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WHAT CAN THE DEPARTING CHIEF EXECUTIVE COMPENSATION STRUCTURE TELL US?

Yixi Ning*

Abstract

This paper examines the amount and structure of the pay package for the departing CEO in a company around CEO succession. I find that the characteristics of the departing CEO compensation can provide valuable information regarding the incoming changes in corporate governance around the succession. Specifically, when a departing CEO is entrenched with a "better" compensation package characterized with a greater amount of pay in cash and in total at a lower risk, the CEO, after his retirement, is more likely to remain on the board as a director or become the chairman of the board, persuade the board to pick an insider rather than an outsider to be his successor, and to promote the company's current president and/or chief operating officer to be the incoming CEO. These findings are consistent with the management entrenchment theory that when a CEO is entrenched with a greater discretionary power and better personal benefits, he is more likely to use his managerial power to continue his influence on the company even after he retires from the CEO position.

Keywords: CEO Succession, Departing CEO Compensation, Routine Succession

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Introduction

The incentive contract for top executives has been a topic of great interest for academics, practitioners, and policy makers for a long time, especially since the 2008 global financial crisis. For example, in response to the 2008 financial crisis, U.S. passed the Wall Street Reform and Consumer Protection Act on July 27, 2010 in order to to strengthen shareholder rights by providing shareholders the right of a non-binding vote on executive compensation. The effects of Say on Pay (SoP) law on CEO compensation draw the attention from the academics (e.g., Correa and Lei, 2013). There is also a debate recently over how to implement the Dodd-Frank Act that require companies for the calculation and disclosure the ratio of CEO compensation to the median employee pay in a company in the U.S. (Bikard, 2011).

The majority of academic literature the CEO compensation area focus on the relation of firm performance and CEO compensation, the amount and structure of new CEO pay packages, as well as how CEO successions provide a good opportunity for a company to optimize its CEO incentive contracts at the interest of shareholders (e.g. Cao and Wang, 2013; Mobbs and Raheja, 2012; Elsaid et al. 2009). This study examines the amount and structure of CEO compensation from a unique perspective – the amount and structure of compensation for the departing CEOs.

I explore the information content of the departing CEO pay packages for the incoming changes in corporate governance around CEO succession announcements, and find that the characteristics of departing CEO compensation indeed provide valuable information regarding the incoming changes. Specifically, I find that if a departing CEO is "entrenched" with a better compensation package, such as a greater amount of cash and total compensation at a lower level of risk, the CEO is more likely to retain as a board member or the chairman of the board. The departing CEO is also more likely to support the promotion of the company's current chief operating officer or president to be the next CEO, and does not want to accept an outsider to be his successor. An outsider is generally expected to bring substantial changes to the company, therefore, threaten the established power of the departing CEO in the company. The findings in this study are consistent with the management entrenchment hypothesis that when a CEO is entrenched with a greater power and better personal benefits, he intends to continue his influence in the company after retirement from the top position.

In addition, I compare the pay for the departing CEOs and that for the incoming CEOs, and find that the level and the risk of the departing CEO compensation are significantly lower than that for the incoming CEOs. This indicates that boards intend to offer a larger a pay package to attract high talent new CEOs, at the same time use the chance to optimize its CEO incentive contracts by increasing restricted stocks, stock options, and other long-term incentive compensation. The equity-based compensation based on a company's stock performance has been widely considered to be a more effective incentive to align managerial interests with shareholder wealth. The evidence also shows that the redesign of the new CEO compensation package is beneficial to the company and its shareholders given that the companies in the sample are growing measured in total assets, market capitalization, and sales. The sample of firms also has an improved financial position (i.e., higher earnings, ROE and stock returns) in average in the year following the CEO succession announcements. The departing CEOs are also found to have a greater amount of compensation in large-size firms, in growth firms with more investment opportunities, and in the companies that operate in unregulated industries, though their pay packages incur a higher risk.

The paper is organized as follows. In Section II, I review the literature and develop the hypotheses. Data and sample selections are described in Section III. I perform the empirical analysis from Section IV to VI. The conclusions and the discussions are presented in Section VII.

Literature Review and Hypothesis Development

Bebchuk et al. (2005) construct a management entrenchment index using six corporate governance provisions, and find a negative relation between the entrenchment index and firm value. They argue that it is the managerial power rather than the pursuit of optimal contracting can explain the executive compensation practices in the United States (Bebchuk et al., 2002; Bebchuk et al., 2004). Under their management entrenchment hypothesis, executives can influence their compensation using their discretionary power obtained from their positions, shareholdings, as well as their control of the board. The theory views executive compensation as part of the agency problem that the entrenched managers use their influence over compensation design to obtain personal benefits. They further find that the stock option granting practices in many U.S. publicly-trade companies cannot be fully explained by the optimal contracting theory. Rather, such practices indicate that the effects of a managerial power approach towards compensation.

When an entrenched CEO steps down from the top position, he is very likely to use his power to influence the board on the new CEO selection process so he can continue his entrenchment on the company for the purpose of personal reputation and financial benefits. Many factors, such as CEO tenure, CEO stock holdings, CEO duality, and so on, can be used to measure CEO power or entrenchment. The compensation variables, including the amount of compensation in cash and in total and the proportion of equity-based compensation, can also be used to measure the power of a CEO. The reasoning is that if a CEO is entrenched with a greater discretionary power, he is more likely to negotiate a more favorable compensation package characterized a larger amount of compensation at a lower risk. This has been documented in prior studies. For example, Finkelstein and Boyd (1998) and Wang et al. (2009) have documented a significant positive relation between managerial discretion and CEO compensation. Toyne, Millar, and Dixon (2000) find that the entrenched CEOs bias their compensation structure towards a lower level of risk so their pay packages cannot be affected by firm performance significantly. Elsaid and Davidson (2009) argue that CEOs may prefer to be paid in ales risky manner, which means that they would like to be paid well regardless of firm performance.

A departing CEO whose power can be measured by compensation variables in this study can use various ways to continue his influence on the companies after his retirement. For example, the departing CEO can stay on the board as a director or become the chairman of the board, persuade the board to pick his successor from inside rather than outside the company, and promote his long-time designated successor, the president or chief operating officer of the company. In this section, I will develop three hypotheses regarding what the departing CEO compensation can signal to the market regarding the incoming corporate governance changes around the company's CEO succession process.

In a normal or a "routine" succession, a departing CEO steps down from the top spot but still stays on the board as a director, or become the chairman of the board. The position in the board, especially the chairmanship, can make the retiring CEO continue his significant influence on the company's strategic decisions, corporate governance changes, and executive compensation policies. Therefore, if a CEO is "entrenched" with a greater discretionary power, which is positively related to the amount of compensation (Finkelstein and Boyd, 1998; Wang et al., 2009) at a lower risk, he is more likely to negotiate a board seat or the chairmanship after his retirement from the CEO position. Therefore, I develop the first testable hypothesis as follows.

> *H1: When a departing CEO is entrenched with a better pay package characterized with a larger cash and total compensation at a lower risk, he is more likely to remains on the board as a director or become the chairman of the board after his retirement.*

Based on the relay-succession theory, a company can give the heir apparent executive the title of Chief Operating Officer (COO) and/or president, and this usually happens under the leadership of the former CEO. When the former CEO departs for other position, he is very likely to persuade the board to appoint the designated heir into the new CEO position after a period of training. The process is more likely to happen when the departing CEO has a greater discretionary power which is highly related to a better compensation package with a larger cash and total compensation at a lower risk (Finkelstein and Boyd, 1998; Wang et al., 2009). Therefore, the departing CEO tends to favor a relay succession by promoting his designated Chief Operating Officer (COO) and/or the president to be the new CEO. In this way, the entrenched CEO can continue his influence on the company. So the second hypothesis is developed as follows.

H2: When a departing CEO is entrenched with a better pay package characterized with a larger cash and total compensation at a lower risk, he is more likely to favor a relay CEO succession process by promoting the company's president and/or chief operating officer to be the new CEO.

The CEO successor origin has been extensively documented in prior literature. As a signal for significant change to the market, a firm is more likely to hire an outsider rather than an insider to be its new CEO in response to poor performance (Cannella and Lubatkin, 1993; Davidson et al. 2002). Vancil (1987) argues that if a company hires an outsider as its new CEO, it is a signal that major change in the company is necessary and that no insiders can bring fresh perspective that is needed for the company's current situation. However, Shen and Cannella (2002) find that outside CEO successions can create hostile attitudes and resistance from insiders, who were mostly the subordinates of the former CEO. If a departing CEO with a greater bargaining power and a "better" pay package intends to continue his influence on the company after his retirement, he is more likely to persuade the board to not to pick an outsider as the new CEO. The reasoning behind this is that an outsider might have a greater bargaining power than insiders (Elsaid, etc., 2011) and shake the company with substantial changes in the board and management team. This big change might threaten the established authority of the departing CEO in the company. On the other hand, Davidson et al. (2008) find that corporate boards might by-pass relay succession and appoint an outsider with dual position of both Chairman and CEO when there is the need for a strong leadership and when the appointee has greater bargaining power. This will lower the likelihood that the departing CEO retains as a board director or becomes the Chair of the board in a normal succession. So according to these discussions, I develop the following hypothesis.

H3: When a departing CEO is entrenched with a better compensation package characterized with a greater cash and total pay at a lower risk, he is more likely to persuade the board to appoint an insider rather than an outsider as the new CEO of the company.

Sample Selection and Variable Definitions

The *EXECUCOMP* database has the historical compensation data for the top executives of publicly-traded *S&P500*, *S&P Mid Cap*, and *S&P Small Cap* firms. I use this database to determine the year in which a CEO succession occurs from 1993 through 1998. A total of 1017 CEO successions during the sample period were identified at the first stage. Then the additional information about the CEO succession announcements was obtained from companies' proxy statements, news announcements on *Wall Street Journal*, and *Lexus Nexus* database. The companies that did not have available proxy statements or turnover announcements in the press, or had financial data in the *COMPUSTAT* database were dropped in the process. The sample selection process left 511 CEO succession announcements with complete information in the final sample. Table 1 shows the yearly distribution of the sample from 1993 to 1998.

There are seven categories of compensation data identified in the Summary Compensation Tables of annual proxy statements. They are salary, bonus, other annual compensation, restricted stocks awards, options and stocks appreciation rights, long-term incentive plan payouts (LTIP), and all other compensation. The sum of the seven components is reported as total compensation. Among these variables, other annual compensation is the dollar value of other annual compensation not properly categorized as salary or bonus, such as perquisites and other personal benefits. Restricted stock awards are shares granted to a manager subject to certain restrictions on the share sale until vested by the manager's continued employment in the company for a certain amount of time. Stock option grants are the aggregate value of stock options granted to the executive during the year as valued using S&P's Black-Scholes methodology. Long-term incentive payouts (LTIP) is the amount paid out to the executive under a company's long-term incentive plan, which measures company performance over a period of more than 1 year, generally 3 years.

Table 1. Sample Selection and Yearly Distribution

Year	*Number of CEO Successions*	*% of sample*
1993	29	5.7%
1994	71	13.9%
1995	116	22.7%
1996	88	17.2%
1997	107	20.9%
1998	100	19.6%
Total	**511**	**100.0%**

This table shows the yearly distribution of the sample. I first identify an initial sample of 1017 CEO successions listed in the EXECUCOMP database from 1993 to 1998. I obtain the information about departing and incoming CEOs from the *Wall Street Journal*, *New York Times*, *Washington Post*, etc. The final sample consists of 511 CEO succession announcements from 1993 to 1998.

CEO compensation risk used in this study is defined as the percentage of equity-based compensation, which consists of restricted stocks and stock option grants, relative to total compensation (Toyne et al. 2000). An alternative definition is the percentage of the sum of restricted stocks, stock option grants, and long-term incentive payouts (LTIP) relative to total CEO compensation. According to Ning et al. (2012), the Pearson Correlation coefficient for the two pay risk measures is as high as 98.2 % which is highly significant at 0.1 % confidence level, so I can use any of the two measures in the study.

Descriptive Statistics

The descriptive statistics of CEO and firm specific characteristics are reported in Table 2. Panel A shows the t test of the difference between the departing and incoming CEOs' compensation. The results indicate that the incoming CEOs are paid more in cash and in total than those for the departing CEOs. The average total compensation for the incoming CEO is $3,300 thousand dollars, which is significantly higher than the average pay $2,183.6 thousand dollars for the departing CEOs ($t = 3.3$, $p<0.01$). The finding is consistent with Elsaid and Davidson (2009), who find that boards and successor CEOs have an opportunity to redesign the predecessor's compensation contract when boards hire new CEOs. Their study find the total compensation of new CEOs in their sample increased by 69% over their predecessors.

I further find evidence that most companies are paying more for their new CEOs mainly through increasing the equity-based compensation ($1,941.6K vs. $878.8K, $t = 3.26$, $p<0.01$) which are closely tied to the stock performance of their companies, while only increasing cash pay ($1,040.7K vs. $997.9K; $t = 1.34$, insignificant) slightly. So the average risk level of the compensation is significantly higher for the incoming CEOs (38.63% vs. 27.37%, $t =7.78$, $p<0.001$). This indicates that corporate boards intend to use the opportunity of CEO turnovers in their companies to redesign the CEO pay packages to align managerial incentives with shareholder interests. For example, boards offer a greater amount of compensation to attract high talent executives from inside or outside of the companies to be its new CEO, but set the risk of the new compensation package at a significantly higher level.

Panel A also displays some CEO characteristic. New CEOs are found to be younger (average 51.8 years old) compared to the former CEOs (60 years old), less likely to hold the dual positions of both the chair and CEO (47.2% vs. 75.9%), have a shorter tenure as the board director (3.7 years vs. 14.0 years), and own a much less stock holdings (2.6% vs. 5.8%). The t tests of differences for these CEO variables are mostly significant. These data provides evidence supporting the strong power of the departing CEOs given such factors as board tenure and CEO stock holdings can be used to measure CEO power, and the departing CEOs are likely to to use their power to influence the process of CEO successions at retirement.

Panel B in Table 2 reports the firm characteristics of the sample in Year -1 under the leadership of the departing CEOs and the same sample of firms in Year +1 under the leadership of the new CEOs, where Year 0 is defined as the year when the CEO turnovers occur. I find that, under the leadership of the new CEO, a company becomes significantly bigger in firm size measured by total assets, market capitalization, and sales in Year +1. The sample of firms also has a stronger financial position measured by a higher net income, return on equity, and stock performance. The firm value measured by Tobin's Q is only slightly up in Year +1, but not significantly different from that in Year -1.

Table 2. Descriptive Statistics of CEO and Firm Characteristics

Panel A: CEO Compensation and Characteristics:

Variables	Departing CEOs	Incoming CEOs	Mean difference	t-statistic
Cash compensation ($K)	997.9	1040.7	42.8	1.34
Equity-based compensation ($K)	878.8	1941.6	1,062.8	3.26***
Total compensation ($K)	2,183.6	3,300.0	1,116.4	3.27***
Compensation risk (%)	0.2737	0.3863	0.1126	7.78***
CEO age (%)	60.0	51.8	-8.3	-18.28***
CEO duality (%)	75.9	47.2	-28.7	-10.70***
Tenure as CEO (years)	9.2	--	--	--
Tenure as director (years)	14.0	3.7	-10.3	-23.46***
CEO stockholdings (%)	5.8	2.6	-3.2	-3.29***

Panel B: Firm Characteristics in Year -1 and Year +1

Variables	Year -1	Year +1	Mean difference	t-statistic
Total assets ($M)	4,913.7	5,537.7	624.0	2.23**
Market value of equity ($M)	3,976.5	5,306.2	1,329.6	3.69***
Sales ($M)	3,898.3	4,290.3	392.0	3.41***
Net income ($M)	162.6	221.6	59.0	2.16**
Return on equity (%)	6.9	9.9	3.1	1.41
1-Year stock return (%)	10.9	16.9	6.0	1.92*
Tobin's Q	1.8708	1.9012	0.0304	0.77

The table shows the descriptive statistics for CEO characteristics, CEO compensation, and firm variables in Year -1 during the leadership of the departing CEOs and Year +1 during the leadership of the incoming CEOs. Total compensation consists of salary, bonus, other annual compensation, restricted stocks awards, options and stocks appreciation rights (SARs), long-term incentive plan payouts (LTIP), and all other compensation. Cash compensation includes salary and bonus. Equity-based compensation consists of restricted stock rewards, and options and SARs. CEO Compensation risk is defined as the percentage of equity-based compensation relative to total compensation. CEO stockholding is the percentage of CEO shares to total shares outstanding. Net income is before extraordinary items and discounted operations divided by total common equity and return on equity is net income over total assets. Tobin's Q is the sum of the market value of equity and the book value of debt divided by the book value of assets. Significance at 10%, 5%, and 1% level is indicated by *, ** and *** respectively.

The Departing CEO Compensation across Firm/Industry Characteristics

Firm and industry specific variables, such as firm size, investment opportunities, and regulation, are found to have significant impact on CEO compensation, as documented in prior literature (e.g., Ning et al., 2012). Finkelstein and Peteraf (2007) argue that the greater the degree of the complexity and uncertainty of managerial activities, the higher the manager's discretion power which can be used to negotiate a "better" compensation package. Murphy (1998) indicates that large firms generally set the compensation for their top executives by comparing it with the compensation of peer group executives, and firm size is an important factor to select the peer group. Chung and Pruitt (1996) find that firm size has a significant impact on executive compensation. Palia (2001) reports that the structure of managerial pay is positively related to firm-specific characteristics, including firm size. In addition to firm size, a high-growth firm usually requires a more skilled CEO with a higher level of pay. The growth opportunity in a company can also strengthen the CEO's bargaining power. Smith and Watts (1992) investigate the executive pay and pay-for-performance sensitivity in a group of regulated and unregulated firms. They find that firms with greater investment opportunities hire more skilled executives who command both a higher level of pay and a stronger pay-performance relationship. Several other studies also report significant association between a firm's investment opportunities and CEO compensation (Core et al., 1999; Hartzell and Starks, 2003).

In this study, I define large firms as the ones with total assets greater than the median assets in the sample. Growth firms have a higher-than-median market to book ratio than the average. The regulated firms include financial firms (SIC 60-69), public utilities (SIC 49), and airlines and railroads (SIC 40~47) and the unregulated firms consist of all other companies in the sample. The empirical analysis of the departing CEO compensation structure across firm and industry characteristics are given in Table 3.

Panel A reports the departing CEO compensation across firm size. As expected, departing CEOs in large companies have a greater amount of pay in both cash and in total. The t tests of the differences are highly significant (t= 13.39 and 10.48 respectively, p<0.001). The risk of CEO compensation, which is the equity-based compensation over total CEO pay, is 30.18% for the departing CEOs in the large firms, much higher than 24.48% for the departing CEO in the small firms (t = 2.55, p<0.05). This suggests that the departing CEOs in large firms generally have compensation packages at a higher level of risk compared to the departing CEOs in small peer companies.

Table 3. The Departing CEO Compensation across Firm and Industry Characteristics

Panel A: Departing CEO Compensation in Large vs. Small Companies:

	Large Firms	Small Firms	t-statistic
Cash Compensation	1428.3	565.8	13.39***
Total Compensation	3251.4	1111.60	10.58***
CEO Compensation Risk	0.3018	0.2448	2.55**

Panel B: Departing CEO Compensation in Growth vs. Value Firms:

	Growth Firms	Value Firms	t-statistic
Cash Compensation	1124.09	871.18	3.42***
Total Compensation	2559.22	1806.53	3.39***
CEO Compensation Risk	0.3152	0.2320	3.71***

Panel C: Departing CEO Compensation in Regulated vs. Unregulated Firms:

	Regulated Firms	Unregulated Firms	t-statistic
Cash Compensation	1033.29	992.45	0.37
Total Compensation	1795.83	2243.96	-1.72*
CEO Compensation Risk	0.2022	0.2850	-2.85***

Total compensation in the above table consists of salary, bonus, other annual compensation, restricted stocks awards, options and stocks appreciation rights (SARs), long-term incentive plan payouts (LTIP), and all other compensation. Cash compensation includes salary and bonus. CEO Compensation risk is defined as the percentage of equity-based CEO pay (restricted stocks and stock option grants) relative to total CEO compensation. Large companies are defined as the firms which have total assets greater than median. Growth firms have a higher-than-median market to book ratio. Regulated firms consist of financial firms (SIC 60-69), public utilities (SIC 49), and airlines and railroads (SIC 40~47).Significance at 10%, 5%, and 1% level is indicated by *, ** and *** respectively.

Panel B presents the amount and structure of departing CEO compensation in growth/value firms based on the classification of the market to book ratio. The departing CEOs in growth firms have a greater average of pay in cash ($1,124.1K vs. $871.2K) and in total ($2,559.2K vs. $1,806.5K) at a higher risk level (31.52% vs. 23.205) than that for the departing CEOs in value firms. The t tests of mean difference for all three compensation variables are highly significant at 0.1% or higher confidence levels. These findings are consistent with previous studies (Core et al., 1999; Hartzell and Starks, 2003). But the prior studies examine CEO compensation in general, not just the pay packages for departing CEOs in this study.

The analysis results of the departing CEO compensation across regulated and unregulated industries display a different picture, as shown in Panel C of Table 3. Regulated firms are classified as financial firms (SIC 60-69), public utilities (SIC 49), or airlines and railroads (SIC 40~47) companies. I find that while the cash pay for the departing CEOs in the regulated industries are higher ($1,033.3K vs. $992.5K), the total compensation ($1,795.8K vs. $2,243.9K) is lower (t = -1.72, p<0.1). The risk level of the departing CEO pay package in the regulated industries is 20.22%, which is also much lower than 28.50% in the unregulated firms (t = -2.85, p<0.01). These test results indicate that departing CEOs in the unregulated firms, which generally face a higher market competition than those regulated firms, are paid more by their boards for their more challenging work, but their pay packages are subject to a higher level of risk due to more restricted stocks and stock options included in their pay packages.

The Departing CEO Compensation and CEO Succession

The three hypotheses regarding the information content of departing CEO compensation around CEO succession announcements are tested in this section. I argue that when the departing CEOs are entrenched with a greater managerial power and use their power to negotiate a "better" compensation package for themselves, they are more likely to use their discretionary power to influence the process of the new CEO selections and continue their influences after retirements. The "entrenched" CEO power is measured by a "better" compensation package with a larger amount of cash and total compensation at a lower level of risk in this study. The test results are given in Table 4.

Panel A reports the test results for the departing CEO compensation in a routine CEO succession and in a non-routine succession. In a routine CEO succession, the departing CEO remains on the board as a director or becomes the chairman of the board after the mandatory retirement (Kang and Shivdasani, 1995). The results show that, in a routine succession, both the cash ($1,046.6K) and total compensation ($2,346.1K) for the departing CEOs are much higher than those ($901.3K in cash, $1,860.2K in total) of the departing CEOs in a non-routine succession. The t tests of the differences are both significant (t = 2.03 and 2.38 respectively, $p<0.05$). As hypothesized, the risk level of the pay package for the departing CEO is also much lower (26.93% vs. 28.41%) in a routine succession. These findings support H1 that when a departing CEO has a "better" compensation package characterized with a larger amount of pay at a lower risk, he is more likely to continue to remain on the board as a director or become the chairman of the board after retirement.

Table 4. The Departing CEO Compensation and CEO Succession

Panel A: Departing CEO Compensation in Firms with Routine vs. Non-routine CEO Turnover:

	Routine Turnovers	Non-routine Turnovers	t-statistic
Cash Compensation	1046.60	901.26	2.03**
Total Compensation	2346.11	1860.21	2.38**
Compensation Risk	0.2693	0.2841	0.56

Panel B: Departing CEO Compensation in Firms with Relay vs. Non-Relay CEO Succession:

	Relay Succession	Non-Relay Succession	t-statistic
Cash Compensation	1095.49	912.79	2.45**
Total Compensation	2196.49	2172.24	0.10
Compensation Risk	0.2477	0.2972	-2.16**

Panel C: Departing CEO Compensation in Firms with Incoming Outside vs. Inside CEOs:

	The incoming CEO is an outsider	The incoming CEO is an insider	t-statistic
Cash Compensation	752.27	1137.26	-5.06***
Total Compensation	1927.71	2328.94	-1.71*
Compensation Risk	0.3060	0.2557	2.06**

CEO turnover is the decision for a CEO to step down from the CEO position. I define routine CEO turnover as a mandatory retirement of the departing CEO becomes the chairman of the board or remains on the board as a director (Kang and Shivdasani, 1995). Relay succession is a process in which a company promotes the president or chief operating officer as the heir to the CEO. Significance at 10%, 5%, and 1% level is indicated by *, ** and *** respectively.

Panel B displays the departing CEO compensation across firms with relay or non-relay CEO successions. Relay succession is a process in which a company promotes its current president or chief operating officer as the heir to the CEO. The results in Panel B show that, in a relay succession, both the cash compensation ($1,095.5K) and total pay ($2,196.5K) for the departing CEOs are much higher than those ($901.3K in cash, $1,860.2K in total) for the departing CEOs in a non-relay succession. The t tests for the cash compensation difference is statistically significant (t = 2.45, $p<0.05$). I also find that the departing CEO compensation risk is much lower (24.77% vs. 29.72%) in a relay succession and the difference is significant at 5% confidence level (t = -2.16). The analysis results in Panel B support H2 that when a departing CEO has a "better" compensation package characterized with a greater amount of cash and total compensation at a lower risk, the departing CEO is more likely to favor relay CEO succession by promoting the company's current president and/or chief operating officer to be his successor. Since the president or COO was the former CEO's subordinate, it's easier for the departing CEO to continue to influence the new CEO as well as the company after his retirement.

In Panel C of Table 4, I examine the difference of departing CEO pay packages when the successors are outsiders and when the new CEOs are insiders. As the third hypothesis states, when a departing CEO is entrenched with a "better" compensation package characterized with a larger amount of pay at a lower risk, the CEO is more likely to favor promoting an insider rather than an outsider as the incoming CEO. The results in Panel C of the table are consistent with this hypothesis. I find that both the departing CEO's cash compensation ($752.K) and total pay ($1,927.7K) are significantly lower when the successor CEO is an insider than when the new successor is an outsider. The t tests for the differences are both significant statistically. The risk level of the departing CEO compensation is also found to be much higher (30.60% vs. 25.57%) when the new CEO is hired outside of the firm (t = 2.06, $p<0.05$). These results indicate that when the departing CEO is entrenched, he is more likely to use his negotiation power to persuade the board to choose an insider rather than an outsider as his successor at retirement.

Conclusions and Discussions

This study examines a sample of 511 CEO succession announcements to explore the amount and structure of departing CEO compensation from a unique perspective, the information contents of departing CEOs' incentive contracts for the incoming changes in corporate governance around CEO succession announcements.

The tests of the differences between the compensation for departing CEOs and incoming CEOs suggest that the new CEOs are generally paid more in a total, mostly through a significant increase of stock options, restricted stocks, and other long-term incentive plans. Therefore, the risk level of the pay packages for the incoming CEOs is significantly higher than that for the entrenched departing CEOs. This indicates corporate boards intend to use the opportunity of CEO successions to optimize their executive compensation structures to align it with shareholder returns. This optimization of CEO incentive contracts seems to be both beneficial to the new CEO and shareholders due to a growing firm size measured by total assets, market capitalization, and sales and a better financial situation characterized by a higher net income, ROE, and stock performance.

The amount and structure of the departing CEO compensation across firm and industry characteristics have also been examined in this study. Departing CEOs are generally paid more in firms with larger size and in firms with more growth opportunities measured by a higher market to book ratio. However, the incentive contracts for the departing CEO in those companies also incur a higher level of risk due to a higher proportion of stock options and other equity-related incentives in their pay packages. The departing CEOs in regulated firms (i.e., financial, public utilities, airlines and railroads) receive a higher cash pay, but a lower total compensation at a lower risk.

Most importantly, this study finds empirical evidence that is consistent with the notion of management entrenchment theory from a unique perspective - the departing CEO compensation around CEO successions. If a departing CEO is "entrenched" with a greater discretionary power and negotiates a "better" compensation package characterized with a greater amount of pay in both cash and total at a lower risk, he is more likely to retain on the board as a director or hold the title of board chairman after his retirement. There is also evidence that when the departing CEO is entrenched with a greater discretionary power and a better pay package, he is more likely to persuade the board to nominate an insider rather than an outsider to be the successor CEO, and support the promotion of the company's current president and/or chief operating officer to be his successor. These findings support the hypotheses in this study that the entrenched CEOs intend to use various means to continue their influences on the company even after they retire from the top position of their companies.

The contribution of this study is to examine CEO compensation, a hot topic in the corporate governance literature, from a unique perspective- the departing CEO compensation. I identify valuable information from the departing CEOs' pay packages which can signal the incoming CEO succession process and corporate governance changes in a company. This gives academics and practitioners a different view regarding how departing CEOs influence the CEO succession process of their companies. This is also valuable for shareholders and regulators in the real business world given the fact that SEC argues that CEO succession planning raises a significant policy issue regarding the governance of the corporation, so it enacted a new rule in December 2012 to allow shareholders to make proxy proposal on CEO succession planning for their companies.

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THE NEED FOR TRANSPARENCY, RESPONSIBILITY AND ACCOUNTABILITY: THE CASE OF FACEBOOK IPO

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Abstract

This paper aims to describe and critically analyse the Facebook Initial Public Offering (IPO), initially focusing on the pre-IPO assessments made by underwriters, and then comparing them with the market evidence. The initial weak performance disappointed all those investors believing in a fast stock increase, causing in turn the rise of bad expectations about the company's projects. As a matter of fact, the stock trend did not reflected the enthusiasm that the financial community showed during the IPO's marketing activity or during the road show. The stock demand was far superior than the supply during all the pre-IPO activities, and even after the upward revisions of the price range. Thus, the assessment of the valuation methods used to set the offer price plays a key role to explain the reasons of the stock performance. We analyse analysts' reports to investigate the reasons of their distorted valuations. The case of the Facebook IPO stresses the importance of supervision to ensure transparent financial statements and protect investors. Lack of transparency, wrong corporate culture and conflicts of interest may provoke stock crashes and damage investors and the financial system overall. Ensuring integrity of financial reporting and monitoring systems is thus essential to ensure responsibility, as well as accountability.

Keywords: Analysts' Recommendation, Conflicts of Interest, Distorted Valuations, Financial Supervision, Transparency and Accountability

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1. Introduction and Literature Review

Financial analysts' distorted valuations of hi-tech stocks have recently been lively debated after the IPOs of well-known companies like Facebook or LinkedIn (Cervellati, 2012). Scandals involving investment banks not only attracted the attention of the financial press, but were also under scrutiny of supervisory authorities. Analysts have been accused of having overstated the value of Internet companies at the time of the dotcom bubble, but also during the more recent hi-tech wave at the Nasdaq.[1]

In order to judge if analysts' valuations have really been distorted, we analyse the case of the Facebook IPO, and the relationship between the company, its underwriters, and financial analysts. The debate on the conflicts of interest faced by analysts affiliated to investment banks has always been rich and lively. Analyst may be willing to issue overly optimistic recommendations[2] on stock of companies that do business with the banks they are working for (Michaely and Womack, 2005). Conflicts of interest are triggered by analysts' compensation schemes, often providing bonuses for those analysts that are able, with their reports, to attract business for their employers (Bradley et al. 2008; Bradshaw et al. 2003; Dechow et al. 2000; Dugar and Nathan, 1995; Lin and McNichols, 1998; Lin et al., 2003). Because another important part of the analysts' compensation depends on their reputation – often based on accuracy and timeliness of their recommendations (Hong and Kubik, 2003) – the conflicts of interest arise. Furthermore, financial analysts take care in building and maintaining good relationships with the management of the covered firms, the primary source of information for their analyses.

Analyst over optimism may be due to behavioural biases as well: e.g., the "selection bias" by which analysts may start covering a company because they like it (McNichols and O'Brien, 1997).

While former evidence (Michaely and Womack, 2005) showed that buy recommendations issued by affiliated analysts underperformed those issued by their independent peers, recent works do not support this evidence, showing that when the recommendation characteristics and timing are taken into account, there are no significant differences between affiliated and independent analysts, thus raising doubts on the real

[1] The Nasdaq Composite index increased dramatically since the Nineties, now being three times as large as twenty years ago.
[2] Analysts' optimism not only affects recommendations, but also their earnings estimates (Rajan and Servaes, 1997).

extent of conflicts of interest (Bradley et al., 2008; Clarke et al., 2006; Clarke et al., 2007; Fleuriet and Yan, 2006; Groysberg et al., 2005; Ljungqvist et al., 2006).

Other studies show that when the asset management branch of the bank affiliated analysts work for holds more stocks of the company they cover (Irvine et al., 2004). Analysts' recommendations also tend to be more optimistic if the stock of the covered company is held by mutual funds affiliated to the same bank (Mola and Guidolin, 2009). Furthermore, merger and acquisition bank advisors buy (sell) the acquirers that their affiliated analysts upgrade (downgrade) (Haushalter and Lowry, 2009). Jordan et al. (2011) show that sell-side equity research is used by the banks the affiliated analysts work for. This evidence shows that banks believe that their analysts' work is valuable, suggesting that conflicts of interest may be not so important, because the investment banks themselves follow their analysts' recommendations.

Studies in the literature deal with Internet companies' valuation and analysts' role in the dotcom bubble use distinct perspectives. Because during that period several high tech companies benefited from the hot issue market to go public, many studies analyzing the Internet bubble deal with the IPO process. The literature on IPOs has often focus on three main issue related to their timing – the so-called "hot issue market" phenomenon – to their initial performance – typically underpricing in the first day of trading –, and on their medium-long term (under)performance (Ritter, 1984). In IPOs, the information asymmetry between the management of the company going public and the investors is usually high since the firm is not usually so well-known.[3] In case of uncertainty, investors tend to use rules of thumb that help in taking decisions, known in behavioural finance as heuristics. For example, in period characterized by high asymmetric information, the "bandwagon effect" (Welch, 1992) can take place. This effect, also known as "information cascade", refers to investors' preference to buy not every stock of companies that recently went public, but focusing on those ones that have already attracted other investors' attention. These companies are considered "hot", or "glamorous". Relying on the crowd's behaviour, rather than on their own judgements, investors minimize the potential future regret that they may feel in case of a wrong the choice.

The expression "hot market" refers to a period when valuations are irrationally overly optimistic. During such periods, the average first month performance of IPOs – i.e., the initial underpricing – is particularly high (Ibbotson and Jaffe, 1975). IPOs usually tend to concentrate in periods in which initial underpricing is rather high – i.e., the fact that the offer price is below the closing price of the first trading day (Purnanandam and Swaminathan, 2004) – creating a "windows of opportunity" to go public (Loughran et al., 1994).

An alternative explanation of the initial underpricing comes from the bookbuilding process related theories, based on the "market feedback" hypothesis (Benveniste and Wilhelm, 1990), and the "agency conflict theory" (Jensen and Meckling, 1976). Following these theories, a company should be willing to accept a low offer price to create a "demand effect", i.e., to be sure that the demand of its stocks will exceed the offering, thus being sure of the IPO's success.

Also, underwriters assure the company's management that the stock will be followed by a highly rated analyst, stressing the effects that a positive coverage will have on the stock price.

Very interesting insights are related to IPOs because in this case the potential conflict of interest is higher given that IPOs are very profitable for investment banks, and analysts' recommendations are particularly valuable since most firms are unknown by investor prior to listing and therefore need coverage to attract attention to them. Thus, a positive report could improve the probability that the underwriter will be chosen for the next security offering.

A further implication is that affiliated analysts could be much more "optimistic" in their recommendations if compared to independent ones, meaning that on average they issue more positive reports than independent analysts. In this case, if the market is efficient, it should react discounting for the difference between affiliated and non-affiliated analysts' recommendations. There is, however, an alternative explanation of this empirical evidence that we could call "Superior Information Hypothesis". It states that investment banks have superior information on firms they have taken public, therefore their reports would not only be unbiased, but also more accurate. This alternative hypothesis can be considered credible if we think that information asymmetry is very high in initial public offerings. If this explanation results to be correct, then the market should react with a premium to underwriter analysts for the more accurate information they possess. In the post-IPO period this would imply a superior result for investors following underwriter recommendations.

These two alternative explanations are testable, looking at the long-run performance of IPOs differentiated by underwriter relationship.

The role of reports and of price-sensitive information produced by analysts has been studied in the literature, following different approaches.

Analysts play a very active role in the market. Not only do they convey information to the market, but they also produce it and select it, being very much aware of their function, power and responsibility. The relevance of their role is also assessed by the way

[3] Of course, as mentioned, Facebook is a notable exception to this general rule.

they interact with the other protagonists of the market: the investors.

In a business environment the drivers of protagonists' actions are mainly expressed in terms of utility. If we refer to investors or to covered companies, it is intuitively possible to qualify utility, but financial analysts too act in the market and pursue their subjective utility. It is, therefore, evident that they will try to maximize their utility, just as any other market actor will do. That is to say that they will tend to maximize their reputation as main source of value and minimize the risks deriving from their work. Reputation depends largely on how successful they are in interpreting market dynamics, since the value of the information conveyed depends on how successful their clients will be when investing as suggested. As a consequence, they try to maximize forecast accuracy or, in other words, to minimize the forecast errors. Risk is represented by the probability of errors. However, another source of risk is given by the single analyst decision on if and to what extent to deviate from other analysts' forecasts, or from the so-called "consensus", typically the mean or median forecast. Deviating from consensus is risky for an analyst since in case her forecast is less accurate than it, she would experience a reputational loss. Instead, if she aligns with consensus, and this proves not to be accurate, she can always share the blame with other analysts, and thus not be penalized in terms of reputation (Cervellati and Piras, 2012; Piras, Denti and Cervellati, 2012). Another important aspect to underline is that investors are more interested in those stocks more highly covered by analysts (Bradley et al., 2003), and more sensible to the so-called "glamour" stocks. For this reason, it is very important to understand if the conflicts of interest may affect the value of analyst recommendations, in particular with regard to the stocks of famous companies like Facebook. Analysts are not only overly optimistic about future prospects of the covered companies, but they are also overconfident in self-valuing their own predicting skills (Nicholson *et al*., 1998; Barber and Odean, 2000). The concept of "fads" could explain long-term underperformance of IPOs (Aggarwal and Rivoli, 1990). In a broader view, behavioural finance studies argue that while the initial underpricing represents a market overreaction, the long run underperformance is nothing but a correction of the former misvaluation.

After the above introduction and literature review, section 2 presents analyse the case of Facebook IPO, section 3 study analysts' reports, while section 4 concludes.

2. Facebook IPO, Underwriters' Role and Conflicts of Interest

Recently, some well-known US hi-tech companies went public. The most famous among them being Facebook, which IPO took place on May 18, 2012 at Nasdaq.

About a year before, LinkedIn, another important internet company, went public recording a first day underpricing of 103%. Groupon and Zynga followed thereafter - in November and December 2011 respectively - recording very good performances in the first months after the IPO, alike other firms like Jive and Guidewire. Zynga's return in the first ten weeks of trading has been around 50%. Jive Software almost doubled its offer price in the first three months of trading, while Guidewire Software doubled its offer price in just two months after the IPO. These high initial returns increased investors' optimism, and their confidence that a new hi-tech wave was about to come. Thus, Facebook went public in the midst of what seemed to be an "hot issue market". This "window of opportunity", characterized by several successful IPOs that attracted investors' attention, had the potential to increase the possibilities of an overvaluation of its stocks.

Facebook's IPO was considered by many investors as the greatest deal after Google's listing, the enterprise value being estimated as high as $ 100 billion. The Facebook's stocks demand, during the pre-IPO activities and the road show, was characterized by a steady rise, although the price increased significantly during the last weeks before listing. The market's interest towards the public offering depended in part on the uptrend of the Nasdaq Composite Index, which increased by 139% since late 2009. Only analysing the quarter before the quotation, the index gained 19%, overcoming the Standard & Poor's 500 index by 700 basis points (Robinson, 2012). Figure 1 shows that the hi-tech index increased dramatically since October 2009.

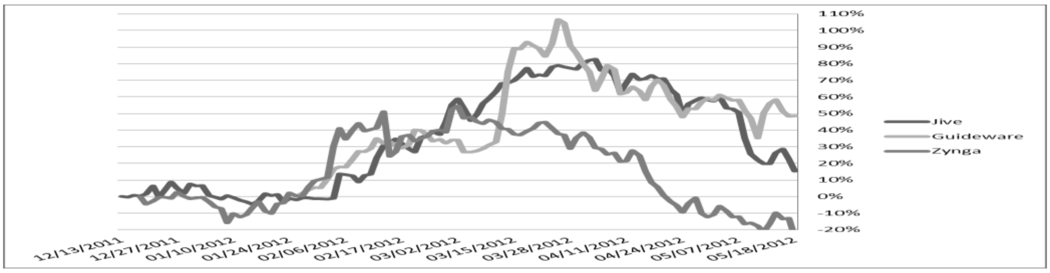
Figure 1. Nasdaq Composite (October, 2009 – October 2013)

Source: www.nasdaq.com

This market momentum certainly contributed to inflate the stock demand and amplified the notoriety of the company based in Menlo Park. It is important to stress out that Facebook decided to go public in the midst of an intense IPO activity in the Nasdaq. The hot issue market began in 2011 and comprehended several high-tech companies listings, notable example being Groupon and Zynga. Thus, Facebook exploited the so-called "window of opportunity", a period of time in which the concentrated issuance activity grabs investors' attention towards the companies that are going public, boosting market prices, and thus increasing the possibilities of overvaluation. In this context, the financial actors are more likely to pay a higher value in the primary market, in order to gain in the secondary one. The latest IPO is thus supported by previous ones.

This market situation cannot be defined as a new "dotcom" bubble, as the global economy was in recession, but it was clear that investors' confidence in newly listed US companies has risen since 2009. Figure 2 shows the performance of the main technological stocks that have listed on Nasdaq since December 2011.

Figure 2. Performance of Jive, Guideware, Zynga since December 2011



Source: data re-elaborated from www.nasdaq.com

As Figure 2 describes, on average all the issuances have a positive trend in the three months after the IPO, fuelling market optimism. *Jive Software* almost doubled its offering price, and even better did *Guideware Software*, with a +104%. Zynga, instead, started with a very good performance (+50% after only three months), but since then saw its price falling dramatically.

Facebook, thanks to its perfect IPO timing, issued its stocks in a market that can be considered mature to welcome one of the greatest operations on the Nasdaq (Robinson, 212).[4]

At the beginning of the road show, the price range for Facebook listing was around $ 25 – $ 35, but as the demand becomes higher, the offering price range increased to $ 28 – $ 34. Moreover, few days before the listing, the company and the underwriters decided to rise again the price range to $ 34 – $ 38, a 20% growth from the average value of the first estimate. The night before the official listing, Facebook and its underwriters decided to set the offering price at the maximum limit of the range: 38 $.

The price definition was combined with the expansion of the stock supply by 25%, through the enhancement of the stocks offered by the existing shareholder. With the volume increase, Facebook's managers made the stock more liquid on the market, satisfying at the same time the investors that did not manage to book the stocks before. The possibilities of initial underpricing, in turn, increased.

Furthermore, the contemporary rise of price and volume ensured higher incomes for the company. On the contrary, the dilution of capital grew in a less proportional way (respect to the volume increase) thanks to the two classes of stocks.

The upward revision of the price embraced the positive feedbacks of the investors during the road show, but as the academic literature suggests (Benveniste and Spindt, 1989), the price adjustment was only partial, in order to boost the initial undepricing and reward the investors that revealed their expectations.

In this case, however, the partial adjustment theory cannot be related to positive information: after few days from the listing, newspapers reported that Morgan Stanley, the leading underwriter of Facebook's IPO, considerably cut its estimates about the company future revenues some days before the issuance, communicating those changes only to its "best" clients. If these reports were made public, their content would have probably lead to a decrease in the company expected revenues, and thus in the offering price.

The revenue CAGR would have been cut because the Facebook users' increase was supposed to be principally driven by the growth of accesses from mobile devices (smartphone, tablet, etcetera). For these categories, however, Facebook had not implemented yet an efficient strategy that could increase cash flows. The downward price revision would have demolished the demand the first day of

[4] In an efficient market managers do not have any reason to choose the timing of an operation, as the market would always value the company at its true price. However, in practice, managers may believe (or know) that their stock is not fairly valued by the market.

trading, causing a dramatic price drop and probably the IPO's failure.

The Security Exchange Commission (SEC) started an investigation to ascertain what happened between Morgan Stanley and its clients, but the reputational damage of the company and its underwriters has been relevant, also leading to a class actions. The SEC investigation underlines the importance of the assessment of pre-IPO valuations. Despite the overall positive environment in the high-tech market, Facebook's IPO poorly performed in the first day of trading, and in the three following months. Furthermore, the overall market conditions were totally different from the dotcom bubble of end of the 1990s-beginning of 2000s, since the US economy in 2012 had not yet recovered from one of the greatest crisis ever. The enthusiasm that anticipated Facebook's listing, thus, vanished rapidly, as well as the belief that the Nasdaq was going through a new hi-tech wave. The sudden lack of investors' confidence negatively influenced the stock performance in the first trading weeks. Facebook stock price halved in the first three months after the IPO as shown in Figure 3.[5]

Even if the stock price eventually resumed and started growing since the bottom of August 2012, the initial poor performance disappointed thousands of investors that were expecting a fast stock price increase from the long awaited IPO of recent years.

To clarify the reasons of this disappointment, it is worth mentioning the structure of the IPO, and, more importantly, the overall gain of Facebook founder and CEO, Mark Zuckerberg. The overall stock issue was made of a new issuance and stocks sold by existing shareholders, who saw the listing as an occasion to wind up their investments. Zuckerberg was among the selling shareholders. The stocks offered were all class "A" shares, giving only one right to vote in formal meetings. Class "B" shares were not part of the offering, as each of them gave ten voting rights in formal meetings. The principal owner of the latest class of stocks was Zuckerberg himself that, in this way, preserved the control on the company from the capital dilution typical of IPOs. After the listing, he still owned the 55.8% of the voting rights. The number of stocks put up on sale by shareholders was around 241 million, while the new share issued were 180 million. The number of stocks included in the "over-allotment option" - that gives the issuer the possibility to increase by maximum 15% the stock supply once the company is listed - was about 63 million. The option could be exercised only if the stocks demand in the secondary market was high enough in order to rebalance the counterpart. The over-allotment option is always coupled with the "greenshoe option", which gives underwriters the right to purchase the extra supply offered. In conclusion, the equity fraction that was listed on the Nasdaq was 20% of total equity, without considering the differences between the two classes of stocks. The total supply of stocks included Zuckerberg's exercise of a *call* option on 60 million of class "B" shares. Half of the total option would have been converted in class "A" shares and offered to the general public on the first day of trading. Considering a selling price of \$37.58, Zuckerberg gained \$ 1.13 billion on the IPO day, from the exercise of the option. Given the post-IPO performance, it could be defined as an optimal strategy to cash out part of the investment (Bates et al., 2012).

3. Analysts' valuations of Facebook stock

During the internet bubble of the end of the Nineties-beginning of 2000s, financial analysts had a major role in spreading the so-called "irrational exuberance" (Shiller, 2000). Analysts affiliated with investment banks that do business with the covered companies face a dramatic conflict of interest since on one hand issuing negative recommendations can impact their salary, as well as their career opportunities, on the other, they have to protect their reputation issuing reliable valuations.

Table 1 summarises financial analysts' recommendations and target prices[6] issued on Facebook between June 4, 2012 and April 4, 2013.

In what follows we separately analyze the target prices estimated issued by distinct banks. Analyzing Credit Suisse reports, we compare target price with current price in Figure 4.

The target price significantly drops as the WACC is increased by 1% (from 9.5% to 10.5%) in October 2012. This radical change is supported by a reduction of the NPV of Facebook's activities, as the "blue sky opportunities"[7] are included in the valuation only at the 50% of their value, and not at 100% as included in the first reports. It is crucial to underline that these opportunities comprehend projects that Facebook would probably implement in a near future, but there is no evidence or approval by the management at the report's date. These projects added 6 dollars to the "basic" valuation, so taking into account only the 50% the upward given by future projects is represented by \$3. It is important to highlight that is quite unusual that analysts take into account NPVs of projects that are not approved yet, basing their valuation on subjective assumptions.

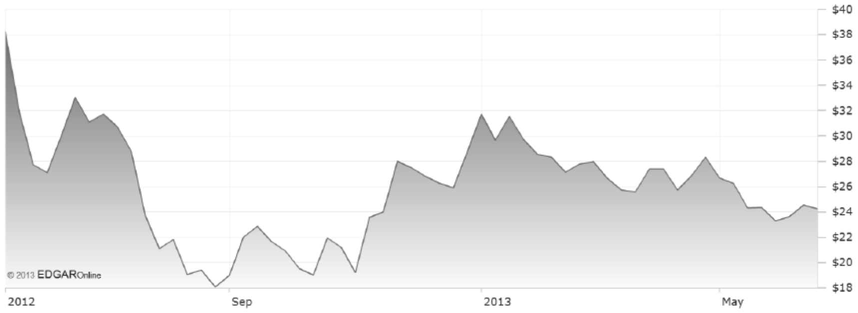
[5] Zynga and Jive shared a similar downtrend in the months after the IPO, halving their stock price from the peak value.

[6] The target price is the estimated stock price in one year time.

[7] The expression "blue sky opportunities" refers to the future projects that financial analysts take into account in their valuation of the company. However, those are just opportunities that can create value in the medium-long term and their intrinsic value is added to the "base case" on a percentage basis, depending on the probability of the event.

Credit Suisse analysis throughout the period assessed are based on the Discounted Cash Flow Model, and except for the first two reports, the WACC remains stable at 10.5%. As showed in graph, the target prices tend not to perfectly react to the changes in the current prices.

Figure 3. Facebook stock trend (May 18, 2012 – June 15, 2013)



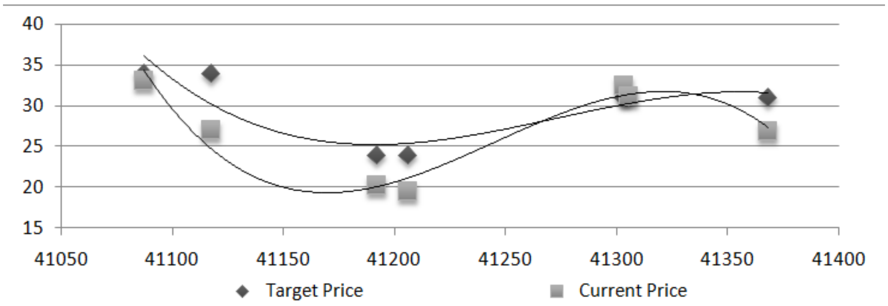
Source: www.nasdaq.com

Table 1. Summary of analyst's Recommendations on Facebook stock

Bank	Date	Rating	Target Price $	Current Price $	WACC
Bernstein Research	06/04/2012	Underperform	25	27.72	11%
Bernstein Research	06/12/2012	Underperform	25	27.10	11%
Goldman Sachs	06/27/2012	Buy	42	33.10	-
Credit Suisse	06/27/2012	Neutral	34	33.10	9.50%
Goldman Sachs	07/09/2012	Buy	42	32.17	-
Goldman Sachs	07/19/2012	Buy	42	29.11	-
Bernstein Research	07/24/2012	Underperform	25	28.75	11%
Bernstein Research	07/26/2012	Underperform	25	28.45	11%
Goldman Sachs	07/26/2012	Buy	42	29.34	-
Goldman Sachs	07/27/2012	Buy	42	26.85	-
Credit Suisse	07/27/2012	Neutral	34	27.00	9.50%
Bernstein Research	07/31/2012	Underperform	23	23.15	11%
Goldman Sachs	09/21/2012	Buy	37	22.59	-
Goldman Sachs	09/21/2012	Buy	37	20.62	-
Goldman Sachs	10/04/2012	Buy	37	21.83	-
Goldman Sachs	10/05/2012	Buy	37	21.95	-
Credit Suisse	10/10/2012	Neutral	24	20.23	10.50%
Goldman Sachs	10/22/2012	Buy	37	19.00	-
Credit Suisse	10/24/2012	Neutral	24	19.49	10.50%
Goldman Sachs	10/24/2012	Buy	35	19.50	-
Bernstein Research	11/26/2012	Outperform	33	24.00	Shift to EV/EBITDA
Bernstein Research	12/06/2012	Outperform	33	27.04	Shift to EV/EBITDA
Goldman Sachs	01/04/2013	Buy	35	27.77	-
Bernstein Research	01/06/2013	Outperform	33	30.10	Shift to EV/EBITDA
Goldman Sachs	01/16/2013	Buy	38	30.10	-
Credit Suisse	01/29/2013	Neutral	31	32.46	10.50%
Credit Suisse	01/31/2013	Neutral	31	31.24	10.50%
Goldman Sachs	01/31/2013	Buy	40	31.24	-
Bernstein Research	02/12/2013	Market Perform	27	28.55	Shift to EV/EBITDA
Goldman Sachs	02/25/2013	Buy	40	27.13	-
Goldman Sachs	03/01/2013	Buy	40	27.25	-
Goldman Sachs	03/05/2013	Buy	40	27.72	-
Credit Suisse	04/04/2013	Neutral	31	26.99	10.50%

Source: our elaboration of the information provided in the analysts' reports

Figure 4. Credit Suisse's target prices vs. current prices

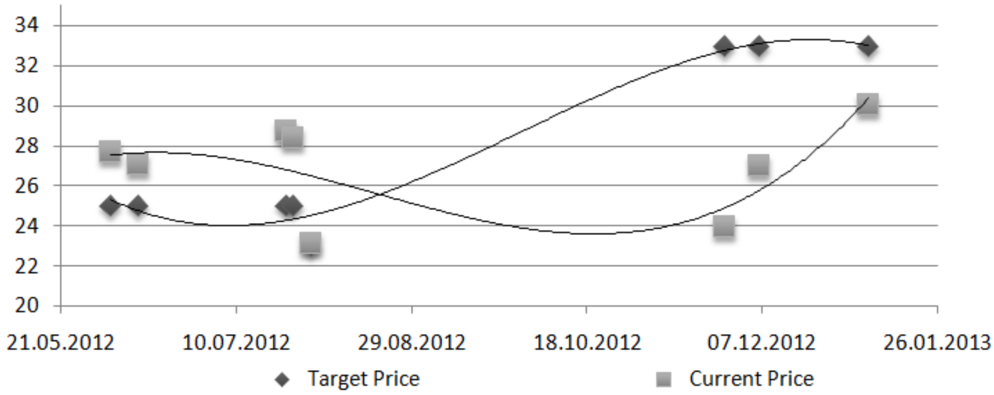


Source: our elaboration of the information provided in the analysts' reports

Since January 2013, in fact, can be seen that both target prices recover from the minimum of October: this is due to the really strong fourth quarter of Facebook, that managed to increase its Monthly Active Users and revenues. This achievement led to an improvement of all the crucial assumptions of financial analysts, triggering an increase of the target prices. As mentioned before, the main concerns on Facebook's first valuation were about the monetization of new users that log into the social network from mobile phones or tablets, and the strong response of Facebook's financials reassured the market and the analysts. In particular, Credit Suisse research team upward revised revenues from advertising activities and the target price, but the recommendation remained Neutral as analysts were waiting more signals of a stable recover. In the January report, the research team aligned its valuation to other team's one, and took out the blue sky opportunities, shifting to a straightforward DCF.

Figure 5, instead, display the comparison between current and target prices issued by Bernstein.

Figure 5. Bernstein Research's target prices vs. current prices



Source: our elaboration of the information provided in the analysts' reports

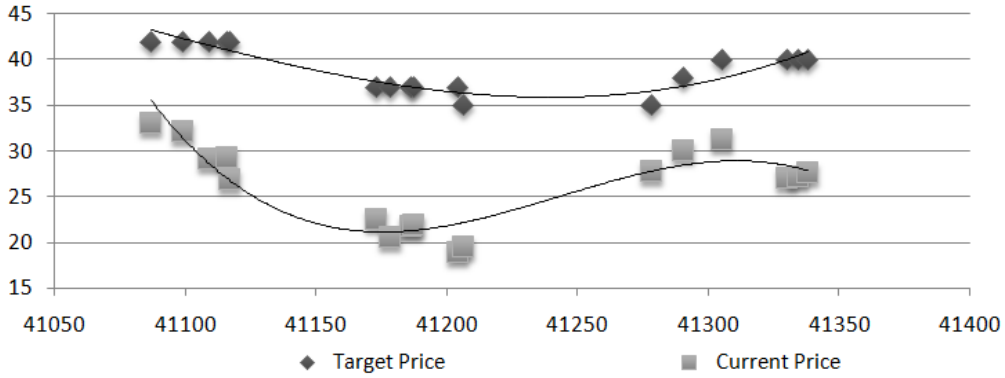
It is interesting to note that the target price trend is opposite to the Credit Suisse's one: in the first reports (June 2012), the valuation is based on a DCF model analysis, that used a WACC of 11%, in line with the rate used by other analysts.

The valuation resulted in a target price that was 11% below the current price, as Bernstein Research had more conservative estimates, and did not take into account future opportunities in the calculation of the share price.

Moreover, when the first report was issued, the research team was aware of the reaction of the market to the IPO, and the general sentiment had certainly affected the valuation. Since November 2012 Bernstein Research implemented its valuation with market multiples, and in particular EV/EBITDA, instead of DCF model. This change in the valuation method coincided with both the highest point of the target prices' slope, and the maximum vertical differences between the two slopes. Facebook's market price, indeed, started its recovery but was yet to value more than $32, what BS stated in November. On account of this, the positive effect on the target price made by the new financial method use had a strong impact on the TP. This is the outcome of one main reason: the new valuation took into account the average market valuation of Facebook (expressed by the EV/EBITDA used), when the firm was achieving good performances after the deep decrease of the quote during the summer. Therefore, there was an increasing enthusiasm on the new results, that affected all the high tech market and even the peers used to calculate multiples. In addition, BS in the report used an average multiple that is 15% above the consensus, given the revenues growth rate expectations.

Figure 6 shows that Goldman Sachs' target prices were constantly higher than current prices.

Figure 6. Goldman Sachs' target prices vs. current prices

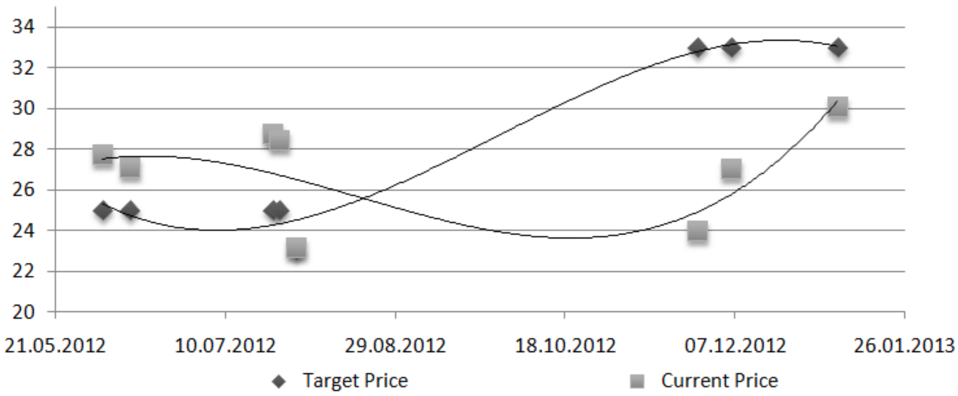


Source: our elaboration of the information provided in the analysts' reports

Even if the target price has a time horizon that is set at 12 months, it is worth underlining that the estimation does not change even with a notable downward trend of the price, which after five months is more than halved. We can infer that the new information that the markets acquired during the first months of quotation do not influence the valuation model made by Goldman Sachs. The initial coverage in June 2012 implies a WACC of 10.5% (slightly lower than the one assumed by Bernstein), and a multiple valuation of 80x P/FCF, while the mean of comparables is 60x (even if the Facebook FCF calculated is different from the normal one). Moreover, analysts estimate a Revenue CAGR of 21.4% during the period 2013-2021. This seems a really positive estimation, considering that the Facebook's Monthly Average Users are increasing thanks to the mobile phones, where Facebook has not yet implemented ways to monetize the accesses. In addition, from 2011 to 2012 revenues rose by 30%, so the long term estimation have to take into account the uncertainty of future scenarios. The two years before the IPO were extremely profitable for Facebook, and it seems difficult to achieve almost the same growth rate in the long term with the problems the company is currently facing with. Included in the valuation there is the NPV of the company's tax benefit that relates to the exercise of employee stock options. The NPV is estimated at $ 4.6 billion, but the value can change according to future events: it depends on how many options are exercised and when.

Figure 7 illustrates the general trend of target prices and the trend of Facebook historical prices.

Figure 7. Analysts' target prices vs. current prices



Source: our elaboration of the information provided in the analysts' reports

The price drop occurred between May and October 2012 is not corresponded by a significant drop in target prices. The valuations, indeed, took into account estimations of revenues growth that were almost impossible to achieve. This over-valuation seems triggered the various class actions that occurred soon after the IPO.

The target prices curve is principally kept higher than current prices curve by the Goldman Sachs' estimations, that are always 5 – 10 dollars above the target prices predicted by Credit Suisse and Bernstein Research.

4. Conclusions

Analysts' distorted valuations are caused both by conflicts of interest and behavioural biases. We use the case of Facebook's IPO to highlight both these aspects in the choice taken by the company and by its underwriters. Even if it is well-known that hi-tech companies are difficult to estimate, valuation heuristics may distort value estimation, ending in analysts' over optimism in their valuations.

We focus on the pre-IPO assessments made by the underwriters, and then compare it with the subsequent market response. Because the initial weak performance disappointed those investors believing in a fast stock increase, it caused in turn the rise of negative expectations about the company's projects. As a matter of fact, the stock trend did not reflected the enthusiasm that the financial community showed during the IPO's marketing activity or during the road show when the stock demand was far superior the supply during all the pre-IPO activities, and even after the upward revisions of the price range. Thus, we claim that the assessment of the valuation methods used to set the IPO price assumed a key role to find the reasons of the stock performance.

The case of Facebook stresses the importance of supervision to ensure transparent financial statements and protect investors. Lack of transparency, wrong corporate culture and conflicts of interest may provoke stock crashes and damage investors and the financial system overall. Ensuring integrity of financial reporting and monitoring systems is thus essential to ensure responsibility, as well as accountability.

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HIERARCHICAL POSITION IN LOCAL GOVERNMENT AND PERCEPTIONS OF ACCOUNTABILITY

Ron Kluvers*

Abstract

This study explores the understanding of the concept of accountability held by Victorian local government managers and elected councillors in a New Public Management (NPM) environment. Accountability involves relationships between superiors and subordinates and in the case of local government between councillors, management and members of the community. Accountability relationships exist between councillors and management and between the different levels of management. The position that a person holds within local government is subject to the organization's culture, in particular the values held by councillors and staff, the use of power and how the superior / subordinate relationships are understood.
A survey instrument was sent to all councillors and managers in Victorian local government. There was a 21% response rate. Anova analysis was applied to determine if there were significant differences between councillors and tier 1 and tier 2 managers. The anova analysis found that there were differences between the groups depending upon where the municipality was located and whether a person was a councillor or a tier 1 or tier 2 managers.

Keywords: Local Government, Accountability, Position

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Introduction

Accountability is a complex and multifaceted concept (Sinclair, 1995) that is made operational through relationships between individuals and organisations (Ebrahim 2003). Both formal and informal relationships develop within organizational structures. There are also relationships also with stakeholders external to the organization because of the position a person may occupy Councillors and local government managers have accountability relationships with people in their municipality, while accountability relationships exist between councillors and management and between the different levels of management because of the positions they hold within local government. The position that a person holds within local government is subject to the organization's culture, in particular the values held by councillors and staff, the use of power and how the superior / subordinate relationships are understood.

According to Mulgan (2000) accountability can refer to obligations that arise out of a relationship where one person or body is responsible to another for the provision of particular services. The obligations are twofold: first, to account for their performance and second, to accept sanctions or redirection. Mulgan (2000) goes on to point out that the relationship is one of principal and agent where the principals have the authority to give directions and hold the agents accountable. However, the agent can in practice be the dominant partner in the relationship.

While accountability may be difficult to define (Ebrahim 2003, Goddard 2005) there is a consensus that it involves a rendering of an account. Underpinning the concept of accountability is the notion that one person is responsible to another, and is obliged to render an account of their decisions and actions to another party. The discharge of accountability relies on the provision of information of one party to another concerning the use of resources. According to Ebrahim (2005) accountability is primarily relational rather than systemic, and is predominantly upwards in direction with a focus on short term outcomes and efficiency. At the centre of this type of accountability relationship is asymmetrical power. Further Ebrahim (2005) argues that the information required by the upwards accountability is primarily financial and appears to be simplistic and one dimensional and is in contrast to what is required for the framework of accountability as argued for by Cutt and Murray (2000), Funnell (2003) and Broadbent and Laughlin (2003).

This research is based upon the assumption that accountability is relational and that a person's position in an organizational hierarchy will influence their perception of accountability. This study will examine the influence of position on the understanding of accountability held by councillors and tier 1 and tier 2 managers in Victorian local government. The research reported in this paper describes how managers and councillors, in Victorian local government, perceive and understand the concept of accountability. The nature of accountability will be explored in the following section. There will then be a discussion about the impact of the NPM on accountability in the public sector followed by an explanation of the research method. This will be followed by an examination of the studies' results followed by a discussion of the findings and conclusions.

The nature of Accountability

The concept of accountability has numerous facets. In fact it is more appropriate to speak of different accountabilities. The essence of accountability, argue Cutt and Murray (2000), has always been the obligation to render an account for a responsibility that has been conferred. Yet, while the concept might at first seem to be easily defined accountability relationships are in reality complex and multi-faceted (Sinclair, 1995). Glynn and Murphy (1996) argue that accountability is broadly speaking the process via which a person, or group, can be held to account for their conduct.

However,, Broadbent and Laughlin (2003) argue that there are broadly two forms of accountability; public/political accountability that involves the public as principals and is concerned with issues of democracy and trust, and managerial accountability that is concerned with day–to–day operations of the organisation They argue that under managerial accountability the provision of detailed information is not directed to being more accountable to the public but rather it is an attempt by the principals (elected representatives) to control the agents (managers) and legitimise past decisions and actions. In addition Funnell (2003) argues that other forms of accountability are reduced when accountability that highlights accomplishments progress and improved performance is encouraged. Similarly, broadening the scope of accountability to include managers inserts extra levels of accountability between the delivery of services and elected representatives. Service delivery, according to Funnell (2003) has been changed from a political activity to a technical issue therefore placing a greater emphasis on technical information such as accounting, budgeting and performance measurement. Further, these predominantly quantitative measures provide information about efficient performance, which is related to managerial accountability, rather than effective service delivery, which is related to public / political accountability.

Tilburg (2006) notes that in an upwards accountability to superordinates an emphasis is placed on procedural or administrative methods. She adds that performance measurement is a top-down process in which there is only participation by subordinates or the broader community. The emphasis on efficient service delivery and quantitative information changes the nature of accountability leading to a greater control by the executive rather than increased scrutiny of the executive (Broadbent and Laughlin 2003).

Financial accountability is a large component of the upwards accountability described by Tilburg (2006). Carnegie and West (2005) argues that general purpose financial reports, published by Australian local governments are often considered to be too complex, too narrow and confusing and impede the development of accountability in municipalities. Carnegie concludes by arguing that the emphasis on a narrow financial accountability is inappropriate for a non-commercial social institution.

The appropriateness of conventional accounting in providing information for public sector accountability has been questioned by Collier (2005). He argues that accounting is bound with the issues of who is accountable, to whom, and for what. The purpose of accounting systems is to capture and report information about economic transactions. He goes on to state that accounting provides explanations of past actions and justification for future actions. Therefore the type and format of the information provided by an accounting system can have an impact on the understanding of the accountability held by the different parties to the relationship. This is particularly the case with the advent of the New Public Management (NMP) and the consequent introduction of commercial accounting into the public sector (Carnegie and West, 2005). In the public sector accountability relationships are hierarchical involving principal and agent relationships. For example elected councillors are agents for the citizens that elected them and local government managers are agents for the councillors. The rendering of account requires the agent to provide information about decisions and activities to the principal. Accountability is thus established when an agent accepts resources and responsibilities entrusted by the principal.

It has been argued that NPM has changed the understanding of accountability in the public sector (Parker and Gould, 1999). On the one hand NPM, with its production values is a threat to traditional accountability; while on the other hand, it has broadened the concept of accountability to include performance. There is an emphasis on planning, budgeting and service delivery (Goddard, 2005) and a lessening of the differences between the public and private sectors (Hood, 1995). The expansion of the concept of accountability in the public sector has increased the need for appropriate information in accountability relationships. Cameron (2004) argues that the reporting of well-documented performance information is now fundamental to public sector accountability. Cameron's comment reinforces the perception that there has been a shift from public/political accountability toward managerial accountability. Similarly, Tilburg (2006) points out that performance measurement relies on guidelines, formalised procedures and standards resulting an accountability to procedures rather than clients.

According to Hood (1995) NPM involves the lessening of the differences between the private and public sectors. This includes defining relationships between the municipality and internal and external parties in contractual terms. This relies on the ability to reduce all accountability relationships to ones of obligation; where there is a principle/agent relationship. So long as the contract is clear then the obligations under the relationship are clear as are the information needs to monitor the performance of the contract. None the less, Mugan (2000) argues that accountability appears to be more rigorous in the public sector than in the business sector, particularly in regard to the processes used to determine their general directions and policies. However, principal/agent relationships are complicated by information asymmetry and power differentials (Broadbent and Guthrie, 1992).

Victorian Local Government has undergone numerous changes in recent years, many of which can be characterised as being part of NPM (Kloot and Martin, 2001). Local government is subject to the control of the State government, whose legislation gives it life and responsibilities (Kloot and Martin, 2001). They also argue that accountability in a NPM framework is more centred on financial outcomes. This is consistent with the findings of Taylor and Rosair (2000). However, Kloot and Martin (2001) conclude that local governments in Australia have emphasized accountability to ratepayers and the wider public and argue that managers in local government are capable of meeting the demands of multiple accountabilities. However, this is not the argument of Carnegie (2005), Ebrahim (2005) and Tilburg (2006).

Parker and Gould (1999) state that accountability in the public sector under the NPM, has expanded its scope beyond the traditional accountability, that was primarily concerned with the stewardship of assets and the monitoring of processes, to include the monitoring of inputs, outputs and outcomes. As a result of the change in accountability the information being provided is predominantly managerial rather than that required for public/political accountability. Under the influence of the NPM the accountability relationship between councillors, managers and citizens has changed so that measurement of results and the provision of information about performance has become increasingly important and is seen as fulfilling accountability obligations

Cameron (2004) points out that Key Performance Indicators (KPIs) are largely driven by the budgetary process and linked to the allocation of resources rather than the attainment of objectives, therefore emphasising managerial rather than political processes. In addition he suggests that the link to the budget explains the emphasis on efficiency rather than effectiveness. He goes on to say that many KPIs are reported by agencies to meet compliance requirements rather than to report on the effectiveness of programs. This line of argument was also supported by Ebrahim (2005).

The principal/agent or accountor/accountee relationship is arguably easier to define in a commercial context where contractual relationships are common and understood. Also the lines of accountability are easier to delineate in comparison to the public sector. However, under NPM accountability relationships, within the public sector, appear to have become contractual in nature with implications for the superior / subordinate relationship. Patton (1992) states, public sector organizations are not judged by the profits they make or the dividends they declare but rather on the policies that are developed and the extent to which stated objectives have been achieved. The argument outlined here by Patton (1992) equates with public/political accountability discussed by Broadbent and Laughlin (2003).

Taylor and Rosair (2000) concluded that the predominance of one type of accountability depended upon the intended accountees, that is, the participating parties within the structure of government and the public. The results reported by Taylor and Rosair (2000) indicated that the main purpose of external reporting was linked to meeting accountability demands of the participating parties and had little to do with providing accountability to those accountees outside of the government structure. In comparing accountability in the business sector with accountability in the public sector Mulgan (2000) states that in both sectors managers attempt to keep as much information confidential for legitimate reasons and to avoid unfavourable publicity. Similarly, Kinchin (2007) has argued that a decision-maker may be reluctant to embrace transparency as this not only reveals operative legislation and policies but also themselves. A decision-maker becomes vulnerable to criticism if they are completely transparent. Kinchin(2007) argues that a code-of ethics has the potential of ensuring public sector accountability. However, if the decision-maker does not adhere to a code of ethics then accountability will at best operate on a surface level. Therefore, following Kinchin (2007), the level and quality of accountability in an organization is linked to the values of individuals and the ability of individuals to influence the practice of accountability. Thus ones' hierarchical position could shape your understanding of accountability and your ability to have an impact on type of accountability predominating in the organization in which you hold a position.

Research Questions and Method

The research question to be answered is whether the understanding of accountability is influenced by the position held within local government; and whether councillors, tier1 managers and tier 2 managers have a different understanding of accountability. Data was collected by survey that had been developed on the basis of the issues raised in the literature. The questionnaire was submitted to the Victorian Local Government Association (VLGA) and the Municipal Association of Victoria (MAV) for comments about the appropriateness of the statements and the format of the instrument. Each of Victoria's 78 municipalities was sent a questionnaire accompanied by a covering letter. There were 330 useable survey instruments returned, representing a response rate of approximately 21 percent. There were 142 responses from metropolitan councils and 181 responses from regional councils. The respondents were divided into 113 councillors, 77 first tier managers (such as chief financial officers) and 135 second tier managers (department heads). Two-tailed ANOVA tests were applied to statements that explored a respondent's perception of accountability. The statements for which responses were sought included:

1. At the centre of an accountability relationship is stewardship;
2. A greater degree of participation in decision-making will improve accountability;
3. Only councillors should be held accountable for policy decisions;
4. Personal values are the only guarantee of accountability.

The respondents were grouped by the position they held; councillors, or tier 1 and tier 2 managers. The responses given by councillors and managers to each significant statement were then analysed (See Tables 3 to 7).

Results

The ANOVA tests of the five statements revealed statistically significant results according to whether the respondents were councillors, tier 1 or tier 2 managers (See Table 1).

The three groups were clearly in agreement with the statement that "*At the centre of an accountability relationship is stewardship*" (See Table 2). However, tier 2 managers showed the least support and were more likely to be undecided. There was very little difference between councillors and tier 1 managers in their response to this statement.

There was significant support for the statement that "*A greater degree of participation indecision making will improve accountability*", (See Table 3) particularly among tier 2 managers. Tier 1 managers had the largest percentage of respondents who disagreed with the statement. Tier 1 Managers had the largest undecided response.

The three groups all disagreed with the statement that "*Only councillors should be held accountable for policy decisions*", (See Table 4) however, fewer tier 2 managers agreed with the statement. Councillors had the largest percentage of respondents in agreement with the statement.

Councillors were also the group with the largest percentage of respondents who agreed with the statement that "*Personal values are the only guarantee of accountability*". (See Table 5). The tier 1 managers had the greatest percentage of respondents who were undecided and disagreed. Councillors had the smallest percentage of respondents who were undecided or disagreed.

Discussion and Conclusions

The ANOVA test revealed statistically significant difference in the responses to the five statements when analysed according to position, i.e. councillor tier 1 and tier 2 managers. The three groups did not generally disagree in their responses to the four statements, however, there were differences of degree. In general terms there was a broad similarity between the three groups in their understanding of accountability. The results point to the three groups holding a broad concept of accountability, beyond the merely financial. The results also indicate the existence of both upwards and downwards accountability However, the results indicate that there were variations in the responses of the three groups to the five statements. Therefore it can be argued that the hierarchical position held by a person can influence their perception of accountability.

The responses to the first statement that "*At the centre of an accountability relationship is stewardship*" was clearly supported by councillors and tier 1 managers, however significantly fewer tier 2 managers supported the statement. This may reflect the relative lack of power of tier 2 managers; few of their decisions would involve stewardship of the community's assets, rather they are concerned with the provision of services. This result may reflect the understanding of councillors and tier 1 managers that their positions involve stewardship.

The statement that "*A greater degree of participation in decision making will improve accountability*" was most strongly supported by tier 2 managers and least supported by tier 1 managers. This result could be indicative of tier 1 manager's concerns about control and the desire of tier 2 managers to be given a greater role in decision making. Again, this result reflects the influence of hierarchical position on the understanding of accountability.

The statement that "*Only councillors should be held accountable for policy decisions*", was rejected by the three groups, however, tier 2 managers were strongest in their opposition possibly reflecting their concerns about the power of the other groups. Councillors were more evenly divided indicating a belief that as elected representatives they were responsible for the decisions made by council. The tier 1 manager's response reflects a belief that upper management has a role in policy decisions.

The statement that "*Personal values are the only guarantee of accountability"* was also rejected by all three groups. It was most strongly rejected by tier 1 managers and given more support by councillors. This result might be interpreted as showing that councillors were more likely to feel that their personal values should be part of decision making. However, both management groups rejected the idea that personal values were important to accountability. Both groups of management appear to regard accountability as being underpinned by the institutional processes therefore rejecting the argument of Kinchin (2007).

The overall impression gained from the results of this study is that the position of the respondent in local government has an influence on their perception of accountability. The accountability relationships between councillors and managers are at the very centre of processes and policies of a local government and are impacted by the use of power. The results reported in this paper show a broad understanding of the concept of accountability irrespective of the position held by the respondent. However, differences between groups tend to be ones of degree; and there were no responses showing contradictory attitudes to those of other groups. The position of the respondent reflects the control and the degree of participation the respondent has in decision making. Tier 1 managers appear to want control while tier 2 managers were seeking greater participation. Personal values were seen to be an important part of accountability by councillors as they are elected and therefore politics and hence values play an important role in their decision making, while managers would more likely be guided by institutional processes.

These results were obtained by using a questionnaire and are thus subject to the problems associated with that method of research. However, the results do indicate areas for future research using qualitative methods.

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TABLES

Table 1. ANOVA for Councillors and Management Groups

Statement	Sig
Accountability can only apply in terms of probity	.010
At the centre of an accountability relationship is stewardship.	.045
A greater degree of participation in decision-making will improve accountability.	.040
Only councillors should be held accountable for policy decisions.	.001
Personal values are the only guarantee of accountability	.025

Table 2. Accountability and stewardship

At the centre of an accountability relationship is stewardship	Councillors %	Tier 1 Managers %	Tier 2 Managers %
Agree	73.6	74.7	61.7
Undecided	17.3	13.3	21.4
Disagree	9.0	12.0	16.9

Table 3. Participation and accountability

A greater degree of participation in decision-making will improve accountability	Councillors %	Tier 1 Managers %	Tier 2 Managers %
Agree	79.3	70.3	83.5
Undecided	4.5	6.7	3.8
Disagree	16.2	23.0	12.9

Table 4. Only Councillors accountable

Only councillors should be held accountable for policy decisions	Councillors %	Tier 1 Managers %	Tier 2 Managers %
Agree	40.2	27.3	19.5
Undecided	8.9	6.5	8.3
Disagree	50.9	66.3	72.2

Table 5. Personal values

Personal values are the only guarantee of accountability	Councillors %	Tier 1 Managers %	Tier 2 Managers %
Agree	46.4	22.0	33.1
Undecided	2.7	13.0	9.8
Disagree	50.9	65.0	57.1

AN EXPLORATION INTO THE BRANDING CONSUMPTION PATTERNS OF CONSUMERS RESIDING IN TOWNSHIPS OF TSHWANE: A SOUTH AFRICAN CASE

Michael Colin Cant*, Jan Wiid, Catherine Mpolokeng Sephapo*****

Abstract

The primary aim of this research paper is to investigate the branding patterns of consumers residing in townships (also referred to as underdeveloped areas/black urban areas) within the Tshwane area of South Africa. Households in black urban areas are already by far the largest group in the middle-income (LSM 5 to 8) market, where their figures continue to grow gradually (Chase, Legoete & van Wamelen, 2010:2). A quantitative approach was used for this study where a survey questionnaire was the method for collecting data. In order to satisfy research objectives of the study, a self-administered location based survey was distributed to the residents of Shoshanguve, Mamelodi and Attridgeville; black urban areas within the Tshwane region of South Africa.

Keywords: Branding, Purchase Patterns, Townships, Consumers, Tshwane, South Africa

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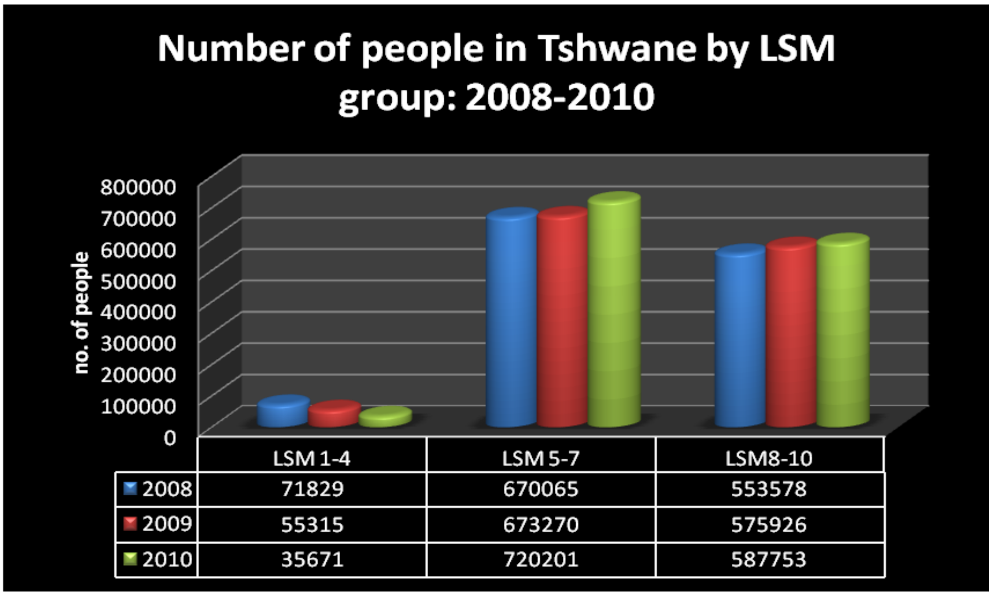
1. Introduction

South Africa is a melting pot of cultures (Brand spanking marketing, 2011). Townships are seen as the keystone of the South African community; however, these very communities are most often misunderstood by organisations (Brand spanking marketing, 2011). Townships in and around the city of Tshwane originate from the apartheid administration that had forced Africans, Coloured and Indian residences into their own segregated areas (SA Townships, 2012). Over the years, these areas have been seen as underdeveloped or unprivileged. However, tremendous growth has taken place within these areas, which has resulted in them becoming a gap in the market and creating new business opportunities. In addition, researchers and marketers have taken great interest in black consumers. Some reasons as to why black consumers' consumption patterns warrant separate attention are as follows:

- Total consumption is dominated by white individuals, thus a focus on aggregate consumption patterns ignores the important differences in consumption that exist in the Western (white) and African (black) consumers (Burger, Van der Berg & Nieftagodien, 2004:5). Over the past years, little consideration has been given to the consumption patterns of the vast majority of the population, namely the African population (Burger, Van der Berg & Nieftagodien, 2004:5).
- Expenditure patterns may also possibly differ methodically by race, given income, either because tastes flactuate among racial groups (culture indisputably influences various aspects of expenditure patterns) or because of a different history (Burger, Van der Berg & Nieftagodien, 2004:5).
- A focal point on African consumption patterns provides insight into the emerging African middle class, a occurence drawing a great deal of attention from analysts and commentators (Nieftagodien & Van der Berg, 2007:3).

Figure 1 provides an overview of the population within the Tshwane area by LSM groups, in the years 2008 to 2010. From this illustration, it can be seen that the majority of the population in Tshwane fell within the LSM 5 to 7 brackets in 2010. In addition, there had been a significant decrease in the population size within the LSM group 1 to 4. The LSM groups 8 to 10 also experienced a slight increase in population from 2008 to 2010.

Figure 1. Number of people in Tshwane by LSM group



Adapted from: Masemola & van Aardt (2011: 11)

A possible reason for these increased population figures might be due to the opening of shopping malls or centres in and around Gauteng. These developments have transformed the entire shopping landscape and shopping experience of residents. With further development still to be done in these areas, past shopping behaviour trends are bound to change. The urbanisation of townships, increases in malls or centres could very well contribute to the progression within LSM groups as these malls create jobs within the townships. In the context of this study, it is important to understand the significance of the various LSM groups. These groups can provide an overview of the income consumers have at their disposal based on their living situations.

Table 1 illustrates the average household income across the various LSM groups during 2010 and 2011. Although these figures portray the average household income in South Africa, it can be used in this study as it provides the understanding of the how much income households in each LSM have to spend on products and services that fulfil basic needs.

Table 1. Average household income by LSM groups

	Average household income	
	June 2010	**June 2011**
LSM 1	R 1 496	R1 136
LSM 2	R 1 732	R 1 929
LSM 3	R 2 052	R 2 258
LSM 4	R 2 829	R 3 138
LSM 5	R 3 832	R 4 165
LSM 6	R 6 398	R 6 322
LSM 7	R 10 066	R 10 255
LSM 8	R 13 698	R 14 014
LSM 9	R 18 414	R 19 654
LSM 10	R 27 143	R 29 512

Source: SAARF (2011)

From Table 1, it can seen that LSM groups 1 to 6 received an average household income below R7 000. With the recent economic conditions, consumers are spending their limited household income on food, clothes as well as water and electricity. These are basic needs and therefore are a priority. However, with increased food prices, limited research is available on which brands these consumers purchase. In addition, it can be see that LSM groups 7 to 10 receive an average household income of R10 000 and more, indicating that they would be more inclined to purchase branded products that cost significantly more than generic products. Since this assumption cannot be generalised to the population of Tshwane, it is important that such research be conducted.

To accommodate consumers in the economy, organisations have identified a gap in the market whereby more LSM groups are demanding lower priced products without compromising the quality of the products. These organisations therefore have created their own generic or manufacture brands and emphasise their quality being as good as the best. These products are created to provide consumers with more alternatives that are within their means. However, there are some products in the marketplace, which may be difficult to brand because they are generally viewed as produce (Pillay, 2007:30). As a result of this perception which consumers have of these products, manufacturers may decide that it is either too complex or expensive to brand these products with the result that these offerings are given the title of generic product (Pillay, 2007:30). Manufacturer brands are usually marketed by companies that are very large, reputable and have immense financial resources such as Spar and Pick n Pay (Pillay, 2007:30). The following are reasons for manufacturers choosing to brand their products;

- Brands help consumers identify and differentiate between consumer goods (Pillay, 2007:30);
- Brands reduce the amount of time that consumers spend in choosing among the different options that are available for purchase (Pillay, 2007:30);
- Brands give consumers assurance with regard to the level of quality expected from the product (Pillay, 2007:30);
- Branding also influences loyalty among consumers (Pillay, 2007:30).

For the purpose of this study, townships will refer to underdeveloped urban residential areas in which non-Western inhabitants live. These residents include Africans, Coloureds and Indian working class individuals (Give Hope, 2009). The city of Tshwane's black urban areas include Atteridgeville, Eersterus, Laudium, Mamelodi, Marabastad, Saulsville and Soshanguwe (SA Townships, 2012).

The objectives of the study are indicated below and the research methodology used to conduct this study is discussed thereafter, followed by an analysis of previous research studies. The research findings, concluding remarks and recommendations are discussed at the end.

2. Aim and objectives of the research

The aim of this research is to explore branding purchase patterns of consumers residing in underdeveloped areas of Tshwane. Market segmentation may be described as the process of dividing a market into groups of potential buyers who have similar needs and wants, value perceptions or purchasing behaviour (Martins, n.d). The findings of this study are therefore important for organisations seeking to include consumers in underdeveloped areas in their target audience during the segmentation process. In pursuit of identifying these patterns, additional objectives of this study include the following:

- To determine whether consumers residing in underdeveloped urban areas of Tshwane are price sensitive
- To determine whether consumers residing in underdeveloped urban areas of Tshwane are brand conscious
- To identify the main influences on consumers residing in underdeveloped urban areas of Tshwane to purchase branded products
- To identify the reasons consumers residing in underdeveloped urban areas of Tshwane have for purchasing branded products

3. Literature review

Branding literature

The role of branding and brand management is primarily to create differentiation and preference in the minds of the target audience (Xie & Boggs, 2006: 350). The growth of product branding has been constructed around the core role maintaining differentiation in a particular market (Xie & Boggs, 2006: 350). A commonly adopted definition of a brand is that 'a brand is a name, term, sign, symbol or design or a combination of them, intended to identify the goods or offerings of a an organisation and to also differentiate them from those in competition' (Bothma, 2013: 152).

Consumers are constantly presented with thousands of brands, some which satisfy multiple needs. Branding theory has identified different types of brands which consumers can choose from. Such brands include; producer or manufacturer brands; where the manufacturer of the product puts its name on the brand, a dealer brand which is also known as a private brand whereby the manufacturer is not known and a generic brand whereby the product is unbranded therefore labelled in terms of the type of product (Bothma, 2013: 162).

With the experience consumers may have had with brands over a specific period of time, some may develop preference and routinely purchase branded products as a result of being conscious of the brand. The term brand consciousnesses is therefore defined as the awareness of a brand as a distinct product seperate from others (Slide share, 2013).

Private brands, however, have become the most economically viable choice for consumers due the nature of the price. Compared to branded products, private brands' prices are lower and thus more affordable.

Sproles and Kendall (1986) identified basic characteristics of consumer decision-making. These are considered imperative in understanding consumers' decision to purchase branded products. A consumer decision-making style can be regarded as a mental orientation characterising a consumer's approach to making choices (Hafstrom, Chae & Chung, 1992: 147). These characteristics are illustrated in Figure 2.

Figure 2. Consumer decision-making characteristics

Source: Sproles & Kendall (1986:269)

From this model, it can be deduced that consumers will base their decision to purchase products on one or more of these factors. Therefore, these factors will now be elucidated (Sproles & Kendal, 1986):

Factor 1: High quality consciousness

This factor denotes that consumers search for the very best quality products, which these consumers would be more systematic in their shopping by mostly comparing products. It can, however, not be assumed that consumers are not concerned about price in pursuit of quality.

Factor 2: Brand consciousness, price equals quality

This orientation explains that consumers justify the price with the quality levels of products and/or brands. Buying behaviour will be towards more expensive and/or well-known national brands.

Factor 3: Novelty consciousness

Consumers exhibiting favourable scores in this orientation appear to gain enthusiasm and contentment from seeking out new things. In addition, variety is an important factor when purchasing products.

Factor 4: Hedonistic behaviour

Consumers portraying hedonistic shopping behaviour perceive shopping as a fun and joy filled activity, therefore shopping is considered a leisure action.

Factor 5: Price consciousness behaviour, value for money

Consumers who shop with this orientation seem to look for sale prices and are generally aware of low prices. In addition, they are apprehensive when purchasing from one store that has regular pricing because they seek the best deal in terms of value for money.

Factor 6: Impulsive buying behaviour

Consumers who strongly shop with this approach do not plan their shopping. This would imply that they are also not concerned about the price of the products and how much they spend.

Factor 7: Confused by over choice

Consumers, who are confronted with various brands and multiple stores to choose from, may experience difficulties in making a precise decision. Therefore, these consumers fall within this orientation.

Factor 8: Habitual, brand-loyalty shopping behaviour

Consumers within this orientation are likely to have favourite brands and stores. They therefore, over time, develop habits of choosing these brand or these stores. An example would be a consumer who buys at one store because of their low prices, over time, this may become a habit and loyalty towards this store may possibly develop.

Branding purchase patterns of consumers living in townships within the Tshwane area

According to Beneke (2010), South African consumers are vigilant about fully embracing private label brands. These brands are perceived to be of low quality. It is therefore up to the retailers to position their brands in a manner that affirms to consumers the quality levels of these private brands. This is heavily challenging as once a customer's mind is made up about a brand, it's next to impossible to change it (Dawson, 2011). Brands become what they have proven themselves to be and mental perceptions are hardened by experience (Dawson, 2011). People cannot form new perceptions without a new experience (Dawson, 2011). In the context of this study, purchase patterns refer to the extent to which consumers develop repeat purchasing patterns and the extent to which purchases are unplanned (Rama Rao, 2010). For the purpose of this study, the concept of 'brand purchase patterns' will be defined as the extent to which consumers develop repeat purchasing patterns with regards to branded products.

As previosuly discussed, private label brands, also known as store brands, refer to those brands that are owned by, and sold through a specific chain of stores (Beneke, 2010:203). These products are typically manufactured by a third party (contract manufacturer) under licence (Beneke, 2010:203). Two anomalies present themselves in terms of penetration of private label brands in South Africa (Beneke, 2010:205). Firstly, it has been concluded that retail concentration (essentially an oligopoly scenario in the retail sector) is highly correlated with success of private label brands (Beneke, 2010:205). Yet, in South Africa, despite high retail concentration enjoyed by the major supermarket chains, private label brands have not achieved the successes of their global counterparts (Beneke, 2010:205). Secondly, lower income groups tend to be the most common purchasers of private label brands due to higher levels of affordability (Beneke, 2010:205). The study by Van Eck, Grobler and Herbst (2004) investigated the perception of branding among African adolescents in the clothing industry. Although the study was conducted among adolescents, it is relevant as younger members of household (children) may act as an influencer concerning family decision making (Du Plessis, Rousseau, Boshoff, Ehlers, Engelbrecht, Joubert & Sanders, 2007:72). The study conducted by Van Eck, Grobler and Herbst (2004) showed that general perceptions regarding branded clothing are positive and flourishing among the African adolescent market. Unbranded clothing on the other hand, was perceived relatively less positive than the branded garments. However, these items were not perceived unfavourable to such an extent that adolescents would refrain from realising their worth. African households are already by far the largest group in the middle-income (LSM 5 to 8) market, where their numbers continue to grow steadily (Chase, Legoete & van Wamelen, 2010:2). It is for this reason that this market is of interest and is examined in this study.

Chase, Legoete and van Wamelen (2010) found that on brands, African consumers and Western consumers diverge sharply from each other. Forty-nine per cent of middle income African consumers agree with the statement "I purchase branded food products because they make me feel good". Only 26 per cent of middle income Western consumers say the same. Among the upper income African consumers, this number jumps to 65 per cent, while for Western consumers in the same category it falls to 22 per cent. In addition, the study concluded that the importance of brands to African consumers may be related to their low level of trust in retailers and consumer goods (Chase, Legoete & van Wamelen, 2010:3).

The above mentioned studies convey branding patterns and preferences of African consumers in South Africa as a whole; however, this is where there is a gap in research knowledge. Limited research has been conducted on branding patterns of consumers living in township areas of Tshwane.

4. Methodology

The research study made use of a survey questionnaire whereby quantitative data was captured. This approach was deemed appropriate by the researchers since the aim of the study was to investigate whether consumers residing in underdeveloped areas of Tshwane, purchase branded products. Therefore, this was done by means an analysis of frequency data collected in the survey. The population sample consisted of 38 African individuals residing in underdeveloped areas of Tshwane. The target population was inclusive of both males and females. Respondents varied in age, from 19 years of age to 56 years of age. The sampling method used in this study was the convenience sampling method. The data collection instrument consisted of dichotomous, multiple choice, single response, as well as multiple choice, multiple response choice questions.

In the data collection instrument, respondents were asked to indicate whether they based their decisions to purchase products on the price. This question was a dichotomous, single response question. Furthermore, respondents were asked to indicate whether they based their decision to purchase products on the brand of the products. As branding literature constantly reiterates, consumers' decision to purchase branded products can be influenced by a number of factors. Respondents were therefore requested to indicate who influenced their decision to purchase branded products over non-branded products. This question was a multiple response choice question. Lastly, in pursuit of understanding why consumers residing in underdeveloped areas of Tshwane purchase branded products, respondents were asked to provide reasons for their predetermined decisions.

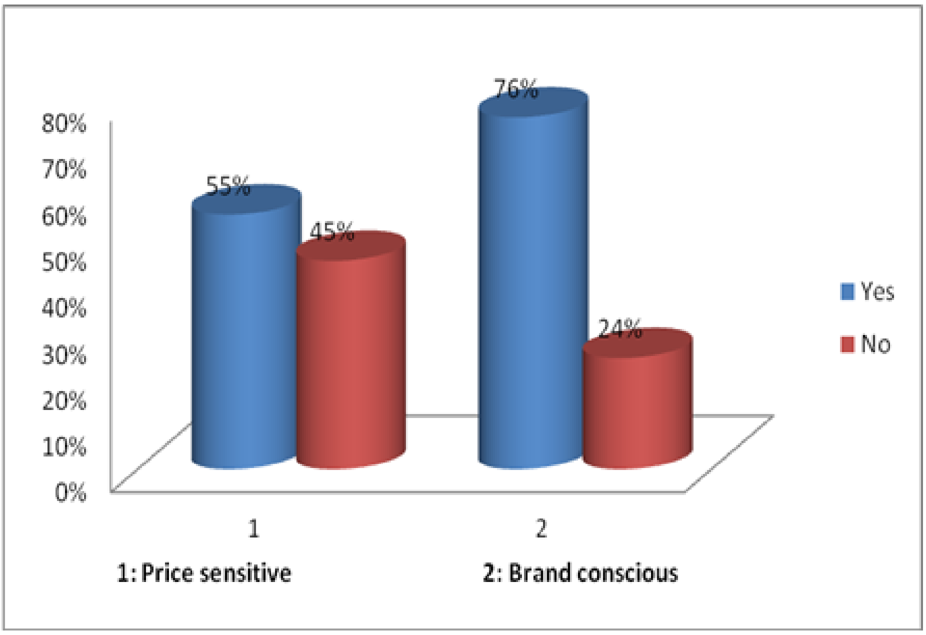
5. Research findings

In the earlier section, a great deal of literature was provided which delineated how consumers behave towards brands. A detailed report on the key findings from the research conducted will therefore be discussed in the next section. Completed questionnaires were received from 38 respondents (n=38) within underdeveloped areas of Tshwane.

Branding purchase patterns of consumers living in underdeveloped areas of in Tshwane

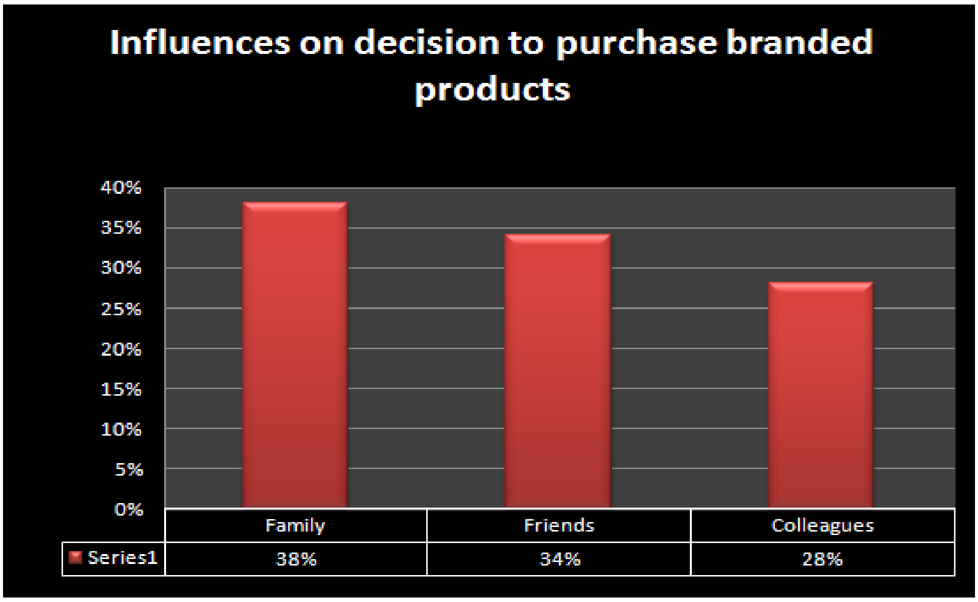
Consumers often base their purchase decision on one or more factors. Respondents were asked whether they based their purchase decisions on the price of the items or simply on the type of brand the item is. Figure 3 depicts the results.

Figure 3. Base of purchase decision



From Figure 3, it can be seen that 55 per cent of the sample population agreed and said that when purchasing products, they base their decision on price; meaning that they are price sensitive. However, 45 per cent indicated that their decision was not based on price hence not price sensitive. When asked if respondents were brand conscious, 76 per cent admitted that they were indeed brand conscious and 24 per cent indicated that the brand of products made no significant difference to their decision to purchase products. For those who were brand conscious, surely they could have been influenced by a number of things; be it factors, members of their households or simply people around them. Figure 4 portrays the respondents' responses.

Figure 4. Influences on decision to purchase branded products



From Figure 4, 38 per cent of the respondents were influenced by their family members to purchase branded products over non-branded products. Thirty-four per cent of the respondents indicated that friends influenced their decision and 28 per cent of the respondents indicated colleagues where influences on their purchase decisions. When asked to mention what other factors influenced their purchasing decision, respondents indicated that their primary need for the product determined whether or not they were going to purchase the particular product.

Thereafter, consumers were asked to provide precise reasons for purchasing branded products. The findings are illustrated in Figure 5.

Figure 5. Reasons for buying branded products

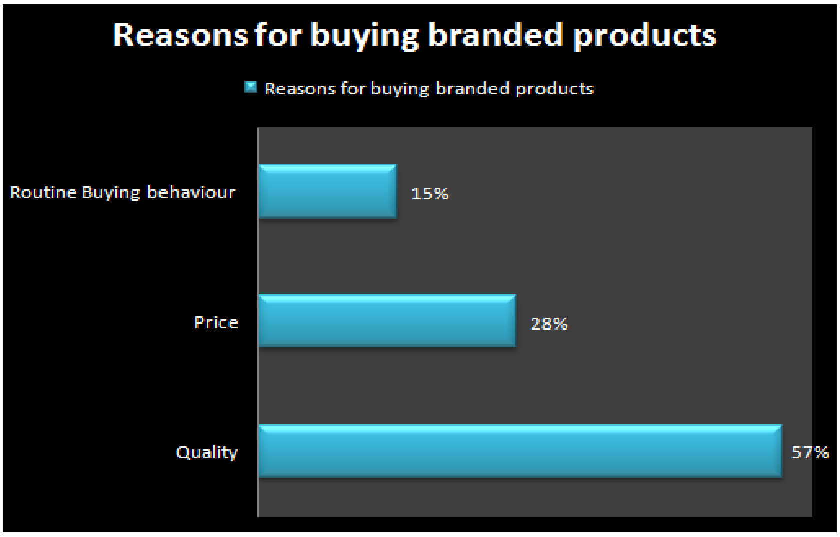
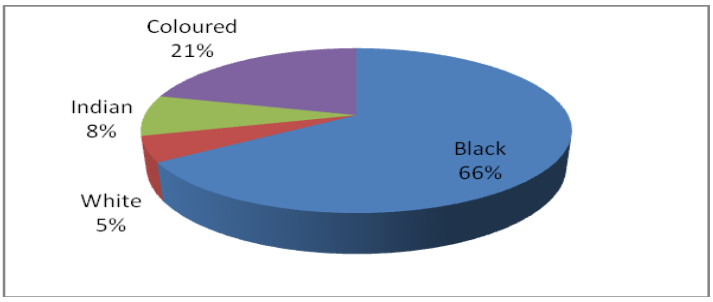


Figure 5 provides the reasons given by respondents as to why they purchased branded products. Quality was the main reason respondents purchased branded products whereby 57 per cent of the respondents indicated that this was their reason. The price of these branded products was also deemed important as 28 per cent of the respondents indicated that this was their reason for purchasing branded products. Lastly, 15 per cent of the respondents indicated that they only bought branded products because it was routine buying behaviour for them. They did not put much thought or effort into their decision.

Demographic data of consumers residing in black urban areas of Tshwane

The demographic data on consumers' household expenditure patterns within the black urban areas of Tshwane covered the gender, age range and the racial group of the respondents. As per our discussion earlier, the term 'Black urban area' refers to underdeveloped urban residential areas in which non-Western inhabitants live. These residents include African, Coloured and Indian individuals. Figure 6 represents the racial group distribution of consumers who completed the questionnaire.

Figure 6. Racial distribution of respondents



Of the respondents who participated in the research study, 66 per cent were African, 21 per cent were Coloured and 8 per cent were Indian. However, in spite of the perception given by the definition provided earlier, that black urban areas of Tshwane was restricted to African, Coloured and Indian consumers; five per cent of consumers who partook in the study were in fact Western. The gender distribution among the respondents was equally distributed; 50 per cent of the respondents who answered the questionnaire were male and equally, so 50 per cent were female.

Figure 7. Age distribution of respondents

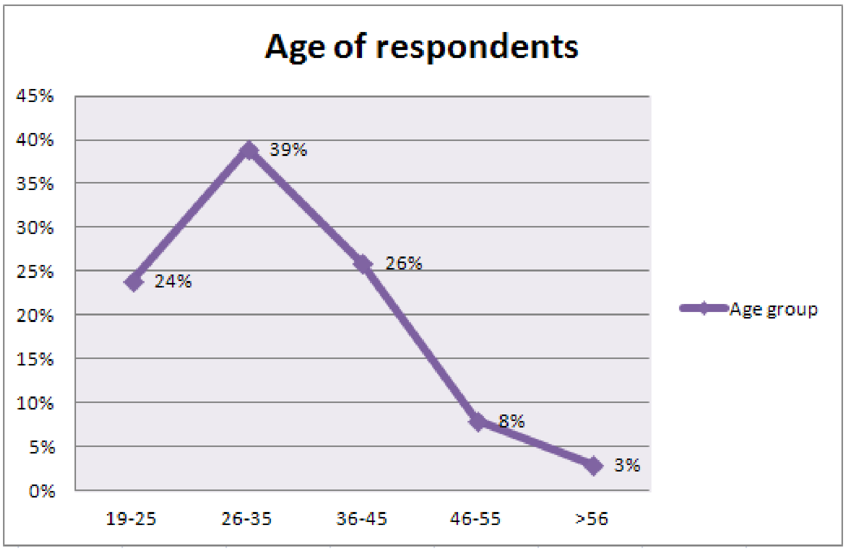


Figure 7 depicts the age distribution of the consumers who took part in the research study. Thirty-nine per cent of the respondents were between the ages of 26 and 35 years; 26 per cent were between 36 and 45 years, 24 per cent were between the ages of 19 and 25 years. The age group 46 and 55 represented only eight per cent on the total respondents and three per cent were older than 56 years.

6. Discussion

From the findings, it can be seen that the sample population is brand conscious in their buying. Seventy-six per cent of the respondents indicated that they are indeed brand conscious. Twenty-four per cent of the respondents indicated that they were not brand conscious. However, 55 per cent of the respondents indicated that they were price sensitive. This is consistent with the average household income figures provided in the study. Consumers within LSM groups 1 to 6 have a household income of less than R10 000, so considering other expenses and the economic conditions, they simply cannot afford to ignore the prices of products that they purchase. In addition, 38 per cent of the respondents indicated that family members are the main influences for purchasing branded products. Friends accounted for 34 per cent of the influences, whereas colleagues accounted for 38 per cent. It was interesting to see that with the restriction of disposable income, consumers strongly seek good quality products. Fifty-seven per cent of the respondents indicated that quality was the main reason for purchasing branded products. These findings can therefore alter the perception that consumers in townships are less concerned about quality.

7. Limitations

The limitations applicable to this study need to be acknowledged and taken into consideration before any recommendations could be provided. Firstly, the sampling size that was used was very small (n= 38), therefore the branding patterns determined cannot be generalised to represent the entire black urban area community of Tshwane. They can only provide a picture as to the branding convictions the sample holds.

8. Recommendations

This study investigated various branding purchasing patterns and buying decision of consumers residing in townships within the Tshwane area. The following are some recommendations that can be considered for further research:

- As a result of the world wide recession, consumers are being more careful with how they spend their money. However, their caution does not mean that they restrict their basic needs. The study found that more consumers are greatly concerned with the quality of the products they purchase which may result in them being slightly more brand conscious. However, price is not ignored by consumers as their income is limited. Retailers who have identified townships as a gap in the market can therefore take this into consideration in their product offerings. They simply cannot assume that because products are cheap that consumers will welcome them.
- Family was seen as the main influence for purchasing branded products, therefore future research can be conducted to establish the influence each family member has in the final decision making process and ultimately in which branded products to buy. The role of children within the African community can be of particular interest.
- The findings showed that 45 per cent of the respondents are not price sensitive, therefore research can be conducted to further delineate how spending is conducted for these specific households.

9. Conclusion

The primary objective of this paper was to investigate the branding buying patterns of consumers residing within township in the areas of Tshwane. Although the sample size was not representative of the entire population, it provides a clear view of convictions held by these consumers and their buying patterns. The most significant finding was that in pursuit of lower costs, the desire for quality goods and services is not compromised.

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REMITTANCE-LED GROWTH HYPOTHESIS: A CONCEPTUAL ANALYSIS

Kunofiwa Tsaurai*

Abstract

This research centered on the conceptual and empirical analysis of the remittance-led growth hypothesis. There exist four views with regard to the relationship between remittances and economic growth and these include the remittances-led growth, growth-led remittances, feedback view and the neutrality view. Remittance-led growth mentions that remittances inspire economic growth whilst the growth-led remittances view says that economic growth attracts more remittances into the country. The feedback view suggests that both remittances and economic growth promotes each other whilst neutrality hypothesis stipulates that there exists no relationship at all between remittances and economic growth. Majority of literature concur that remittances plays a significant role in boosting economic growth especially in developing countries. It is against this backdrop that this study focuses on conceptually and empirically analyzing the remittance-led growth hypothesis. Trend analysis between remittances and economic growth for Botswana as a case study was done using time series annual data ranging from 1980 to 2011. The literature conceptual framework analysis shows beyond any reasonable doubt that indeed remittances are an integral element of economic growth especially for developing countries. The study therefore recommends nations especially developing countries to make available the necessary infrastructure that attracts personal remittance inflows from its citizens working in other countries in order to boost economic growth.

Keywords: Remittances, Growth, Conceptual, Empirical, Analysis

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1. Introduction

Remittances flows to developing countries are equivalent to more than three times the quantity of official development assistance and as a result have positive economic growth implications (World Bank, 2013). In 2012 alone, remittance flows to developing countries was approximately US$401 billion, representing a 5.3% growth from year 2011, according to the World Bank (2013). Acosta (2008) also revealed that workers' remittance flows have become one of major sources of finance for developing countries.

Quite a number of empirical studies have so far investigated the relationship between remittances and economic growth. In a study on India, Jayaraman et al (2012) revealed remittances and the relationship between remittances and financial sector development had a positive impact on economic growth between 1970 and 2009. Using panel data approach from 64 countries made up from 29 African, 14 Asian and 21 Latin American countries, Nsiah and Fayissa (2013) established that remittances, openness and capital labour ratio had significant positive influence on economic growth for all the regions as a collective. The economic growth impact of remittances however was found to be more significant in Asian countries as compared to other region, revealed Nsiah and Fayissa (2013). An increase of remittances by 10% resulted in economic growth increase by 1.56%, 0.13% and 0.3% in Asia, Africa and Latin America and Caribbean regions respectively, argued Nsiah and Fayissa (2013). On the contrary, Akano (2013) discovered a uni-directional causality relationship running from gross domestic product (GDP) and gross capital formation (GCF) to remittance inflows into Nigeria's economy. While recorded remittances flowing into developing countries have increased over the last decade, very few conceptual analysis studies have been done to investigate the impact of remittances on economic growth in developing countries, argued Catrinescu et al (2009).

To the best of the author's knowledge, no study has so far been carried on the conceptual analysis of the remittances-led growth hypothesis. The current study aims to fill in that empirical literature gap. The findings from this research are going to help particularly developing countries in crafting a remittance policy and strategy that if implemented will go a long way in boosting economic growth.

The second section looks at conceptual literature analysis whilst the third section discusses personal remittances received and economic growth trends for Botswana. The fourth section concludes the study and put forward some policy recommendations.

2. A Conceptual and Empirical Analysis: Remittance-led Growth Hypothesis

Majority of both the theoretical and empirical literature review agree that remittances inspire economic growth. However, other researchers mention that certain minimum conditions and environment has to be in place first before the migrant exporting country can begin to enjoy remittance-led growth benefits.

Remittances-led growth hypothesis stipulates that remittances spur economic growth and studies whose findings resonate with this view include but are not limited to Guha (2013), Strielkowski (2013), Nsiah and Fayissa (2013), Castello and Boike (2011), Banaian and Roberts (2007), Ang (2009), Jayaraman et al (2012), Tansel and Yasar (2010), Haas (2006), Singh (2010), Jackman et al (2008), Sharma (2010), Haas (2005), Nikas and King (2005), Mundaca (2009), Richard et al (2005), Acosta et al (2008), Catrinescu et al (2009), Pradhan et al (2008), Giuliano and Arranz (2009), Ahortor and Adenutsi (2009), Bettin and Zazzaro (2012), Le (2009) and Balde (2011).

According to Guha (2013), remittances positively impact on the current account and improve the balance of payment of a recipient country. The same study by Guha (2013) revealed that remittances strengthen the currency of a recipient country assuming all other factors remains constant. Nikas and King (2005) concurred that remittances improve the balance of payment and lead to appreciation of the local currency apart from helping in modernizing the migrant-exporting country. However, the size of remittances plays a key role in determining the extent of its economic growth impact in the migrant-exporting country, argued Nikas and King (2005).

Economic growth impact of remittances is not uniform as it depends on the availability of an efficient remittance transfer mechanism in the migrant exporting country, revealed Strielkowski (2013). Due to differences in the efficiency level of remittance transfer mechanism, Strielkowski (2013) found out that remittances contributed to more GDP per capita growth in South Asian countries than in Official Development Assistance (ODA) countries. However, Castello and Boike (2011) established that the economic growth impact of remittances is far much more pronounced in smaller developing nations such as Guinea-Bissau, Tajikistan, Moldova, Honduras, Grenada, West Bank and the Gaza Strip than in larger and more developed nations such as India, China, Mexico and Brazil. However, Ang (2009) suggested that economic growth impact of remittances was very low in the rural areas as compared to urban areas of Philippines. The argument proffered by Ang (2009) was that remittances were more used for consumption purposes in the rural areas as compared to urban areas of Philippines where remittances are translated into value-addition activities and investments which are the cornerstone for economic growth. Tansel and Yasar (2010) also found out that remittances-inspired economic growth was not uniform in Turkey during the period 1970 to 2009.

A 10% increase in remittances inflows led to an annual economic growth rate of 1.6% in Armenia, further revealed Banaian and Roberts (2007). Apart from boosting economic growth, Banaian and Roberts (2007) discovered that remittances reduced poverty, impacted positively on education and resulted the decline of the most productive labour force in Armenia. Tansel and Yasar (2010) however discovered that remittances had an indirect significant impact on economic growth in Turkey via by boosting consumption, investment, income and imports both in the short and long run. However, using the panel approach comprising of 36 Sub-Saharan countries, Singh (2010) discovered that remittances was higher for nations with larger number of citizens living in the diaspora and for nations with more citizens living in more richer economies.

Moreover, Singh (2010) suggested that remittances-inspired economic growth is also higher for migrant exporting countries with stable political environments and deeper financial institutions. On the contrary, Giuliano and Arranz (2009) in a study of 100 developing countries discovered that remittances boost economic growth in countries with shallow financial markets by acting as an alternative method of financing investments.

In a study on Morocco, Haas (2006) established findings that were consistent with other proponents of the remittances-led growth hypothesis. Haas (2006) specifically revealed that remittances and international migration not only inspired economic growth but significantly improved the standard of living of the general populace in Morocco. In concurring with Haas (2006), Jackman et al (2008) revealed that remittances indirectly positively impact on economic growth through providing a stabilizing influence on investment and output volatility. Haas (2005) further argued that the remittance-inspired growth would be much more pronounced if the investment environment and immigration policies in the recipient country are conducive.

Sharma (2010) concluded the remittances-led growth hypothesis is only valid up to a certain point, beyond which its relevancy ceases to exist because of the role that other factors begin to play such as characteristics of migrants, socio/economic/political environment prevailing in the country of origin, immigration policies of the host country and the size of the remittances. According to a study by Mundaca (2009), remittance-inspired growth is heavily influenced by the level of financial development in the migrant-exporting nation. The availability of financial services leads to more and even better usage of remittances thus boosting economic growth in a recipient country, argued Mundaca (2009). The latter also revealed that remittances have an overall effect of increasing the positive impact of investment per capita on economic growth of the migrant exporting country.

Using panel data approach for 71 developing countries, Richard et al (2005) discovered that remittances do not only positively impact on economic growth but reduce the level of poverty in the recipient country. According to Richard et al (2005), a 10% increase in per capita remittances leads to a 3.5% decrease in the number of people living in poverty in the migrant exporting country. These results are consistent with those found out by Acosta et al (2008). Remittances contribute to long term economic growth in recipient countries where economic, political and institutional policies of high quality exist, argued Catrinescu et al (2009).

Using panel data approach on 39 developing countries, the study by Pradhan et al (2008) produced statistically significant results that are consistent with other remittances-led growth proponents. Remittances boost national gross savings and investment resulting in long term economic growth of the migrant exporting country, argued Pradhan et al (2008). The same study by Giuliano and Arranz (2009) revealed that remittances inspire economic growth by improving capital allocation and ameliorating credit constraints in the migrant exporting country. Remittances ensure allocative efficiency by contributing more towards economic development than foreign aid because they are received by the people in need, argued Balde (2011).

The existence of a good investments climate and strong human capital development index accelerate the positive impact of remittances on economic growth in the migrant exporting country, revealed Ahortor and Adenutsi (2009). It is against this reason that remittances contributed more towards long run economic growth in Latin America and the Caribbean as compared to Sub-Saharan Africa, according to Ahortor and Adenutsi (2009). Bettin and Zazzaro (2012) stressed that the migrant exporting country can only meaningfully economically benefit from remittances inflow if the banking sector is efficient and economic risk is high.

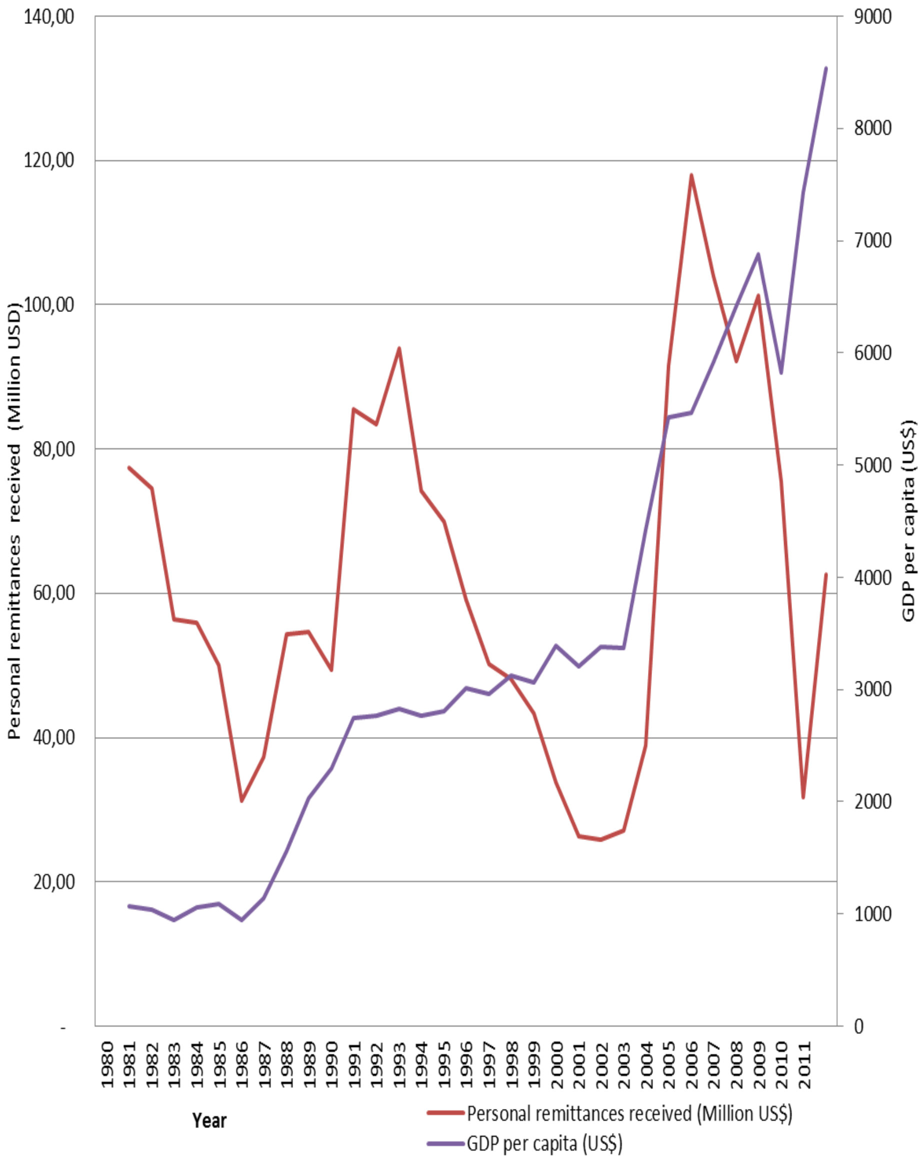
However, Guha (2013) argued that remittances will not positively influence economic growth of a recipient country in the absence of a conducive investment environment in the country. The true positive influence of remittances on economic growth can not be realised unless there is appropriate avenues for absorption of these inflows into the economy of the recipient country, revealed Guha (2013). Balde (2011) discovered that remittances indirectly positively influenced economic growth by boosting savings and investment in the Sub-Saharan African (SSA) countries. On the contrary, Le (2009) established that remittances reduce the desire to work by residents in a migrant exporting country thereby negatively impacting on economic growth.

3. Remittance and Economic Growth Trends: A case of Botswana.

The 31 year period from 1980 to 2011 was characterised by a general upward trend in GDP per capita and mixed trend in personal remittances received by Botswana (see Figure 1). According to the World Bank (2012), personal remittances received went down by 59.56%, from US$77.33 million in 1980 down to US$31.27 million in 1985. During the same time frame, GDP per capita declined by 11.50%, from US$1 064.92 in 1980 down to US$942.49 in 1985. The period 1985 to 1990 saw both personal remittances received and GDP per capita going up by 173.62% and 190.94% respectively.

GDP per capita increased by 9.78%, from US$2 742.13 in 1990 to US$3 010.38 in 1995 whilst personal remittances received further plummeted by 30.87% during the same time frame. Personal remittances received declined by a significant 55.64%, from US$59.16 million in 1995 down to US$26.25 million in 2000 whilst GDP per capita further surged by 6.44% during the same period. However, both GDP per capita and personal remittances received both registered an increase of 70.64% and 349.19% respectively during the five year period ranging between 2000 and 2005. Moreover, personal remittances plummeted by 73.12%, from US$117.89 million in 2005 down to US$31.69 million in 2010 whilst GDP per capita experienced a 35.83% surge during the same time frame to finish year 2010 at US$7 426.63. The year 2011 saw both personal remittances received and GDP per capita increasing by 97.62% and 14.89% respectively. GDP per capita went up from US$7 426.63 million in 2010 to US$8 532.62 million in 2011 whilst personal remittances grew from UD$31.69 million to US$62.64 million during the same time frame.

Figure 1. Personal remittances received (Million US$) and Gross Domestic Product per capita (US$) trends for Botswana – 1980-2011



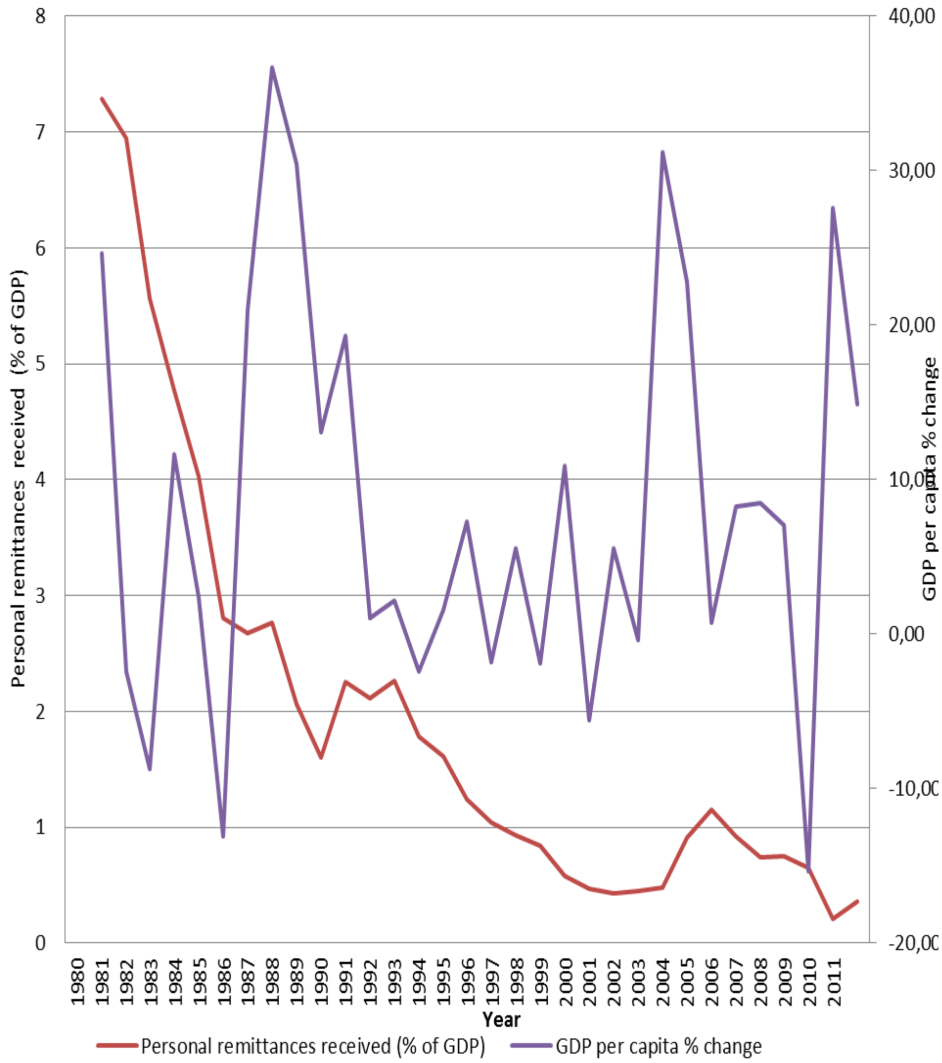
Source: World Development Indicators (2012)

Whilst personal remittances received (% of GDP) was characterized by a general gradual decline during the entire period between 1980 and 2011, GDP per capita growth exhibit a mixed trend during the same time frame (see Figure 2). Personal remittances received (% of GDP) declined by 4.48 percentage points, from 7.29% in 1980 down to 2.81% in 1985. It further declined by a paltry 0.55 percentage points between the five year period 1985 and 1990 whilst GDP per capita growth surged by a massive 202.44 percentage points during the same time frame.

Both remittances received (% of GDP) and GDP per capita growth declined by a paltry 1.02 percentage points and a huge 181.16 percentage points respectively during the period 1990 to 1995. Moreover, the subsequent five year period between 1995 and 2000 again saw both personal remittances received (% of GDP) and GDP per capita growth going down by 0.77 percentage points and 3.34 percentage points respectively.

Personal remittances received (% of GDP) increased by a slight 0.68 percentage points, from 0.47% in 2000 up to 1.15% in 2005 whilst GDP per capita growth went up by a significant 64.20 percentage points (from 6.44% to 70.64%) during the same time frame. However, GDP per capita growth recorded a 34.81 percentage points negative during the subsequent five year between 2005 and 2010 whilst personal remittances received (% of GDP) went down by a paltry 0.94 percentage points during the same period. The year 2011 was characterized by a slight increase by 0.15 percentage points in personal remittances received (% of GDP) and a significant decline of 20.94 percentage points in GDP per capita growth. The latter plummeted from 35.83% in 2010 down to 14.89% in 2011 whilst the former surged from 0.21% in 2010 to 0.36% in 2011.

Figure 2. Personal remittances received (% of GDP) and GDP per capita % change trends for Botswana – 1980-2011



Source: World Development Indicators (2012)

4. Conclusion and Recommendations

This research centered on the conceptual and empirical analysis of the remittance-led growth hypothesis. There exist four views with regard to the relationship between remittances and economic growth and these include the remittances-led growth, growth-led remittances, feedback view and the neutrality view. Remittance-led growth mentions that remittances inspire economic growth whilst the growth-led remittances view says that economic growth attracts more remittances into the country. The feedback view suggests that both remittances and economic growth promotes each other whilst neutrality hypothesis stipulates that there exists no relationship at all between remittances and economic growth. Majority of literature concur that remittances plays a significant role in boosting economic growth especially in developing countries. It is against this backdrop that this study focuses on conceptually and empirically analyzing the remittance-led growth hypothesis. Trend analysis between remittances and economic growth for Botswana was done using time series annual data ranging from 1980 to 2011. The literature conceptual framework analysis shows beyond any reasonable doubt that indeed remittances are an integral element of economic growth especially for developing countries. The study therefore recommends nations especially developing countries to make available the necessary infrastructure and investment climate that attracts personal remittance inflows from its citizens working in other countries in order to boost economic growth.

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NEGLECTED STAKEHOLDER GROUPS: CONCEPTUALISING A DYNAMIC MODEL FOR NEGLECTED STAKEHOLDER ANALYSIS AND ENGAGEMENT

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Abstract

Stakeholder analysis is well-established as a means by which policy makers and organisations gauge the interests of their salient stakeholders. This paper explores the application of stakeholder theory to 'neglected stakeholders' and explores the risks involved in assuming that disparate stakeholder groups lack power. This paper uses two case studies of Recreational Vehicle users whose interests and power were underestimated during a strategy development process. The rapid responses and formation of power of this neglected group via social media highlights the changes in stakeholder interactions that have emerged with the use of the Internet. They also demonstrate that managers and policy makers must now utilise iterative stakeholder analysis techniques that are reactive, and which respond to previously neglected stakeholder groups.

Keywords: Stakeholders, Dynamic Model, Stakeholder Analysis, Stakeholder Theory

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Introduction

Stakeholders have been defined as 'any group or individual who can affect or is affected by the achievement of an organisation's objectives' (Freeman, 1984, p. 46). Identifying and involving stakeholders in management decisions is widely advocated within the management and tourism literature (Cheng, Hu, Fox and Zhang, 2012; Hardy and Beeton, 2001; Jamal and Getz, 1999; Sautter and Leisen, 1999; Yuksel et al., 1999). Recently, stakeholder analysis models have been developed which add depth to stakeholder analysis application, prompting decision makers to consider the level of power and interest of stakeholders groups in relation to particular issues. These models work well when applied to existing and well-established stakeholder groups, which can be seen by their application within a variety of industry contexts. However, the emergence of new technologies such as social media has facilitated communication and supported the empowerment of neglected stakeholder groups. For this paper, 'neglected' groups include those whose existence has not been identified by decision makers or those whose characteristics have not yet been ascertained. This paper explores the ramifications of 'neglected stakeholders' when attempting to make policy decisions affecting Recreational Vehicles users (RVers) in Australia and Canada.

Stakeholder Theory

Donaldson and Preston (1995) state that Stakeholder Theory comprises three essential elements: the first relates to descriptive/empirical outcomes of Stakeholder Theory, which is the ability of the theory to describe the characteristics and behaviour of an organisation or system and its stakeholders. It explains the relationships which exist outside the organisation. The second element is also an outcome which they describe as instrumental, whereby the connections between stakeholders and corporate objectives are explored. The third aspect may be regarded as a normative, moral approach as opposed to an outcome, and is an assumption that all stakeholders have a right to participate if they have an interest in an organisation or an issue It has been argued that stakeholder concerns, goals and values must be included in strategic planning and are integral to managing destinations in a successful manner (Bornhorst, Ritchie and Sheehn, 2010; Robson and Robson, 1996). In a tourism context, this includes stakeholders such as tourists, residents, business owners and local government officials (Goeldner and Ritchie, 2002; Hardy and Beeton, 2001). Both Byrd (2007b) and Hardy and Beeton (2001) have argued that the final moral element identified by Donaldson and Preston (1995) is crucial in the context of tourism: stakeholder involvement must begin with recognition of stakeholders and make allowance for them to make informed and conscious decisions about the development of tourism at a specific destination.

In practice, however, the application of Stakeholder Theory in the tourism context does not conform to the theory particularly well. Byrd and Gutske (2007, p. 177) argue that tourism planners often make subjective judgements about 'who and what groups are included to represent stakeholders'. Byrd (2007b) argues that two areas of thinking have emerged. The first approach has synergies with the normative moral approach developed by Donaldson and Preston (1995). The notion is that consideration should be given to all tourism stakeholder groups without one being assigned priority over the other. Whilst time consuming and expensive, this approach can reduce the potential for conflicts, and is regarded as more politically legitimate (Yuksel, Bramwell and Yuksel, 1999). It has been argued that if tourism stakeholders that are instrumental in the ongoing survival of a plan or corporation are not identified, then the entire process may collapse (Clarkson, 1995).

The second approach has synergies with the classical idea of stakeholder management, whereby a central agency considers the interests of stakeholders and develops policy based upon their power. Clarkson (1995) applied the classical approach by using a tiered approach which 'prioritises' stakeholders according to their power bases. In this approach, primary stakeholders are described as those whose continued participation is essential for the corporation to survive. In comparison, secondary stakeholders are described as those who can affect and influence, but who are not considered to be essential to the corporation's ongoing survival. Grimble and Wellard (1997) also took the classical approach of prioritisation and classified "more or less" important stakeholders, according to their influence.

One of the risks of estimating power (within either approach) is that it may change over time and/or be underestimated, particularly if stakeholder groups are 'under-researched' or have only recently emerged. Markwick (2000) argued that stakeholder mapping provides a useful tool in managing risk - it is used to understand those who are the 'blockers' and 'facilitators' of tourism developments. Her model mapped the level of interest of each stakeholder group and also their ability or power to exert their influence. It also recognised key players and argued that they should be considered during the formulation and evaluation of proposals. Additionally, Markwick (2000) also argued that tourism stakeholders may appear to have little interest and high power, and that 'difficult situations can arise if their level of interest is underrated and they suddenly reposition' (p. 521). The model also argued that tourism stakeholders with high interest levels but low power also need to be kept fully informed of major decisions in order to maintain their goodwill in case of the event in which they become crucially important allies or opponents of other stakeholders (Markwick, 2000).

Figure 1. Stakeholder Mapping

		LEVEL OF INTEREST	
		LOW	HIGH
POWER	LOW	**A** Minimal Effort	**B** Keep Informed
	HIGH	**C** Keep Satisfied	**D** Key Players

Adapted from Markwick, 2000

Newcombe (2003) built upon this by proposing that the strength of stakeholder mapping is its ability to make judgements on three issues: likelihood, means, and impacts of the stakeholder groups upon projects. In doing so, he proposed the power/predictability matrix, which could be used to plot stakeholders' power and their predictability of power. The matrix was proposed to be a tool that enabled 'managers to assess the size of the stakeholder problems they have' (Newcombe, 2003, p. 844).

Figure 2. The Power/Predictability Matrix for Stakeholder Mapping

PREDICTABILITY

POWER	LOW	**A** Few, if any, problems	**B** Unpredictable but manageable
	HIGH	**C** Powerful but manageable	**D** Greatest dangers or opportunities

The power/predictability model is designed to help managers assess which stakeholder groups could cause issues. In Quadrant A, stakeholders are highly predictable with low power bases, and are argued to present few, if any, management problems. Quadrant B includes stakeholders who are unpredictable but possess limited power, and are considered 'easily manageable'. Quadrant C stakeholders are considered to be powerful but predictable, whilst those in Quadrant D pose the 'greatest danger', as they are considered to be 'unpredictable and powerful.' They are considered by Newcombe (2003) to be the stakeholders who can halt projects, although unlike stakeholders in Quadrant C, they are considered to be more open to persuasion and can be marshalled to support innovative solutions.

The issue with this model is that it assumes one can gain all information about a stakeholder group in terms of their power and predictability (e.g. before a tourism development project begins). While the models recognise that stakeholders in Quadrants A and B (who have less power) can influence stronger stakeholders, it does not account for 'neglected stakeholder' groups whose members (and power bases) are assumed too disparate to be influential. The models are inherently static, failing to acknowledge that stakeholder groups can suddenly become influential. Situations such as these may include the attainment of power by a stakeholder group after the process of stakeholder mapping has been completed, or when emerging stakeholder groups are underestimated, or even not assessed for both their power and predictability. This issue was recognised by Healey (1997, p. 271) who argued that 'stakeholder analysis needs to be conducted in an explicit, dynamic and revisable way as stakeholders may change over time in their concerns.' Mitchel, Agle and Wood (1997) argue that the relative importance of differing stakeholder groups over others rests upon three relationship attributes: power, legitimacy, and urgency. Building upon this notion, Wickham and Wong (2009, p. 295) summarise these as follows:

1. *Power itself does not necessitate high salience in a stakeholder- manager relationship; power gains its authority through legitimacy and its exercise through urgency.*
2. *Legitimacy needs the other two attributes, power and urgency to gain its power and voice.*
3. *Urgency, when combined with at least one of the other attributes, will increase the salience in a stakeholder- manager relationship.*

Wickham and Wong (2009) argue that there are three levels of stakeholder management: the rational level, the process level, and the transaction level. At the rational level of analysis, managers need to go beyond mapping of their stakeholders and ensure they understand the ideologies and the personalities at the core of the group. At the process level, Wickham and Wong (2009) argue that managers may choose to move away from inclusive management techniques and consider disengaging or ignoring dysfunctional stakeholder groups. At the transaction level, they take this one step further and argue that managers may have exchanges with stakeholders that favour the organisation. However, the underlying risk of this approach is that if stakeholders are inaccurately mapped, or their powers are underestimated or change over time, the entire stakeholder management process will be significantly undermined.

Within the tourism literature, stakeholder management and mapping has also been addressed. Tourism stakeholders have been determined to include individuals within the community, government departments, the private sector, the public sector (Hall and Page, 1999) and in later work, visitors (Hardy, 2005). Stakeholder Theory has been applied by a number of researchers within the tourism literature (Byrd and Gustke, 2007; Grimble and Wellard, 1997; Jamal and Getz, 1999), commonly used to focus upon individual stakeholder groups: either tourists, business owners or regulators (Byrd and Gustke, 2007; Hardy and Beeton, 2001). The need for research that concurrently assesses multiple stakeholder groups has been stressed by many authors within the literature who argue that concurrent assessment is a mechanism for examining and monitoring differing views and encouraging sustainable tourism outcomes (Byrd, 2007a; Byrd and Gustke, 2007; Hardy and Beeton, 2001; Sautter and Leisen, 1999; Yuksel et al., 1999). As is the case within the broader stakeholder literature, two differing approaches now exist within the tourism stakeholder literature. Most common is the normative approach to stakeholder management. This approach aligns itself with the notion of collaborative decision making and has synergies with the notion of sustainable tourism (Hardy and Beeton, 2001). It implies that all stakeholder groups should be given priority without one being given preference over the others (Hardy and Beeton, 2001; Sautter and Liesen, 1999; Yuksel et. al., 1999). Consequently, a crucial first step is to identify all stakeholder groups, from which assessments can be undertaken to determine their levels of power, influence and interest, as well as relationships with other stakeholders. From a sustainability perspective, the normative approach is likely to produce more sustainable outcomes as it is more likely that existing broad stakeholder groups will be involved. Indeed, it has been argued that it is only through the application of this approach that sustainable planning and management may be achieved (Hardy and Beeton, 2001). But from an industry perspective, the normative approach is costly, time consuming and difficult to implement. The reality of the tourism industry is that plans and proposals are often made and stakeholder management is typically implemented after the fact. Conversely, the classical view, whereby power is considered and certain stakeholder groups may be favoured over others, represents the practical reality of the application of stakeholder management in tourism. It risks overlooking/underestimating neglected stakeholder groups and in doing so, may compromise the achievement of sustainable tourism outcomes. Once judgements are made regarding the various legitimate stakeholder groups, or stakeholder groups that require interaction and response, existing approaches to stakeholder management are then limited in their ability to incorporate and respond to neglected stakeholder groups.

This paper presents two cases where a once ‘neglected’ and geographically disparate stakeholder group were excluded from the decision making process in two tourism destinations in Canada and Australia. Both destinations were forced to respond to a rapid rise in a new form of tourism practice (i.e. ‘free camping’) by a segment of tourists: Recreational Vehicle (RV) users. These case studies show how a neglected stakeholder group can rapidly consolidate their collective power, legitimacy and create urgency. The outcomes illustrated in these cases generally support the arguments previously made by Hardy (2005) that the understanding of multiple-stakeholder perceptions should be a key component of sustainable tourism planning. The focus was however specifically on dynamic changes in the stakeholder landscape. Therefore, the ability of stakeholder analysis to uncover neglected and disparate stakeholder groups formed the core inquiry of this research.

Understanding the Recreational Vehicle User Stakeholder Group

Travel in a Recreational Vehicle (RV) is a ‘form of tourism where travellers take a camper trailer, van conversion, fifth wheel, slide-on camper, caravan or motor home on holiday with them, and use the vehicle as their primary form of accommodation’ (Hardy and Gretzel, 2011, p. 194). The recreational vehicle sector has been widely reported as growing rapidly (Counts and Counts, 2004; Onyx and Leonard, 2005; Tourism Australia 2012). It is a sector which thrives upon the notion of freedom and the open road, an image which has been popularised in many Western countries. The increase in RVers has a variety of consequences for communities and businesses that have had to accommodate these travellers. The large size of RVs and their internal designs necessitate specific infrastructure - such as information on parking, the creation of large parking bays and campsites which have easy access and minimise the need for turning or reversing. Many vehicles are equipped with bathroom, kitchen and electrical appliances and campsites now cater to these needs providing electrical hook ups, Wi-Fi access or grey and black water sewage facilities. However, mid-sized to large RVs are also capable of staying at ‘dry sites’ which have no facilities at all because they contain grey and black water storage and are equipped with battery storage, solar panels or diesel generators.

The ability of RVs to stay at ‘dry sites’ means that the practice of free/low-cost camping is now widespread throughout Australia and North America with countless websites, discussion boards, blogs and books having been created that are dedicated to this activity (Counts and Counts, 2004; Hardy, Hanson and Gretzel 2012). For councils affected by this phenomenon, a management dilemma exists. ‘Free camping’ sites attract RVers to areas that they would not otherwise stay within the region. The issue of free camping is a great challenge facing the tourism industry; the infrastructure requirements not only affect campground owners (who lose business), but also local councils (who are increasingly involved in the provision and/or management of free or minimal cost campsites). It has also created clear divisions in communities affected by RVing and as such, is an area of research that speaks strongly of the relevance of stakeholder research (Prideaux and Carson, 2003). The RVing market in Australia and North America has recently been compared in terms of their online behaviour and use of technology. Recent research documented that social interaction and the use of technology- for both trip planning and online fellowship - forms a highly significant part of the RV experience (Hardy and Gretzel, 2011; Hardy, Hanson and Gretzel, 2012).

Method

Our research was opportunistic, in that we observed an issue arising through the local media in Canada and Australia. The similarities in the debate lead us to explore why it was such a contentious and unresolved issue in different continents and their respective tourism industries. As such, this research adopted a multiple-case study approach in order to focus on the neglected stakeholder phenomenon in the RVing context. The multiple-case study approach allowed us to understand the complexity of the situations in Canada and Australia, and to extract commonalities and differences between the two contexts (Babbie 2004; Patton 2002). A multiple-case study approach holds credence for the research because in both countries, the practice of free camping is a commonly debated issue. Recent research has revealed that RVers in North America and Australia are similar in terms of their online 'neo-tribal' behaviour and performative aspects such as club gatherings, member-based activities and RV-based fellowship (Hardy, Hanson and Gretzel, 2012).

In terms of data collection, we gathered information from multiple sources including in-depth interviews and news media articles (including 'letters to the editor'). In terms of primary interview data collection, and in order to understand RVers' perceptions and motivations in British Columbia, Canada, 25 in-depth interviews were conducted during August and September of 2005 with RVers staying at the Wal-Mart car park. The in-depth interviews were purposive and ceased when saturation of opinions was reached, meaning that no new information was emergent (Guba and Lincoln, 1989). Similarly, in the summer of 2011-2012, we conducted in-depth interviews of 51 RVers staying in free and low cost campsites in Tasmania. Of the 51 RVers interviewed, 21 were staying in a low cost local council managed area, adjacent to a sports playing field. The remainder were staying in National Park managed sites on the East Coast of Tasmania. One of these sites, Mayfields, was completely free (6 RVers) and the other was the well-known Freycinet National Park (19 RVers). Our in-depth interviews were also similar in that they were purposive, and ceased when saturation occurred.

Each of the primary interview transcripts and secondary data sources were subject to a rigorous content analysis process that followed the five-stage protocol forwarded by Finn, White and Walton (2000). The content analysis and the verification of the conclusions drawn were facilitated by the use of the NVIVO (version 8) software package. During Stage One, the aims and objectives of the research were identified, and the first round coding rules were developed. Coding refers to the process of converting information into contextual values for the purposes of data storage, management and analysis allowing theme identification (Ticehurst and Veal, 2000). In the second stage of the content analysis, all of the interview transcripts and secondary data were converted into MS Word® format, and entered into a codified NVIVO database. At regular intervals, inter-coder reliability checks were taken to ensure that the data were coded consistently with the rules set in Stage One. In the third stage of the content analysis, the coded data were further interrogated to detect any significant themes that emerged in the data. The trends and emerging themes detected in the analysis formed the basis for establishing the second round of data categories. As was the case in Stage One, the second round of coding rules were developed prior to the coding of the data itself (to maintain a consistent approach between researchers), and to provide a protocol for others to follow should they wish to replicate the analysis. In the final stage of the content analysis, the results of the second round coding were refined and the research findings finalised. In order to facilitate the theory building process, memos were maintained about the data, their categories, and the relationships between them as they emerged (Wilson, 1985). NVIVO has a facility for the creation and retention of such memos for later consideration and analysis. Utilising the memo capability within the NVIVO package, memo reports were generated by the software after 'Stage Two' coding. From these reports, the trends and emerging themes became clearer. The themes emanating from the 'second round' of coding form the basis of the results section that follows.

Results

Case Study #1: Prince George, British Columbia, Canada

Prince George is located at 53 degrees north in British Columbia, Canada. Situated where the Fraser River and Nechakao River converge, the township has a long history of settlement, beginning with the Lhledi Tenneh people. Following European settlement, Prince George has been the site of fur-trading settlements by the Hudson Bay Company and more recently, pulp mills. Therefore its role in tourism, given its location on the junction of two major highways running north-south and east-west, is as a stopover destination. It is known as a destination where RVers re-fuel and rest while travelling either north to Alaska, west to Prince Rupert, or East to Jasper.

During the time of this investigation, RVers had several options for overnight camping. They could stay at four commercial grounds, or in the local WalMart car park. Over the past ten years, WalMart has become increasingly popular for RVers, along with other 'box-stores' through North America. According to an article by Moskowitz (2004), WalMart is popular with RVers because of its perceived safety and convenience. The practice of using WalMarts as an overnight stop is now extremely common, with a plethora of websites and online discussion groups devoted entirely to the practice. Although the WalMart website neither discusses nor promotes the practice, the unofficial WalMart RVing websites that exist, state that provided the council or retail managers have not banned overnighting it is tolerated, as long as RVers are discrete. Some websites devoted to the practice state there are unofficial rules of engagement: asking the manger first, staying only one night, parking as far as possible from the store, being unobtrusive and not pulling out items such as tables and chairs (Fletcher and Crawford, 1999). While definitive research does not exist on usage on WalMart parking lots, the activity of free camping (or 'boondocking' as it is known in North America) is significant. A study by Tourism British Columbia (2005) found that a third of travellers spent at least one night in a roadside pull-out or parking lot during their trip, and 7 per cent of all travellers indicated that they used roadside pull-outs or parking lots as their primary form of accommodation.

Since the 1980s, a Prince George City Council bylaw had existed which banned overnight camping in parking lots; however this bylaw had never been enforced. In 2003 a consortium of local Commercial RV park owners complained they were losing business to WalMart and other box-stores. In response to these complaints and without consultation from stakeholders such as RVers, community members or tourism decision makers, the council approved a new proposed bylaw in April 2005. The proposed bylaw recommended that retailers and landowners who allowed RVs to stay overnight on their asphalt should be given a monetary fine. The proposal was an attempt to placate the Commercial RV Park stakeholders. Within weeks, the city's daily newspaper *The Prince George Citizen* received hundreds of letters. In these letters, Commercial RV Park and campground operators expressed their concern about a potential economic loss to their businesses from the free camping in WalMart parking lots, as well as other commercial parking lots. However, others felt that RV parking should be encouraged in order to attract more RVers to the city. RV Clubs quickly picked up the issue. The Escapees Club for example, encouraged its community containing 70,000 members to write to the newspaper and complain. The response prompted the city council to rescind its motion two weeks later, and city council staff were asked to come up with an alternate bylaw. This bylaw permitted RVers to stay for up to 36 hours instead of 24-hours (the limit in the original bylaw), and was created despite pleas by Commercial RV Park owners to limit stays to 8-10 hours.

RVers' Perceptions

The in-depth interviews revealed several types of free campers which have not previously been classified through research. The first group we were able to identify were what we defined as 'Career Free Campers'. This group of travellers prided themselves in their free camping behaviour, which is supported by websites, blogs and RV travel publications. Their decision to free camp at all times was partially based upon a desire to save money, along with a desire escape the conventions and routines of everyday life:

> *We have everything we need; we don't need to plug in.*

> *We only ever stay in WalMart. Just follow the map.*

Those who "free camped" most of the time were termed 'High-Use Free Campers' and represented the majority of RVers who we interviewed. These travellers were motivated by similar reasons but often preferred free camping in provincial parks to WalMart or Commercial RV Parks.

> *Some provincial parks where we camp in are beautiful with the plants and wildlife. We have stopped where you can eat the wild mushrooms.*

In addition, free camping was seen by both High Use Free Campers and Career Free Campers as offering freedom from having to book, work to schedules and make reservations. In particular WalMart was seen by both groups of RV travellers as a safe place to stay. This finding supports research by Hardy and Gretzel (2011) who found safety to be of significant importance to many RVers. Both free camping groups were also extremely well connected both through social media and word of mouth communication. Indeed the majority of these free campers had become aware of the free camping ban in Prince George via these mediums. Finally, both groups were eager to tell our interviewers what while they may not pay for accommodation; they spent money in townships on petrol, facilities, food and at tourism venues. The third group that our interviews revealed were what we defined as 'Convenience Free Campers'. These RVers were reluctant free campers who would only free camp if in a town for a short time. If not free camping, these people showed a higher propensity to stay in Commercial RV parks, in order to make use of their facilities:

> *I don't like it but we had to stay here because we got in late tonight. There are no amenities, no*

street lights, it's noisy from passing traffic. We are just staying here for convenience and usually only stop in WalMart's for one night.

The significance of this finding is that the research revealed a spectrum of free campers exists, contrary to the belief that free campers were a homogeneous user group.

Implications for Stakeholder Analysis

The analysis revealed that commercial parking lots such as Wal-Mart is an important part of the RVers' 'gaze'- they know where they exist and will overnight there in order to replenish supplies. The interviews revealed that the RVers were highly dependent on word of mouth information and information gained via the Internet, particularly forums and blogs. The rapid reaction of RVers to the ban illustrates how quickly a disparate, but virtually connected stakeholder group, who were considered to have little power could unite via the Internet and act in a united fashion to protest against decisions. Moreover the research revealed that the behaviour and motivations of RVers in Prince George were neglected by the relevant Council decision-makers. They were considered to be a disparate, powerless, passive and homogeneous group who would react to a ban by simply relocating to commercial RV parks. Their rapid reaction and refusal by Career and High Use Free Campers to patronise commercial RV parks revealed they were neither powerless nor passive. Moreover, the data revealed that while the RVers were similar in that they were all free campers, their free camping habits were not homogeneous. Therefore a ban would not necessarily affect patronage at Commercial RV Parks because: i) Career Free Campers will not pay or accommodation as free camping is a core part of their travel behaviour and identity, and, ii) if forced to pay, High Use Free Campers would rather stay in fee paying Provincial parks than a Commercial RV Parks. These findings illustrate the need for stakeholder analysis to be a reiterative process, involving firstly the identification and analysis of all stakeholder groups interests and their potential power (and sub-groups which exist within it), the identification of which are to be revisited once proposals are formed and made public. This reiterative approach would allow for previously neglected groups, who may form or consolidate via the Internet, to be included in the decision making process.

Case Study #2: The Case of Tasmania, Australia

Tasmania is an island state of Australia, located at 42 degrees south. The island covers 68,119 square kilometres and is known for its cool temperate climate, large tracts of wilderness, endemic wildlife, indigenous history, European heritage and local food and wine. This location was chosen as the second case study area because it was the site of a signfinacnt debate surrounding RVing. In Tasmania, RVers are faced with a variety of overnight camping options, and the state is well known within the RVing community as a destination that provides many free camping options, including sites upon Forestry Tasmania and Hydro Tasmania land and also in Tasmanian State Forests. In recent years, many of the 28 Local Councils throughout Tasmania have responded to lobbying by the RV industry and declared their towns 'RV Friendly Towns'. This means that they provide sani-dumps, toilets, free or minimal cost camping areas for RVers, often on their recreational sports fields or showgrounds. In addition, RVers in Tasmania may also chose to stay in 107 fee-charging Commercial RV Parks or fee paying sites in Tasmania's National Parks.

In early 2011, the Tasmanian Economic Regulator investigated four complaints by Commercial RV Park operators about local councils providing free or low-priced overnight RV camping services. The Tasmanian Economic Regulator found the four offending Councils who were providing such services to be in breach of their national competition policy and competitive neutrality obligations. As a result, the Local Government Association of Tasmania, and a number of state government bodies collaborated to develop a Draft Directions Paper titled *Review of Council Recreational Vehicle Overnight Camping Services* (Department of Premier and Cabinet, 2011) which addressed the Council's competitive neutrality obligations. Input into the development of the paper was sought from stakeholders. These were defined as local government, the Caravan Industry Association of Tasmania, the Caravan and Motorhome Club of Australia, and the Tourism Industry Council. The resulting *Directions Paper* proposed to introduce a 'cost recovery' fee structures to council sites throughout the State. Almost immediately, the local newspaper, *The Mercury,* received letters debating the issue, particularly between December 1st and 15th. The letters that appeared were collected and analysed by the researchers. Many of them argued that the economic contributions which free camping RVers made to the state offset their free camping:

> *While travelling in Tasmania, we spend about a third of the stay in caravan parks, with the rest being spent in that wonderful network of great campsites across Tasmania……If the recommendations in the report are adopted, we would not be returning. We have all of Australia to travel in, or we could just take the $6000 trip cost and go overseas (Mercury, December 12, 2011).*

Free camping is essential so that money can be spent in other areas with small towns benefitting…The motor-homers are great givers to charities such as Ronald McDonald House and the Cancer Council. They also support the Fire Service, Ambulance, Lions clubs and schools (Mercury, Dec 12, 2011).

On the other hand, some RVers supported the proposal:

I pay anything between $30 (inland) and $50 (Coastal) per night and accept that caravan parks must be supported even though I have my own amenities...If one cannot afford a reasonable night's accommodation rate then perhaps one should not be travelling (The Mercury, Dec 10, 2011).

The proposal for cost recovery was supported by some Caravan Park owners who saw the provision of free camping by councils as being unfair and anti-competitive:

Now we don't fear competition, but councils are not competing. They are giving away our product for free or near to free. That is predatory pricing (The Mercury, Dec 7, 2011).

Other operators were opponents of the plan:

Four of the 107 caravan park operators in the state are seeking a ban…Instead of whingeing to mummy, the grumbling four should be like all other businesses that provide a service and pay rates- ask themselves what's wrong with their caravan parks, why some don't want to patronise them and how they can attract customers to their door (The Mercury, Dec 8, 2011).

Residents were also divided, as was the media. The Mercury Editorial contained the following statement:

[If] Tasmania becomes the first state to get councils to impose new charges, there is a real danger that RV users might abandon their plans to visit…Caravan parks would suffer too if Tasmania suffered a boycott or dramatic downturn in RV tourism (The Mercury, Dec 7, 2011).

Conversely a resident in the *Letters to the Editor* stated:

Give me break! Just because you pay for a ticket on the ferry doesn't entitle you to a tax-payer funded holiday in the state! You're being asked to pay for the toilet, water and power facilities that you use. Everyone has to - grey nomad or not! (The Mercury, Dec 8, 2011)

RVers' Perceptions

The interviews revealed behavioural groups which were similar to those in Canada. RVers were predominantly High Use Campers whose preference was for free camping:

Mostly they are free, occasionally there's a small charge. But we tend to try and stay in those rather than go into a caravan park.

Amongst the RVers, there was also a small number of Convenience Free Campers:

…this is the first national park one we've stayed in, all the others have been caravan park type places.

Career Free Campers were also found within our participants. Indeed Tasmania was described as being well recognised for its number of free camping locations:

The cost is great, we like to free camp the whole time.

We were told that there were a lot of free camps in Tasmania – that's what clinched it for us to bring the caravan.

The access issue to Tasmania seemed to exacerbate the desire to free camp for many RVers. In order to travel through Tasmania with a rig, RVers must pay for passage from mainland Australia on a Ferry called the Spirit of Tasmania, the cost of which can be up to $1800. Numerous RVers stated that free camping helped to 'offset' these costs.

But I'd say that 90% of the grey nomads go to the freebies to recoup the money spent getting over here.

The difference between that motorhome and us is that it will cost them $500 return, whereas it costs us almost $1700 return… So we need to have the cheap accommodation.

Given the recognition of Tasmania as a free campaign destination, it was understandable that there was a strong reaction from RVers against the proposed free costs recovery structure. Unlike *The Mercury* newspaper that included letters of support for the fee cost recovery scheme, the RVers in our interviews were not supportive, although some did express an understanding of why free camping would not be supported by commercial campground operators.

> *I can imagine the Bicheno community council meeting. And the three people who own caravan parks would be saying no, we don't want any free camps as their lively hood depends on people pulling up.*

Many RVers felt a fee cost recovery scheme would have a long term negative impact on the state:

> *There's a bill being proposed that councils and so on can't provide free RV accommodation unless they charge a full commercial rate on it - which means that people aren't going to be coming.*

Moreover, RVers suggested that reactions to a ban would result in negative impacts on townships, as RVers would not visit them, such as was the case in Prince George:

> *If you are an RV friendly town, you tend to support that town. If they don't support you, you'll get the minimal of things. You'll go to the next town and you'll get your groceries and diesel, because you want to encourage it.*

> *I know there's caravan parks in town, but it discourages people like us driving back as you've got a lot of wildlife, a lot more than we have (in QLD). It depends what you're looking for.*

Implications for Stakeholder Analysis

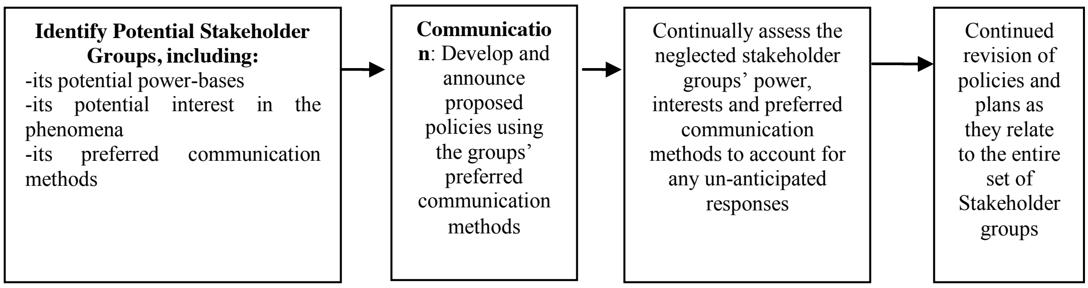
Once again, during the course of this issue being played out in the media, it came to our attention that the power, interest and make up of Australian RVers over this issue had been significantly underestimated. Reactions amongst RVers revealed the RV market, similar to that in North America, was heterogeneous and a split existed between those were prepared to stay in Commercial RV parks and those who were strongly opposed to a ban (although in the Tasmanian case supporters of the proposal were evident in the newspaper only, not in interviews which were conducted). As with the Prince George experience, the Tasmanian case study illustrated that the RV stakeholder group were considered to be a disparate, powerless, passive and homogeneous group who would react to a ban on free camping by willingly paying the new fees in local councils, or relocating to commercial RV parks. Their rapid response, which was facilitated by social media, illustrated the rapid consolidation of power by the RV stakeholder group in a response to the issue. This power and reaction was completely underestimated by the regulatory authorities, who like those in Prince George, were forced to respond back down within days of the release of the *Discussion Paper* by clarifying that no fees would exceed $10, thus placating the opposition to some degree.

Discussion

The similarities between both these cases suggest that many common issues exist in the RV stakeholder group context across the two countries. In both cases, the responses by local government were developed upon the assumption that the neglected RV stakeholders (for free camping) were homogeneous and would simply move to commercial RV Parks, or willingly pay if free camping was closed down as an option. However, this research has confirmed that the RV stakeholder groups are, in fact, heterogeneous - and that bans of free camping will not automatically encourage RVers to use paid alternatives in townships. Rather, it will likely provoke RVers to protest, and in the case of Prince George, boycott the township in its entirety. Both cases illustrated the risks inherent in traditional, static stakeholder analysis and the need for an approach that is viable in a post-social media context. Had iterative stakeholder analysis been conducted, the need to include RVers as stakeholders in the process would have been recognised. Moreover, the analysis would have recognised their potential for power via their highly social lifestyle, which is facilitated through word of mouth communication and heavy use of social media, blogging and online forums. Many full time RVers have nomadic travel habits that make them difficult to contact; and, tourism businesses and managers often have little interest in the industry because RVers are often perceived as travellers with low incomes who do not contribute towards hotel taxes (Hardy and Gretzel, 2011). In addition, the lack of interest in this group of travellers may result from the stigma associated with transient lifestyles and the assumption that RVers are cheap, poor, and comparable to 'trailer-trash' (Counts and Counts, 2004). The Prince George and Tasmanian cases demonstrate that the Commercial RV Park owners were seen as key players who had to be kept satisfied and that RVers' power was clearly underestimated. Arguably, the failure in the popularity of the proposals and the ensuing reaction by RVers, has resulted in a tarnished reputation for both destinations in terms of their RV Friendliness, which was found to be a highly significant factor for RVers, when making decisions on where to visit (Hardy and Gretzel, 2011).

The Tasmanian and British Columbian examples also highlight the rapid changes that have occurred in the Web 2.0 era. Social media increasingly facilitate communication and change the way in which stakeholders interact with each other, as well as the speed with which they can communicate. This creates tensions within stakeholder management because traditional stakeholder mapping can be done once an issue arises, but the 'viral' nature of how the proposal was spread through the online communication channels of the RVers, suggests that stakeholder analysis needs to be an iterative process. Thus we propose a Dynamic Model for Neglected Stakeholder Analysis and Engagement. The first stage is pro-active, where potential stakeholders' interest, power and predictability is set at centre-stage, and can be assessed, using the approach of Markwick (2000) and Newcombe (2003). The second stage occurs after the proposal's release and once the broader stakeholder groups have had time to assess management policy changes. This second iteration allows for reactions to unexpected changes, such as the rapid emergence of a previously neglected group which could be facilitated through the Internet and specifically through social media (Figure 3).

Figure 3. A Dynamic Model for Neglected Stakeholder Analysis and Engagement



Inherent in this model is the recognition that unpredictability in stakeholder responses is now more commonplace, and that neglected groups can rapidly form and generate significant power and influence using social-media and the Internet generally. This situation potentially undermines the strength of Newcombe's (2003) model where stakeholder's predictability and power are mapped, because the Internet could arguably allow any group to rapidly consolidate their otherwise disparate power. The revised model also differs from that of Newcombe's (2003) because it emphasises the power of preferred communication channels, especially when they are based on Web 2.0 technologies. Once the communication methods that are used by stakeholders groups are recognised, plans and policies can be released via these channels, which will help ensure that developments in communication channels, such as new social media sites, can be accommodated for. The third element of the model notes the importance for an ongoing analysis of any newly-recognised stakeholder group to take place; by their very definition, a newly identified stakeholder group will possess many characteristics unknown or obscured to the manager/government agent. The process of continued assessment of the 'neglected' stakeholder groups' power, interest and preferred communication methods is an important element, as it forces stakeholder managers to monitor changes until such as point that they are as stable and 'predictable' as those of any other salient stakeholder group.

This research also highlights the potential pitfalls for the application of the classical approach to stakeholder management where only the powerful or prominent stakeholders are engaged. Markwick (2000, p. 521) recognises limitations with his model, arguing that 'difficult situations can arise if their level of interest is underrated and they suddenly reposition.' This situation is increasingly likely in the Web 2.0 era, and illustrates a fundamental shift in how stakeholder power can develop. Thus, the risk for a classical approach is that there will be a limited ability to produce sustainable solutions; in the case of Prince George, the failure to involve RVers in the process, coupled with the assumption the emerging RVing market was homogeneous, and their rapid display of solidarity and power resulted in the failure of the government's policy. A second limitation with the classical approach is that that if mistakes are made as to who is the most powerful stakeholder group, decisions could be made which are not accepted by other stakeholder groups; in Tasmania, the CMCA which is Australia's largest and arguably most politically prominent RV club was consulted when developing the cost recovery fee structures. However, the CMCA is a club allowing full membership only for motorhomes, they do not represent caravan users, fifth-wheel users or in general non-club members. Research has shown that not all RV stakeholders desire to belong to clubs (Hardy and Gretzel, 2011). Consequently in Tasmania, many RV stakeholders protested against the proposal, and the decision to limit engagement to only one national RVing body (and sideline other RVers) resulted in a proposal which was not considered sustainable for many of the established stakeholders groups.

The reality of business and government is that managers must make decisions on whom to consult with, given their time and budget constraints. A normative approach to stakeholder mapping and analysis is time consuming and potentially cost prohibitive, thus we propose that a new view of stakeholder analysis is needed which merges both the normative and the classical view of stakeholder management. In this new form, decisions must be made as to "who is powerful", as per the Markwick (2000) model, but there needs to be an additional iterative cycle within the process. This means that if inaccuracies occur at the identification stage or the stakeholder landscape suddenly changes, there is room to react to neglected stakeholders whose potential for power, predictability and/or interest in the issue has been ignored, or at best, underestimated. This iterative cycle allows for more sustainable management outcomes in an age of social media communications, and explicitly recognises the collective power now available to otherwise disparate stakeholder groups. Consequently, our Dynamic Model acknowledges rapid change as a constant, which is facilitated through the use of the Internet and social media. At its core is a recognition that stakeholder analysis can no longer operate as a static, one-dimensional exercise. Rather, stakeholder analysis must take into account instantaneous communication, facilitated through the Internet and social media, which can allow for neglected groups to emerge, rapidly consolidate and become powerful. It addresses what Luoma-aho and Vos (2010) call emerging 'issue arenas', which have to be continuously monitored. The elements of the proposed dynamic stakeholder analysis process provide a nexus between classical and normative approaches to stakeholder management and allow for neglected groups to be included in the decision making process. Without such an approach, accurate and informed and sustainable decision making remains unlikely.

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THE ETHICAL CONUNDRUM OF ENTREPRENEURS: IS THERE A DIFFERENCE BETWEEN PERSONAL AND BUSINESS VALUES?

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Abstract

It is a known fact that the role of small businesses in the world economy is becoming more and more important – and especially now that the worldwide recession has been going on for more than five years. During this period many large corporations have been found striving for ethical behaviour and moral values, resulting in a backlash from various stakeholders. Unfortunately, the example set by large corporations and their perceptions, or even justifications, of correct or acceptable "twisted" ethical behaviour always rubs off on small businesses.

The main purpose of this study was to determine whether moral behaviour will have an effect on the concern for ethical misconduct among South African entrepreneurs. Ethics and morality are two terms that are very closely related and often used interchangeably in the South African context. While ethics refers to the rules and conduct that are prescribed by society, morality is the internally accepted standards of individual behaviour in a society. Therefore, business ethics are the principles that are prescribed by businesses and accepted within a business environment.

The study shown that various constructs, regarding behavioural aspects, can be grouped to indicate the theme of moral behaviour. The study convincingly showed that there does, in fact, exist a medium to strong relationship correlation between concern for ethical misconduct and moral behaviour among South African entrepreneurs. The results also indicate that gender, age and race do not have an effect on South African entrepreneurs' view of concern for ethical misconduct or moral behaviour.

Keywords: Small Business, Ethics, Moral Behaviour, Personal Values

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1. Introduction

The role and place of small businesses are not contested in any country as it is a well known fact that the backbone of economic survival and job creation lies with small businesses – specifically in third world economies such as South Africa. Small business's role therefore in the economy of a country is vital for job creation and economic development – and will increasingly be so in the foreseeable future due to the prolonged recession worldwide (Bagley, 2012; Mazanai & Fatoki, 2012:31). The fact that small businesses play such an important role means that there are more opportunities and instances where ethical behaviour has not been what can be classified as being acceptable. This means there has been an increased focus on the ethics as displayed by small businesses. In the past the focus regarding ethical behaviour was mainly applied to large companies, as the subject of business ethics came about in the era where large companies were king (Spence & Rutherford, 2003:1). However, since the increased focus on entrepreneurial endeavours, the research regarding the ethical concern within this sector has become of increased importance. The focus on ethics was initiated by the surge in the rate of corporate scandals, where stakeholders critically observed both public and private enterprises in terms of their economic performance as well as their moral behaviour (Mirshekary & Lawrence, 2009:142). As can be expected the focus has now also shifted towards smaller businesses as the same high standards of ethical and moral behaviour is expected from small businesses as from larger businesses. This is due to the fact that small businesses have become increasingly strong players in the economy. With the worldwide emphasis on ethics, ethical conduct is seen as having certain advantages over non-ethical conduct, in that ethical businesses have increased profit over businesses that practice unethical behaviour. Being aware of this fact and a need to maintain or increase profits many small businesses strive to conduct their business ethically as well as to create a positive view of the business (Amos, 2012:32). There are many factors that influence the ethicality of a business, but it is generally assumed that employees with strong personal values, implies that these values will be reflected in the organisation or business they work for (Cant, 2012:1347).

Only limited research has been conducted regarding the relationship that exist between an individual's moral behaviour and their propensity for ethical misconduct within the workplace, therefore the aim of this research study will be to examine whether an entrepreneurs' sense of moral behaviour has an effect on their concern for ethical misconduct within the business environment. This is an important issue as an employee with strong moral values will find him or herself in a conundrum – that is own strong moral values compared to the values of the business if there is a discrepancy.

2. Entrepreneurs and business ethics

Much research regarding entrepreneurs and their traits had been conducted over the years. This is mainly due to the relative importance that small businesses play in most economies. Few studies have, however, focussed on the business ethics displayed by entrepreneurs. Further research is therefore required in the field of ethics among entrepreneurs (Simha, 2009:1). Entrepreneurs are individuals that seize opportunities by developing businesses that create value (Gagnon & Michael, 2012:2), and they are also self-employed individuals that do not have to report to a superior employee except to report to stakeholders in some instances (Batchelor, Gibson, Harris & Simpson, 2011:34).

Broadly speaking, business ethics means to acknowledge and apply certain agreed upon universal principles of behaviour which will ensure that a company will not have a negative impact on its stakeholders. Business ethics, more simply, means right or wrong corporate actions or human behaviour within a business environment (Shakeel, Khan & Khan, 2011:59). It stands to reason that these "right or wrong" principles varies from one person to another and will be influenced by factors such as culture, peer groups, religion, age, social standing and so forth. Therefore an individual's sense of moral behaviour will differ from one individual to another.

The general consensus is that entrepreneurs are particularly more concerned and focussed on ethical behaviour than other groups such as business managers in large companies. Studies have also found that entrepreneurs are of the opinion that they are more ethical than other groups (Batchelor, Gibson, Harris & Simpson, 2011:33). On the other hand it is also argued that due to the increased pressure on entrepreneurs to survive and to make the business work, it sometimes lead to business ethics being compromised in favour of the survival of the business or the generation of income (Robinson, Davidson, Mescht & Court, 2007:411).

3. An entrepreneur's concern for ethical misconduct

Based on research conducted by a number of researchers it was found that the ethical dilemmas faced by entrepreneurs are considered as fairly unique to the industry and circumstances of that particular venture. However, two common dilemmas that threaten new business ventures include constrained or limited resources (especially financial) as well as constant change (Harris, Sapienza, & Bowie, 2009:409). These constraints are very real to many entrepreneurs and by its very nature can and will play a significant role in the maintaining of ethical values and norms in the decision-making process.

It can also be argued that many entrepreneurs will strive to "do the right thing" but if faced with one of the dilemmas, as indicated previously, this may compromise his or her value system. It is furthered argued that if an individual is continuously concerned about ethical misconduct then the individual is said to work without a personal meaning which has serious consequences for that individual's ability to be satisfied at his or her job – and in essence to constantly do the right thing (Singh, Bhandarker, Rai & Jain, 2011:501). It is also argued that an individual's sense of moral behaviour – either right or wrong - may play a predictive role in an individual's behaviour in the workplace (Singh *et al*., 2011:500).

Ethical dilemmas will always occur and be prominent when an entrepreneur finds him or herself in a position that requires him or her to deal with some form of ethical misconduct in the workplace. Four major ethical dilemmas that face entrepreneurs, according to a study conducted by Vyakarnam, Bailey, Myers and Burnett (1997:1625) include the following: (1) The type of business that is conducted, these may refer to types of businesses that are regarded as socially unacceptable, or destructive (although legal) in nature ; (2) Conflicts of personal values with business needs, this deals directly with the question of survival where many entrepreneurs must decide to go against their values or morals if the business is to survive (for example paying a bribe); (3) Social responsibility, many entrepreneurs have some type of "moral obligation" to their society but by meeting this obligation it may be detrimental to the survival of the business; and (4) The impact of the owner's personality on business ethics, the owner may have such a type of personality that the employees will follow him or her blindly – irrespective of whether the owner conducts business ethically or not.

These identified dilemmas are true and real today but there is no suggestion or solution as to how these ethical dilemmas should be managed or resolved. When looking at these dilemmas it becomes clear that ethics and human behaviour is not something that is easily explained. This is due to the fact that people filter and analyse stimuli they receive in the market place in different ways which makes it very complicated to have a "one size fits all" solution. A person's own background and ethical values influence the way they interpret and react to certain scenarios. Despite this lack of explanation the study was able to determine the point of departure that was found to be common for resolving an ethical dilemma. Factors such as the individual and the quality of the relationship between the individual and entrepreneur, greatly affected the manner in which the ethical dilemma was resolved (Vyakarnam *et al*., 1997:1625).

4. An individual's sense of moral behaviour

An individual's sense of moral behaviour is relevant and important in the workplace as it serves as a driving force of the individual's motivations and attitudes which can and will impact on the way he or she reacts to certain scenarios and situations in the workplace (Singh *et al*., 2011:500). Some research studies have focused on investigating the role of an individual's sense of moral behaviour on social experiences and it has been found that individuals (employees) in general want to see fairness and ethical practices in their workplace. Other research also shows that the ethics conformed to in a collective sense has an impact on the behaviour and actions in an ethical sense of an individual employee. As stated before an individual's sense of moral behaviour is affected by a number of factors and by its very nature makes it a very complex construct. The individual's personal values and norms will impact on and influence that individual's inclination to promote certain ethical values, and in so doing to justify certain set of actions (Mirshekary & Lawrence, 2009:144). Previous research studies investigated the relationship between an individual's personal values or their sense of moral behaviour and their propensity for enduring or conducting ethical misconduct (Mirshekary & Lawrence, 2009:145).

To measure an individual's sense of moral behaviour is, however, a very daunting task due to the number and range of factors that have an effect on this construct within an individual (Mirshekary & Lawrence, 2009:144).

5. The relationship between an individual's moral behaviour and concern for ethical misconduct

One of the most prominent differences between large companies and entrepreneurial initiatives are the fact that the large companies are more frequently owner-managed as compared to small entrepreneurial businesses being owned by separate individuals. Spence and Rutherford (2003:1-2) argues that this increases the effect of individual beliefs on the ethical conduct within the business context.

According to Longenecker, Moore, Petty, Palich and Mckinney (2006:73) there will be a difference between an individual's sense of moral behaviour and that of their concern for ethical misconduct in the workplace. The implication of this is that the concern or propensity towards ethical misconduct in the workplace is not only dependent on, or influenced by the individual's sense of moral behaviour, but that there is a range of other factors – both internal and external - that will affect the ethical misconduct or potential ethical misconduct within the workplace. If this is the case then in an entrepreneurial environment where the owner-manager is the sole decision-maker on the ethical conduct of the business, the entrepreneur's concern for ethical misconduct among entrepreneurs should directly correlate with the individual's sense of moral behaviour.

The research conducted attempted to provide some clarity on this issue.

6. Research objectives

The main aim of this research study will be to determine whether an entrepreneur's personal sense of moral behaviour will affect the entrepreneur's concern for ethical misconduct within the workplace. Hence the research objectives are as follows:

- To determine South African entrepreneurs' individual perception of moral behaviour.
- To ascertain the extent to which ethical misconducts are seen as a problem in the workplace among South African entrepreneurs.
- To investigate the relationship between an entrepreneur's individual perception of moral behaviour and their concern for ethical misconduct within the business environment.

7. Research methodology

In order to investigate whether there is a relationship between personal moral behaviour and concern for ethical misconduct among South African entrepreneurs, research was conducted using quantitative data with the data collection instrument being that of a survey questionnaire. The study incorporated both primary and secondary data in order to address the problem sufficiently. Primary data was collected from a population which comprised of South African entrepreneurs. The sampling method that was employed was convenience sampling and the rational for choosing this sampling method was that it is the most effective sampling method for collecting questionnaires within a time constraint (Zikmund & Babin, 2007:273). The sample size for the study comprised of 38 South African entrepreneurs that have started their own business or are in the process of starting-up their own businesses.

The main constructs that are investigated in this study were measured by means of two seven-point Likert-scale questions in the questionnaire that was distributed among the South African entrepreneurs. The main purpose of the first section of the questionnaire was to determine the respondents' perception of moral behaviour, while the second section examined the respondents' concern for ethical misconduct. In order to obtain a prolific description of the respondents, the final part of the questionnaire included biographic questions. The following table below shows the biographic results of the respondents that took part in the study.

Table 1. Biographic profile of respondents are presented below

Biographic feature	N	%
Gender		
Female	15	39.5%
Male	23	60.5%
Total	**38**	**100.0%**
Age		
19- 25 years	17	44.7%
26-35 years	9	23.7%
36-45 years	9	23.7%
46-55 years	3	7.9%
Total	**38**	**100.0%**
Race		
Black	35	92.1%
Indian	1	2.6%
Coloured	2	5.3%
Total	**38**	**100.0%**

The Small Business Enterprise owners who participated in the survey were mostly under the age of 45 years (92.1%), male dominated (60.5%) and the respondents to the survey are largely Black entrepreneurs (92.1%).

8. Research findings

Ten statements were posed in the questionnaire to solicit participant's response on a seven-point Likert scale on *Moral Behaviour* in the workplace. This is a very useful question type when it is required to get an overall measurement of a particular topic, opinion or experience and also to collect specific data on contributing factors.

To ensure that the statements are related in the measurement theme, called *Moral Behaviour*, an item analysis has to be performed. The sample size to perform this analysis, however, requires a minimum of 70 respondents (the product of the scale size and the number of items of this theme).

Since the sample size of this survey only has 38 participants, it was necessary to collapse the Likert scale to a three-point scale. This was achieved by recoding the three negative perceptions to a single negative view (disagree) and the three positive perceptions to a single positive view (agree). The neutral or don't know view remained unchanged. Note that a collapse in scale will result in a loss of information.

Table 2 presents the distribution of responses to each of the ten statements on the construct or topic:

Table 2. Reponses for Moral Behaviour construct

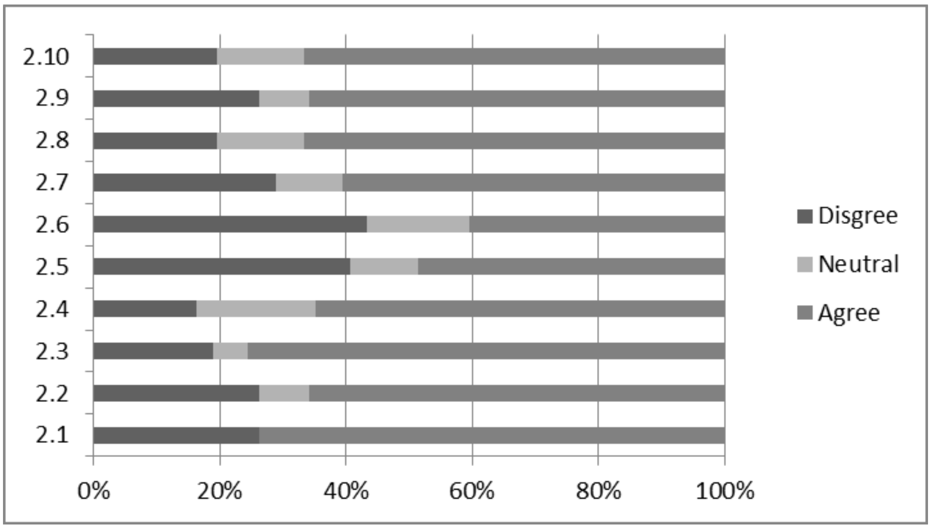
Moral Behaviour:

Label	Disagree	Neutral	Agree
2.1 People should make sure their actions never harm another even to a small degree.	26.3%	0.0%	73.7%
2.2 Risk to another should never be tolerated, irrespective of how small the risk might be.	26.3%	7.9%	65.8%
2.3 One should never psychologically or physically harm another.	18.9%	5.4%	75.7%
2.4 If an action could harm an innocent other, then it should not be done.	16.2%	18.9%	64.9%

2.5 The dignity and welfare of the people should be the least important concern in any society.	40.5%	10.8%	48.7%
2.6 It is necessary to sacrifice the dignity of others.	43.2%	16.2%	40.5%
2.7 Different types of morality cannot be compared to “rightness”.	29.0%	10.5%	60.5%
2.8 Moral behaviours are actions that closely match ideas of the most perfect action.	19.4%	13.9%	66.7%
2.9 Whether a lie judged to be moral or immoral depends upon the circumstances surrounding the action.	26.3%	7.9%	65.8%
2.10 What is ethical varies from one situation and society to another.	19.4%	13.9%	66.7%

The following is a visual representation (Figure 1) of the relative density of responses:

Figure 1. Share Chart



In general there is a predominance to the agree side of the scale, except for items 2.5 (The dignity and welfare of the people should be the least important concern in any society) and 2.6. (It is necessary to sacrifice the dignity of others).

To establish whether the ten Likert items of the theme or construct *Moral Behaviour* are related an item analysis was performed. An overall Cronbach’s alpha value of 0.8074 was recorded for the ten Likert items. This value represents good consistency and relationship between the items an overall theme or construct could therefore be represented by these ten items.

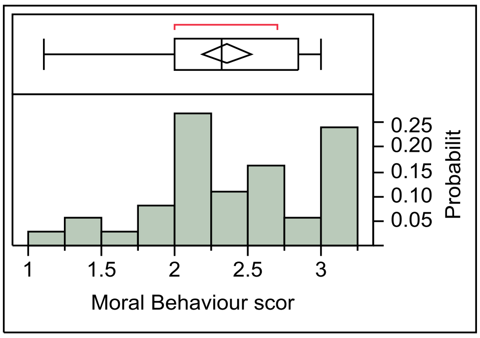
The overall score for the theme *Moral Behaviour* is represented by a single value by calculating the mean response for each respondent from the ten statements.

The following table and graph provides descriptive statistics and a distribution of respondents’ mean score for this construct.

Table 3. Distribution of respondents’ mean score

Mean	2.356725
Std. Dev.	0.521431
Std. Err. Mean	0.084587
Upper 95% Mean	2.528115
Lower 95% Mean	2.185335
N	38

Figure 2. Moral Behaviour



The mean score for the construct *Moral Behaviour* is 2.36 (on a scale of 1 to 3) with a 95per cent confidence interval of 2.18 – 2.53. This as has already been seen from the distribution and density table and chart above, that the mean score for this construct is predominantly positive.

A distribution of these scores was investigated for normality to determine whether parametric statistical techniques could be employed. Most parametric techniques demand at least normally distributed data, homogenous variances when comparing groups, as well as independence.

Even though the distribution of mean scores is skewed to the right, a normality test using the Shapiro-Wilk test was conducted with acceptance of normality at the 0.01 level of significance.

Concern for Ethical Dilemmas/Misconduct in the workplace:

The ten Likert items of the proposed construct or theme *Concern for Ethical Dilemmas/ Misconduct in the workplace* were also posed to the participants in the survey.

As with moral behaviour the seven-point Likert scale was collapsed to a three-point scale (disagree, neutral and agree) due to the inadequate sample size.

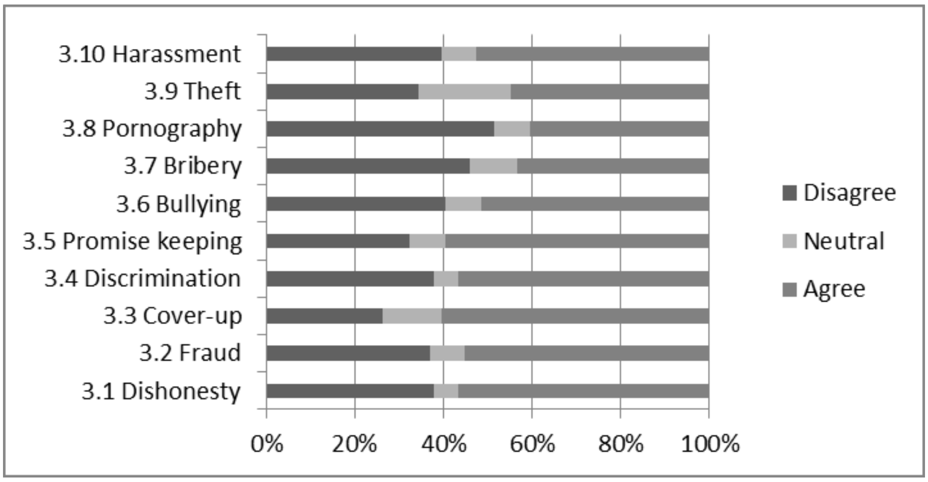
The following table summarises the extent of this concern for ethical misconduct/dilemmas.

Table 4. Summary of ethical concern results

Concern	%Disagree	%Neutral	%Agree
3.1 Dishonesty	37.84%	5.41%	56.76%
3.2 Fraud	36.84%	7.89%	55.26%
3.3 Cover-up	26.32%	13.16%	60.53%
3.4 Discrimination	37.84%	5.41%	56.76%
3.5 Promise keeping	32.43%	8.11%	59.46%
3.6 Bullying	40.54%	8.11%	51.35%
3.7 Bribery	45.95%	10.81%	43.24%
3.8 Pornography	51.35%	8.11%	40.54%
3.9 Theft	34.21%	21.05%	44.74%
3.10 Harassment	39.47%	7.89%	52.63%

The following chart represents the relative density of responses:

Figure 3. Share chart



From the table and chart above there appears to be a predominance towards the agree side of the Likert scale except possibly for pornography and bribery.

An item (or reliability) analysis was performed upon the ten items of the theme *Concern for Ethical Dilemmas/Misconduct in the workplace*, to ensure that the items are related.

An overall Cronbach's alpha value of 0.934 was recorded for the ten Likert items.

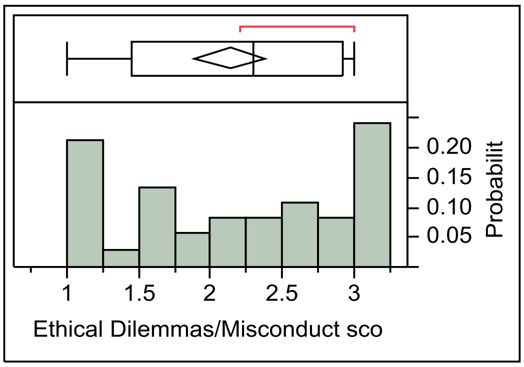
The theme or construct *Concern for Ethical Dilemmas/Misconduct in the workplace* could reliably be measured by a single value by calculating the mean response for each respondent from the ten items. The following table and graph provide descriptive statistics and a distribution of respondents of the overall mean score for this construct.

Table 5. Overall Mean Score for Ethical Dilemma/Misconduct

Mean	2.13538
StdDev	0.747363
Std Err Mean	0.121238
Upper 95% Mean	2.381032
Lower 95% Mean	1.889728
N	38

A mean score of 2.13 was determined for the construct *Concern for Ethical Dilemmas/Misconduct in the workplace* with a 95 per cent interval of 1.89 – 2.38.

Figure 4. Ethical Dilemmas/Misconduct



The above histogram presents the distribution of the mean scores of the individual responses for the construct *Concern for Ethical Dilemmas/Misconduct in the workplace*. Normality as determined by the Shapiro-Wilk test will be accepted at the 0.01 level of significance.

Relationship between Concern for Ethical Dilemmas/Misconduct in the workplace and Moral Behaviour

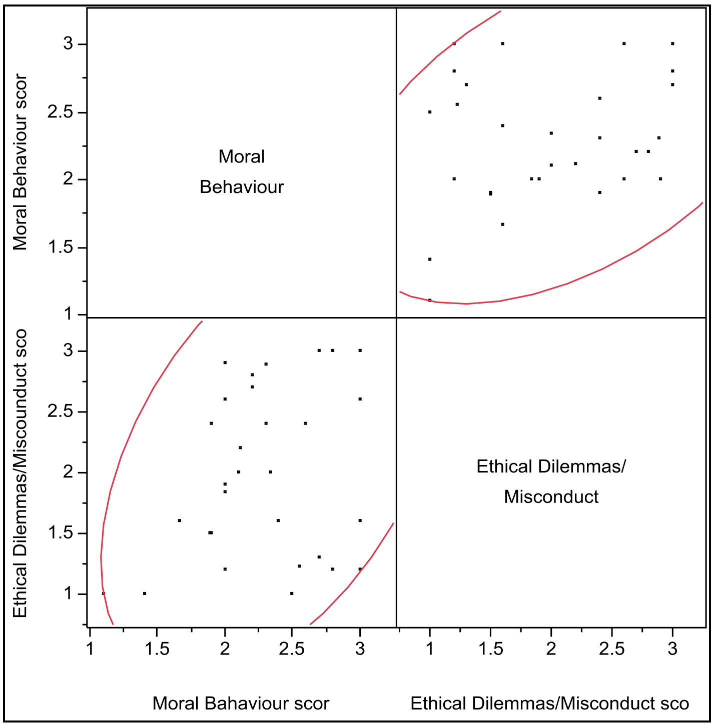
Since both Moral Behaviour and Concern for Ethical Dilemmas/ Misconduct in the workplace are continuous variables, the strength of the linear relationship between these constructs could be measured. This was achieved through a correlation coefficient and a linear fit between the two variables. A coefficient of 0.4709 measured indicating a weak to medium correlation.

Table 6. Linear relationship between constructs

Multivariate Correlations		
	Moral Behaviour	**Ethical Dilemmas/Misconduct**
Moral Behaviour	1	0.4709
Ethical Dilemmas/Misconduct	0.4709	1

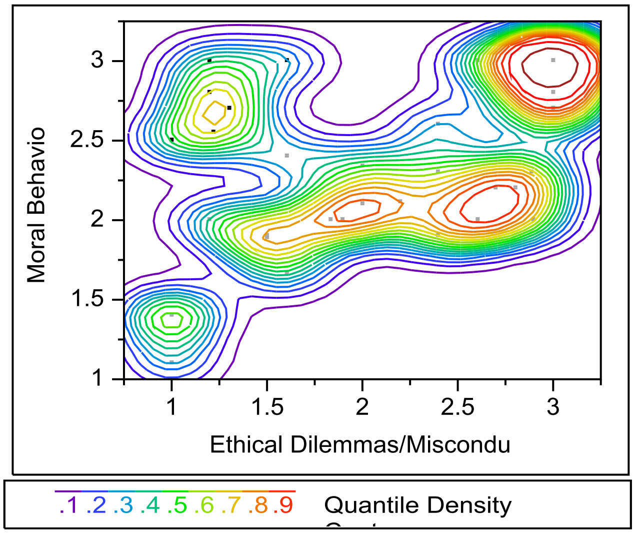
The scatterplot below provides a visual view of the linear relationship:

Figure 5. Scatterplot Matrix



The bivariate density plot below reveals a distinct group of outliers in the linear presentation of these constructs.

Figure 6. Density plot: Bivariate Fit of Moral Behaviour by Ethical Dilemmas/Misconduct



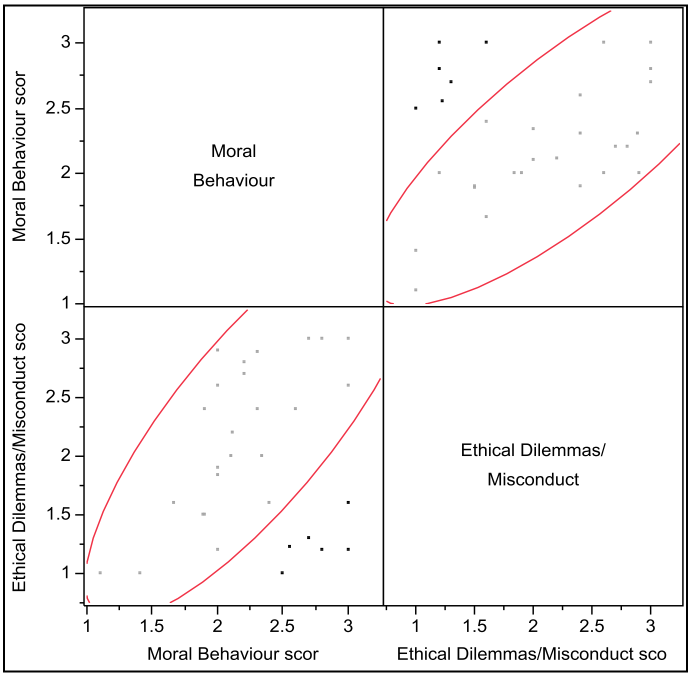
It is considered (or rather speculated) that the six outlying values result from owners who do not share the same concern for ethical misconduct in the workplace, but still display high moral standards. This may be attributed to family businesses where greater homogeneity in purpose and personal values exist.

The extent of this linear relationship (without the 6 outlying values) is presented with the following correlation matrix and associated scatterplot:

Table 7. Linear relationship between constructs without the six outlaying values

Multivariate Correlations		
	Moral Behaviour	**Ethical Dilemmas/Misconduct**
Moral Behaviour	1	0.8066
Ethical Dilemmas/Misconduct	0.8066	1

Figure 7. Scatterplot Matrix



With the exclusion of the six outlying values, the positive linear correlation has improved from 0.4709, a weak correlation, to 0.8066, a medium correlation, which represents a strong correlation.

The relationship between these two constructs is formalised in a best linear fit between *Concern for Ethical Dilemmas/ Misconduct in the workplace* and *Moral Behaviour*. This best fit is the minimum deviation between the actual values and the predicted line.

In the straight line fit below the coefficient of determination (also denoted R^2) is a measure of goodness of the best fit. The R^2 coefficient is also a measure of accuracy in predicting future outcomes. In the model below an R^2 value of 0.651 was recorded indicating a 65 per cent accuracy in predicting *Moral Behaviour* given *Concern for Ethical Dilemmas/ Misconduct in the workplace*.

Table 8. Analysis of Variance

Source	DF	Sum of Squares	Mean Square	F Ratio	Prob > F
Model	1	5.644659	5.64466	55.8692	<.0001
Error	30	3.031005	0.10103		
C. Total	31	8.675664			

In regression, Analysis of Variance (ANOVA) consists of calculations that provide information about levels of variability within a regression model and form a basis for tests of significance. In this model an F statistics (or ratio) of $F_{1,30} = 55.87$ was recorded with an accompanying significance level < 0.0001. This indicates that the model below is significant at the 99 per cent level of significance.

Table 9. Model parameter estimates

Term	Estimate	Std Error	t Ratio	Prob>|t|
Intercept	0.866819	0.197399	4.39	0.0001
Ethical Dilemmas/Misconduct	0.614784	0.08225	7.47	<.0001

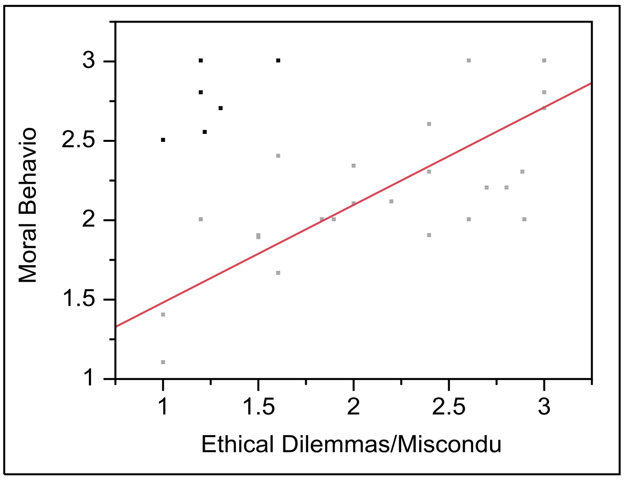
Intercept=0.867 with a t-ratio=4.39 and an accompanying significance value of 0.0001.

Concern for Ethical Dilemmas/Misconduct in the workplace =7.47 with an accompanying significance value <0.0001. The estimates of the parameters are therefore significant at the 99 per cent level of significance.

The prediction model derived is thus:

Moral Behaviour = 0.867 + 0.615*Ethical Dilemmas/Misconduct

Figure 8. Bivariate Fit of Moral Behaviour By Ethical Dilemmas/Misconduct



It can thus be generalised that an increase in the score for *Concern for Ethical Dilemmas/ Misconduct in the workplace*, is accompanied by an increase in the score for *Moral Behaviour*.

9. Conclusion and recommendations

The main purpose of this study was to determine whether moral behaviour will have an effect on concern for ethical misconduct among South African entrepreneurs. Ethics and morals are two terms used interchangeably, although closely related there is a clear distinction. Ethics refer to a series of rules and principles used to decide what behaviours are right, good and proper. It defines how things should work according to rules on conduct, prescribed to an individual by an external source such as a profession, business- and social system. Business ethics is thus the rules and principles prescribed by the business and should be consistent with in the business environment. Morality, however, refers to the accepted standards of behaviour with in society. It defines how things should work according to an individual's own beliefs and principles regarding right and wrong. It is clear from the literature that it is all about rules and actions.

The study shows that various constructs regarding behavioural aspects can be grouped to indicate the theme moral behaviour. The reliability of the items of moral behaviour that were utilised in this study resulted in a Cronbach's alpha value of 0.8074. Similarly, items were clustered for the construct *Concern for Ethical Misconduct/Dilemmas in the workplace* and these behavioural aspects showed to be a reliable measure of concern for ethical misconduct by yielding a Cronbach's alpha of 0.934.

The study convincingly shows that there does, in fact, exist a medium to strong relationship correlation between *Concern for Ethical Misconduct/Dilemmas in the workplace* and *Moral Behaviour* among South African entrepreneurs. The analysis indicates a correlation coefficient of 0.8066. This then successfully addresses the research objective:

> *To investigate the relationship between an entrepreneur's individual perception of moral behaviour and their concern for ethical misconduct within the business environment.*

The results also indicate that gender, age and race do not have an effect on South African entrepreneurs' view of concern for *Concern for Ethical Misconduct/Dilemmas in the workplace* or *Moral Behaviour*. It has been emphasised that small businesses play a crucial role in the economy, but many have to deal with the issue of employee behaviour. It is therefore recommended that small business owners implement ethics programmes and workshops that specifically focus on moral and ethical behaviour.

It is also important that an entrepreneur provides safe and anonymous channels through which ethical misconduct can be reported in order to discourage the engagement in such behaviour. As an ethical employee will not accept a bribe but an immoral employee would.

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