed & Sulaiman (2004) examined the extent and type of environmental disclosures in annual reports for the year 2000 by Malaysian companies belonging to construction and industrial product industries and concluded that the extent of environmental disclosure was very low. In line with this Thompson & Zakarai (2004) concluded that environmental reporting of these companies was poor in quality and low in quantity.

In Nigeria, a large portion of the literature are based on the extent or level of environmental disclosures (Owolabi, 2008; Appah, 2011; Uwuigbe & Jimoh, 2012; Oba, Fodio & Soje, 2012; Duke & Kankpang, 2013; Iredele & Akinlo, 2015). In the study by Owolabi (2008) which involved a content analysis of 20 companies from 2002 to 2006 with a view to determining social and environmental disclosures, the findings showed that only 35% of companies sampled provided some form of social disclosure in their annual reports hence the level of disclosure in Nigeria is still very low. Appah (2011) revealed that a large proportion of firm's social and environmental disclosure is in the area of social works/community development while responsible human resources and environmental practices come second and third.

Uwuigbe & Jimoh (2012) also concluded that corporate environmental reporting practice in a developing country like Nigeria is still very ad-hoc, general, self-laudatory and voluntary in nature. Oba, Fodio & Soje (2012), examined the value relevance of environmental responsibility information disclosure in Nigeria by

investigating the association between environmental responsibility information disclosure and financial performance (Return on capital employed) and they found a positive relationship between the two variables. Duke & Kankpang (2013) also examined the implications of corporate social responsibility performance of Nigerian firms using ROCE to measure performance and the result showed a positive relationship as well. Iredele & Akinlo (2015) in a study of fifty listed companies in Nigeria between 2003- 2011 revealed that the level of environmental disclosures in Nigeria is low as 74.8% of the companies do not disclose any form of environmental information while only 2.8% disclosed the monetary value of their environmental activities.

This study, being a content analysis of the annual reports and accounts of sampled firms between 2011 and 2016 is needful because previous studies in Nigeria were conducted much earlier and not many of them have examined the current level of environmental reporting activities of firms. Besides, apart from Appah (2011) in a study covering 2005 – 2007 and which combined social and environmental disclosures, many of these studies have focused more on environmental disclosures.

### **2.3. Theoretical Framework**

Several theories have been used as the theoretical foundation for studies on social and environmental disclosures. For instance, legitimacy theory posits that business objectives cannot be separated from societal objectives. Therefore, firms are expected to address social and environmental concerns and also act in manners deemed appropriate by society in the pursuit of their business objective. By merging the functions of profit-seeking with accountability and social justice, firms are assured that the license to operate that society confers on them will not be withdrawn. It is a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions (Suchman, 1995). Firms may attempt to attain legitimacy through communication or reporting. Similarly, stakeholder theory as proposed by Freeman (1984) argued that business is an integral part of a larger society comprising of different constituents or stakeholders who depend on each other and who the business depend on for the fulfilment of their respective needs. Hence, managers should give due regard to these groups by addressing their concerns. Stakeholders can be regarded as individuals or groups with a major stake in the firm and who are able to influence the firm significantly and are affected by the company's activities. They include customers and suppliers, present and prospective employees, governmental bodies and political groups, trade associations and trade unions, communities and the public at large. The need for firms to satisfy the demand of these stakeholders has therefore necessitated the relevance of the stakeholder theory as the theoretical support for this study.

### 3. Research Methods

The study adopts an exploratory approach utilizing secondary data obtained through content analysis of annual reports and accounts of sampled firms. The population for the study consist of 180 companies listed on the Nigerian Stock Exchange as at 31st December 2016. A sample of 84 companies was purposively selected based on the nature of their activities and how it impacts the environment, and after firms with incomplete data were excluded. The period covered by the study was 2011-2016. Data obtained were analysed using descriptive statistics.

#### 3.1. Measurement of Social and Environmental Disclosure

Measurements of variables for the study were based on the Global Reporting Initiative (GRI) framework. Six variables, consistent with GRI framework, are identified as measures of SED. These are: (i) Environmental Protection (ii) Energy Conservation (iii) Community Development (iv) Employee Welfare (v) Product Responsibility (vi) Human Rights and Protection of Stakeholders Interest.

A Kinder Lydenberg Domini (KLD) social environmental performance rating system was used to measure the SED scores (RS). A score of '1' was assigned if an operational measure is reported and '0' if it is not reported as follows;

$$RS = \sum_{I=1}^6 r_i$$

Where:

RS = Reporting Score

$r_i$  = A score of (1) if the item is reported and (0) if not reported.

$I = 1, 2, \dots, 6$ .

A firm could score a maximum of (6) points and a minimum of (0) under forty (40) SED parameters and checklists identified and divided into six main categories as indicated in appendix 1 (Table 1).

### 4. Data Analysis and Results

Analysis of data for this study is based on the overall level of disclosures among the sampled firms as well as the level of disclosures across industry groupings with the aim of assessing the contribution of each industry to the overall level of disclosures among the sampled industries (Table 1). Also, the nature and pattern of social and environmental disclosure in annual reports were analysed in order to determine the level of disclosure of the various SED variables (Table 2). Finally, the proportion of the disclosure on environment activities (Table 3) and social activities (Table 4) were examined.

#### Level of Social and Environmental Disclosures (SED)

The result in Table 1 shows the overall level of social and environmental disclosure among the eighty-four sampled firms. A total expected score is 3024, if all the firms were to make full disclosures of all the six SED variables for the six years under consideration. The result revealed a disclosure level (n =2056, 67.98%), and this represent above average performance of firms in social and environmental issues.

**Table 1. Social and Environmental Disclosure across Industry Groupings**

Companies	No of Companies	Expected disclosure	Level of disclosure	Percentage of disclosure	
Conglomerate	6	216	157		72.68
Financial Institution		30	1080	688	63.70
Construction and Building	8		288	209	72.56
Oil & gas		12	432	360	83.33
Chemical and Paint	4	144		113	78.47
Transport and Logistics	3	108		64	59.25
Food & Beverages	7	252		195	77.38
Breweries		2	72	55	76.38
Technology and Computer	5	180		112	62.22
Health		4	144	73	50.69
Media and Entertainment	3	108		30	27.77
Total	84	3024	2056		

*Source: Annual Reports of firms*

Analysis based on industry rating showed that the oil and gas sector had the highest percentage of disclosure (83.33%). This is followed by the chemical and paint sector (78.47%), food and beverages (77.38%), breweries (76.38%) and conglomerate (72.68%), and construction and building (72.56%). The lowest level of disclosure was from the media and entertainment industry (27.77%), followed by health sector (50.60%), transport and logistics (59.25%), technology and computer (62.22%), financial institution (63.70%).

Analysis of the nature and pattern of social and environmental disclosure as captured by the six SED variables is shown in Table 2.

**Table 2. Nature and pattern of Social and Environmental Disclosure**

SED Variables	No of Items	Percentage level of disclosure
Environmental Protection	10	47.99
Energy Conservation	5	22.62
Society/Community Development	8	73.41
Employees' Welfare	8	93.06
Product and Responsibility	3	83.95
Human Rights/Stakeholder Interest Protection	6	62.90
Total	40	

*Source: Annual Reports of firms*



The highest form of disclosure is in the area of employees' welfare (93.06%). This pattern of disclosure is popular among the companies because the well-being of employees is paramount to the survival of firms. This is followed by product and responsibility (83.95%). Product reflects the concern of the company for generating and maintaining customer satisfaction regarding the product. Another area with significant level of disclosure is society/community development (73.41%). Firms disclose this activity in their annual reports in order to show to the users their commitment to the public. Disclosure in the area of human rights and stakeholders interest protection also showed (62.90%). The level of disclosure in environmental protection (47.99%) and energy conservation (22.62%) were not satisfactory.

Analysis in Table 3 provides further evidence on the worrisome attitude of companies in Nigeria to environmental issues. From the total expected score (1002) from environmental protection and energy conservation, the level of disclosure in this aspects is 388 representing 38.72%. The performance of all the sectors in this regard was abysmally low with the exception of leading sectors such as oil and gas (86.11%), chemical and paints (79.16%), construction and building (64.58%), food and beverages (59.52%), and breweries (54.16%) that had a high disclosure.

**Table 3. Environmental Disclosure across Industry Groupings**

SED Variables	Environmental Protection	Energy Conservation	Expected Disclosure	Level of Disclosure	Percentage of Disclosure	Disclosure
Conglomerate	22	8	72	30		
17.85						
Financial Institution		33	1	360	34	
9.44						
Construction and Building	43		19	96	62	
64.58						
Oil & gas		71	53	144	124	86.11
Chemical and Paint	23		15	48	38	
79.16						
Transport and Logistics	1		0	36	1	
2.77						
Food & Beverages	29		21	84	50	
59.52						
Breweries		12	1	24	13	
54.16						
Technology and Computer	12		4	60	16	
26.66						
Health		19	0	48	19	
39.58						
Media and Entertainment	1		0	36	1	
2.77						
Total	266	122	1002	388		

Source: Annual Reports of firms

The result in Table 4 shows mainly the social disclosure among the sectorial groupings. From the total expected disclosure of (2022) the Table revealed that the level of disclosure is (1668) representing 82.49%. This result indicates that the disclosure level of firms in their annual reports in the area of social activities is higher.

**Table 4. Social Disclosure across Industry Groupings**

SED Variables	Community Development	Employee Welfare	Product Responsibility	Human Right	Level of Disclosure	%
Conglomerate 6.28	28	36	35	28	127	
Financial Institution 32.34	146	175	175	158	654	
Construction and Building 7.27	42	42	39	24	147	
Oil & gas 11.67	70	69	55	42	236	
Chemical and Paint Transport and Logistics 3.11	17 7	23 21	22 23	13 12	75 63	3.70 63
Food & Beverages Breweries 2.07	34	43	12	43 12	25 11	145 7
Technology and Computer 4.74	22	28	25	21	96	
Health 2.67		11	19	18	6	54
Media and Entertainment 1.43	8	8	10	3	29	
Total	397	476	456	339	1668	

*Source: Annual Reports of firms*

Analysis based on sectorial grouping shows that the financial institution sector has the highest level of social disclosures (32.34%). This is followed by the oil and gas (11.67%).

## 5. Discussion of Findings

This study provides evidence on the level of social and environmental disclosures in Nigeria. The result showed a slight improvement in SED level among sampled listed firms (n =2056, 67.98%). It is reasonable to deduce that such progress occurs because there is greater emphasis for such disclosures by stakeholders, and failure on the part of firms is a damage to reputation. However, a higher proportion of such disclosure is in form of social activities (82.49%) of the firms, while environmental

disclosure (38.72%) was minimal. This is in line with the result of previous studies such as (Mamman, 2004; Appah, 2011) which found that firms have higher tendency to reporting on their social investment activities, and there is passive reaction on the subject of environmental disclosure (Kamla, 2007; Owolabi, 2008; Uwuigbe & Jimoh, 2012, Iredele & Akinlo, 2015). This finding is a reflection of the attitudes of firms to social and environmental disclosures. It implies that firms attached importance to their social responsibilities such as employee welfare (measured through occupational health and safety, employees' training and education, management labour relations, employment security and employees' promotion, employees' benefits, employees' diversity and equal opportunity, employees' counselling, social Security scheme for employees). Another area of social responsibility which firms engage in is social/community development (measured through impact/contributions to local community, support to economically weaker sectors of the society, scholarship awards, health and hygiene, contributor to research and educational causes, anti-corruption policies and action, community awareness programme). Similarly, firms engage in social activities in the area of product responsibility (measured through safety of product of services, product research and development, customers' satisfaction and product quality) and human rights/stakeholders' protection (measured through redress of customers' complaints/grievance mechanism, ethical business practices, investor's protection, non-discrimination, freedom of association and collective bargains, employment of minorities, women and special advantaged groups).

Although the study found a low level of environmental disclosure in the area of environmental protection (measured through pollution control, waste management, compliance with environment regulation, biodiversity and conservation, use of recycled materials, environmental impact of transporting goods and materials, environmental protection awards, environment friendly initiatives, reclaiming of packaging materials) as well as energy conservation (measured through energy management policy, fuel and electricity consumption, emission and greenhouse gas/ozone depleting substances, use of alternative energy sources, promoting of energy efficient products), this may not be unconnected with the inability of firms in Nigeria to meet up with the technology required to engage in such initiative. The level of SED practices in Nigeria is a far cry compared to the prominence that this subject has gained among corporate firms in the advanced countries. This is so because today, environmental disclosure in Nigeria is a voluntary responsibility. There is no recognised standard that mandates environmental disclosures in companies' reports. Environmental regulation also is weak as no much effort is put into the making and enforcing of environmental laws in Nigeria. The extent of disclosures found so far is because of the need for firms to strategically position themselves, improve their reputation and gain a larger market share. However, the

absence of strong regulation has not encouraged a desirable level of success regarding this issue.

## 6. Conclusion

The purpose of this study is to examine the nature and patterns of social and environmental disclosures among listed firms in Nigeria. The findings therefore have implications for the government and its agencies as well as corporate institutions. If Nigeria wants to join the league of developed countries where environmental disclosure will gain prominence beyond the present status, the government must mandate social and environmental disclosure among firms. Capital market regulatory authorities such as Security and Exchange Commission, Nigerian Stock Exchange should mandate disclosure otherwise such company should not trade on the Nigerian Stock Exchange. Tax authorities should give green tax incentive for social and environmental investments. Financial institutions such as banks should make disclosure in the area of social and environmental investment by firms in the annual reports as a condition for granting loan facilities to companies. This study opens up further research on the drivers of social and environmental disclosures among firms in Nigeria.

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**Appendix 1****Table 1. Social and Environmental Disclosure**

No	SED Variables	Operational measures
1.	<b>ENVIRONMENTAL PROTECTION</b>	<ul style="list-style-type: none"> <li>- Pollution Control</li> <li>- Waste management</li> <li>- Compliance with Environment Regulation</li> <li>- Biodiversity and Conservation</li> <li>- Use of recycled materials</li> <li>- Environmental impact of transporting goods and materials</li> <li>- Environmental Protection Awards</li> <li>- Environment Friendly initiatives.</li> <li>- Reclaiming of Packaging materials</li> </ul>
2.	<b>ENERGY CONSERVATION</b>	<ul style="list-style-type: none"> <li>- Energy management Policy.</li> <li>- Fuel and Electricity Consumption</li> <li>- Emission and Greenhouse Gas/Ozone depleting substances</li> <li>- Use of Alternative Energy Sources.</li> <li>- Promoting of Energy Efficient Products</li> </ul>
	<b>SOCIETY/COMMUNITY DEVELOPMENT</b>	<ul style="list-style-type: none"> <li>- Impact/contributions to local community.</li> <li>- Support to economically weaker sectors of the society.</li> <li>- Scholarship awards.</li> <li>- Health and hygiene.</li> <li>- Contributor to Research and educational causes</li> <li>- Anti-corruption policies and action</li> <li>- Community awareness programme.</li> <li>- Awareness programme.</li> </ul>
4.	<b>EMPLOYEES' WELFARE</b>	<ul style="list-style-type: none"> <li>- Occupational health and safety.</li> <li>- Employees' training and education.</li> <li>- Management Labour Relations.</li> <li>- Employment Security and Employees' Promotion.</li> <li>- Employees' benefits.</li> <li>- Employees' diversity and Equal Opportunity.</li> <li>- Employees' Counselling.</li> <li>- Social Security Scheme for Employees.</li> </ul>
5	<b>PRODUCT AND RESPONSIBILITY</b>	<ul style="list-style-type: none"> <li>- Safety of Product of Services.</li> <li>- Product Research and Development.</li> <li>- Customers' Satisfaction and Product Quality.</li> </ul>
6	<b>HUMAN RIGHTS/STAKEHOLDER INTEREST PROTECTION</b>	<ul style="list-style-type: none"> <li>- Redress of customers' complaints/grievance mechanism.</li> <li>- Ethical business practices</li> <li>- Investor's Protection.</li> <li>- Non-discrimination.</li> <li>- Freedom of Association and Collective Bargains.</li> <li>- Employment of Minorities, women and special advantaged groups.</li> </ul>

*Source: Global Reporting Initiative (2006)*

## **The Relationship between Job Satisfaction, Organizational Trust and Intention to leave the Job: A Comparative Study between Kosovo and Turkey**

**Lavdrim Fatmir Reçica<sup>1</sup>, Altan Doğan<sup>2</sup>**

**Abstract:** This study focusses on comparing the job satisfaction, organizational trust and intention to leave the job variables between employees who work in four-star hotels in Kosovo and those in Turkey. Another purpose of this study is to investigate if there exists any positive or negative relationship between the three variables. 38 hotels have been conducted to perform this study. The data were gathered by surveys on the field. In order to analyse the data, two main statistical methods have been utilized, the Pearson correlation and independent t-tests. In addition to that, descriptive analysis such as frequency, percentage distributions, standard deviation and arithmetic mean have been performed as well. As a result of the analysis, it is identified that there exists a positive correlation between job satisfaction and organizational trust and a negative correlation between these two variables with intention to leave the job. Moreover, when the results of the three variables have been compared among employees in Kosovo and Turkey, a significant difference has been found. Besides these, according to some demographics, significant differences have been found, too. This is the first study conducted in Kosovo regarding to this topic and the first study that compares the two countries.

**Keywords:** Job Satisfaction; Organizational Trust; Intention to leave the Job; Kosovo; Turkey

**JEL Classification:** M12

### **1. Introduction**

Every day markets are growing up by new ideas, ventures and new human capital with updated knowledge resources, whereby all the good services, ideas and products are coming from. Nowadays for organizations is not easy to maintain in a very dynamic, challenging and changing environment. But, the human factor with its creative use of knowledge is the one who leads the change. The best way to survive for organizations is by using their resources in the right way. Every day the importance of human resources is being a key factor for the success of organizations in a very fast updated and evolving environment. Thus, employees are one of the most important assets of an organization especially in a human resources market which has become more competitive as a result of the globalization.

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In the market of human capital, for organizations it is not easy to attract new employees and retain their human capital connected and work for them in a long term. This is as a result of the social media effect and other resources which are making much easier and accessible to reach every person in different positions and companies. Companies to keep their employees satisfied and to gain their trust, are investing in different factors that affect job satisfaction and organizational trust. They are developing the work environment and working conditions, to make employees feel free and valuable for the company. Furthermore, while the environment is changing by the impact of technology assisted by human capital, new jobs and better work conditions like working from home to meet the family needs and the job needs are impacting satisfaction of employees.

Because of their importance on employees and in the success of organizations there are many research studies for job satisfaction and organizational trust. There can be found some researches in Turkey in different disciplines and in particular for job satisfaction, organizational trust or the intention to leave (Çelen, 2016; Poyraz & Kama, 2008; Yazıcıoğlu, 2009). But in Kosovo until now there is not any research upon three variables as job satisfaction, organizational trust and intention to leave the organization and especially the three of them in one research.

This study will identify if there is going to be any relation between job satisfaction, organizational trust and intention to leave the job. This research will compare Kosovo and Turkey upon these three variables.

Although there are researches in different countries and companies for these variables all together or individually this study will bring something new when we compare the unemployment rate of Kosovo with Turkey and other countries. According to Eurostat Statistics the euro area seasonally-adjusted unemployment rate was 10.0 % in September 2016. In September 2016, the unemployment rate in the United States was 5.0 %. While in Turkey according to Turkey Statistical Institute TUIK the unemployment rate in July 2016 was 10.7 %. In the other hand in Kosovo according to Kosovo Agency of Statistics ASK the unemployment rate in 2015 was 32.9%. So we will see how they will react to intent to leave while their satisfaction or trust is high or low in their organization. We will see that even in conditions like these, will they intent to leave the organization because of job satisfaction and organizational trust, or even when the satisfaction and trust are in a low rate they are obligated to work otherwise it is not going to be easy to find another job. Another reason for doing this study is that there does not exist any study that compares these two countries regarding to the study subject.



## **2. Literature Review and Theoretical Framework**

### **2.1. Job Satisfaction**

One of the most important factors in the organizational behaviour field is the attitude that employees have for their job. If this attitude toward their job is positive, it means that they are satisfied with their job, or the opposite. Referring to Mitchell and Lason (1987) it is widely known in the organizational behaviour area that job satisfaction is the most important and often studied attitude. Certain studies point out that employees who are satisfied with their jobs are more creative, productive, and are more likely to stay in the organization (Eskildsen & Dahlgaard, 2010). After that, it is important to investigate job satisfaction because of its effect on productivity and profitability of organizations (Gruneberg, 1979, p. 1).

Job satisfaction for the first time, as a concept was defined by Hoppock as “a combination of a person’s psychological, physical and environmental events from his job to obtain job satisfaction/be satisfied” (Yew, 2008, pp. 27-43). Further, job satisfaction according to Edwin Locke (1976) which is one of the most used definitions of job satisfaction, is “a pleasurable or positive emotional state resulting from appraisal of one’s job or job experiences” (p. 1304). JS is a series created by objective thoughts and behavioural intentions related to satisfaction or dissatisfaction feelings of employees about their job (Davis & Newstrom, 1989, p. 176). However, no one theory can cover the full spectrum of job satisfaction concepts (Chou & Robert, 2008).

### **2.2. Organizational Trust**

Studies show that organizational trust is required as a prior condition for managerial and organizational efficiency (Mayer et al., 1995; Schoorman et al., 2007). It is widely accepted that trust does not necessary effect on the success of the organization in a short term, but in a long term it really does, it needs a long time to create the trust (Demircan & Ceylan, 2003, pp. 139-140). Organizational trust is the intention and the improvement of providing justice inside the organization, support of the top management, improvement of the relationships within the organization, supporting and providing the desires and needs of the employees and providing the collaborative work between employees in achieving personal and organizational goals (Neves & Ceatano, 2006, p. 355). Trust is a very important element on a number of activities in the organization such as transparency in sharing information, collaboration, independency, and overall succeeding in achieving organizational goals (Aksoy, 2009, p. 61).

While there are many definitions of organizational trust, words like belief, willingness, and vulnerability occurred more often to confront. Here we cite a definition of organizational trust by Mishra (1996) where according to him “Organizational trusts as a unidirectional tendency toward susceptibility to other

party based on this expectation or believe that the other party is reliable, open and trustable”, furthermore, organizational trust does not have just one dimension, organizational trust includes its internal aspects such as trust of employees toward their managers, trust of employees on colleagues, and trust of employees toward the organization (Çıtır & Kavi, 2010, p. 233; Dietz & Hartog 2006, p. 557).

### **2.3. Intention to Leave the Job**

A number of researches have been done on the topic of intention to leave, different studies by different variables, and in different cases (Coomber & Barriball, 2007; Macintosh & Doherty, 2010; Ramoo with Abdullah & Piaw, 2013; Veloutsou & Panigyrakis, 2004; Yurichisin with Perk & O'Brien, 2010). Many authors defined intention to leave almost the same such as intention to leave is “a signal of quitting” (Weisberg, 1994, p. 10), Elangovan (2001) defined as an attitudinal orientation or a cognitive manifestation of the behavioural intention to quit (p. 159). According to Brown (1986) intention to leave refers to employees who are in the process of searching for a new job, which may be understood by their behaviours such applying for a job, forwarding references, participating in interviews, and refusing or accepting any job offer (p. 36). Intention to leave by Price and Mueller (1986) was defined as “an individual’s perception of the likelihood of discontinuing membership in an organization” (p. 17). Furthermore, some employees are not in accordance with the values of the organization, besides this, if they even do not want to be in accordance with them or contribute on them it means that they will have intention to leave (Çekmecelioğlu, 2005, p. 25).

### **2.4. Relationship between Job Satisfaction, Organizational Trust and the Intention to leave the Job**

Previous studies show that organizational trust is in correlation with employees’ intention to leave. According to a doctoral study by Sinclair (2013) is identified that there exist a strong and significant correlation between organizational trust and the intention to leave (p. 148). Another study by Milligan (2003, p. 154) on military service in the U.S. Air Force, results showed up that there is a significant and inverse relationship between trust in leadership and intent to leave military service, which means that with an increase of trust in leadership, intention to leave decreases. She continues concluding that measures that improve trust in leadership may have an impact on reducing turnover in the U.S. Air Force (p. 154). However, another study showed that organizational trust was not correlated with the turnover of nurses (Velez & Strom, 2012, p. 39).

Some studies suggest that workplaces where trust is encouraged may lead to employees’ desire to cooperate, as a result decreasing intention to leave the organization (Paille, Bourdeau & Galois, 2010, p. 50). Trust in this study was considered to understand the process by which perceived organizational support impacts intention to leave towards an organization through satisfaction (p. 53).

Moreover, in a doctoral study was found that organizational trust mediated the relationship between ethical leadership and employees' job satisfaction, organizational commitment and intention to leave. According to another study in Ankara, Turkey above the employees of four and five star hotels results indicated that there is a significant correlation between job satisfaction, organizational trust, and intention to leave. But results show that there is a positive relationship between job satisfaction and organizational, whereas there is a negative relationship between organizational trust and intention to leave, and also between job satisfaction and employees' intention to leave (Yazıcıoğlu, 2009, p. 242). Higher level of job satisfaction and organizational trust leads to lower level of intention to leave.

There are many studies related to job satisfaction and intention to leave. Previous studies showed up that job satisfaction plays an important role in the intention to leave the job. Sometimes it is used also as a predictor of intention to leave. According to a study in Malaysia among nurses in teaching hospital is identified that job satisfaction independently predicts intention to leave (Ramoo et al., 2013, pp. 3147-3148). Another study showed up that most of the job satisfaction dimensions have a negative relationship with intention to leave (Veloutsou & Panigyrakis, 2004, p. 121), job satisfaction strongly impacts intention to leave (MacIntosh & Doherty, 2010, p. 115). In the other hand according to a study by Waqas et al. (2014, p. 154) job satisfaction impacts the success of any organization, where they found out that there is a positive relationship between job satisfaction and job loyalty.

Moreover, another study finds that intention to leave is negatively related to job satisfaction (Poyraz & Kama, 2008, p. 157). Another study in Ankara, Turkey found out the same result that there is a strong negative relationship between job satisfaction and intention to leave (Çelen, 2016, pp. 67-68).

Furthermore, according to a study among blue-collar employees in contemporary Russia, the analysis showed that satisfaction regarding to wage is the strongest negative predictor of Russian employees' intention to leave comparing with interpersonal relations satisfaction and job-related satisfaction (Balabanova et al., 2016, p. 21). Another study in intensive care unit (ICU) nurses in China by Tao and his colleagues (2015) elaborated in three categories found out that the nurses for the first category "stress from excessive workload demands" were dissatisfied with some aspects of the job, but they want to stay because they ultimately like working in intensive care unit. The second category, nurses which had "stress from the ICU work environment", although they were dissatisfied with their job they will stay because there are not any better jobs. And the third category, nurses with "lack of respect and recognition" are planning to leave their job because they do not like it, and also are going to leave the nursing profession too (pp. 142-146). According to another study in Western Cape in the tourism industry results identified that there is a strong, inverse relationship between job satisfaction and intention to leave.

Employees who do not experience a job satisfaction, or the level of job satisfaction is low, they will intent to leave, thereby, there will be a high level of intention to leave (Appollis, 2010, p. 139).

However, according to a study by Baylor (2010) results showed that intrinsic factors have a greater impact on job satisfaction than extrinsic factors. This study found that some of the intrinsic factors like authority, recognition, and co-workers have no significant relationship with intention to quit. But some factors like activity, moral values, responsibility, independence, and achievement play a significant role in promoting intention to leave or desire to stay. In the other hand extrinsic factors which are the sources of dissatisfaction such as social status, supervision, and policies influence intention to leave and not the desire to stay, but job security, pay, and working conditions also influence the desire to stay (Baylor, 2010, pp. 73-74).

It is found that in most of the studies, there is a positive relationship between organizational trust and job satisfaction. Employees who have a high level of organizational trust, they have a high level of job satisfaction. Or it may occur that with a low level of organizational trust we would have a low level of job satisfaction.

According to Velez and Strom (2012) in their study indicated that there exists a relationship between organizational trust and overall job satisfaction for hospital patients, nurse managers job satisfaction and fair compensation. They declare that concept of organizational trust may be a creative solution for hospital executives' job satisfaction by focusing on developing an environment of organizational trust which may lead in increased patient satisfaction scores (pp. 39, 49). A study by Watcharachatchawan and Steane (2016) found that job satisfaction is influenced by organizational justice through organizational trust variables (p. 13). According to another study, is indicated that trust in management predicts job satisfaction. Findings also showed up that trust in teammates is more important for working day-to-day operations, whereas trust in management might be more important for organizational outcomes such as job satisfaction (Gockel, Robertson & Brauner, 2013, p. 236).

Moreover, results from a study in private and public teaching organizations in Turkey showed up that there is a partially positive relationship between teacher's organizational trust and job satisfaction (Çelik, 2015, p. 66). Further, another study on hotels in Turkey indicated that there is a strong correlation between organizational trust and job satisfaction (Güçer & Demirdağ, 2014, p. 23).

To see if there exists a relationship between organizational trust, job satisfaction and the intention to leave the job for employees in Kosovo and those in Turkey we tested it in our first hypotheses that we made.

H1: There is a relationship between organizational trust, job satisfaction and intention to leave the job variables for employees in four-star hotels in Kosovo and Turkey.

In continuance, we made three other hypothesis to see if there exists any significant difference between employees who work in Kosovo and those in Turkey about their level of job satisfaction, organizational trust and the intention to leave the job.

H2: There is a significant difference between employees in Kosovo and those in Turkey about the level of job satisfaction.

H3: There is a significant difference between employees in Kosovo and those in Turkey about the level of organizational trust.

H4: There is a significant difference between employees in Kosovo and those in Turkey about the level of their intention to leave the job.

### 3. Research Methodology

#### 3.1. Sample of Study

Table 1 shows that out of 291 participants, 139 or 47.8% are employees who work in four-star hotels in Kosovo and 152 or 52.2% are employees who work in four-star hotels in Turkey. More than one-third (35.7%) of the respondents were between the ages 25 – 35. Most of the respondents in Kosovo were between the ages 35-45, whereas in Turkey, most of the respondents were between the ages 25-35.

**Table 1. Demographic Features**

Variables		Kosovo		Turkey		Total	
		F	%	F	%	F	%
Age	25 and less	26	18.7	44	28.9	70	24.1
	25 - 35 years	40	28.8	64	42.1	104	35.7
	35 - 45 years	49	35.3	33	21.7	82	28.2
	45 - 55 years	24	17.3	11	7.2	35	12
	Total	139	100	152	100	291	100
Gender	Woman	76	54.7	43	28.3	119	40.9
	Man	63	45.3	109	71.7	172	59.1
	Total	139	100	152	100	291	100
Marital Status	Single	52	37.4	77	50.7	129	44.3
	Married	84	60.4	68	44.7	152	52.2
	Divorced	3	2.2	7	4.6	10	3.4
	Total	139	100	152	100	291	100
Education Level	Primary Education	10	7.2	18	11.8	28	9.6
	High School	80	57.6	55	36.2	135	46.4
	Associate Degree	0	0	35	23	35	12
	Faculty	40	28.8	34	22.4	74	25.4
	Master	9	6.5	10	6.6	19	6.5

	Total	139	100	152	100	291	100
<b>Total Working Time in the Institution</b>	0 - 1 years	34	24.5	32	21.1	66	22.7
	1 - 3 years	20	14.4	41	27	61	21
	3 - 5 years	34	24.5	24	15.8	58	19.9
	5 - 7 years	21	15.1	10	6.6	31	10.7
	7 - 10 years	9	6.5	22	14.5	31	10.7
	More than 10 years	21	15.1	23	15.1	44	15.1
	Total	139	100	152	100	291	100
<b>Individual Experience Period</b>	0 - 1 years	5	3.6	13	8.6	18	6.2
	1 - 3 years	11	7.9	19	12.5	30	10.3
	3 - 5 years	32	23	27	17.8	59	20.3
	5 - 7 years	23	16.5	20	13.2	43	14.8
	7 - 10 years	16	11.5	20	13.2	36	12.4
	More than 10 years	52	37.4	53	34.9	105	36.1
	Total	139	100	152	100	291	100

The majority of the respondents were men (59.1, whereas 40.9% of them were female. In Kosovo, 45.3% men, 54.7% woman In Turkey, 71.7% were men, 28.3% were woman.

52.2% of the respondents were married, 44.3%, single and 3.4% divorced. In Kosovo, 60.4% were married, 37.4% were single and 2.2% were divorced. In Turkey, 44.7% were married, 50.7% were single and 4.6% were divorced.

Almost half (46.4%) of the total respondents had high school as the highest education completed. When respondents in Kosovo and Turkey are compared with regard to education, "high school" was the most frequented variable, in Kosovo (57.6%), in Turkey (36.2%).

Working experience in the same institution of the total respondents was 22.7% between years 0 – 1. In Kosovo, 24.5% were between years 0 – 1, the same percentage was also between the years 3 – 5. In Turkey, most of the respondents 21.1% were working in the same institution between years 0 – 1. Moreover, 36.1% of the respondents have a working experience of more than 10 years. Regarding to the country, both in Kosovo, 37.4% of the respondents have a working experience more than 10 years, and in Turkey, 34.9% of the respondents have a working experience more than 10 years.

### 3.2. Instruments of Measurements

**Job Satisfaction:** The survey instrument used for this study was the short form Minnesota Satisfaction Questionnaire (MSQ) (Weiss et. al., 1967). In Turkey, we used the Turkish version which was found at the page of University of Minnesota Vocational Psychology Research. For this research was used Turkish 1977 short form, 3., which consists of 20 items. The 5-point Likert scale was used to provide choices ranging from "Very Dissatisfied" (1) to "Very Satisfied" (5).

**Organizational Trust:** Organizational trust was measured by using Organizational Trust Scale (Omarov, 2009), which consists of 22 items. The 5-point Likert scale was used to provide choices ranging from “Strongly Disagree” (1) to “Strongly Agree” (5).

**Intention to Leave the Job:** Intention to leave the job was measured by using Intention to Leave the Job Scale (Mobley et. al., 1978: 410). In Turkey is used the Turkish version which was used by Örucü and Özafşarlıoğlu (2013). The 5-point Likert scale was used to provide choices ranging from “Strongly Disagree” (1) to “Strongly Agree” (5).

Demographic characteristics refer to age, gender, marital status, level of education, working experience in their current organization, and in total working experience in years.

In Kosovo is used the Albanian version of questionnaires which were translated and double-checked for appropriateness.

### 3.3. Method of Data Collection

In the first page of the survey are given full explanations of the study. Included in the introduction are information about the confidentiality of the survey and its purpose. Besides this, the first page of the survey had questions about demographic data such as age, gender, marital status, level of education, working experience in their current organization, and in total working experience in years.

The order in which the questionnaires were presented was first job satisfaction, then intention to leave the job on the second page, and finally, organizational trust on the third page.

The survey first has been implemented in Kosovo. There we started to meet managers, HR managers or the owners of the four-star hotels to take their permission to share the survey with their employees. Some of the managers were able to talk immediately where we explained everything about the survey and its purpose. But some of them were not able to talk immediately so we arranged meetings or we went again to meet them hoping that they will be able to talk with us. After that, we shared our survey in ten four-star hotels in Kosovo, by giving them to the managers or any other one who would share surveys with the other employees. Also, it happened to explain the way how to fill the survey to any manager or employee or respond to any question that employees did about our survey. We gave them some days to fill the survey because some of the employees were not working in the same time, or some of them were in holidays, so after some days we went to collect our survey as we arranged before for the collecting day, or by introducing them for the day that we would go and collect them.

It lasted two weeks to finish our survey in Kosovo where we shared 200 surveys, from them 139 were completed and collected. After finishing our research in Kosovo we moved to Turkey where we shared 250 surveys in 28 four-star hotels, from them 152 were completed and collected.

### **3.4. Validity and Reliability of the Research Scales**

**Validity of Research Scales:** reliability and validity of the short form Job Satisfaction Minnesota scale have been done in many researches before (Köroğlu, 2012; Weiss, 1967; Yousef, 1998). Minnesota Job Satisfaction because of its frequency used in researches we did not do the factor analysis. Factor analysis was not performed for the scale of Intention to Leave the Job too, because this scale was composed of three items. But, it was performed for Organizational Trust scale because it was composed of twenty-two items and the reason that there are not many researches that did use this scale. To measure if the data suit for factor analysis it has been done Kaiser-Meyer-Olkin (KMO) test. The value of Barlett's Test is 6194.803,  $p(0.000) < 0.05$  and the sample value of Kaiser-Mayer-Olkin test was specified 0.948 which means that these values are accepted, the data suit for the factor analysis (Kalayıcı, 2010, p. 321). In continuance, after we have done the factor analysis, it is found that three factors together account for 73.790 % of the total variance. Organizational Trust survey contains three factors: trust to managers consists of 10 items, trust to colleagues consists of 5 items, trust to organizations consists of 7 items.

**Reliability of Research Scale:** After specifying factor analysis, it is performed the value of Cronbach Alpha to measure the reliability of the research scale. The value of Cronbach Alpha for job satisfaction survey is found 0.954, for Intention to leave the job survey was 0.871, and for Organizational Trust survey 0.963. According to these values, it was concluded that the scales of the research were reliable in terms of social sciences ( $\alpha > 0.60$ ) (Akgül & Çevik, 2005, p. 436).



## 4. Results and Discussion

### 4.1. Descriptive Statistics for Variables of Research

When analysing the descriptive statistical analyses of the scales in the study, it is found that the average of job satisfaction for employees in four-star hotels in Kosovo is 4.22 out of 5, while for those in Turkey is 3.33 whereas the total average is 3.75. Moreover, the average of organizational trust for those in Kosovo is 4.31 out of 5, while for those in Turkey is 3.44, and in total average in both countries is 3.85. In the other side, the average of intention to leave the job for employees in Kosovo is 2.11, in Turkey 2.54, and total average is 2.33. These findings are shown in Table 2.

**Table 2. Descriptive Statistics by Country**

Scales	Country	N	Average	Std. Dev.
Job Satisfaction	Turkey	152	3.33	0.88
	Kosovo	139	4.22	0.58
	Total	291	3.75	0.97
Intention to leave the Job	Turkey	152	2.54	1.2
	Kosovo	139	2.11	1.02
	Total	291	2.33	1.13
Organizational Trust	Turkey	152	3.44	0.92
	Kosovo	139	4.31	0.59
	Total	291	3.85	0.89

### 4.2. Findings Related to Correlation Analysis

Pearson Correlation Analysis was performed to examine the relationship between job satisfaction, organizational trust and the intention to leave the job variables. All the correlations are significant at the 0.01 level. The findings in the table below show that there exists a relationship between the three variables (Saunders, Lewis & Thornhill, 2009, p. 459). According to the findings, there exists a strong positive linear relationship between job satisfaction and organizational trust variables, but there exists a moderate negative relationship between job satisfaction and intention to leave the job, as well as exists between organizational trust and intention to leave the job. Thus H1 has been accepted.

**Table 3. Relationship between Research Variables**

	Job Satisfaction	Intention to Leave the Job	Organizational Trust
Job Satisfaction	1		
Intention to Leave the Job	-.480**	1	
Organizational Trust	.854**	-.512**	1
	.000	.000	.000

\*\*p<0.01 ; N=291

### **4.3. Differences between Employees who Work in Four – Star Hotels in Kosovo and those in Turkey**

The Independent Sampling T-Test was used to compare the averages of two different groups and test whether there is a significant difference between them (Saunders, Lewis & Thornhill, 2009, p. 456). Hypothesis 2 has been examined to see whether there is a meaningful difference between job satisfaction levels of employees in Kosovo and those in Turkey. Levene's Test for Equity of Variances is ".000". (See Appendix A) Because of "Sig." is  $p < 0.05$ , variances of the two groups are not homogeneous. By taking note from the below row where the value of Sig. (2-tailed) is .000, our H2 hypothesis is accepted. With 95% confidence, it can be said that there is a meaningful difference between employees in Kosovo and those in Turkey about the level of job satisfaction.

Hypothesis 3 has been examined to see whether there exists a meaningful difference in intention to leave the job between employees in Kosovo and those in Turkey. Levene's Test for Equity of Variances is ".003" (See Appendix A), "Sig." is  $p < 0.05$  this means that variances of the two groups are not homogeneous. Sig. (2-tailed) from the second row is .001, our H3 hypothesis is accepted. With 95% confidence, it can be said that there is a meaningful difference between employees in Kosovo and those in Turkey about the level of intention to leave the job.

Furthermore, Hypothesis 4 has been examined to see if there exists a meaningful difference between organizational trust levels for employees in Kosovo and those in Turkey. Levene's Test for Equity of Variances is ".000". Because of "Sig." is  $p < 0.05$  variances of the two groups are different (See Appendix A). Sig. (2-tailed) from the row below is  $.000 < 0.05$ , our H4 hypothesis is accepted. With 95% confidence, it can be said that there is a meaningful difference between employees in Kosovo and those in Turkey about the level of organizational trust.

## **5. Conclusions and Suggestions**

Job satisfaction is one of the most crucial factors in the organization that has an impact on the employees' intention to leave the job. Results of our study show that when employees are more satisfied, their intention to leave is lower than the opposite. Both of these cases are shown in our study where employees of four-star hotels in Kosovo have a higher level of job satisfaction than those in Turkey, and those in Turkey have a higher level of Intention to leave the job than those in Kosovo. Moreover, organizational trust is another crucial factor side by side with job satisfaction that has an impact on the sustainability of the organization. Our study shows that these two factors are strongly positive in a linear relationship between each other, but also organizational trust is negatively related with intention to leave

the job. It resulted the same with job satisfaction in both countries, where employees in Kosovo have a higher level of organizational trust than those in Turkey.

These results may be for many reasons. First of all the unemployment rate in Kosovo is higher than in Turkey. So, employees in Kosovo might value their jobs more than others, they do not intend to leave the job because of deficit job offers in the market.

Kosovo is smaller country than Turkey, both in terms of population and economic situation. Some of four-star hotels are smaller than those in Turkey so there may be family members working which might result in a higher level of organizational trust, job satisfaction and less intention to leave the job. However, having results like these, there might be better conditions of work in Kosovo than in Turkey, a better approach of management, trusty job environment and more loyal employees in Kosovo than in Turkey.

This study is focused just on one sector. Further studies might consider also other sectors. Actually, they may compare these sectors in two countries or more than two. Together with any of these variables, further studies may take in their scope variables like organizational justice, organizational citizenship, burnout, and mobbing.

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## Appendixes

### Appendix A. Differences between Employees who Work in Four-Star Hotels in Kosovo and those in Turkey about the three Variables

		Levene's Test for Equity of Variances		t-test for Equity of Means						
		F	Sig.	T	Df	Sig. (2- tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference	
Job Satisfaction	Equal Variances Assumed	19.047	.000	- 10.101	289	.000	-.89222	.08833	-1.06608	-.71837
	Equal Variances Not Assumed			- 10.278	264.572	.000	-.89222	.08681	-1.06315	-.7213
Intention to Leave the Job	Equal Variances Assumed	8.998	0.003	3.292	289	.001	.43177	.13115	.17364	.68989
	Equal Variances Not Assumed			3.317	287.171	.001	.43177	.13016	.17557	.68796
Organizational Trust	Equal Variances Assumed	26.96	.000	-9.471	289	.000	-.86622	.09146	1.04623	-.68621
	Equal Variances Not Assumed			-9.652	258.994	.000	-.86622	.08974	-1.04294	-.68950

## Do Demographic Aspects Have an Effect on Perceived Corporate Brand Attributes of South African Vehicle Owners

Louise van Scheers<sup>1</sup>, William Mmatli<sup>2</sup>

**Abstract:** The main objective of this paper was to explore whether the demographic aspects have an effect on perceived corporate attributes. 205 respondents participated in this study (146 males and 59 females) and were surveyed through a random sampling method. A questionnaire was given to them to complete. The main finding in this paper is that there is a strong and significant relationship between corporate brand's attributes and the perceived behaviour towards the particular brand. It is found that there is no difference between male and female respondents in the way they perceive the attribute of a corporate brand, while and the demographics like age group have a significant impact on the perceived corporate and product attributes.

**Keywords:** Corporate branding; customer satisfaction; customer loyalty; consumer behavior; brand reputation perception brand image

**JEL Classification:** O16

### 1. Introduction

Brands are valued in different measures by consumers and organizations. For consumers they serve as an additional guarantee of product/service quality. For organizations they accord distinctiveness to their products and services and sometimes to the corporation as a whole (Balmer & Greyser, 2003). The corporate brand is seen as representing an expert promise between an organisation and its key stakeholder groups, including its customers (Balmer & Greyser, 2003). Corporate brand does not only create awareness and brand recognition through a name or logo, it has to keep a strong promise within the key stakeholder groups and also be maintained to keep its competitive edge and to ensure that it remains the sign or source of assurance to the consumers (Balmer & Greyser, 2003).

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Consumer perceptions regarding corporate brands are part of what Keller (2003) regards as brand knowledge. According to Winchester, Romaniuk and Bogomolova (2008, p. 553), these perceptions come into existence through brand interactions with the consumers. Such interactions include buying or using the brand, and being exposed to advertising, publicity or word of mouth. This information can create either beliefs about the corporate brand, which may be positive, negative, or neutral (Krishnan, 1996, p. 389). "Positive beliefs represent qualities generally considered to be desirable for a brand in that category (e.g. good value), while negative beliefs are those considered to be undesirable (e.g., poor service)" Krishnan (1996, p. 389).

The main objective of this paper is to explore whether the demographic aspects have an effect on perceived corporate attributes.

## **2. Research Methodology**

Secondary and primary sources were used to gather information analyse the managerial skills of small business owners. The main sources of secondary sources were journals, articles, press reports, books and research studies.

The target population for this study consists of vehicle owners who are the residents of South Africa. The units of analysis are the South African vehicle owners whose behaviour is influenced by the corporate brand attributes. This study is based on a convenience sample; since respondents were chosen because of their convenient accessibility and they were also not difficult choose. Respondents were identified and selected to complete the survey during their convenient time within a given time frame.

This study consisted of a sample size of 205 respondents. The minimum sample size of 30 respondents is recommended for the correlational studies (Ouyang, 2006). Sample size of 205 is therefore deemed to be a significantly large sample size. The screening criterion for respondents in this study was South African vehicle owners between the ages 18 to 60+ who bought a new motor vehicle in the last three (3) years.

## **3. Literature Review**

Corporate branding help the organisations to be differentiate themselves from their competitors and it is also a unique portrayal of the organisation's differentiated products and services. Due to the continuous growth and improvement in technology, organisations these days find themselves in very difficult situations where they have to strive for differentiation, therefore corporate branding strategies

are being recognized as an ideal means of succeeding in precarious markets where uniformity of products is becoming the norm (Anisimova, 2007, p. 404).

### **3.1. The Importance of Corporate Brand**

The primary purpose of brands and brand names is to provide the consumer with a symbolic meaning, which assists the consumer in the recognition and decision-making process. If consumers have positive perceived values associated with the brand, these consumers cannot see the brand risk of poor performance or financial risk (Balmer & Gray, 2003, p. 973). Balmer (2001, pp. 302-303) developed the mnemonic CCITE (C2ITE) in attempting to explore and reflect on the attributes of a corporate brand. According to this the corporate brand has the following characteristics:

- Culture – this means that corporate brands must have strong cultural roots;
- Commitment – senior management is expected to devote sufficient resources such as on-going financial and communication support;
- Intricate – a corporate brand is multi-disciplinary in that it impacts the organisation's stakeholder groups and methods;
- Tangible – it includes product quality, geographical coverage, performance related issues, profit margins or even pay scales;
- Ethereal – it includes elements such as “life style” and way of delivery. There are often emotional responses to elements associated with the brand.

### **3.2. Corporate Brand and Customer Satisfaction**

Corporate brands can be used as signals of quality levels to consumers due to the symbolic associations held with the brand and when these consumers assign a certain value to a specific brand they expect that brand to meet their expectations. According to Haig and Knowless (2005, p. 28) if the brand appeals positively to the consumers, it will reduce the consumers' searching costs and it will also save time. Accordingly, if the brand is perceived to be of a high quality, the organisation will have economic benefits for the brand loyal consumers. “A well-positioned brand will attract and retain quality members of staff, often lead to better terms of business and lower discounts within the trade and can reduce equity and borrowing costs” (Haig & Knowless, 2005, p. 28).

If the corporate brand meets the consumer expectations or even exceeds these expectations, this will lead to a high level of consumer satisfaction and will potentially develop brand trust between the consumers and the organisations, which will eventually lead to brand and consumer loyalty. To develop a corporate brand the organisation must first determine the brand position and all the values that the organisation should abide by.

According to Fevons, Gabbott and De Chernatony (2005, p. 301) some organisations hold the perception that an organisation that truly sets about developing its brand position from the inside is moving towards becoming a true customer-focused business. The organisation must ensure that everyone within the organisation speaks the same language before they decide to conduct or implement their external communication whereby consistency in brand communication is important in building and maintaining a strong brand image (Fevons, Gabbott & De Chernatony, 2005, p. 301).

According to Bloemer and Kasper (1995, p. 321) the relationship between customer satisfaction and customer loyalty is complex and may involve multiple moderating factors. Value attainment and positive mood were the two factors consequently investigated by De Reuyter and Bloemer (1999, p. 321) in relation to customer satisfaction. Thus, research continuously confirms a significant relationship between satisfaction and repeat buying which will eventually lead to brand loyalty and positive word of mouth (Dubrovski, 2001, p. 920).

### **3.3. Corporate Values, Consumer Behaviour and Loyalty**

“All established corporate brands have a track record which may vary in duration and continuity and these corporate brands may also vary in number and in the degree to which they are rooted internally and to what extent they are perceived by the outside world” (Urde, 2009, p. 616). According to Urde (2009, p. 616) the values entrenched in the organisation need to be aligned with the values perceived and enjoyed by consumers over time.

According to Coyles and Gokey (2005, p. 102) the perceived corporate brand value will determine the behaviour of the consumer towards that particular brand. Should the perception be positive, the organisation would be more likely to succeed in terms of their customer retention processes. “Customer retention has become so important for organisations to an extent that some authors even label it as “the Holy Grail’ in industries from airlines to wireless” (Coyles & Gokey, 2005, p. 102). However, what constitutes the best measure of customer retention is still open for deliberation.

Anisimova (2007, p. 399) summarised the attitudinal and behavioural values of the organisation (automotive manufacturer) as a corporate brand that could have a direct influence on consumer behaviour as follows:

- Customer focus;
- Constant innovation;
- Respect for the individual;
- Practical technology;
- Ecological responsible motoring;

- Community orientation.

“The degree of consumer loyalty has a tendency to be high when consumer perceptions of an organisation are strongly favourable” (Ngueyen and Leblanc, 2001).

### **3.4. Corporate Activities and Consumer Behaviour**

Souiden, Kassim and Hong (2006, p. 826) believe that whilst “corporate charisma” can affect some consumers’ behaviour towards an organisation or a brand, other consumers may stay completely indifferent. This is established by the diversity in outcomes of the effects of corporate image and reputation on consumers. More specifically, Sen and Bhattacharaya (2001) stipulate that some initiatives aimed at enhancing corporate image and reputation like corporate social responsibility (CSR) can, under certain conditions, decrease consumers’ intentions to buy a company’s products. Interestingly, research in the recent years by Sen, Battacharaya and Korchun (2006) found that the consumers who were aware of corporate social initiatives had significantly more favourable views of the given organisation in terms of their associations, attitudes and behavioural intentions. With the above being mentioned, it seems like there is a relationship between the organisations’ corporate activities and consumer behaviour.

An organisation’s corporate activities that might have an influence on attitudinal and perceivable consumer behaviour are as follow:

- The organisation’s sponsorship of worthy social activities in South Africa;
- Sponsorship of national sporting events;
- Strong support of research into technology;
- Providing consumer-specific motoring solutions.

## **3. Analysis of Research Results**

### **3.1. Demographic Profile of the Respondents**

Table 2 gives the demographic distributions of the respondents who participated in this study.

**Table 2. Demographic distribution on respondents**

Demographic distribution		Frequencies observed	Frequencies merged*	Percentages observed	Percentages merged*
Gender	Male	146	146	71.2	71.2
	Female	59	59	28.8	28.8
Age	18-29	45	45	22.0	22.0
	30-39	55	55	26.8	26.8
	40-49	40	40	19.5	19.5
	50-59	42	65	20.5	31.7
	60+	23		11.2	
Ethnicity	Black	67	67	32.7	32.7
	White	99	99	48.3	48.3
	Coloured	25	39	12.2	19.0
	Indian	13		6.3	
	Asian	1		0.5	

With reference to table 2, the sample of 205 consisted of 71% males and 29% females; 22% of the respondents were between the age group 18-29, 26.8% were between 30-39 years and 19.5% were aged between 40-49 while the other 31.7% were 50 years or older. The majority of the respondents 48.3% were white, 32.7% were black while the remaining 19% consisted of coloureds, Indians and there was only one Asians in the sample.

### Normality test

In order to test the hypotheses, it is necessary to establish whether the data follow the normal distribution. Table 3 provides the results of the tests of normality.

**Table 3. Normal distribution test**

Normality Tests	Mean	Std. Deviation	Kolmogorov-Smirnov			Shapiro-Wilk		
			Statistic	df	Sig.	Statistic	df	Sig.
Corporate – Activities	3.499	0.994	0.119	205	0.000	.955	205	0.000
Corporate – Values	4.185	0.728	0.147	205	0.000	.897	205	0.000
Corporate - Customer Orientation	4.179	0.860	0.188	205	0.000	.845	205	0.000
Corporate - Employee Orientation	3.932	0.950	0.172	205	0.000	.888	205	0.000
Corporate – Standing	4.076	0.912	0.191	205	0.000	.858	205	0.000
Corporate Responsibility	3.766	0.963	0.118	205	0.000	.928	205	0.000
Product – Smart	4.182	0.887	0.235	205	0.000	.831	205	0.000
Product – Technology	4.249	1.006	0.309	205	0.000	.743	205	0.000
Product - Functional Benefits	4.406	0.709	0.232	205	0.000	.801	205	0.000
Product - Emotional Benefits	4.486	0.743	0.282	205	0.000	.708	205	0.000
Product - Symbolic Benefits	3.900	1.057	0.202	205	0.000	.883	205	0.000

The significance (Sig.) = 0.000 which shows that the scores were not normally distributed (see table 3). Therefore the non-parametric tests should also be conducted

which make no assumption about how the nature of the distribution of the data. When the subgroups (sample in subgroup > 30) in the samples are relatively large, violations from the normality assumption should not have a large effect on the results obtained from the non-parametric tests. Therefore, in the results presented for each of the first three hypotheses, both the parametric and the non-parametric results are provided.

### HYPOTHESIS 1: Gender differences

In order to interpret the correct t-test, it is required that the equal variances assumption is also conducted for both the parametric and the non-parametric tests. Table 4 displays the results of the F-test and the independent samples Mann-Whitney U-test which compares the distributions of the scores obtained from 2 independent gender groups. The results suggest that it would be reasonable to assume that the variances across the two samples are not significantly different, except for the last variable, Product – Symbolic Benefits. When the results of the Mann-Whitney U-test are interpreted, it seems as if one can assume that the distributions of the scores across the two gender groups are similar.

**Table 4. F-test and the independent samples Mann-Whitney U-test over gender**

	Standard deviation		F-test			Independent Samples Mann-Whitney U-test	
	Male	Female	F-test	Sig.	Decision	Sig.	Decision
Corporate – Activities	1.041	0.870	2.737	0.100	Retain H0	0.329	Retain H0
Corporate – Values	0.725	0.741	0.041	0.841	Retain H0	0.797	Retain H0
Corporate - Customer Orientation	0.858	0.874	0.086	0.769	Retain H0	0.913	Retain H0
Coporate - Employee Orientation	0.939	0.985	0.240	0.624	Retain H0	0.914	Retain H0
Corporate – Standing	0.901	0.934	0.082	0.775	Retain H0	0.183	Retain H0
Corporate Responsibility	0.993	0.892	0.399	0.528	Retain H0	0.436	Retain H0
Product – Smart	0.897	0.869	0.384	0.536	Retain H0	0.879	Retain H0
Product – Technology	0.974	1.087	0.466	0.496	Retain H0	0.264	Retain H0
Product - Functional Benefits	0.692	0.754	0.002	0.965	Retain H0	0.434	Retain H0
Product - Emotional Benefits	0.767	0.675	2.452	0.119	Retain H0	0.103	Retain H0
Product - Symbolic Benefits	1.088	0.937	4.177	0.042	Reject H0	0.052	Retain H0

### T-test and the independent samples Medians test

Table 5 shows the results of the T-test over the two gender groups, as well as the estimated means to determine whether there is a statistically significant difference between the means of two independent gender groups. Similarly, because the data are not normally distributed, in support of the t-test, the results of the independent

samples medians test are also provided. The results suggest almost no significant differences in the scores for the two groups, except that males seem to perceive the symbolic benefits of the product significantly higher than females do. This result is only evident in the parametric t-test with  $p=0.042$ .

**Table 5. T-test and the independent samples means over gender**

	Means		Test-test				Independent Samples Medians test	
	Male	Female	Equal variances	T-test	Sig.	Decision	Sig.	Decision
Corporate Activities	3.526	3.432	assumed	0.609	0.543	Retain H0	0.116	Retain H0
Corporate Values	4.190	4.173	assumed	0.156	0.876	Retain H0	0.931	Retain H0
Corporate Customer Orientation	4.178	4.181	assumed	-0.020	0.984	Retain H0	0.857	Retain H0
Corporate Employee Orientation	3.932	3.932	assumed	-0.005	0.996	Retain H0	0.557	Retain H0
Corporate Standing	4.123	3.958	assumed	1.179	0.240	Retain H0	0.145	Retain H0
Corporate Responsibility	3.784	3.720	assumed	0.429	0.668	Retain H0	0.592	Retain H0
Product Smart	4.166	4.220	assumed	-0.395	0.693	Retain H0	0.880	Retain H0
Product Technology	4.226	4.305	assumed	-0.509	0.612	Retain H0	-	Unable to compute
Product Functional Benefits	4.387	4.453	assumed	-0.606	0.545	Retain H0	0.919	Retain H0
Product Emotional Benefits	4.441	4.599	assumed	-1.383	0.168	Retain H0	-	Unable to compute
Product Symbolic Benefits	3.798	4.153	not assumed	-2.338	0.021	Reject H0	0.015	Reject H0

## HYPOTHESIS 2. Ethnic differences

In order to determine whether there is a statistically significant difference or homogeneity between the variances across the independent ethnic groups, Levene's test for homogeneity of variances is used, with the results displayed in Table 6. The results suggest that significant differences in variability exist for the measure of perceived corporate responsibility, and the perceived emotional benefits as well as the perceived symbolic benefits of the product.

**Table 6. Levene’s test for homogeneity of variances across ethnic groups**

	Std. Deviation			Test of Homogeneity of Variances (df1=2, df2=202)				Decision
	Black	White	Other	Levene Statistic	df1	df2	Sig.	
Corporate - Activities	1.116	0.911	0.988	1.911	2	202	0.151	Retain H0
Corporate - Values	0.724	0.772	0.627	1.216	2	202	0.298	Retain H0
Corporate - Customer Orientation	0.694	0.967	0.769	2.910	2	202	0.057	Retain H0
Corporate - Employee Orientation	1.018	0.916	0.897	1.796	2	202	0.169	Retain H0
Corporate - Standing	0.761	0.986	0.928	2.991	2	202	0.052	Retain H0
Corporate Responsibility	1.171	0.834	0.888	5.434	2	202	0.005	Reject H0
Product - Smart	0.867	0.882	0.915	.494	2	202	0.611	Retain H0
Product - Technology	1.126	0.955	0.910	1.172	2	202	0.312	Retain H0
Product - Functional Benefits	0.714	0.728	0.654	1.775	2	202	0.172	Retain H0
Product - Emotional Benefits	0.592	0.825	0.749	5.770	2	202	0.004	Reject H0
Product - Symbolic Benefits	0.879	1.123	1.114	3.901	2	202	0.022	Reject H0

Based on these results in table 6, the tests for the equality of means also include the Welch and Brown-Forsythe results, which are more robust against a deviation from the assumption of equal variances. The results for the test of equal means are provided in Table 7. Since the scores are not normally distributed, the results of the Kruskal-Wallis test are also provided as an additional check.

**Table 7. ANOVA test for homogeneity of variances across ethnic groups**

	Means			ANOVA Significance			Decision	Kruskal-Wallis test	
	Black	White	Other	Anova	Welch	Brown-Forsythe		Significance	Decision
Corporate Activities	3.519	3.535	3.372	0.673	0.665	0.683	Retain H0	0.675	Retain H0
Corporate Values	4.227	4.174	4.144	0.832	0.814	0.818	Retain H0	0.538	Retain H0
Corporate Customer Orientation	4.378	4.024	4.231	0.030	0.027	0.020	Reject H0	0.089	Retain H0
Corporate Employee Orientation	4.090	3.823	3.936	0.208	0.233	0.207	Retain H0	0.009	Reject H0
Corporate Standing	4.261	3.975	4.013	0.124	0.091	0.117	Retain H0	0.675	Retain H0
Corporate Responsibility	3.694	3.823	3.744	0.691	0.710	0.698	Retain H0	0.660	Retain H0
Product – Smart	4.351	4.073	4.167	0.141	0.139	0.146	Retain H0	0.000	Reject H0
Product Technology	4.284	4.162	4.410	0.403	0.353	0.398	Retain H0	-	Unable to compute
Product Functional Benefits	4.384	4.371	4.532	0.467	0.428	0.451	Retain H0	0.195	Retain H0
Product Emotional Benefits	4.602	4.401	4.504	0.229	0.194	0.212	Retain H0	-	Unable to compute
Product Symbolic Benefits	4.107	3.731	3.974	0.070	0.058	0.069	Retain H0	0.030	Reject H0

The results in Table 7, suggest that there a significant differences between ethnic groups on the corporate employee orientation score, as well as the perceived “smartness” of the product, and the perceived symbolic benefits of the product. In order to examine where the significant differences are, pairwise comparisons are



conducted. It is possible that the pairwise comparisons still do not show significant differences, even if the omnibus tests in Table 7 suggest significant differences (Field, 2009). The results in Table 8 suggest that there the only significant differences based on a pair-wise comparison are between the perceived symbolic benefits of the products. It seems as if black respondents reported significantly higher symbolic benefits of the product compared to white respondents.

**Table 8. Pair-wise comparison of significant differences across ethnic groups**

		N	Means		Assuming unequal variances			
			Subset 1	Subset 2	Tamhane	Dunnet T3	Games-Howell	Dunnet C
Corporate Employee Orientation	White	99	3.823					
	Other	39	3.936		Not significant	Not significant	Not significant	Not significant
	Black	67	4.090					
Product Smart	White	99	4.073					
	Other	39	4.167		Not significant	Not significant	Not significant	Not significant
	Black	67	4.351					
Product Symbolic Benefits	White	99	3.731					
	Other	39	3.974	3.974	Significant	Significant	Significant	Significant
	Black	67		4.107				

### Hypothesis 3. Age Differences

In order to test whether there are significant differences between age groups, it was necessary to test whether the variances were equal across age groups. The results in Table 9 suggest that there are significant differences in the variability across all scores for the different age groups, except on the score for symbolic benefits of the product. Therefore, Table 10, the results of the ANOVA, which tests for equality of means across age groups, also provides the results of the more robust Welch and Brown-Forsythe tests, as well as the Kruskal-Wallis test, which makes no distributional assumptions about the data.

**Table 9. Results of Levene’s test for homogeneity of variances across age groups**

	Std. Deviation				Test of Homogeneity of Variances				
	19-29	30-39	40-49	50+	Levene Statistic	df1	df2	Sig.	Decision
Corporate Activities	1.039	0.792	1.091	1.043	3.949	4	200	0.004	Reject H0
Corporate - Values	0.679	0.613	0.582	0.852	5.909	4	200	0.000	Reject H0
Corporate Customer Orientation	0.504	0.721	0.734	1.105	14.437	4	200	0.000	Reject H0
Corporate Employee Orientation	0.706	0.754	1.004	1.163	9.688	4	200	0.000	Reject H0
Corporate Standing	0.951	0.518	0.909	1.025	13.985	4	200	0.000	Reject H0
Corporate Responsibility	1.020	0.758	1.050	1.002	3.363	4	200	0.011	Reject H0
Product - Smart	0.843	0.696	0.869	1.011	6.933	4	200	0.000	Reject H0
Product Technology	0.824	0.640	1.050	1.230	7.691	4	200	0.000	Reject H0
Product - Functional Benefits	0.431	0.629	0.652	0.911	12.312	4	200	0.000	Reject H0
Product - Emotional Benefits	0.798	0.625	0.539	0.877	5.973	4	200	0.000	Reject H0
Product - Symbolic Benefits	1.201	0.770	1.038	1.005	2.144	4	200	0.077	Retain H0

When the results of Table 10 is considered, it seems that there are significant differences across all age groups for most of the scores, except for perceived corporate activities, employee orientation and perceived smartness of the product.

**Table 10. ANOVA test for homogeneity of variances across age groups**

	Means				ANOVA Significance			Kruskal-Wallis test		
	18-29	30-39	40-49	50+	Anov a	Welc h	Brown-Forsythe	Decision	Significance	Decision
Corporate Activities	3.261	3.586	3.450	3.619	0.396	0.435	0.407	Retain H0	0.059	Retain H0
Corporate Values	3.876	4.440	4.185	4.185	0.003	0.002	0.003	Reject H0	0.000	Reject H0
Corporate Customer Orientation	4.370	4.448	4.117	3.856	0.001	0.006	0.002	Reject H0	0.005	Reject H0
Corporate Employee Orientation	4.044	4.136	3.825	3.746	0.148	0.193	0.172	Retain H0	0.448	Retain H0
Corporate Standing	3.733	4.500	4.013	3.992	0.000	0.000	0.000	Reject H0	0.003	Reject H0
Corporate Responsibility	3.733	3.564	3.738	3.977	0.098	0.102	0.104	Retain H0	0.000	Reject H0
Product Smart	4.044	4.514	4.038	4.085	0.029	0.010	0.035	Reject H0	0.098	Retain H0
Product Technology	4.044	4.673	4.225	4.046	0.003	0.000	0.004	Retain H0	-	Unable to compute
Product Functional Benefits	4.344	4.609	4.400	4.281	0.072	0.099	0.066	Retain H0	0.000	Reject H0
Product Emotional Benefits	4.348	4.679	4.425	4.456	0.100	0.076	0.092	Retain H0	-	Unable to compute
Product Symbolic Benefits	3.541	4.442	3.604	3.872	0.000	0.000	0.000	Reject H0	0.000	Reject H0

The pair-wise comparisons in Table 11 suggest that generally speaking, older persons compared to younger persons perceive corporate values more positively. Further, younger persons seem to be significantly more positive about perceived

corporate customer orientation. Older persons are significantly more positive about corporate standing and corporate responsibility compared to younger persons. Among the product variables, the age group 30-39 seems to have significantly higher scores than the other age groups in terms of perceived functional benefits and perceived symbolic benefits.

**Table 11. Pair-wise comparison of significant differences across age groups**

	Age	N	Means			Assuming unequal variances			
			Subset 1	Subset 2	Subset 3	Tamhane	Dunnett T3	Games-Howell	Dunnett C
Corporate Values	18-29	45	3.876						
	50-59	42	4.114	4.114					
	40-49	40	4.185	4.185		Significant	Significant	Significant	Significant
	60+	23		4.313					
	30-39	55		4.440					
Corporate Customer Orientation	50-59	42	3.802						
	60+	23	3.957						
	40-49	40	4.117	4.117		Significant	Significant	Significant	Significant
	18-29	45		4.370					
	30-39	55		4.448					
Corporate Standing	18-29	45	3.733						
	50-59	42	3.845	3.845					
	40-49	40	4.013	4.013		Significant	Significant	Significant	Significant
	60+	23		4.261					
	30-39	55		4.500					
Corporate Responsibility	30-39	55	3.564						
	18-29	45	3.733	3.733					
	40-49	40	3.738	3.738		Not significant	Not significant	Not significant	Not significant
	60+	23	3.739	3.739					
	50-59	42		4.107					
Product Functional Benefits	50-59	42	4.196						
	18-29	45	4.344	4.344					
	40-49	40	4.400	4.400		Not significant	Not significant	Not significant	Not significant
	60+	23	4.435	4.435					
	30-39	55		4.609					
Product Symbolic Benefits	18-29	45	3.541						
	40-49	40	3.604						
	60+	23	3.775			Significant	Significant	Significant	Significant
	50-59	42	3.925						
	30-39	55		4.442					

## 5. Concluding Remarks

The objective of the study is to explore whether demographic aspects have an effect on perceived corporate brand attributes. There is no significant difference between the different ethnic groups in terms of the role played by the corporate attributes towards their decision to buy a certain vehicle. In terms of the corporate attributes, there is only one attribute corporate responsibility- where there is a significant difference between the ethnic groups. Smartness similarly influence the ethnic groups in this study as well as technology levels and functional benefits of the vehicles to purchase it. They just differ significantly in term of how they are influenced by the emotional and symbolic benefits of a vehicle.

The ANOVA test also illustrate the differences between the mean scores across the ethnic groups. According to the latter test there is no significant difference between the means across the ethnic group in all the corporate attributes except for the organization's customer orientation and on the product attributes, there is no significant difference on mean scores across the ethnic groups except for the symbolic benefits attribute. Overall, the main significant difference across the ethnic groups is the symbolic benefits within the product attributes.

There is no significant difference in the scores achieved between the age groups regarding the level of influence by the corporate attributes and product attributes towards their decision to buy a vehicle. In terms of the product attributes, there is only one attribute, symbolic benefits. The score is significantly different between the age groups. A certain age groups are interested in one benefit more than the other age group and vice versa.

In terms of the corporate attributes, there is no significant difference across the age groups on the corporate activities, employee orientation and corporate responsibility and on the product attributes side there is no significant difference across the age groups on the functional benefits and emotional benefits. There is a significant difference across the age groups on both the corporate attributes (customer orientation, employee orientation and standing) and product attributes (smartness, technology level, symbolic benefits). The pair wise test comparison of significance differences across age groups confirms that there is a significance difference across the age groups in terms of values, customer orientation, standing and symbolic benefits. The latter test attests that the differences in the organization's responsibility and functional benefits of the vehicle are not significant.

Although there are some similarities and significant differences across gender, ethnic groups and age groups, the Pearson's correlation values for the attributes are all closer or equal to 1, which suggest that there is a positive correlation between the corporate attributes of the organization and the product attributes of the vehicle.

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