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THE PERCEPTION OF EMPLOYEES REGARDING ETHICAL MISDEMEANOURS IN SMALL TSHWANE BUSINESSES

Michael Colin Cant*, Jan Wiid**, Claudette van Niekerk***

Abstract

With the world wide focus on large corporations and the ethical conduct of specifically the top managers it has become clear that ethics are part and parcel of all businesses. This however does not mean that only large corporations will be screened – it also applies to smaller businesses. The small business sector plays a vital role in the economic development and job creation in the Republic of South Africa. It is important to consider the perception employees have towards their ethical responsibilities in the business sector in order to ensure the successful development of the small business sector of South Africa. The main purpose of the study is therefore to determine the perception employees have towards their ethical responsibilities as well as the types of ethical misconduct employees of small businesses have experienced in the business environment. The research followed a quantitative approach where a survey questionnaire was used as the data collection method. The results indicated that employees of small businesses have a positive view regarding their responsibilities as an employee to acting ethically. Respondents also indicated the most encountered misconduct is observing unethical behaviour and wanting to tell someone regarding unethical misconduct observed. The study also found that employees mostly turn to family members for advice on ethical misdemeanours. The study also found that employees mostly turn to family members for advice on ethical misdemeanours.

Keywords: SMEs, South Africa, Perception, Ethical Environment, Ethics, Misconduct

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1 Introduction

During the past number of years, increased pressure has been placed on all businesses as their ethical behaviour is under scrutiny by stakeholders and the public. Since the collapse of the major banks in Europe and the devastating global recession in 2008, managers expected an increase in misdemeanours, such as Ponzi schemes, fraud, bribery and theft inside businesses (DeMarco, 2011:33). Various studies have noted that managers, leaders and employees lack strong ethical standards and morals (Gino & Bazerman, 2007:3). Smaller businesses often follow the example set by larger organisations and industry leaders, and therefore cannot be excluded from extensive examination regarding ethical concerns and ethical misconduct in business.

The small business sector plays an essential role in economic development and has become the primary building block of job creation in the Republic of South Africa (Valadez, 2011:1; Wielicki & Arendt, 2010:162). Operating in today's complex business environment can be challenging and stressful for small businesses and can have a negative effect on the way they conduct business to be profitable. Most unethical behaviour, according to Ferrell (ND:3), is not committed to attain personal achievement, but rather to meet ones performance goals and objectives. Failure to understand this basic fact is a major obstacle in educating managers, stakeholders and employees as to how to avoid an ethical catastrophe. Mahdavi (2009:2) observed that, with the expansion of global businesses, the study of ethics and unethical behaviours has become increasingly more important, due to the raise in ethical and social responsibilities.

Limited research was conducted regarding unethical behaviour or misconduct that employees of small businesses in South Africa have indentified in their working environment as well as their perception regarding their ethical responsibilities. Therefore, the aim of this study is to determine the perception small business employees have towards their ethical responsibilities in the working environment and to investigate the possible ethical misconduct employees have observed in the small business sector. In the subsequent section of the study, the objectives and research methodology used to conduct this study will be discussed followed by a review of the available literature. The research findings, recommendations and concluding remarks will then be discussed to conclude the study.

2 Research objectives

The aim of this research is to determine the perception small business employees have towards their ethical responsibilities in the business environment of South Africa. Additional objectives of the study comprise of the following:

- To investigate the perception employees have towards the commitments they, as employees, should make in order to act ethically in the business environment.
- To investigate ethical misconduct small business employees of South Africa have observed in the small business environment.
- To determine where employees of small businesses would turn to for advice regarding ethical misconduct they have observed in the business environment of South Africa.

3 Research methodology

To establish the perception employees have towards their ethical responsibilities in the small business environment, the research followed a quantitative analysis and a survey questionnaire was used as the data collection instrument. Secondary as well as primary data were used to obtain information in order to analyse the perception employees of small businesses have towards their ethical responsibilities. To address the problem adequately, the research methodology was based on the primary data collected between the 25th of April 2012 and the 10th of May 2012, from employees of small businesses. The population for the research survey consisted of employees from small businesses in the Tshwane region of South Africa. The sample comprised of 24 employees from micro-sized businesses and 21 employees from small businesses. Convenience sampling was used as the sampling method for this study due to the fact that it is the most effective method to gather questionnaires in a short period of time (Zikmund & Babin, 2007:273).

The main construct of this study was determined through the use of a questionnaire comprising a 7-point Likert-scale question with five statements to consider. The first section of the questionnaire examined the perception employees of small businesses have towards their ethical responsibilities in the business environment. The next two questions were in the form of multiple-choice, multiple-response questions, which aimed to determine the ethical misconduct employees encountered in the small business environment as well as where they would turn to for advice if they witnessed unethical behaviour. The last section of the questionnaire aimed to determine the demographic characteristics of the respondents.

4 Ethical misconduct in the small business environment

The ethical environment is a relatively new sub-discipline with the intention to rationalise moral motivations and beliefs for the purpose of environmental protection (Raisner, 1997:1331; Yang, 2006:23). Business ethics can be defined as recognising and implementing commonly agreed upon standards of conduct that ensures that the company will not impact its stakeholders negatively (Shakeel, Khan & Khan, 2011:59; Shaw, 2002:4). In other words, business ethics is what is regarded as right and wrong or good and bad human behaviour in the business environment. These commonly agreed upon standards and issues will differ from person to person and company to company, and is influenced by a wide range of factors such as culture, background, and reference groups. Today’s challenge for business leaders is to be profitable while still conducting business in a way that is ethically acceptable in the broader business environment. Consequently all organisations, big or small, must ensure that they conduct business in an ethical manner and not ignore these ethical issues.

The literature shall discuss the commitments businesses and individuals have to make in order to act ethically. Thereafter, issues concerning ethics in the business sector shall be discussed, as well as the most commonly found forms of fraud in the business environment. The literature will conclude with a discussion on where employees turn to for advice regarding ethical misconduct they observed.

4.1 Business and individual commitments to be ethical

Ethical behaviour and the perception towards ethics subsequently do not emerge from the morals and beliefs of individuals in isolation from external factors. The ethical responsibilities of businesses and individual employees are very broad and vary from treating others with respect, contributing to the community and operating ethically. Even the most loyal employees in a business can find that their interests collide with those of the organisations. This is known as conflict of interest and can be defined as a morally risky situation that should be avoided by employees at all times (Shaw, 2002:280).

Employees and especially managers are responsible for the moral dimension of their working environment. In a situation where the unemployment rate is extremely high, for example in South Africa, people cannot afford to decide whether a particular job suits them or not. Individuals are essentially forced to take any job which is available at that time. There is thus no luxury of waiting around for the ideal job. (Rossow, 2004:3). Regardless, employees generally have a very high ethical expectation from businesses and other organisations they are in contact with, such as in the study conducted by the St. James Ethical Centre (2009). Transparency, trust, confidence and comparability emerged as crucial matters in the new environmental and economic environment, making methods of responsibility across all business operations essential (St. James Ethical Centre, 2009).

The St. James Ethical Centre (2009) identified certain factors that determine employees' perception regarding the commitments they have to make towards the organisation to act ethically. These include the following:

- If employees know their organisation is run ethically, they will put extra effort into their work.
- Employees would risk losing their job if the organisation they work for is not operating according to their personal code of ethics and morals.
- The organisation should have a logical and understandable code of ethics available that the employees can follow easily.
- Employees might consider resigning from the organisation if their personal ethics had to change due to the work they do or the ethical business environment in which they operate.

It is evident that there are various commitments employees have to make in order to operate ethically in the small business sector. The main aim of this study is to investigate small business employees' perceptions regarding the commitments and responsibilities they have to make in order to perform ethically in the business environment. The next section will look at the various issues that exist in the business sector of which employees, and management, should be aware of.

4.2 Issues concerning ethics in the business sector

Small and medium businesses (SMEs) are the entities that suffer the most from corruption due to their size. Their size ultimately limits their resources and capabilities to avoid corruption and fraud in the business sector. Consequently, many small businesses accept corruption and fraud as normal acceptable practices and utilise it as a means of getting something done quicker, despite knowing it is illegal and unethical (Rune, 2011:1). It is observed that ethical standards in the business environment is extremely complex, which involves problems such as societal protection, legal protection and rights and social responsibilities (Daveninderak, 2009:2).

Botha (2012:6-10) identified the following ethical concerns as the most commonly found forms of misconduct in the business environment of which employees should be aware of:

- *Bribery*: Bribery is used to manipulate people and can be described as the act of taking or receiving something with the intention of influencing the recipient in some way favourable to the party providing the bribe.
- *Coercion*: Coercion (or better known as bullying) controls individuals by power or intimidation. Coercion is defined as impulse, grievance, or compelling by force or threat and may be actual, direct or positive.
- *Deception*: Deception can be described as manipulating people by misleading them or providing them with false information.
- *Theft*: Theft is the taking of something that does not belong to you. It is the act of stealing, the taking of belongings without the owner's permission.
- *Discrimination*: Unfair discrimination is when an individual is treated unfairly or denied of normal privileges, by co-workers or management, due to their race, age, sex, health, religion or nationality.
- *Fraud*: Rossow (2004:155) defines fraud as the act of dishonesty with the intention to deceive another party which results in gain for the deceiver and/or loss for the deceived.
- *Harassment*: Similarly to discrimination, harassment is defined as an unwelcome demeanour that is based on race, colour, religion, sex, nationality, age, disability or generic information from a supervisor, co-worker, or non-employee, such as a customer or supplier (Collins, 2012:215).

St. James Ethical Centre (2009) surveyed respondents to determine what ethical wrongdoing they encountered in the business environment. The most respondents (30.8%) indicated that they had ethical concerns about the actions of a co-worker or senior personnel and 14.7 percent specified that their care and concern for one person conflicted with their care and concern for another. Other aspects included:

- Employees wanting to give the right advice, but knew that it may cause bigger problems.
- Employees experienced conflict between confidentiality and transparency.
- Knowing the advice employees provided was not completely necessary, but it would lead to the benefit of the organisation or the individual itself.
- Employees wanted to respect the beliefs and culture of a co-worker, but to do so felt they would have to violate their own core principles.
- Employees may have considered 'blowing the whistle' on the actions their organisation or co-workers was taking.

Collins (2012:6-7) identified that the most commonly observed ethical misconduct experienced by respondents was the abuse of the company's resources, abusive behaviour towards employees, lying to employees, Internet abuse, conflict of interest, discrimination, lying to stakeholders, employee benefit abuse, employee privacy violation and falsifying expenses. This ethical misconduct was observed in both large and small firms, and in all sectors examined. In a survey of small business professionals, the major concerns were kickbacks, honesty in contracts, honesty in internal communications, and the granting of pay raises. By nature of their limited size, small businesses may also be more prone to experience bullying from a large unethical customer or supplier (Collins, 2012:9).

4.3 Advice on ethical misconduct observed

In addition to the unethical concerns employees observed in the workplace, respondents in the study conducted by St. James Ethical Centre (2009) were also asked to indicate where they turn to for advice regarding ethical misconduct or concerns. Respondents (44.8%) indicated that they go to co-workers or mentors within their own organisation for advice, and 37.1 percent turn to family members. Other determinants included employee's turning to written information (legislations, manuals or code of ethics), colleagues or mentors outside their organisation, religious leaders, academic institutions, ethical counselling services, individuals with ethical training or nowhere.

The above mentioned problems that were identified concerning misconduct and people they turn to for advice, were used in this study to determine the ethical issues employees of small businesses are confronted with and where they turn to for advice. The following two sections will discuss the problems identified in the literature as well as the objectives that were used to obtain the main purpose of the study.

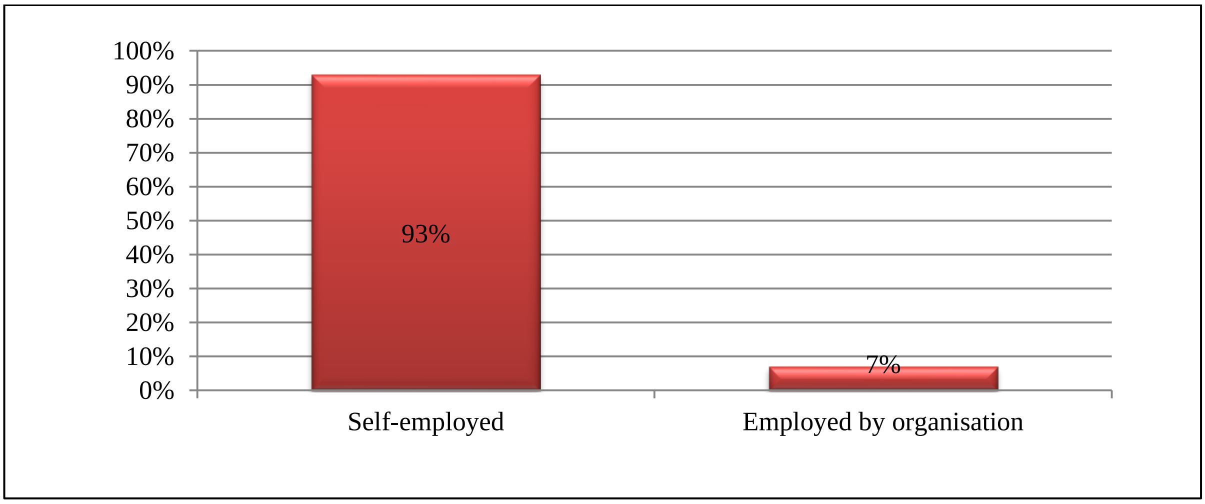
5 Research findings

The population for the research survey consisted of 45 small business employees and owners in the Tshwane region of South Africa. According to a study compiled by World Wide Worx (2012:9), there are 650 000 active registered small businesses in South Africa, contributing approximately 55 percent of the total GDP and providing about 61 percent of the country's employment. Although the sample size (45) does not represent the entire small business population of South Africa, it is sufficient to provide a holistic approach to employees' perception regarding their ethical responsibilities in the working environment and misconduct that they have experienced in the workplace. The following research findings were observed in the study.

5.1 Self-employed or employed by a business

Respondents were asked to indicate whether they are a self-employed small business owner or employed by an organisation. Ninety-three percent of the respondents indicated that they own their own small business in the Tshwane region, and only 7 percent of the respondents indicated that they are employed by a small business.

Figure 1. Employment type



5.2 Personal commitments employees have to make to be ethical

The 7-point Likert-scale question asked respondents to rate five statements. These statements attempted to determine the commitments the respondents, as employees, have to make in order to act ethically in the business environment. Respondents had to indicate whether they strongly agree or strongly disagree with each of these five statements.

Saunders, Lewis and Thornhill (2007) describe the mean as the most frequently used measure of central tendency. The mean is then calculated by adding a list of scores and dividing them by the total number of scores (Wellman, Kruger & Mitchell, 2007). Standard deviation, according to Gravetter and Wellnau (2009), is using the mean as the reference point and it measures variability by calculating the distance between each score and the mean. Table 1 illustrates the mean scores and standard deviation of the perception employees have towards their personal ethical responsibilities in the organisation.

Table 1. Personal commitments employees have to make to be ethical

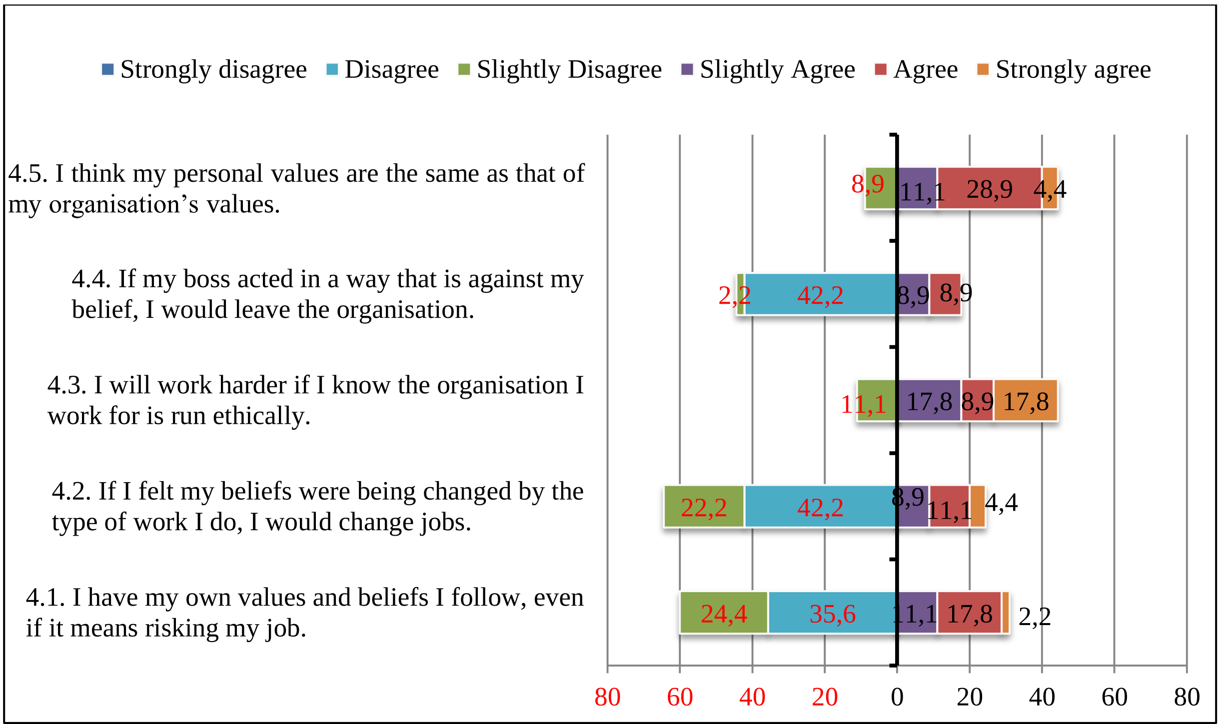
	4.1	4.2	4.3	4.4	4.5	Total
Mean	3.578	3.378	4.778	3.400	4.733	**3.973**
St. Deviation	1.602	1.585	1.295	1.355	1.116	**1.391**

Measurement was done on a 7-point Likert scale, whereby 1 = Strongly disagree and 7 = Strongly agree

It is evident from table 1 that the highest degree of agreement was from statement 3, "I will work harder if I know the organisation I work for is run ethically" (Mean = 4.778). This is closely followed by statement 5, "I think my personal values are the same as that of my organisation's values" (Mean = 4.733). The lowest degree of agreement was found to have come from statement 4, "If my boss acted in a way that is against my beliefs, I would leave the organisation" (Mean = 3.400). The standard deviation for statement 1 and 2 is high, indicating a large distribution of value in these two questions.

From all the statements that were asked, the general perception employees of small businesses in the Tshwane region have towards their own personal ethical responsibilities can be seen to be positive in nature, with a total mean score of 3.973 and a standard deviation of 1.391. Figure 2 graphically portrays these statements and therefore presents the degree of agreeability and disagreeability.

Figure 2. Individual commitments to acting ethical in the small business environment



Although 28.9 percent of the respondents agreed that they perceive their personal values to be similar to the values of the organisation, respondents (35.6%) would not consider risking their job even if it means

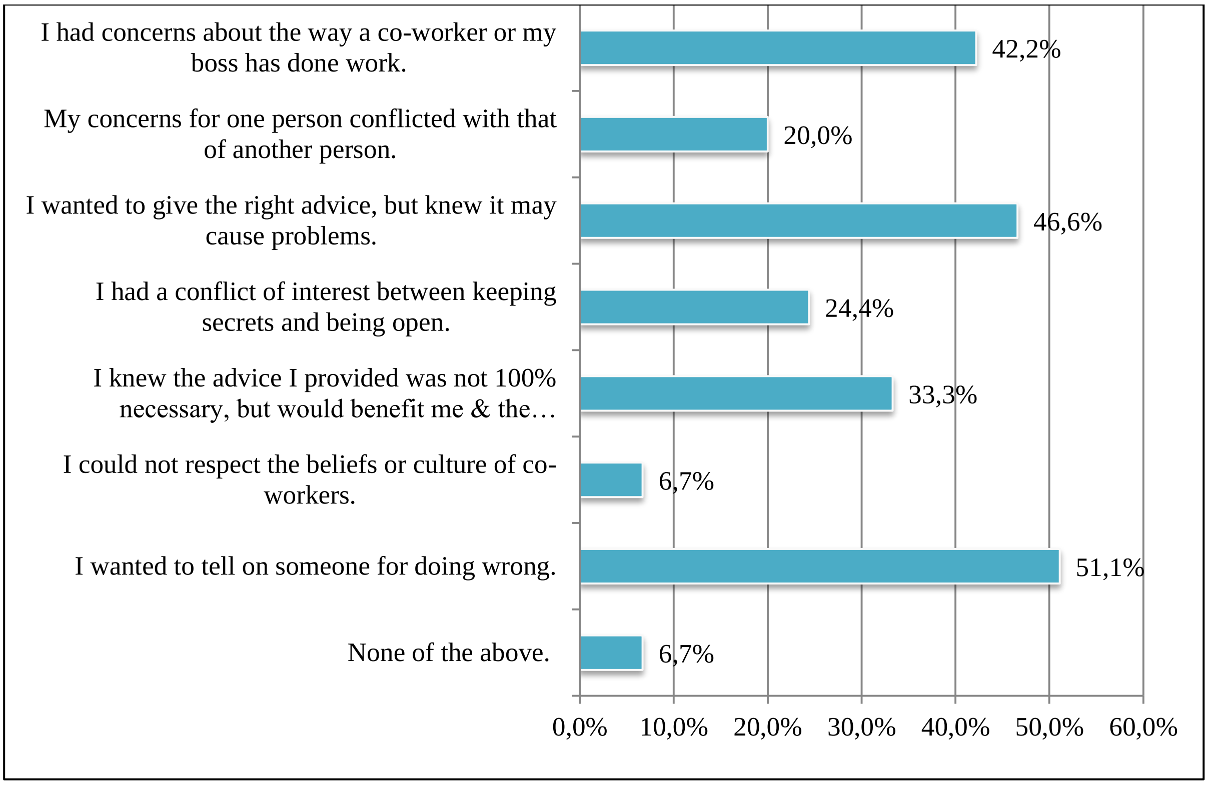
changing their beliefs and values to comply with the beliefs and values of the organisations. This perception can be due to the fact that the business environment has become very competitive and it is equally difficult to find a job that is right for the specific employee and that operates according to the individual's ethical morals and values. Today, individuals have no luxury in choosing where they would like to work and therefore their perception regarding their ethical behaviours and responsibilities are to be in line with the values and beliefs of the organisation, even if it means being unethical or against one's own morals and values.

Respondents (42.2%) also said that they would not leave the organisation if their boss or management team is unethical and operates against their own beliefs and values. This is in contrast with the respondents' answers provided in statement 3, agreeing that they (44.5%) would work harder if they knew the organisation they work for is ethical.

5.3 Ethical misconduct experienced in the small business environment

The next question aimed to determine the ethical misconduct that employees of small businesses have encountered in the small business environment in which they operate, as well as who they turn to for advice if misconduct has been observed. The question was in the form of a multiple-choice, multiple-response question, where respondents could choose as many options as they wish. Figure 3 depicts numerous situations of ethical misconduct that can occur in the business environment as well as the findings from the respondents.

Figure 3. Ethical misconduct observed in the small business environment



It is evident from figure 3 that the most observed or encountered ethical misconduct is firstly (51.1%) "I wanted to tell on someone for doing wrong" followed by "I wanted to give the right advice, but knew it may cause problems" with 46.6 percent. The least observed misconduct is "I could not respect the beliefs or culture of co-workers" with 6.7 percent or 3 respondents choosing this option. Illustrated in Figure 4, are the people or places that these small business employees would turn to for advice when they have encountered ethical misconduct. Compared to the results found in the study conducted by the St. James Ethical Centre (2009), 30.8 percent of the respondents had concerns about the way co-workers or top management has done work and 14.7 percent concerns for one person conflicted with that of another. These statistics are very similar as to the statistics conducted in this study from a South African small business perspective.

Figure 4. Advice regarding ethical misconduct observed in the small business environment

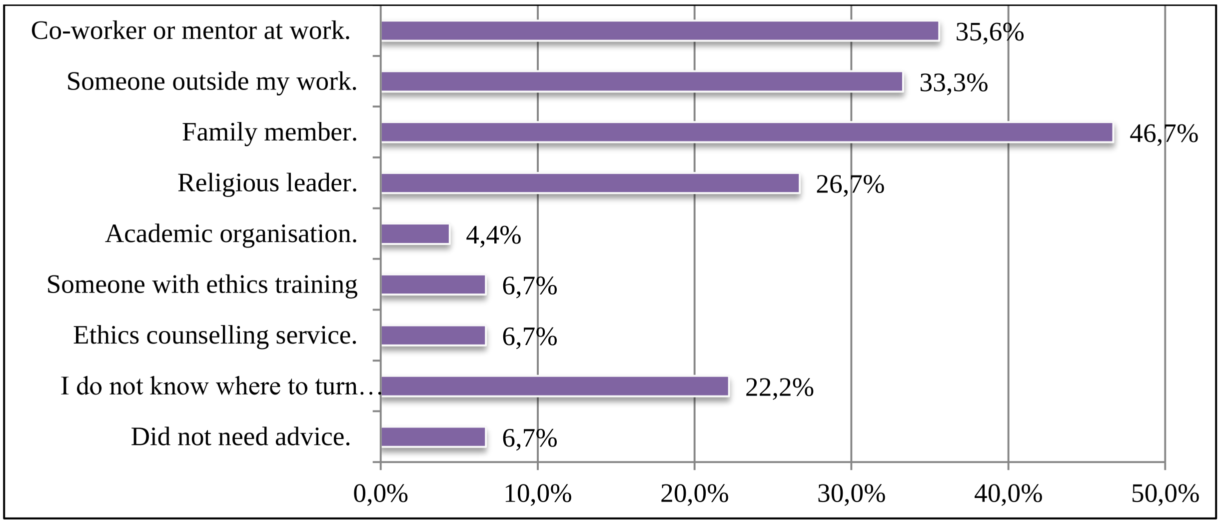


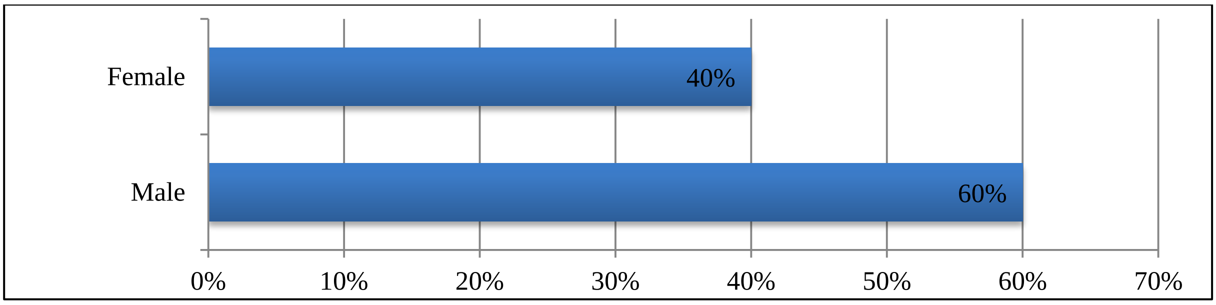
Figure 4 illustrates where small business employees would turn to for advice when they have observed unethical misconduct. It is evident from figure 4 that employees mostly turn to family members (46.7%) for advice on ethical misconduct they have observed followed by co-workers and mentors (35.6%) and members outside their working environment (33.3%). This indicates that employees do not have a lot of trust in people from the organisation, and would rather speak with someone not involved in the organisation. Compared to the study conducted by the St. James Ethical Centre (2009), 44.8 percent of the respondents indicated they turn to co-workers or mentors inside the organisation for advice and 37.1 percent turn to family members. This is the exact opposite from the findings in this study, as employees rather turn to family members for advice.

It is noteworthy that a staggering 22.2 percent of the respondents indicated that they do not know where to turn to for advice and 6.7 percent indicated that they felt they did not need advice when it comes to ethical misconduct that they have observed in the working environment. It is therefore important for the organisation to provide a support structure for these employees where they can turn to for advice on ethical misconduct. Interestingly, 35.6 percent indicated that they turn to co-workers or mentors inside to organisation regarding ethical misconduct and therefore, the organisation should insure that the proper channels are available for employees to blow the whistle anonymously for themselves or on behalf of someone else.

5.4 Demographic profile of respondents

Lastly, respondents were asked to indicate their socio-economic and demographic information for the purpose of the study. Questions such as the respondents' occupational level, gender, age and racial group were asked in the demographics section of the questionnaire. The following information were gathered from the respondents and used to establish the demographic background of respondents who participated in the study.

Figure 5. Gender profile of respondents



The sample consisted of 60 percent (or 27) male respondents and 40 percent (or 18) female respondents, as illustrated in Figure 5. Figure 6 indicates the age distribution of the respondents who participated in the study. The majority of the respondents were between the age of 26 and 35 (42%) and 19 to 25 (40%). Sixteen percent of the sample consisted of respondents between the age of 36 and 45 and only 2 percent were older than 56 years of age. No respondents who participated in the study were younger than 18 or between the age of 46 and 55.

Figure 6. Age distribution of respondents

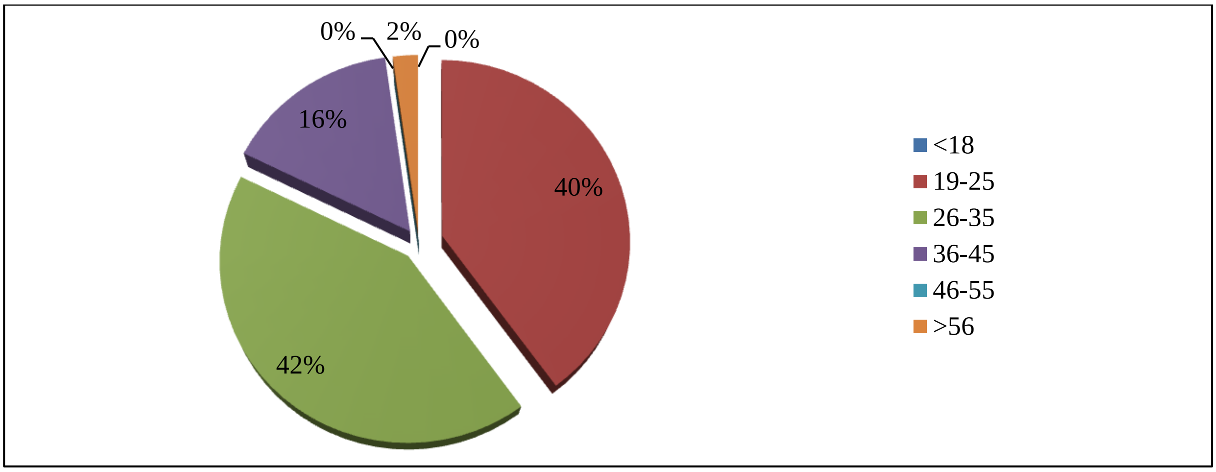
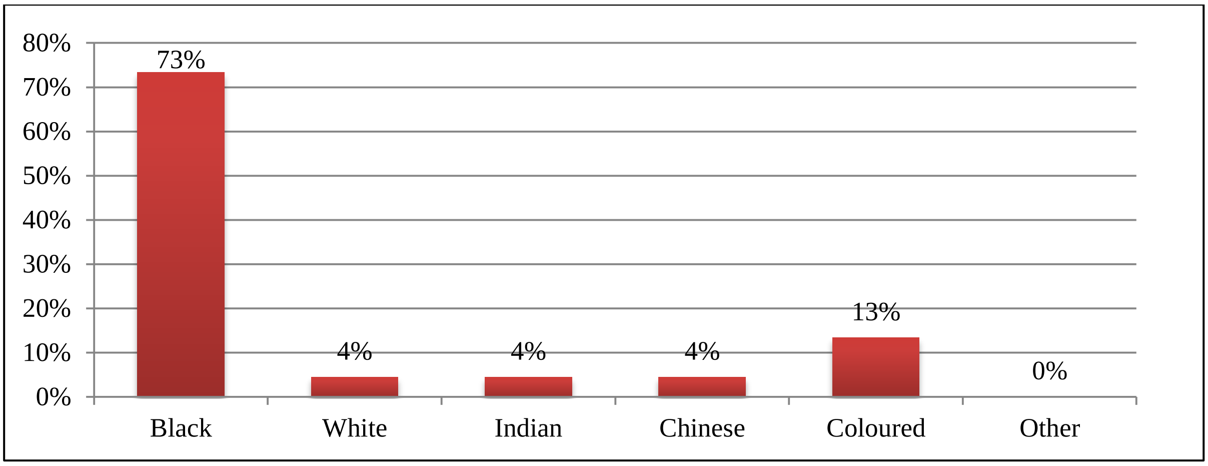


Figure 7 graphically portrays the racial profile of the respondents who participated in the study. The majority of respondents (73%) were black employees or owners working in small businesses in the Tshwane region. Thirteen percent consisted of coloured respondents and Indians, Chinese and white people each made up four percent of the sample.

Figure 7. Racial groups



6 Recommendations

A number of problems can and will occur in the business environment with regards to unethical behaviour. Collins (2012:241) indicated that when problems arise in the business environment, managers depend upon their employees to take immediate action or inform them so that managers can address the problems before the situation worsens. Employees may be hesitant to share personally sensitive concerns with senior members or co-workers. Employees of the organisation should be aware of ethical misconduct at work and be willing to discuss the matter with the person involved in ethical misconduct or someone else in the organisation with authority (Collins, 2012:241). Alternatively, it is the responsibilities of management to ensure that the business has a clear, understandable and transparent code of ethics in place. Management also have to ensure that their employees are aware of this code of conduct, understand it and have access to it when needed or in doubt.

In order to prevent unethical behaviour, management can provide training, practice examples and continuous assessment of the working environment to ensure employees are productive but still ethical in the way they conduct business. In order to ensure employees abide to legal and ethical requirements, a corporate culture can be instilled, such as providing a code of conduct, statements of values or ethical documentation. Ethical standards can also be accomplished through corporate culture such as dress codes, tales about company heroes and villains, handling customer and employee complaints, how meetings are conducted, and when and how incentives are provided to employees (Ferrell, ND:7).

7 Conclusions

The small business sector of South Africa plays an essential role in the development of South Africa's economy and has become the primary source of job creation. These small businesses are under great pressure to perform in an ethical manner and therefore, the aim of this study was to determine the perception small business employees have towards their ethical responsibilities in the business environment. The results reflected in the study indicated that employees of small businesses, on average, have a positive perception towards their ethical responsibilities in the small business environment. Respondents also indicated that the most encountered ethical misconduct were that they wanted to tell someone about unethical behaviour. The study also found that employees turn to family members for advice on ethical misdemeanours. Further research can be conducted by considering the perception of employees in different regions and sectors of South Africa and investigating possible cases of employee theft in the small business environment.

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INDEPENDENT ASSURANCE COMPLIANCE OF SUSTAINABLE DEVELOPMENT DISCLOSURES IN THE JOHANNESBURG STOCK EXCHANGE FIRMS

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Abstract

This paper examines the extent to which the sustainable development disclosures of companies listed on the Johannesburg stock exchange (JSE) comply with independent external assurance. This is necessary to provide information to responsible investors and to assess the sustainable development commitment of firms in the JSE. A sample of firms within the JSE was taken from the Socially Responsible Index (SRI) group and the non-SRI group. Analysis indicates an increase in the number of firms vying for recognition as socially responsible firms in the JSE's SRI. Furthermore, a chi-square analysis shows that the SRI and non-SRI group of companies have a comparable rate of compliance with the independent external assurance of sustainable development disclosures. Overall findings indicate that the JSE's SRI initiative has been functional in driving the sustainable development initiatives of firms in the JSE. There is practical evidence of firms' commitment to carbon reduction, energy efficiency, waste management, black economic empowerment, water efficiency and other sustainable development initiatives. The paper concludes that stock exchanges may be a catalyst for driving sustainable development behaviour in firms located in emerging and developing countries, hence the paper recommends that stock exchanges in these countries may replicate the sustainable development initiative of the Johannesburg Stock Exchange as this may contribute to the sustainable economic development of emerging and developing countries. The paper offers opportunities for future research on the role of global stock exchanges in fostering sustainable development.

Keywords: Sustainable Development, Sustainability Disclosure, Stock Exchange, Sustainability Assurance, Responsible Investing, Environmental Initiatives

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1 Introduction

Society is facing two distressing crises. At one end is the global financial crisis and, at the other extreme, is the environmental crisis; combined these crises threaten human well-being and survival. However, transparent sustainable development commitment is key to remedying these crises (KPMG; UNEP; GRI; UCGA, 2010). Given that contemporary human problems – financial and environmental – are human induced; these problems also require a human solution. Hence, with the realisation that corporations contribute significantly to contemporary environmental problems, global sustainable development campaigns have centred on initiatives to encourage corporate entities to reduce their environmental impacts and to publicly disclose such efforts. Corporate sustainable development disclosure is important in assisting the public to judge the extent of sustainable development compliance and therefore boosts the legitimacy of complying corporations. Above all, disclosure acts as an innate drive to motivate firms to be proactive about environmental social and governance (ESG) risks and opportunities and thus assists towards sustainable development (le Roux 2010). But this can only occur where firms are committed to transparent disclosure and it is this realisation that has brought to the fore the concept of independent external assurance of corporate sustainable development disclosure. It is believed that external assurance of corporate sustainable development disclosure will boost corporate commitment, and hence, the transparency and credibility of such reports. Thus assurance should result in pragmatic corporate sustainable development commitment with the goal of saving the environment and restoring a healthy climate.

Some emerging economies have shown unprecedented commitment in driving corporate sustainable development initiatives (KPMG; UNEP; GRI; UCGA, 2010) and South Africa is one such emerging market in which the organised stock exchange – the Johannesburg Stock Exchange, hereafter the JSE – has initiated the first socially responsible index (SRI) in a stock exchange (World Federation of Exchanges 2009; JSE, 2012). With strong belief that corporations may contribute toward realising the ideals of sustainable development, the JSE has, since 2004, pioneered the socially responsible index (SRI) in which firms are encouraged to strive toward meeting the independent external assurance requirement of the Global Reporting Initiative (GRI) and the South African King III reporting requirements with emphasis on climate change criteria (le Roux, 2010). South African corporations have been responding with enthusiasm as indicated by the fact that the number of firms vying for listing in the SRI has increased from year to year since 2004. Whilst firms have been striving to meet the requirements of reporting, one key important reporting requirement that has shown little progress is the external assurance of sustainable development reports (Marx and Dyke 2011).

Using the 2009 sustainable development disclosure reports Marx and Dyke (2011) uncovered limited sustainable development assurance reports amongst South African firms; hence they support the King III report (effective March 1 2010) that recommends the inclusion of external assurance on sustainable development reports. It has therefore become necessary to use current 2011 data to evaluate the extent to which JSE companies have complied with the external assurance requirement of the King III report which took effect from March 2010. Thus, the question that motivated this research is: to what extent has the JSE SRI listed firms complied with the external assurance requirement of sustainable development disclosure? Consequently, the objective of this paper is to evaluate the extent of external assurance compliance in the sustainable development disclosures of the JSE SRI listed firms and to highlight the sustainable development implications of external assurance of sustainability reports.

This paper is considered important given current public attention on corporate environmental behaviour (Hopwood 2009) and, with the saturation and gradual weakening of developed economies, investment attention is turning to the emerging markets of which South Africa is the leading one in Africa. With current corporate environmental hazards such as the BP oil spill, astute investors are no longer avid about short-term profitability. They now seek an investment terrain that integrates a sustainable development ethos as this will provide desired corporate resilience against environmental and climate change risks, as well as, promote sustainable development. Given therefore that “markets are driven by information” (Blinch and Panwar, 2012), information regarding the extent to which South African firms comply with sustainable development assurance has implications for the international credibility of such reports and may contribute to attracting socially responsible investors from the international market to the South African market.

The findings of this paper are that South African firms in the JSE are fast embracing the external assurance of sustainable development reports and are taking environmental concerns and sustainable development seriously. This paper is, therefore, considered to be of modest significance to corporate sustainable development analysts, emerging market investors, researchers in emerging markets and scholars in emerging market sustainability. The paper indicates that conscientious cooperation between government and investors may reform the fulcrum of corporate capitalism – the stock exchange – to be a pivot of a corporate sustainable development initiative. Overall, the paper indicates that the South African JSE is showing unwavering capacity to inspire a corporate sustainable economic development initiative and this should therefore be emulated by other emerging and developing markets as an avenue to assist with fostering sustainable development in emerging and developing nations.

Research focussing on the extent of sustainability reporting assurance has been done by KPMG (1999, 2002, 2005), Simnett *et al*., (2009) and, more recently, Marx and Dyke (2011). Other studies on sustainability assurance have dwelt more on the quality of assurance, the drivers for assurance, the benefits of assurance, choice of assurance, content of assurance reports and the effects of assurance on users’ perception of the reliability of sustainability reports (Fonseca, 2010; Kolk and Perego, 2010; Park and Brorson, 2005; Mock *et al.,* 2007; O’Dwyer and Owen 2005; Hodge, Subramaniam and Stewart 2009). This paper contributes to existing literature on the assurance of sustainable development reporting by taking a slightly different stance from other works and examines the extent of sustainable development reporting assurance compliance by firms in a stock exchange in an emerging market – South Africa – and how the JSE is spurring corporate adherence to sustainable development initiatives in South Africa.

The rest of the paper is organised as follows: the next section presents related literature on the independent assurance of corporate sustainable development disclosure. This is followed by two short sections; one discusses briefly the sustainable development imperative for external assurance of corporate sustainable development disclosures; the other section highlights the initiative by the Johannesburg Stock Exchange for corporates’ sustainable development disclosure. The next section presents the methodology and results and the last section is the discussion and conclusion.

2 Related Literature

Given the voluntary nature of sustainable development reports, independent external assurance has been seen to be strategic in the sustainable development reporting process (Manetti and Becatti 2009). Observations from the Ballou *et al.* (2012) survey indicate that corporate sustainable development disclosure is on the increase and highlight that chartered accountants have an important role to play in acting as external assurers of such information. This role has already commenced in South Africa as firms are employing the services of the Big Four audit firms, Ernst and Young, PWC, KPMG and Deloitte to give independent external assurance on sustainable development disclosures.

From an assurance quality perspective, Fonseca (2010) studied sixteen member companies of the International Council on Mining and Metals (ICMM) with a view to examining the quality of the external assurance of their sustainable development reports. The study found that nine of the sixteen member companies employed the services of external assurers, but lamented the observable limited quality and scope of such assurance. In a related study Kolk and Perego (2010) found that companies operating in stakeholder oriented countries are likely to report external assurance and to choose large audit firms as sustainable development assurers. They also found that, in countries with market and institutional propelled sustainable development adherence, this is more likely to drive corporations' engagement with the external assurance of their corporate sustainable development reporting. This is akin to the South African case where the drive by the Johannesburg Stock Exchange (JSE) is spurring corporate sustainable development disclosure and the assurance thereof. In their research Simnett *et al.* (2009) concluded that corporate intention to build credibility and reputation drives the external assurance of sustainable development reports. Also, in a study of twenty-eight Swedish firms, Park and Brorson (2005) reported that the externally assured firms indicated that the benefits derived from external assurance of such reports include more insight from external assurers into how to improve internally the sustainable development reports and the credibility these offer to reported data. However, the un-assured group proffered the high cost of assurance as an obstacle to engaging in the independent assurance of corporate sustainable development reports. Due to the alluded cost implications, it has therefore been reasoned that the external assurance of sustainability reports is more likely to be found in firms in which the organisational benefit of assurance out-weighs associated costs (Carey *et al*., 2000; Brammer and Pavelin, 2006; Brown and Fraser, 2006). In a similar study Mock *et al.* (2007) investigated the choice of assurance provider (Big Four and non-Big Four) by firms and concluded that over 60% of sustainability assurance reports come from non-Big Four audit firms. It is possible that firms may be avoiding the higher cost of the Big Four audit firms and their higher level of sustainability assurance scrutiny (see Crespin, 2012). Perhaps the Big Four firms should regard their role in sustainable development assurance as more of a social responsibility than profit making opportunity in order to increase their growing contribution toward sustainability development assurance (O'Dwyer 2011). In a robust study comparing sustainability assurance reports internationally Simnett *et al.* (2009, p. 965) found that the assurance of sustainable development reports is more prevalent in companies "with a larger social footprint" and in big industrial activities such as mining, finance and utilities. Their research findings also suggested that firms in stakeholder oriented countries are more engaged in the external assurance of sustainability reports. This was later corroborated by Kolk and Perego (2010). These repeated findings by researchers point to the importance of stakeholders in driving corporate sustainable development and environmental initiatives. Due to stakeholder and country sustainable development differences, corporate responses to sustainable development assurance differ from country to country. The findings of research by KPMG (2005 cited in Simnett *et al.*, 2009) indicate a low percentage of sustainability reporting assurance in firms in the United States and Canada; with three per cent in the US and ten per cent in Canada. Furthermore, the research indicated that other countries did better; for instance the U.K. recorded fifty-three per cent, Australia forty-three per cent, continental Europe forty-one per cent and Japan thirty-one per cent.

Other research has focused on whether the external assurance of sustainability reports meets desired expectations. Green (2012) undertook an empirical study of an expectation gap in greenhouse gas emissions assurance. Results indicated that a gap exists between preparers, assurers and shareholders regarding the usefulness of emission information and the proficiency of assurers. The study highlighted the need to ensure the credibility of the assurance function. Consequently, in pursuit of credibility, the GRI has recommended the qualities that an assurance report should possess (GRI, 2011, p.1). Furthermore, responses from Green's (2012) empirical study indicated that accounting firms are better equipped to engage in sustainable development assurance reports. In other contrasting research O'Dwyer and Owen (2005) evaluated the extent to which assurance practices promote accountability to stakeholders; their findings revealed some degree of managerial influence over the assurance process. This indicates that such firms did not abide by the GRI standards which seek to ensure the credibility of assurance reports (GRI 2011, p. 1). These standards, amongst other objectives, strive to eliminate managerial control of sustainable development assurance.

This paper attempts to extend this earlier research by evaluating the extent to which the sustainable development disclosures of companies listed on the JSE comply with independent external assurance. It does so by using the 2011 sustainable development reports. It also sheds light on how the Johannesburg stock exchange spurs the sustainable development initiatives of firms in an emerging market, South Africa.

3 Conceptual context

Before proceeding to the main crux of this paper – external assurance compliance of sustainability disclosure of JSE firms – it is deemed apposite to underscore two closely related conceptual issues that are apparently interwoven with the assurance of sustainability disclosure of firms (Vogel, 2007). These are transparency and private or self-regulation. Whilst the endeavour to remain transparent enhances the performance and credibility of sustainability disclosure through, for instance, external assurance, private or self-regulation places the onus on firms to comply with self-made regulations. The significance of transparency and private or self-regulation (in the context of this paper) is thus briefly discussed in the following sections.

4 Transparency and Sustainability Performance

Transparency and accountability is *sine qua non* for improving corporate sustainable development disclosure and performance (GRI, 2010a). This means that corporate willingness to be accountable by being open about its social and environmental commitments is fundamental to pragmatic sustainable development disclosure that also impacts on sustainable development performance. Corporate transparency pervades all areas of corporate operations (financial and non-financial) and interactions with all stakeholders, including society and environment. Demand for holistic transparency has become important as it contributes to fostering investors' trust especially in the aftermath of the recent global financial meltdown. Consequently, as responsible investors are demanding transparency (Marian, 2012; Industry Canada, 2012), firms are becoming conscious of the implicit competitive advantage embedded in transparency – be it financial or environment, social and governance (ESG). Thus, investors' growing demand for transparency (GRI, 2011b) is becoming one of the motives for corporate transparency.

Transparent disclosure of corporate sustainability initiatives enhances sustainability performance (Lydenberg *et al.*, 2010); this enhancement can arise from two fronts. From the external front, transparency enables the investors and interested public to appraise the corporate sustainability stance; such appraisal and subsequent criticisms place further obligation on the firm to do more. For instance, sustainability appraisals conducted to ascertain whether a firm's extent of transparent disclosure qualifies it to be listed as socially responsible by, for example the Financial Times Stock Exchange for Good Index (FTSE4Good Index Series) and the Johannesburg Stock Exchange Socially Responsible Investing Index (JSE SRI); and the carbon disclosure appraisal conducted by the Carbon Disclosure Project (CDP) will stimulate the sustainability performance of firms. Thus transparency has been seen to be functional in boosting corporate sustainability scores such as in the carbon disclosure project (Tessier, 2012). Furthermore investors' appraisal of transparency in current corporate sustainability disclosure assists firms to strive towards enhanced transparency in subsequent periods as investors' demands for sustainability cannot be compromised if the firm is to meet the capital expectations of the investors who are increasingly becoming avid regarding sustainability issues (GRI, 2010b).

From the internal front, transparency motivates corporate self-appraisal which thus leads to re-strategising to perform better in subsequent periods. Thus, according to GRI (2010a), transparent reporting has been recognised as boosting corporate sustainability performance over time. This is facilitated by corporate self-rethinking, rebuilding and further reporting. Transparency enables a firm to rethink past sustainability achievements, see whether targets have been met, improve upon identified previous strengths and weaknesses and fashion out a new strategy to rebuild the overall sustainability initiatives of the firm. Such internal appraisal and rebuilding may lead to overall improvement in the subsequent sustainability performance of the firm GRI (2010a). Transparency in sustainability reporting offers holistic internal sustainability management:

CSR reports are valuable tools for internal management of ESG issues, as they present a report card of a company's management of natural capital. They also serve to educate employees about ESG issues as well as are a starting point for discussing ESG issues with external stakeholders (GRI, 2010c, p.1)

Thus according to GRI (2010d, p.1) the reporters' survey indicates that transparent reporting enhances sustainability performance: '70% of participants stated that reporting significantly changes corporate performance'; this has also been suggested by Quaak *et al*. (2007).

A firm's ability to perform objective and effective self-appraisal requires that it has clear self-sustainability regulations. Corporate self-sustainability regulations are self-made corporate sustainable development principles that the firm must adhere to in order for it to remain sustainably credible in the eyes of investors. Such self-regulation emanates from an array of emerging private sustainability regulations geared toward galvanising corporate sustainable development efforts. Hence, according to Vogel (2008), emerging corporate transparency in corporate sustainable development commitment seems to be influenced by private regulations. The next section discusses briefly the significance of private regulations for corporate sustainability.

5 Private Regulation and Corporate Sustainability

Private regulation refers to 'regulations that govern the social and environmental impacts of global firms and markets without state enforcement' (Vogel, 2008, p. 261; Tulder and Swart 2006). Such private regulations may come in the form of corporate self-regulation whereby a firm engages in voluntary autonomous self-regulation which is self-determined Private regulation may also be in the form of 'self-regulation by groups' (Gunningham and Rees 1997). Combined together therefore, private or self-regulation is defined by Huyse and Parmenter (1990, p. 259 as cited in Gunningham and Rees, 1997, p.364) as 'the normative orders of private governments (such as corporations, schools, hospitals), and the normative orders of professional communities and business networks'.

As explained by Gunningham and Rees (1997) 'the normative orders of professional communities and business networks' is made up of corporate self-regulation and industry self-regulation and, according to Gunningham and Rees, (1997, p. 364), industry self-regulation has a significant capacity to function as an instrument of social and environmental policy. They further define industry self-regulation as:

A regulatory process whereby an industry-level (as opposed to a governmental or firm-level) organization sets rules and standards (codes of practice) relating to the conduct of firms in the industry, (Gunningham and Rees, 1997, p. 364).

This type of private or self-regulation is similar to a stock exchange sustainable development regulatory initiative that strives to motivate firms within the stock exchange market to conform to sustainable practices.

However there has been an array of criticisms against self-regulation; some regard it as ineffective and mere camouflaging and detraction (The New Standard, 2007) which lacks credibility and accountability (King and Lenox, 2000). However Ogus (1999) has suggested that such criticisms may only be applicable to some circumstances and should not necessarily be generalised as critics may have a limited picture of self-regulation, the reason being that certain institutional arrangements may have some self-regulatory effectiveness that may thus escape some traditional criticisms of self-regulation. For instance, according to Baggott and Harrison (1986) self-regulation in the advertising industry has had relative effectiveness given that members foresee benefits accruable from public credibility. Thus Green and Hrab (2003) have argued that the significance of self-regulation towards achieving desired industry behaviour may be 'context specific'. This may imply that, albeit conventional criticisms of self-regulation, in some cases, this may still have some measure of significance in driving desirable industry social and environmental norms (King and Lenox, 2000). Thus, according to Gunningham and Rees (1997, p.363) 'industry self-regulation can be an effective and efficient means of social control that has been largely ignored by economics'; such regulations strive to monitor and reduce corporate excesses that affect society and environment (Gunningham and Rees 1997). Consequently it seems that emerging submissions that private regulation may be useful in motivating corporate social and environmental performance might extenuate (to some extent) criticisms against private regulation as being mere symbolism and/or sham (Gunningham and Rees 1997).

There is a growing realisation that the emergence of private regulations is facilitating increased and improved sustainability reporting and performance of corporations (Brereton, 2002; Midttun, 2007). This may mean that regulations, even when not mandatorily emanating from governmental authorities, may be functional in directing corporate behaviour to desired norms and/or ethos regarding sustainable development. Private sustainability regulation, whether self-made within the firm or made from outside the firm is seen to have a motivational drive on the firm that, although voluntary, compels the firm to perform better (King and Lenox, 2000). Supporters of self-regulation posit that it can be more effective, saves time, is more flexible and remedies the weaknesses and failures in government regulations (Amstel, 2007). Thus industry self-made regulation seems to resemble an oath that the firm is committed to, particularly as self-made corporate sustainability regulations are publicly declared. Firms thus feel compelled to live up to their words by striving to meet self-sustainability regulations to remain credible in the eyes of the public.

Furthermore, proponents of private or self-regulation within industry maintain that it has the potential to promote a firm's sustainability initiative and thus compels business to go beyond expected minimum standards of sustainability behaviour (Hjalager, 1996). In the same vein, Bohdanowicz et al. (2005) opine that a voluntary standard is one important means to achieve corporate sustainability as firms may perceive it as strategic in winning the support of investors. On the other hand, Bramwell and Alletorpo (2001) believe that industry is better placed to enact sustainability practices that meet the expectations of environment and society; this assertion appears plausible from the angle that business is part of society and environment and, by virtue of its closeness to society, it is more aware of what is deemed sustainable for society, environment and business.

It has also been argued that industry self-regulation may possess some measure of effectiveness in enhancing corporate sustainability performance given that effective self-regulation may prevent harsh regulations coming from the government (see e.g. United States Federal Trade Commission (US FTC), 2007) and hence industry strives to abide by such self-regulation in anticipation of being watched and/or monitored by government. Furthermore, as highlighted by Vogel (2008), companies are becoming, more than ever, submissive to and/or compliant with private sustainability regulations. And the GRI (2010) concurs that:

Huge progress has been made on sustainability reporting over the last decadthis is helping investors to factor sustainability considerations into decisions about company management and performance (GRI, 2010b, p. 1)

Thus amidst criticisms, given certain conditions, private regulation may be functional in motivating business behaviour towards social and environmental sustainability.

There is growing evidence of a range of circumstances where self-regulation (either alone, or more commonly, in conjunction with other policy instruments) can be a remarkably effective and efficient means of social control (Gunningham and Rees (1997, p.363).

According to an Australian Government task force report on self-regulation, circumstances under which industry self-regulation may be effective depends on market structure and industry and consumer interests. Consequently it submits that:

- A market structure with an active industry association and cohesiveness is more likely to administer effective self-regulation (p. 48).
- Competitive markets are said to be more favourable to effective self-regulation as participants are most likely to be committed in order to differentiate their products, and protect or improve their market share (p. 48).
- A more mature market is more amenable to effective self-regulation as established industry players are more willing to participate and abide by self-regulation (p.50).
- Self-regulation may be more effective where firms realise that future success of the business transcends the patronage of shareholders and customers, but also includes the community (p.50).
- Self-regulation is more likely to be effective towards improved business services to consumers, society and environment if there are incentives for business to commit to self-regulation (pp.51-53).
- The degree with which industry members are able to sign up to self-regulation scheme may determine their commitment to effective self-regulation.
- If self-regulation wins the recognition and favour of consumers, it is likely to elicit market pressure on non-interested industry members to join the self-regulation scheme (p.55) (Commonwealth of Australia, 2000, pp. 48-55).

According to the US Federal Trade Commission (2007, p.3) self-regulation has an important role to play as it complements law enforcement against industry 'unfair or deceptive acts or practices …., the net effect is greater consumer protection in the marketplace' (p.3). It proceeds further to highlight strongly that:

Well-constructed industry self-regulatory efforts offer several advantages over government regulation or legislation. Self-regulation often can be more prompt, flexible, and effective than government regulation. It can permit application of the accumulated judgment and experience of an industry to issues that are sometimes difficult for the government to define with bright line rules (US FTC, 2007, p.3).

Thus industry self-regulation is seen to possess the capacity to channel firms' behaviour in response to the industry normative codes that conform to societal and environmental values, and hence sustainability values (Gunningham and Rees, (1997).

It aims to protect people or the environment from the damaging consequences of industrialisation (Hawkins and Hutter 1993, p. 199 as cited in Gunningham and Rees, 1997, p. 365).

One such private or self-regulation is the sustainable investing requirements to qualify firms to be enlisted in the Socially Responsible Investing (SRI) index of the Johannesburg Stock Exchange. However, this paper focusses on establishing the extent of firms' compliance with one of the requirements i.e. independent external assurance of sustainable development disclosures. Before delving into the extent of independent assurance compliance by the JSE companies in 2011, the following section discusses briefly the need for external assurance of sustainability disclosure.

6 The Need for External Assurance of Corporate Sustainable Development Disclosures

A central focus for external assurance of corporate sustainability report is on providing accountability to stakeholders by ensuring that reports are complete, relevant and credible (Green, 2012; O'Dwyer, 2011; IFAC 2011; ACCA, AccountAbility and KPMG 2009; International Auditing and Assurance Standards Board, 2008). Chelli (2012) has found that sustainability rating tends to cloud certain aspects of corporate sustainability performance, thus independent external assurance becomes very apposite in unraveling the hidden side of corporate sustainable development declarations; such that assurance may therefore increase organizational accountability for sustainable development (Boiral and Gendron, 2011).

Assurance of corporate sustainable development disclosures has become important to build credibility in corporate sustainable development reports and to attract stakeholder confidence in such reports. Given that astute investors have begun to search for non-financial measures (in addition to financial) to evaluate corporate resiliency in the face of growing sustainability challenges and concomitant climate change, proactive corporations may remain attractive and competitive by convincing stakeholders that their sustainable development disclosures are not mere window dressing, but are rooted in corporate commitment to integrating sustainable development as a vital aspect of corporate strategy. This can be made possible by adhering to the Global Reporting Initiative and King III Reporting requirement that sustainable development reports should receive the opinion of independent external auditors.

Furthermore, external assurance of sustainability disclosure is also very pertinent given an array of literature that critiques the unreliability of certain sustainability disclosures (Newton and Harte 1997; Adams, 2004; Chesterman, 2008; Mine, *et al*., 2009; O'Connell, 2010; Wannen, 2010; Gray, 2010). As such criticisms may influence investors' appraisal of companies' sustainability claims (Harrison, 2012), it is therefore necessary for firms to heed the requirement of external assurance as proof that reports have not been hijacked by management (Owen, *et al*., 2000; O'Dwyer, 2003). Similarly as with corporate financial statements, if sustainable development reports are presented without external assurance undoubtedly this would weaken the credibility thereof in the eyes of the public; this situation is comparable to a financial statement without auditors' opinion (Ballou *et al*., 2012). Furthermore, Dando and Swift (2003) had earlier observed that growing sustainable development reporting is not accompanied by a simultaneous public trust in such reports and they highlighted that such trust would be regained if third party assurance of sustainable development reports is obtained.

Moreover, external assurance of corporate sustainable development reports instils self-obligation on corporations to make pragmatic and committed contributions to sustainable development. Since the importance of sustainability assurance transcends the needs of investors and ratings agencies, but includes business customers (Ernst & Young, 2012), firms therefore feel pressured towards innovative cleaner operations such as sustainable procurement and distribution, sustainable water usage, waste consumption and innovations in renewable energy (Ernst & Young, 2012). These green, innovative operations are common amongst the Johannesburg Stock Exchange firms as they strive towards meeting the requirements to be recognised as socially responsible. The firms are aware that being listed in the JSE's Socially Responsible Index endears them to government and earns stakeholders' recognition and this spurs the firms to do more about the environment, climate change and sustainable development to maintain their credibility which also acts as a booster to their business (Lodhia *et al.,* 2012).

An earlier study on sustainability reporting in South Africa, based on the 2009 sustainability reports, found very limited external assurance of sustainability reports (Marx and van Dyk, 2011) The King III report which became effective from March 1st 2010 required that firms in the JSE should obtain independent external assurance on their sustainable development disclosures (Marx and van Dyk 2011). However, no additional research has been done since the Marx and van Dyk (2011) findings to ascertain the extent of external assurance after the King III recommendation. This paper therefore extends the aforementioned previous research, with a focus on external assurance and also with an emphasis on the best SRI index firms compared with non-SRI firms. The emphasis of this paper on the external assurance of sustainable development reports is pertinent as South Africa is the first amongst the emerging markets and has the first stock exchange to launch a SRI. International environmentally responsible investors wishing to do business in South Africa, as the key emerging market in Africa, would find this update on sustainable assurance information vital in their decision to invest. There is also the possibility that other exchanges in emerging markets may draw a lesson from the trend of events in the JSE's SRI as the JSE is a member of the World Federation of Stock Exchanges.

7 The Drive for Sustainable Development Disclosure in the Johannesburg Stock Exchange

Contemporary sustainability initiatives in stock exchanges around the world (KPMG; UNEP; GRI; UCGA, 2010) indicate that governments are not alone in championing sustainable development reporting; stock exchanges have also taken the responsibility to save the earth (World Federation of Stock Exchanges, 2009). The Johannesburg Stock Exchange (JSE) recognises that the global transition to green economic development (Sustainability SA, 2012) is possible with sustainability commitment from stock exchanges. The JSE, believing strongly that business can contribute to save the earth and that it has a role to play in steering business toward the global quest for sustainable development, became the first stock exchange to launch a socially responsible investing (SRI) index in 2004.

The SRI Index was a pioneering initiative – the first of its kind in an emerging market, and the first to be launched by an exchange – and has been a driver for increased attention to responsible investment into emerging markets like South Africa (JSE 2012, p.1)

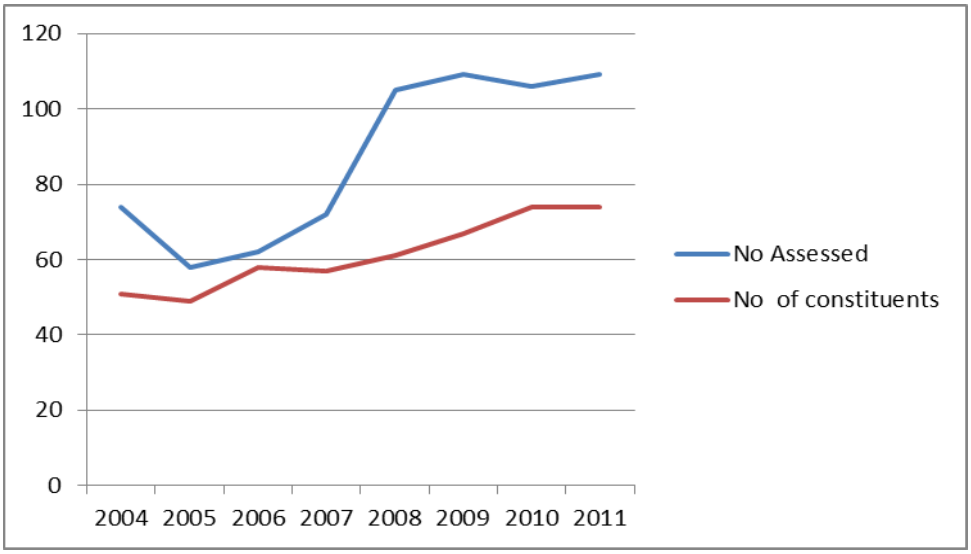
This bold step echoes the inherent transformation that characterises emerging markets and, most importantly, against conventional expectations, the SRI index project in the JSE was, in part, encouraged by the South African corporate sector (World Federation of Stock Exchanges, 2009). Given that the SRI has been sustained for about eight years, the JSE seems to have established a pedigree suggesting that its SRI is neither political image laundering nor mere legitimization. Due to the importance accorded to sustainable development by the JSE, there has been an observable upward trend from 2004 to 2011 in the number of firms that have been filing for listing in the JSE SRI, as well as, the number that have qualified to be listed in the SRI (number of constituents). This trend is represented in Table 1 and Figure 1 below.

Table 1. JSE Socially Responsible Investing Index Results 2004-2011

	No Assessed	No of constituents
2004	74	51
2005	58	49
2006	62	58
2007	72	57
2008	105	61
2009	109	67
2010	106	74
2011	109	74

Source: Compiled from Sustainability SA, 2012, p. 1; Word Federation of Stock Exchanges, 2009, p.24; Johannesburg Stock Exchange, 2012

Figure 1. JSE Socially Responsible Investing Index Results 2004-2011



This trend suggests that the JSE's SRI is driving corporate response to sustainable development and thus demonstrates the functional influence that a stock exchange may have over firms if sustainable development is integrated into stock exchange listing requirements. The trend of responses from firms desiring to be listed in the SRI also suggests that firms' sustainable development initiatives need to be motivated to assist them in 'walking the talk' in sustainable development. This is important as stock exchanges are pivotal in attracting corporate investment funds; therefore firms may not have a dissenting choice if sustainable development compliance could enhance their ability to remain credible in order to attract investors. The following section presents an examination of sustainable development assurance compliance by firms in the JSE.

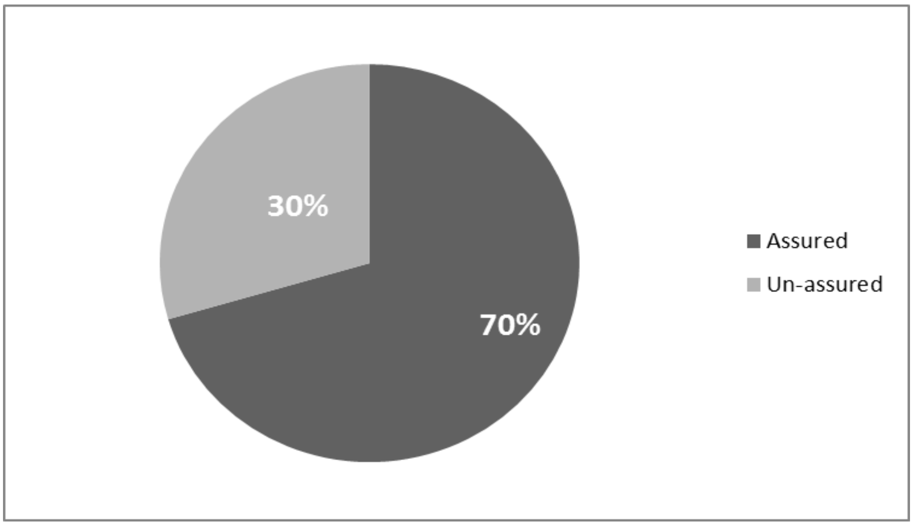
8 Method and Results

In order to enhance veracity in corporate sustainable development claims, the GRI and King III require that firms' sustainable development reports be externally assured by independent auditors (GRI, 2011; King III Report, 2009; KPMG, 2009). Therefore, this section examines the assurance compliance of JSE companies. Data is collected from the 2011 sustainability report. The first set of data was from twenty-two of the best SRI performers for 2011. This was of primary interest to ascertain whether their listing in the SRI would place them above the non-SRI companies with regard to assurance compliance. Consequently, having selected the twenty-two best SRI firms, it was necessary also to select an equal number of firms from the non-SRI group. Thus twenty-two companies were selected from the non-SRI group of companies in the JSE. The total number of firms examined was thus forty-four.

To address the objective of this paper it was apposite to ascertain whether the selected forty-four companies had obtained independent external assurance of their sustainable development disclosures. To this effect the sustainable development reports and/or integrated reports were examined. In those companies which had implemented integrated reporting, the sustainable development reports were integrated with the financial and governance reports. For these companies with integrated reports, the independent external assurance statements (limited or reasonable opinion) are placed next to the usual external auditors' financial audit opinion. This order of arrangement in the two separate opinions seems to connote the seriousness with which the companies treat sustainable development reports. On the other hand, the companies that have not implemented integrated reporting prepared the sustainable development report separately from the main financial report. These companies included their independent external assurance statement (limited or reasonable opinion) in the sustainable development report.

Overall examination (see Figure 2) shows that thirty (seventy per cent) of selected firms obtained independent external assurance opinions on their sustainable development disclosures whilst thirteen (thirty per cent) did not. The companies that did not obtain external assurance were explicit in explaining obstacles limiting external assurance and stated that efforts were under way to hire the services of external auditors in subsequent sustainable development reports.

Figure 2. Percentages of Sampled Firms with or without Independent External Assurance on Sustainable Development Reports



Furthermore, given that the GRI has outlined the characteristics that may enhance the quality of the independent external report and hence the reliability of the company's sustainability disclosure, the paper also looked closely at the independent external opinions with a view to gaining a prima facie impression of whether the reports contain the GRI characteristics. To summarise these impressions, the GRI list of characteristics of a quality independent external sustainability development assurance opinion is first presented below. According to GRI (2011, p.1) the external assurance reports should:

1. be conducted by groups or individuals external to the reporting organization, who are demonstrably competent in the subject matter and assurance practices;
2. utilize groups or individuals who are not unduly limited by their relationship with the organization or its stakeholders to reach and publish an independent and impartial conclusion on the report;
3. be implemented in a manner that is systematic, documented, evidence-based, and characterized by defined procedures;
4. assess whether the report provides a reasonable and balanced presentation of performance, taking into consideration the veracity of report data and the overall selection of content;
5. assess the extent to which the report preparer has applied the GRI Reporting Framework (including the Reporting Principles); and
6. result in an opinion or set of conclusions that is publicly available in written form, and a statement from the assurance provider on their relationship to the report preparer. GRI (2011, p.1)

The summary of the prima facie impression gathered from the external assurance reports of the selected firms shows that:

1. The assurance reports published in the sustainability reports and/or integrated reports of the JSE firms were supplied by members of the Big Four independent audit firms in South Africa and by other externally recognised assurance providers.
2. As global audit and assurance firms, the assurance providers displayed a posture of detachment from the firms and have displayed some measure of impartial assurance reports; this is evident from one of

the JSE company's (Vodacom Group Ltd) honest disclosure that:

Ernst & Young visited Vodacom as part of providing assurance for the Vodafone Group Sustainability Report. They reviewed the integration of sustainability into our businesses, the systems and processes supporting data quality and stakeholder engagement, but provided no assurance to us. We aim to achieve full assurance by March 2013(Vodacom, 2011, p. 3).

This is an indication of impartiality and independence on the part of the external assurance firms and also a sign of veracious disclosure from the reporting firms.

3. The assurance reports are systematically documented and have signs of evidence-based reporting as the assurance reports make reference to observed data from the companies' environmental, social and/or governance issues examined.

4. The assurance reports contain the wording, or wording synonymous with, 'reasonableness and balanced presentation.'

5. The assurance reports refer to compliance with GRI and/or King III.

6. All the assurance reports are presented in the form of publicly available opinion (reasonable, limited or both) as they are included either in separate sustainability reports or in the integrated reports – both publicly available for scrutiny.

It was also deemed necessary to ascertain whether there is difference between the external assurance commitment of SRI and non-SRI firms. To this effect, a chi-square contingency table (presented in Table 2 below) was used to analyse the possibility of difference in the assurance compliance of SRI listed firms and non-SRI listed firms. The essence is to ascertain whether there is a general commitment to disclosure from the both the SRI and non-SRI firms in the Johannesburg Stock Exchange (JSE).

H0: There is a difference between the assurance compliance rate of SRI listed and non-SRI listed firms in the JSE

Table 2. Chi-square contingency table

	Assured	Un-assured	Total
SRI Listed	15	7	22
SRI Unlisted	16	6	22
Total	31	13	44

Table 3. Chi Square Analysis

Expected Frequency:	$X^2 = \Sigma(fo - f\,e)^2 /fe$
• 31 X 22/44 = 15.5 • 13 X 22/44 = 3.25 • 31 X 22/44 = 15.5 • 13 X 22/44 = 3.25	15 – 15.5 = 0.25/15.5 =0.016 16 – 3.25 = 162.56/3.25 = 50 7 – 15.5 = 72.25/15.5 =4.66 6 – 3.25 = 2.75/3.25 =0.846
	X^2 calculated = 55.52
Degrees of Freedom: (C – 1) (R – 1) = 1 Chosen Significance Level: 0.05	

From the chi-square distribution table, chi-square critical at 0.05 significance level and at 1 degree of freedom is 3.84. Therefore since the chi-square calculated is 55.52; the null hypothesis is rejected and, hence, there is no difference between the assurance compliance of SRI listed firms and non-SRI firms.

This result shows that the independent external assurance of sustainable development disclosure in the JSE is not unique to SRI listed firms; the non-SRI firms in the JSE are equally making similar efforts towards assuring their sustainable development reports by independent external assurers as they strive toward meeting the requirements for JSE SRI listing, as well as, the growing sustainable development pressure from responsible investors (JSE SRI 2011). Thus, the JSE's SRI plays a functional role in channelling the efforts of South African firms towards a sustainable environment. Such sustainable development implication is discussed in the following section.

9 Implication for Corporate Sustainable Development Engagement

Ariely (2010) argues strongly in support of the popular aphorism "what you measure is what you get." Taking this further may imply that the verification by independent external assurers of corporate sustainability claims might have the propensity to impel corporations in the Johannesburg Stock Exchange to optimise their scores on sustainable development. In the same vein, given that the requirement for admittance to the Socially Responsible Index of the Johannesburg Stock Exchange is dependent on the extent of corporate sustainable development initiatives, this also suggests that firms in the JSE are galvanised to strive toward sustainable development initiatives in order to be recognised. Again, given that recognition as a responsible firm in the JSE is published in the public domain, it comes with implicit legitimacy and competitive advantage for firms that are recognised; and this again acts as a booster to corporate goodwill. Thus Ariely (2010, p.1) rightly said “if we want to change what they care about, we should change what we measure.” The Johannesburg Stock Exchange is influencing a change in what firms traditionally cared about – bottom line (profit) – towards a new set of performance measures – sustainable development, and firms are not dissenting as they must comply to be able to raise business capital. Hence, there is a gradual shift in the philosophy of what the firms measure to align with what society wants the firms to measure and care about – sustainable development.

The preceding sections indicate the growing adherence of JSE firms in obtaining independent external assurance of their sustainable development reports. The emerging inclination of JSE firms to be recognised as socially responsible (SRI) – depicted in Figure 1 – is one catalyst that spurs the firms’ motivation to obtain external assurance of sustainable development reports. And since external assurance comes with verification of disclosures as affirmed by the external assurers, the JSE firms’ sustainable development and/or integrated reports show evidence that the firms are becoming committed to practical social and environmental issues. This tends to balance the sustainable development triangle of economic, social and environmental development.

Consequently, the Socially Responsible Index (SRI) of the JSE, apart from providing information to socially responsible investors, it is important to note, has also contributed in boosting the sustainable development initiatives of the JSE companies. On the other hand, the JSE is been spurred towards sustainable development by the emerging green economic policies of the South African government toward green economic development. The conspicuous impact of the JSE’s Socially Responsible Index on the JSE firms is evident from the examination of the sampled firms’ sustainable and/or integrated reports. These reports have practical information and data upon which the independent external assurers relied in order to offer assurance opinions; this point is also averred by the independent external assurers who are mainly the Big Four audit firms in South Africa. The practical sustainability initiative information common amongst the sampled firms includes *inter alia* data on carbon emission. Many of the firms have comparable data from previous years to demonstrate the extent of yearly progressive reduction in carbon emission. And these data are in the public domain for further verification. This complies with the GRI requirement for quality independent external assurance. There is also practical data on energy efficiency amongst the sampled firms. Additionally, the sampled firms have data on waste reduction, health and safety and black economic empowerment.

In the course of this study it was found that one of the indices (aside from environmental issues) against which firms in the JSE are rated for inclusion in the Socially Responsible Index is the extent of corporate compliance with black-based economic empowerment (BBEE) which aligns with one of the millennium development goals of poverty eradication (UN, 2010). BBEE is an integrated socio-economic transformation in South Africa that seeks to accommodate black people in participating, managing, owning and controlling the economy of South Africa (dti, 2007). It is anticipated that if the BBEE is effectively applied, it would contribute toward decreasing income inequality and therefore assist in poverty alleviation. Through the SRI initiative of the JSE it is apparent that firms in the JSE are taking this social and economic policy (BBEE) seriously and are complying in order to receive recognition. In this way, therefore, it can be said that corporations in the JSE are supporting poverty alleviation through pragmatic implementation of BBEE policy and, as poverty alleviation is one of the key millennium development goals, firms in the JSE are therefore operating in support of sustainable development via the motivational influence of the SRI.

The JSE is thus driving firms (both local and multinational in South Africa) to comply with the BBEE requirement. This is also evident in the sustainable and/or integrated reports of firms which present their BBEE compliance, and with some firms also having comparable data for past years to show the extent of yearly BBEE improvement. Consequently, the growing trend in the JSE’s SRI (JSE, 2012) seems to suggest that the JSE is balancing its capitalist creation with the global need to ensure the survival of present and future generations. This means that other stock exchanges in emerging and developing markets may emulate the sustainable stance of the JSE. If stock exchanges in emerging and developing economies could initiate a socially and/or sustainability responsible index, such countries may experience a boost in moving toward actualisation of the ideals of sustainable development. Consequently, a somewhat paradoxical yet positive evolution in the capitalist empire – the stock exchange – is apparent in a sharp leap from capitalist hegemony towards humanism, socialism, and environmentalism; thus suggesting that businesses possess the capacity to achieve a sustainable environment. External assurance of sustainable development reports may therefore be said to be functional in moving towards sustainable development.

Table 1 and Figure 1 indicate an upward trend in the number of firms that vie for and are listed in the annual JSR SRI. This upward trend indicates the extent of the sustainable development stance evolving amongst the firms. Although sustainable development and relevant assurance interest may abound amongst the firms, there are also hindrances that limit firms’ commitment to sustainable development initiatives and assurance. An examination of the sustainable development reports revealed that some firms were honest and mentioned that the issue of sustainable development is still a new concept which they are struggling to situate within their corporate strategic agenda. Such declarations come with some implicit connotations of lack of awareness regarding the integration of sustainable development in business (for some firms). Corporate sustainable development engagement is also being limited by apparent measurement and data collection problems associated with lack of enabling measurement tools (Green Biz and Enrst & Young 2012). According to Green Biz and Enrst & Young (2012, p. 10) these problems include the use of outdated tools such as spread sheets, emails and phone calls in collecting and documenting sustainable development data. These are archaic tools when compared to modern methods of processing financial data.

In light of the above problems, this paper suggests that the governments in countries with developing and emerging markets should, through the departments for environment, strengthen sustainable development awareness education programmes for firms to provide further education on the integration of sustainable development in business strategy and, where possible, with no cost implications for firms. The Global Reporting Initiative and the UN Environmental Programme (UNEP) may assist firms in emerging and developing nations by offering free training to businesses on the practical integration of sustainable development. This awareness and/or training should not just be left in the hands of sustainability consultants who have capitalised on the exigency for sustainable development to convert sustainable development awareness into another genre of business venture with ensuing profit inclination demeaning the importance of the sustainable development campaign. Although sustainable development seems a ubiquitous concept, insights from this research suggest that many firms lack the practical awareness of how to become deeply involved with sustainable development. There is also an urgent need for software designers to develop more software tools that may assist firms in meeting the challenges of measuring and reporting on issues associated with carbon, energy, water and waste handling and other sustainable development related practices.

10 Conclusion

This paper has examined the extent to which firms in the JSE comply with the requirement of obtaining independent external assurance opinions on their sustainable development reports. Since it is practically impossible for stakeholders to embark on an individual assessment of the reliability of corporate sustainable development disclosures, independent external assurance, as recommended by the GRI and the South African King III report, is the means whereby the public may ascertain the extent of the credibility of corporate sustainable development reports.

The firms studied comprised of two groups: the twenty-two best performing firms in the 2011 Socially Responsible Index (SRI) of the Johannesburg Stock Exchange (JSE) and twenty-two firms from the non-SRI firms. Findings indicate that seventy per cent of the sampled firms obtained external independent assurance reports for the 2011 sustainable development reports whilst thirty per cent could not obtain external assurance reports. It was also deemed necessary to ascertain whether there is difference between the external assurance commitment of SRI and non-SRI firms; a chi-square analysis shows an equal likelihood of assurance effort from the SRI and non-SRI firms. This indicates that, on a general level, firms in the JSE are striving towards ensuring the credibility of their sustainable development reports. This level of compliance stems from the fact that the JSE firms are striving to meet the sustainable development requirements to be listed in the SRI and is also due to the fact that JSE firms are striving toward meeting the sustainability demands of responsible investors. It is noteworthy that within the non-assured thirty per cent group some firms actually hired the services of the Big Four firms for external assurance and were honest enough to declare that their sustainability reports could not receive an independent assurance opinion as they did not meet the verification requirements to warrant an external assurance opinion from the assurers.

The study discovered that the Johannesburg Stock Exchange's Socially Responsible Index is motivating firms towards sustainable development initiatives as they strive to meet verifiable environmental management practices such as carbon reduction, energy efficiency, waste reduction, water efficiency, health and safety and social engagements including, *inter alia*, the black-based economic empowerment (BBEE) – geared toward the reduction of income inequality and poverty alleviation amongst the black population – HIV/AIDS programmes and various education assistance programmes for the indigent population. These environmental and social engagements therefore contribute toward actualising the millennium development goals and thus toward achieving sustainable development ideals. The implication is that the organised stock exchanges, although traditionally created to service capitalism, may foster corporate sustainable development initiatives in emerging and developing nations by integrating sustainability principles as part of listing requirements in the stock exchanges. With the progress in corporate sustainable development initiatives in the JSE firms, it does seem that companies may not exhibit dissenting behaviour with regard to sustainable development if stock exchanges decide to elevate sustainable development to an appreciable level of importance. Other stock exchanges in emerging and developing economies are therefore encouraged to replicate the Johannesburg Stock Exchange's SRI as this may likely spur environmental and sustainable development initiatives amongst firms in these nations. Such collective effort from stock exchanges and firms would contribute positively toward alleviating social, environmental and climate change problems and thus toward achieving desired sustainable economic development. This paper thus offers an agenda for further research to study the role of global stock exchanges in fostering sustainable development.

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EMPLOYEE INVOLVEMENT: A TOOL FOR WORK TEAM EFFECTIVENESS

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Abstract

The study aims to investigate effective employee involvement as a tool for work team effectiveness. The quantitative approach to the study was conducted using a sample of 150 employees in a construction company, in Kwa-Zulu Natal, South Africa. The data was conducted using a questionnaire and validity and reliability was assessed using Cronbach's Coefficient Alpha. Data was analyzed using descriptive and inferential statistics. Statistical techniques were utilized to test the hypotheses. Either partial acceptance or acceptance of all hypotheses is evident in the study. The results were compared and contrasted with that of other researchers. The research indicates that the sub-dimensions of employee involvement significantly impact on the sub-dimensions of work team effectiveness in varying degrees, and employee involvement is an imperative tool for work team effectiveness.

Keywords: Employee Involvement, Team Effectiveness, Organizational Productivity, Team Effectiveness, Employee Contribution

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1 Introduction

The global economic meltdown compels a refocus on businesses processes. The strategic focus of organizations is profits, productivity, effectiveness and efficiency with employee contributions being the fulcrum of business leverage. With job satisfaction, employee involvement and motivation and the honing of employees skills, the end result is effective teamwork and long-term organizational success. Employees pilot organizational processes, and employee involvement and teamwork is posited as a key issue in today's competitive and strategic work environment. Wu, Wang and Tsai (2010) assert that the effectiveness of teams cannot be analyzed within a vacuum, but as part of a larger economic, strategic and technological arena. The study embraces and notes scholarly views in order to outline challenges in an organizational environment.

2 Literature Review

Understanding the key roles of effective work teams stem from the rampant tendency for contemporary organizations to restructure, re-invent and downsize, creating new roles. Fostering team efforts require proper guidance and support for team unit cohesiveness. In this light, high-involvement team practices can instigate proactive attitudes which enhances performance, including quality and effectiveness which ultimately leads to overall organizational goals. Hence, teamwork can be used strategically by organizations.

According to Kozlowski and Ilgen (2006), the emergence of a contemporary perspective over the last decade of work team effectiveness revolves around the organizational context of the team, where work team effectiveness is a direct outcome of the organisational framework which impacts on team dynamics. Salas, Stagle and Burke (2004) express work team effectiveness according to its members attributes, the nature of the task, work structure and changes and emphasize organizational situational factors which determine the outcome of work team effectiveness, such as, reward systems, management control, team interventions and resource scarcity. Overall a team is the organizing of employees in an attempt to capitalise on their collective competencies (Bagraim, Cunningham, Potgieter & Viedge, 2007).

Work teams are responsible for the production of goods or the provision of services (Cohen & Bailey, 1999). They are carefully composed, share high levels of commitment and build on each other's competencies (Khan, Ahmed, Akbar, Khan & Hijazi, 2011). Cross-functional teams are used regularly by team-based and conventional organizations, whereas parallel teams performs functions which the regular organization is not equipped to perform optimally and is associated with problem-solving and improvement-oriented activities. Time limited project teams may be specialized to perform an array of activities simultaneously as opposed to sequentially which saves the organization's time, which is important for time-based competition (Cohen & Bailey, 1999). Management teams highlight the hierarchical structures and for upper management to share responsibility and work towards the overall organizational goals; whereas problem-solving teams rarely have the authority to unilaterally implement any of their suggested actions (Robbins, Judge, Odendaal & Roodt, 2009). Self-managed teams solve problems, implement solutions and take responsibility for outcomes (Robbins et al., 2009); whereas virtual teams increases the effectiveness of performance by the ease of access across time zones and in the pooling of specific talent. They help in dealing with these fast paced environments (Tyson & York, 2000).

The models of work team effectiveness support organizational success, such as, group dynamics and composition. Earlier models of work team effectiveness are based on the mutual accountability, skills and commitment of teams whereas more contemporary models, such as LaFasto and Larson (2001), Hackman (2002) and Lencioni (2005) propose teamwork models as active entities. LaFasto and Larson (2001) developed a model of work team effectiveness, which stems from an investigation carried out with 600 teams in various industries. They base their model of work team effectiveness around five dynamics and when it is aligned with organizational goals it makes the culture conducive to achieving those goals. The key lies in selecting the right people for the composition of the team, thereafter building on the five dynamics of effective teamwork: organizational environment, team leadership, team problem-solving, team relationships, and team members.

Hackman (2002) proposes that for work team effectiveness to be at optimum levels, certain conditions must be met, which are expressed in the suggestion that it is not only a team by name but a 'real' active, working team. The team understands its direction and works as a cohesive unit; the structure of the organization is one which facilitates teamwork; the organizational context supports the operation of the team and there is a vast pool of expert coaches available for mentoring. Hackman (2002) suggests further that there are five essential conditions for work team effectiveness, namely:

- A 'real' team has four features: a task, defined boundaries, autonomy and stability.
- Goals of the team are clear and challenging, focusing on the results rather than the means to achieving them.
- An effective structure refers to whether the norms of the organization elevate or impede teamwork.
- A supportive organizational framework refers to whether the team has access to sufficient resources, information, rewards and support members to accomplish their tasks.
- Valuable coaching refers to the availability of an expert coach for guidance and support which improves coordination and collaboration and aids in taking advantage of emerging opportunities.

According to the Lencioni Model all teams possess the potential to be dysfunctional and to improve team functioning. Furthermore, the five potential dysfunctions of a team are absence of trust; fear of conflict; lack of commitment; avoidance of accountability and inattention to results. Some team conflict is necessary or it becomes difficult for team members to commit to decisions.

Certain criteria leads to greater levels of work team effectiveness and self-managing team behaviours are a conceived set of actions which enhances team effectiveness and portrays the outcome of the team's activity (Kozlowski & Ilgen, 2006). They emphasize team performance, team viability and team process improvement as the three dimensions of team effectiveness. Team performance is established through measures such as quality, quantity and working within an allocated budget (Ulrich & Brockbank, 2005). Knowledge, skills and abilities (KSA's) of the team needs continuous improvement through team training for an organizational climate where teams learn by virtue of doing (Mei, 2008). Team viability becomes a component of team self-managing behaviours as it represents the team members' ability to deal with difficulties which impede their social stability. A viable team is able to sustain effective levels of performance over time (Kozlowski & Bell, 2003). With team process improvement team members refine current processes and engineer innovative solutions to optimize task outcomes (Hinds & Mortensen, 2005). De Dreu's (2007) view is that team process improvement fosters a sense of encouragement where members are able to distinguish performance gaps and set improvement gaps for themselves, leading to a more complete and comprehensive understanding of tasks (Bushe & Coetzer, 2007).

Employee involvement is a foundational element in building a culture of effective teamwork, for growth and organizational productivity. Employee involvement empowers employees to appropriate levels in order to participate in managerial decision-making and improvement activities relevant to their levels within the organization (Apostolou, 2000). According to Sun, Hui, Tam and Frick (2000), employee involvement also entails the closest proximity to the problem or opportunity as employees are equipped for decision-making and problem-solving.

According to Richardson, Vandenberg and Richardson, 2005), Edward Lawler identified four interconnected principles for a high-involvement work system, that is power, information, knowledge and rewards. Employees must perceive high levels of all four attributes for optimal employee involvement (Bowen & Ostroff, 2004). Power without knowledge, information and rewards may lead to poor decision-making. Information and knowledge without power leads to individuals feeling aggravated because they are unable to use their capabilities fully. Rewards for organizational performance without power, knowledge and information can lead to aggravation and decreased motivation. Information, knowledge and power without rewards for organizational performance are detrimental because there will be no leverage or incentive to ensure that employees exercise their individual resources that will contribute to organizational effectiveness (Riordan, Vandenberg & Richardson, 2005).

Employee involvement with other human resource management practices cannot be viewed in a vacuum (Kim, 2002). To ensure the successful implementation of high-involvement systems, management needs to ensure that virtually every major feature of the organization is designed differently. This can be solved by either adopting a 'self-design' approach (encompassing high amounts of learning and investigation) or participatory change processes (emphasizing beliefs, attitudes and behaviours of employees) (Kim, 2002). An influential organizational climate can be viewed in conjunction with the four principles of employee involvement: participative decision-making (power), information sharing (information), training (knowledge), and performance-based rewards (rewards) (Richardson & Vandenberg, 2005).

Employees who notice a climate of employee involvement should partake in the 'knowledgeable and informed application of creativity' and relevant perspectives in their daily work activities' (Riordan et al., 2005:474). Furthermore, employee involvement processes are shaped by other human resource practices (Ogungbamila, Adepeju & Adetula, 2010), where the perceived climate of employee involvement is able to provide a competitive advantage that is not easy to replicate. Human relations theorists argue that involvement-oriented work environments influence the attitudes of employees (Loo & Thorpe, 2002). These theorists suggest that the climate of employee involvement improves in its meaning when it is directly associated to an overall improved working environment, where employees will respond with positive emotions to an environment.

According to Cox, Zagelmeyer and Marchington (2006), the first indicator of embeddedness in employee involvement is 'breadth', which is measured by the number of employee involvement practices in the workplace. By emphasizing a culture of importance towards the breadth of employee involvement, this leads to the fostering of a network of embeddedness where multiple practices are interdependent for their successful operation. Kessler's (2004) view is that the greater the 'breadth' of employee involvement practices within an organization, the more employees will feel committed with increased levels of job satisfaction. The second dimension is the 'depth' of employee involvement practice embeddedness. The 'depth' is an indicator of how embedded any single employee involvement practice is. This can be measured, for example, by the frequency of meetings and employee contributions, such as the regularity and thoroughness with which practices are applied can have a significant impact on the embeddedness of employee involvement practices (Cox et al., 2006).

Direct employee involvement requires individual participation, for example, in problem-solving groups or team-briefings, and indirect employee involvement practices entail, for example in workplace committees. The degree of influence attached to each technique also varies significantly (Duch, Waitzman & Amaral, 2010). Employees perceive employee involvement practices as more significant if they are given opportunities to exercise influence over an array of issues. Batt (2004) found that employees operate differently depending on whether they are used individually (direct) or in combination (indirect). According to Vandenberg et al. (1999), an organization may have a plethora of formal written policies on involvement, and managers may believe it is being practiced, but these policies and beliefs are worthless until the employees themselves perceive these as being imperative to their organizational well-being.

With participation in work decisions, employee involvement is evident as it encourages employees to express their views make valuable contributions. Consultive participation practices render a lesser level of employee influence than employees who merely participate in work decisions. Furthermore, employees are able to voice their opinion but may have complete decision-making power (Leana, Locke & Schweiger et al., 2000). Short-term participative decision-making management involves, for example, training sessions over several days or single laboratory sessions, which is formal and direct. Short-term participation does not seem to affect the perceived goal difficulty or acceptance by employees. Informal participation concerns the participative decision-making practices which occur without intent between managers and subordinates, such as interpersonal relationships (Leana et al., 2000). With employee ownership, employees are able to influence management decisions through mechanisms such as shareholder meetings. Attributes, such as, employee satisfaction, commitment, motivation and involvement are higher in employee-owned firms as it fosters a sense of employee accountability, leading to high levels of productivity and performance (Hall, Liu, Combs & Ketchen, 2006). Representative participation is similar to employee ownership, the influence is lower and it covers an array of issues as the board of directors or worker councils cover all areas of content (Kim, 2002).

Employee involvement can be used strategically and an organization can optimize employee competencies for team development and effectiveness. Employee involvement affects every sphere of human resource management, including overall growth, productivity and organizational success. Employees would not only have the fulfillment and benefit of their own strengths, but as members of a team. Hence, with employee involvement, employees are proactive, committed and dedicated to their respective organizations.

Objectives of the study:

- to determine the perceptions of administrative employees regarding employee involvement and work team effectiveness;
- to determine whether employee involvement as a tool can impact work team effectiveness in a construction company.

3 Methodology

3.1 Respondents

The population comprised of all employees in a large construction company in Kwa-Zulu Natal, South Africa. The sample of 150 subjects (managers, supervisors and employees) was drawn using a stratified random sampling technique to ensure proportionate representation from the strata of the designated groups of interest. In terms of the composition, 23.3% of the sample consisted of managers, 29.3% were supervisors and 47.4 % were employees.

3.2 Measuring Instrument

A self-developed questionnaire was utilized for data collection, consisting of two sections. Section A relates to the biographical data, which was measured using a nominal scale with pre-coded option categories. Section B comprised of 50 items relating to employee involvement and work team effectiveness, and was measured using a 5-point Likert scale ranging from strongly disagree (1), disagree (2), neither agree/nor disagree (3), agree (4) to strongly agree (5).

3.3 Research Procedure

The study was conducted after Ethical Clearance was granted for the study.

3.4 Measures/Statistical Analysis of the Questionnaire

The validity of the questionnaire was assessed using Factor Analysis. A principal component analysis was used to extract initial factors. Factor analysis was performed using SPSS with an Orthogonal Varimax Rotation. In terms of the core areas impacting work team effectiveness five factors were extracted from the factor loading matrix. When items were significantly loaded on more than one factor, the item with the highest value was considered.

Table 1. Factor Analysis: The Validity of the Instrument Measuring Employee Involvement

Factor	Dimension	Eigen value	% of Total Variance
1	Job satisfaction	3.51	14.50
2	Empowerment	3.26	13.05
3	Employee commitment	3.028	12.11
4	Participative decision-making	2.60	10.40
5	Motivation	2.00	8.00

Table 2. Factor Analysis: The Validity of the Instrument Measuring Work Team Effectiveness

Factor	Dimension	Eigenvalue	% of Total Variance
1	Communication	3.70	14.80
2	Innovation	3.42	13.70
3	Teams Output	3.08	12.33
4	Performance Objectives	2.74	10.94
5	Team Member Skills	2.70	10.71

The reliability of the questionnaire was determined using Cronbach's Coefficient Alpha. The overall alpha coefficient was 0.611 for both employee involvement and work team effectiveness reflecting internal consistency and reliability. Descriptive statistics, using percentages, mean analyses and standard deviations were utilized for the study. Inferential statistics included intercorrelations and multiple regression.

3.5 Administration of the Questionnaire

The questionnaires were administered by a departmental manager in the target organization. With personal administration of the questionnaire, respondents had clarity about the questionnaire. Data was collected over two weeks. Anonymity and confidentiality was assured. The total of 150 questionnaires were returned from the distribution of 150 printed copies.

3.6 Statistical Analysis

Descriptive statistics and inferential statistics was utilized to evaluate objectives and hypotheses of the study.

4 Results

Employees were required to respond to the items assessing employee involvement and work team effectiveness using the 5 point Likert scale, which were analysed using descriptive statistics (Table 3).

Table 3. Descriptive Statistics: Key Dimensions of Employee Involvement and Work Team Effectiveness

Dimension	Mean	95 % Confidence Interval		Variance	Std. Dev.	Minimum	Maximum
		Lower Bound	Upper Bound				
Employee Involvement							
Empowerment	4.5275	4.4681	4.5869	0.135	0.3670	3.60	5.00
Participative Decision-making	4.4685	4.4109	4.5260	0.126	0.3555	3.20	5.00
Employee Commitment	4.4899	4.4279	4.5519	0.147	0.3830	3.60	5.00
Job Satisfaction	3.8980	3.8480	3.9480	0.095	0.3090	3.40	5.00
Motivation	3.8805	3.8354	3.9257	0.078	0.2790	3.20	5.00
Work Team Effectiveness							
Communication	4.5293	4.4678	4.5909	0.146	0.3182	3.20	5.00
Team Member Skills	4.5227	4.4643	4.5810	0.131	0.3618	3.80	5.00
Performance Objectives	4.4373	4.3800	4.4947	0.126	0.3555	3.60	5.00
Innovation	4.5093	4.4475	4.5712	0.147	0.3833	3.60	5.00
Teams Output	4.5987	4.5376	4.6597	0.143	0.3783	3.80	5.00

Table 3 indicates that the dimensions of employee involvement in this organization are occurring at varying degrees. Based on mean analyses the attainment of the dimensions of employee involvement are shown in descending order:

- Empowerment (Mean = 4.5275);
- Employee Commitment (Mean = 4.4899);
- Participative Decision-making (Mean = 4.4685);
- Job Satisfaction (Mean = 3.8980);
- Motivation (Mean = 3.8805).

The results indicate that for each of the dimensions there is room for improvement, as evidenced when the mean score value is compared against a maximum attainable score of 5. The analysis of the employee involvement sub-variables as indicated in Table 3 reflects that improvement is needed in terms of motivation and job satisfaction. However, very little improvement is needed with empowerment, participative decision-making and employee commitment, hence employees in this organization feel empowered in their jobs.

Table 3 indicates that the dimensions of work team effectiveness in this organization are also accomplished at varying degrees. Based on mean analyses the attainment of the dimensions of work team effectiveness are as follows in descending order:

- Teams output (Mean = 4.5987);
- Communication (Mean = 4.5293);
- Team members' skills (Mean = 4.5227);
- Innovation (Mean = 4.5093);
- Performance objectives (Mean = 4.4373).

The results indicate that for each of the dimensions there is room for improvement as evidenced when the mean score value is compared against a maximum attainable score of 5. This implies that the sub-dimension of the teams output require the least amount of improvement as opposed to performance objectives, which require a greater room for level of room for enhancement in this organization. Hence, the teams output in this organization is fairly high as very little improvement is required.

The discussions focus on the five dimensions of employee involvement (empowerment, participative decision-making, employee commitment, job satisfaction and motivation); and work team effectiveness (communication, the skills of team members, performance objectives, innovation and the output of teams).

When assessing employee involvement, it was found that empowerment was first out of five dimensions determining employee involvement. Clearly empowerment is evident in this organization. In addition, against a maximum attainable score of 5, empowerment (Mean = 4.5275) reflects that the least amount of attention is needed in comparison to the other dimensions in this study. A similar view of Bagraim et al. (2007) is that empowerment can be utilised strategically and elevated through employees. Furthermore, Kirkman and Rosen (2000) indicate that the capability of employees is to make decisions regarding processes which increases employee responsibility and encourages empowerment.

When assessing employee involvement in this study, it was found employee commitment was second out of five dimensions determining employee involvement. Employee commitment is seen to be high within this organization. When compared against the maximum attainable score of 5 (Mean = 4.4899), the commitment of employees to their jobs and to the organization is clearly high although there is room for improvement. Whitener (2001) associates the degree of commitment amongst employees to the working conditions and employment practices which encompass the organization and the job. Employee commitment is the driving force behind any successful organization. Enhancing commitment to escalate employee involvement entails building relationships with employees, so that they feel valued within the organization.

In assessing employee involvement, it was found that participative decision-making was third out of five dimensions in determining employee involvement. Participative decision-making forms a great part of this organization. When compared against the maximum attainable score of 5, participative decision-making (Mean = 4.4685) reflects that although there is room for improvement with regards to this dimension, but there is a positive culture of participative decision-making in this organization. Vandenberg et al. (1999) emphasize that participative decision-making cannot be merely laid out in written policies, it must be actively practiced and continuously improved in order to remain effective. Leana et al. (2000) suggest that participative decision-making within organizations encourages employees to express their views and feel valuable to the organization. Buchanan and Huczynski (2004) add that participative decision-making should not be used as a method to comfort employees and ensure their retention, but as a strategic organizational tool.

In assessing employee involvement, it was found that job satisfaction was fourth out of five dimensions in determining employee involvement. When compared against a maximum attainable score of 5, job satisfaction (Mean = 3.8980) requires much improvement within this organization. Job satisfaction is the relationship between expectations and outcome (Zwick, 2004). Although the obvious contributions to job satisfaction such as pay, working conditions and work content form a great deal of what increases job satisfaction, it is an ongoing process (Quagraine, 2010) which must be nurtured so that individuals morale is increased, including their overall satisfaction with their work and their organization.

In assessing employee involvement, it was found that motivation was fifth out of five dimensions in determining employee involvement. When compared against a maximum attainable score of 5, motivation (Mean = 3.8805) reflects that the most improvement is needed in motivating people in this organization. Gagne and Deci (2005) attribute the levels of employee motivation to the intrinsic and extrinsic aspects of the job and the setting of realistic goals for employees. Motivation is to ensure that employees remain committed to a task and are eager for the emergence of positive outcomes. By providing individuals with variety and change, creative tasks, power and influence and recognition, this acts as a catalyst to high levels of self-development and motivation (Buchanan & Huczynski, 2004).

In this study, when assessing work team effectiveness, the teams output was first out of five dimensions in determining work team effectiveness. The output of teams is high. In addition, against a maximum attainable score of 5, the output of teams (Mean = 4.5987) indicates that the least amount of improvement was needed. Hinds and Mortensen (2005) propose that the quality of the teams output depends on the input, process and overall product factors used. For optimum team output a correlation must exist between individuals and team goals, team climate and high level of interaction between team members (Naquin & Tynan, 2003). The culture of the organization is a major component in team output, as the value of their work is recognised with success (Gray & Densten, 2012).

In this study, when assessing work team effectiveness, it was found that communication was second out of five dimensions in determining work team effectiveness. Communication is importannt for work team effectiveness. Against a maximum attainable score of 5 communication (Mean = 4.5293) reflects that this area needs improvement in this organization and it is a high priority. Communication is a strategic tool, whereas conflict creates openness and honesty. Brooks (2003) indicates that a climate of free-flowing communication allows for quality improvement. The structure of the organization dictates the degree, consistency and the methods in which team members make use of communication strategies (Quigley, 2003).

When assessing work team effectiveness in this study, it was found that team member skills was third out of five dimensions. Against a maximum attainable score of 5, team member skills (Mean = 4.5227) indicates that some improvement is required in this area. Bagraim et al. (2007) suggests that the strength of team members' skills lies in the roles team members take upon themselves. The interdependency of teamwork contributes to the development of knowledge, skills and the abilities of team members.

When assessing work team effectiveness, it was found that innovation was fourth out of five dimensions in determining work team effectiveness. Against a maximum score of 5, innovation (Mean = 4.5093) reflects that there is room for improvement with innovative methods. The degree of innovation amongst team members must be viewed in terms of the characteristics which are congruent to effective teams and leads to greater innovation (Mickan & Rodger, 2000). The innovative nature of teams and processes should be flexibile to deal with the unpredictable workforce of the 21st century (Buchanan & Huczynsk, 2004).

In this study, when assessing work team effectiveness, it was found that performance objectives was fifth out of five dimensions in determining work team effectiveness. Against a maximum attainable score of 5, performance objectives (Mean = 4.4373) needs the most improvement. Colquitt, Lepine & Wesson, (2009) affirm that performance objectives provide tailored strategic purpose for team members and guides team development. Brooks (2003) argues that the most imperative part of performance objectives regarding team effectiveness is Management By Objectives (MBO). MBO base employees evaluations on whether they achieve specific performance goals according to mutually agreed upon objectives that are measurable and specific (Youssef & Luthans, 2007). Also, Behaviourally Anchored Rating Scales (BARS) assesses performance by directly assessing performance behaviours (Gray & Densten, 2012). The BARS approach uses critical incidents to create a measurement instrument to evaluate performance (Colquitt et al., 2009). The authors advocate for the use of a 360 degree feedback system when planning for the success of performance objectives.

5 Inferential Statistics

5.1 Hypothesis 1

There exists significant intercorrelations amongst the sub-dimensions of employee involvement (empowerment, participative decision-making, employee commitment, job satisfaction, motivation) and the sub-dimensions of work team effectiveness (communication, the skills of team members, performance objectives, innovation, output of teams), respectively.

Table 4. Intercorrelations amongst the sub-dimensions of Employee Involvement and Work Team Effectiveness

Sub-dimensions of Employee Involvement and Work Team Effectiveness		Empower-ment	Participative Decision-making	Employee Commit-ment	Job Satisfaction	Motivation
Communication	r	0.065	0.002	0.187*	-0.068	-0.108
	p	0.427	0.982	0.22	0.406	0.190
Team Member Skills	r	0.042	0.078	-0.019	0.146	-0.184*
	p	0.608	0.342	0.816	0.074	0.025
Performance Objectives	r	0.048	0.119	-0.024	0.026	0.054
	p	0.560	0.147	0.771	0.749	0.511
Innovation	r	-0.021	-0.10	0.151	-0.100	-0.008
	p	0.794	0.899	0.064	0.225	0.927
Teams Output	r	0.048	0.132	-0.032	0.076	0.055
	p	0.561	0.107	0.700	0.358	0.506

*p<0.05

Table 4 indicates that:

- Employee commitment correlates significantly but inversely with communication at the 5% level of significance.
- Furthermore, motivation correlates significantly but inversely with team member skills at the 5% level of significance.

However, Table 4 indicates that no significant intercorrelations exist between the sub-dimensions of employee involvement and the sub-dimensions of work team effectiveness.

Hence, Hypothesis 1 may be partially accepted.

5.2 Hypothesis 2

The sub-dimensions of empowerment, participative decision-making, employee commitment, job satisfaction and motivation significantly account for the variance in determining employee involvement.

Table 5. Multiple Regression: Employee Involvement

Model	R	R Square	Adjusted R Square	Std. Error of the Estimation
1	0.418[a]	0.175	0.170	0.12040
2	0.639[b]	0.408	0.400	0.10235
3	0.776[c]	0.602	0.594	0.08416
4	0.913[d]	0.833	0.828	0.05476
5	1.000[e]	1.000	1.000	0.00000
Model	Unstandardised Coefficients		Standardised Coefficients	
	B	Std. Error	Beta	P
Empowerment	0.200	0.000	0.556	0.000
Participative Decision-making	0.200	0.000	0.538	0.000
Job Satisfaction	0.200	0.000	0.468	0.000
Employee Commitment	0.200	0.000	0.580	0.000
Motivation	0.200	0.000	0.422	0.000

Table 5 indicates that the sub-dimensions of empowerment, participative decision-making, job satisfaction, employee commitment and motivation account for 100% of the variance (Adjusted R Square = 1.000) in determining employee involvement.

Hence, Hypothesis 2 may be accepted.

5.3 Hypothesis 3

The sub-dimensions of empowerment, participative decision-making, employee commitment, job satisfaction and motivation significantly account for the variance in determining employee involvement.

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Model	R	R Square	Adjusted R Square	Std. Error of the Estimation
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Motivation	0.200	0.000	0.422	0.000

Table 6 indicates that the sub-dimensions of empowerment, participative decision-making, job satisfaction, employee commitment and motivation account for 100% of the variance (Adjusted R Square = 1.000) in determining employee involvement.

Hence, Hypothesis 3 may be accepted.

However, each of these sub-dimensions impact on employee involvement to varying degrees. Based on the Beta loadings in Table 3, it is evident that employee commitment (Beta = 0.580), followed by empowerment, participative decision-making, job satisfaction and motivation impact on employee involvement at a diminishing level.

- Employee Commitment (Beta = 0.580);
- Empowerment (Beta = 0.556);
- Participative Decision-making (Beta = 0.538);
- Job Satisfaction (Beta = 0.468);
- Motivation (Beta = 0.422).

5.4 Hypothesis 4

The sub-dimensions of communication, the skills of team members, performance objectives, innovation and the output of teams significantly accounts for the variance in determining work team effectiveness.

Table 7. Multiple Regression: Work Team Effectiveness

Model	R	R Square	Adjusted R Square	Std. Error of the Estimation
1	0.509[a]	0.259	0.254	0.13412
2	0.688[b]	0.473	0.466	0.11348
3	0.793[c]	0.628	0.621	0.09564
4	0.893[d]	0.797	0.791	0.07098
5	1.000[e]	1.000	1.000	.00000
Model	Unstandardised Coefficients		Standardised Coefficients	
	B	Std. Error	Beta	P
Teams Output	0.200	0.000	0.487	0.000
Communication	0.200	0.000	0.491	0.000
Performance Objectives	0.200	0.000	0.458	0.000
Innovation	0.200	0.000	0.494	0.000
Team Members Skills	0.200	0.000	0.466	0.000

Table 7 indicates that the sub-dimensions of the output of teams, communication, performance objectives, innovation and team member skills significantly account for 100% of the variances (Adjusted R Square = 100) in determining work team effectiveness.

Hence, Hypothesis 4 may be accepted.

However, the Beta loadings in Table 7 indicates that these five sub-dimensions impact on work team effectiveness to varying degrees. These sub-dimensions in decreasing levels impact work team effectiveness are:

- Innovation (Beta = 0.494);
- Communication (Beta = 0.491);
- Teams Output (Beta = 0.487);
- Team Member Skills (Beta = 0.466);
- Performance Objectives (Beta = 0.458).

The reliability of Section B of the questionnaire relating to the core factors of employee involvement and work team effectiveness was determined using Cronbach's Coefficient Alpha. Cronbach's Coefficient Alpha for both reflected 0.611. This indicates that items for both employee involvement and work team effectiveness have internal consistency and is reliable.

6 Recommendations

In this study, a lack of empowerment by a number of respondents may be attributed to them not being involved in processes in this organization. To enhance employees' feelings of involvement, organizations should embark on including employees in decision-making processes and make their jobs more interesting. Cognizance should be taken of employee recognition for the jobs that they perform. Bagraim et al. (2007) emphasize the need for a balance of power, where empowerment should allow for a better treatment of people, where all individuals are treated as being important, hence ultimately increasing empowerment within the organization.

Participative decision-making shows that employees require more opportunities to be more involvement regarding decision-making. Organizations who wish to increase participative decision-making should seek methods of cooperative task involvement and governance. Quagraine (2010) suggests that participative decision-making can be improved within organizations by increasing opportunities for flexibility and authority amongst staff.

Employee commitment in this study is lacking. Although the study shows that the feeling of commitment amongst staff is adequate, it warrants room for improvement. A decreased level of commitment affects them negatively by impeding their ability to produce their best. Employee commitment is essential for goal attainment and in decreasing the frequency of labour turnover. The commitment of employees within this organization can be improved through providing career path mentoring and other incentive tools such as opportunities for advancement.

In this study, a lack of job satisfaction leads to a decreased level of employee involvement. Low levels of job satisfaction impede job performance. Job satisfaction can be increased through obvious methods, such as, improving pay and working conditions or through employee stimulation. and job rotation. Job satisfaction can be increased through leadership creating a positive working climate, and receiving feedback regarding performance and contribution.

Low levels of motivation amongst employees in this organization are attributed to employees not feeling adequately involved. Employees who are not sufficiently motivated will not exert the greatest amount of effort in order for the optimum success of the organization. Motivation can be improved through effective leadership, improving the structure of working units, enabling support, rewards and an improvement in job design (Bagraim et al., 2007).

In this study, a lack of communication impedes work team effectiveness. Employees who feel that communication is hindered are unable to perform to their optimum capabilities. Brooks (2003) states that communication in teams may be improved through constant feedback programmes, regular reviews on team performance which requires a two-way stance of communication and group solutions to issues.

The skills of team members require improvement, although it is perceived as adequate amongst employees. This may be attributed to team members not being equipped with the adequate skills or the incorrect individuals composing the team. The skills of team members require constant revision and improvement to adapt to an unpredictable work environment. The matching of skills to team tasks lead to an increased competitive advantage. Hegar (2012) suggests that the skills of team members need to be regularly reviewed and updated to deal with the ever-changing landscape of the workforce and its accompanying technological implications.

In this study, the performance objectives of teams are low. Team members who lack focus and to reach toward a common goal are unable to meet performance objectives. By improving clarity of purpose and allowing for the creative solution of problems, performance objectives can be met through the emphasis of the value the team is making to organizational success (De Dreu, 2007).

Innovation in this study is seen as adequate in increasing work team effectiveness, yet room for improvement is required. This may be attributed to employees perceiving the innovation levels in this organization to be insufficient to adequately contribute to effective teams. Team members who feel they are not able to practice innovation to the fullest feel frustrated and confined in their jobs. Hence, alternative methods and encouraging creativity within teams.

Although the output of teams is perceived to be the highest contributing factor to work team effectiveness in this organization, it still requires room for improvement. Team members require the product of their efforts to be valued as a contributing factor to the overall success of the organization in order for team members to work efficiently towards their output.

The sub-dimensions of employee involvement, namely, empowerment, participative decision-making, employee commitment, job satisfaction and motivation impact on work team effectiveness to varying degrees with employee commitment having the greatest impact, followed by empowerment, participative decision-making, job satisfaction and motivation, respectively. Likewise communication, team members skills, teams output, performance objectives and innovation are the sub-dimensions of work team effectiveness but impact on work team effectiveness to varying degrees, with the greatest impact being innovation, followed by communication, teams output, team members skills and teams output, respectively.

7 Conclusion

This study has explored the impact of employee involvement on work team effectiveness. The research indicates that the sub-dimensions of employee involvement (empowerment, participative decision-making, employee commitment, job satisfaction and motivation) significantly impact on work team effectiveness (communication, team member's skills, performance objectives, innovation and the output of teams) although in varying degrees. Employee involvement is an effective tool for work team effectiveness

Employees and work teams bring in a synergy of ideas to organizations that are striving to keep afloat during competitive times and as globalization is setting new boundaries. Companies need to continuously change strategy.

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DOES SOCIAL RESPONSIBILITY ENHANCE FIRM VALUE AND RETURN IN BRAZIL?

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Abstract

This paper analyzes whether corporate social responsibility brings value and enhances returns to shareholders in the Brazilian market. We analyze the companies listed on BM&FBovespa stock exchange using two methodologies (panel regressions and event studies). The results indicate that firms listed in the corporate sustainability index (ISE) of BM&FBovespa have higher price-to-book when compared to companies not listed on ISE. The event study shows that companies that leave ISE show negative abnormal returns. Moreover, firms entering ISE show positive abnormal returns, although results are not statistically significant.

Keywords: Corporate Social Responsibility, Firm Value, Returns

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1 Introduction

Corporate social responsibility (CSR) has been the subject of a lot of research recently. However many companies often have concerns about whether investors are aware of their sustainable business decisions, and are able to assess its impact on firm value and returns. Numerous articles have been published in order to analyze the social responsibility within organizations, and evaluate whether it brings positive returns to shareholders.

The shareholder theory states that managers should focus on maximizing firm value, respecting the rights of investors, partners or shareholders. By this theory, the only social responsibility of companies is to generate profits and wealth for their shareholders, and there would be a negative relationship between social responsibility and firm performance.

The stakeholder theory has been gaining strength recently by emphasizing that firm's decisions should take into account all stakeholders, both inside and outside the organization. Over time, the society and shareholders have encouraged companies to invest in CSR. For the shareholder theory the goal of financial responsibility ("maximizing shareholder wealth") is not distinct from social and environmental responsibility. According to Savitz and Webe (2006), sustainability should not be seen as philanthropy, because the company should obtain financial returns through its sustainability initiatives.

This paper analyses if socially responsible companies have higher market value and generate higher returns to shareholders in Brazil. We measure the quality of social responsibility practices through the presence of the company on the corporate sustainability index (ISE) of BM&FBovespa stock exchange. Two methodologies are used in this study. First we estimate panel regressions to examine whether the market and financial indicators are better for ISE companies when compared to non-ISE firms. Second, we perform event studies to evaluate whether there are abnormal returns when a company enters or exits the ISE.

The results of the panel regressions indicate that companies listed on ISE have higher price-to-book compared to non-ISE companies. The event studies reveal that companies that leave the ISE show negative abnormal returns, and that firms entering the ISE show positive abnormal returns, although the latter results are not statistically significant.

This work is divided as follows. The next section presents a brief review of literature on the relationship between social responsibility and financial performance. Section 3 shows the data and methodology, whereas the fourth section presents and discusses the results. Finally, the fifth section concludes the paper.

2 Literature Review

In recent years, the companies and their shareholders have been encouraged to invest in CSR. Nevertheless, many firms still resist this policy, arguing that any effort that is not applied to maximize value causes the company to lose focus. According to Barros et al. (2008), organizations are being challenged to participate in this discussion, and the new paradigm of corporate sustainability is based on the Triple Bottom Line (TBL) theory, which asserts that organizations can achieve sustainability evaluating the economic, social and environmental aspects of their activities.

According to the shareholder theory, the only social responsibility of business is to generate profits and wealth for its shareholders (Friedman, 1970). Any action in other directions will weaken the companies and the capitalist system. This theory shows that maximizing shareholder value benefits the entire value of the company, and suggests a negative relationship between social responsibility and financial performance. High levels of social responsibility result in costs that put businesses at an economic disadvantage compared to other companies that have fewer actions and practices of CSR (Tsoutsoura, 2004).

The stakeholder theory states that companies must take into account all interested parties, both inside and outside the organization (Machado et al. (2009)). The desire to invest in socially responsible companies is not new. Since the 1990s many stock indices have been created to rank companies according to their social responsibility, such as the Dow Jones Sustainability Index (DJSI), FTSE4Good, and the ISE.

The ISE was created in 2005 to reflect the return on a portfolio composed of socially responsible companies in Brazil. The quality of social practices is measured through a quantitative questionnaire, which is answered voluntarily by the companies. The ISE questions are based on the TBL theory, covering economic efficiency, environmental practices, social justice and corporate governance.

Companies must meet the following criteria for inclusion in the ISE: a) be one of the 150 stocks with the highest trading volume in the last 12 months, b) have been traded in at least 50% of the days in the last 12 months; and c) meet the sustainability criteria established by ISE.

Socially responsible investments (SRI) have been growing significantly in different markets. Schröder (2005) analyzes 29 SRI stock indices and compares their performance with conventional indices. The results show that SRI stock indexes did not show a higher risk-adjusted return. Bauer et al. (2006) analyze SRI in Canada and show that they do not exhibit statistically significant returns. Mallett et al. (2005) examine the performance of green and SRI funds, and show that they do not have superior performance.

Statman (2000) investigates the performance of 31 SRI funds in the U.S. as well as the DJSI. The results indicate that, despite having higher Jensen's alpha, the performance of SRI funds is similar to that of conventional funds and indexes. Derwall and Koedjjk (2005) show that SRI funds have stable performance, but not higher than traditional funds.

Sánchez et al. (2005) study the performance of equity funds in Europe to evaluate whether there is a relationship between investment in socially responsible businesses and fund performance. The results show that the SRI funds have lower performance, especially because of their higher management fees. On the other hand, Plantinga and Scholtens (2001) conduct a survey with more than 800 European funds and conclude that SRI funds have a Sharpe ratio greater than traditional funds.

Cheung (2009) analyzes the impact of the inclusion and exclusion of companies in the DJSI. There is no evidence that these events have significant impact on stock returns and risk. Barros et al. (2008) conducts an event study to evaluate if the entry in ISE generates abnormal returns in Brazil, and show that companies entering the ISE obtain positive abnormal returns.

3 Data and Methodology

Our sample is composed of 658 companies listed on the BM&FBovespa from 2005 to 2009. The number of companies belonging to ISE varies annually. In 2009, the ISE had 47 shares of 38 companies representing 18 industries. The market value of ISE companies represented 46.1% of the total market value of companies traded on BM&FBovespa. The financial and market data come from the Economatica database.

We perform two analyzes in this study. First we run panel regressions to evaluate whether the market value of ISE companies is greater than conventional firms. The Hausman test indicates that the random-effects panels are more efficient than fixed-effects. The model has the following form:

$$PTB = \alpha_1 + \alpha_2 ISE + \alpha_3 NM + \alpha_4 VOT + \alpha_5 VOTTOT + \alpha_6 ROA + \alpha_7 SIZE + \alpha_8 LEV + \alpha_9 GROW \quad (1)$$

where *PTB* is the price-to-book ratio, *ISE* is a dummy variable indicating whether the company is listed on ISE, *NM* is a dummy variable indicating whether the company is listed on the “Novo Mercado” (BM&FBovespa segment for companies with better governance practices), *VOT* is the largest shareholder’s percentage of voting capital, *VOTTOT* is the largest shareholder’s ratio of voting to total capital, *ROA* is the return on assets (operation income/total assets), *SIZE* is firm size (log of total assets), *LEV* is the leverage (liabilities/total assets), and *GROW* is average sales growth over the last 3 years.

We also perform an event study to examine whether there are abnormal returns when a company enters or exits ISE. We run a market model using the Ibovespa index as benchmark. We use an estimation window of 250 days before the announcement of the inclusion or exclusion of the ISE, and calculate abnormal returns in three windows: 5 days before and after the event (AR [-5,5]), 5 days before and 1 day after the event (AR [-5,1]), and 1 day before and after the event (AR [-1,1]).

4 Results

Table 1 shows the descriptive statistics of the variables used in the study from 2005 to 2009. Around 3% of the companies are present in ISE, and 26% are listed in "Novo Mercado". The companies have average price-to-book of 2.41, ROA of 4%, and 60% of leverage. The largest shareholder has 61% of the voting capital and 1.41 votes for each share held.

Table 1. Descriptive Statistics (Descriptive statistics of all variables used in the study from 2005 to 2009. The definition of the variables can be seen in section 3)

	Average	Median	Std Dev	Min	Max
PTB	2.41	1.40	4.51	0.10	7.39
ISE	0.03	0.00	0.17	0.00	1.00
VOT	61.33	59.65	27.44	2.00	100.00
VOTTOT	1.41	1.11	0.57	0.40	3.94
NM	0.26	0.00	0.44	0.00	1.00
ROA	3.94	3.30	13.70	-85.20	426.70
SIZE	6.03	6.08	0.91	0.48	8.85
LEV	60.23	61.80	23.14	0.00	99.90
GROW	21.51	13.85	55.36	-90.17	94.45

Table 2 shows the correlation matrix between the variables. There is a positive correlation between firm value and ISE. Furthermore, ISE companies tend to be larger and adopt better governance practices when compared to non-ISE firms. There is a negative relation between voting capital and ISE, indicating that the higher concentration of votes the worse social responsibility.

Table 2. Correlation Matrix (Correlation among all variables used in the study from 2005 to 2009. The definition of the variables can be seen in section 3)

	PTB	ISE	VOT	VOTTOT	NM	ROA	SIZE	LEV	GROW
PTB	1.00								
ISE	0.07	1.00							
VOT	-0.06	-0.07	1.00						
VOTTOT	-0.06	0.08	0.06	1.00					
NM	0.05	0.32	-0.22	0.11	1.00				
ROA	0.00	0.05	0.03	0.01	0.03	1.00			
SIZE	-0.02	0.31	-0.01	0.09	0.35	0.02	1.00		
LEV	0.20	0.06	0.06	0.09	-0.05	-0.18	0.30	1.00	
GROW	0.03	-0.02	0.00	-0.05	0.08	0.00	0.01	-0.02	1.00

We classify the companies into 2 groups according to their presence in ISE. Table 3 shows the average (and median in parentheses) value of each variable for both groups of companies. Companies listed on the ISE have higher price-to-book (3.45) when compared with non-ISE firms (2.32). The differences in mean and median are statistically significant at 1%. Furthermore, the ISE companies adopt better governance practices, have lower capital concentration, are larger, more profitable and more leveraged than non-ISE firms.

Table 4 shows the results of random-effects panel regressions from 2005 to 2009. In all models, the ISE variable is positive and statistically significant at 5%. When we add good practices on both social responsibility and governance (ISE and NM, respectively), only ISE is significant. This means that the social responsibility measured by ISE is much broader than the governance metrics of "Novo Mercado". This is not surprising because some requirements to enter ISE are similar to those of NM. Hovewer, it is important to note that "Novo Mercado" has important governance practices that are not pre-requisite to ISE, such as the issue of only voting shares. For example, if a company wants to enter Novo Mercado, it has to grant all minority shareholder voting rights, according to the one share one vote rule, but this is not a requirement to enter ISE.

Table 3. Firm Characteristics and Social Responsibility

	Non-ISE Firms	ISE Firms	Test of Difference
PTB	2.32	3.45	0.00***
	(1.30)	(2.30)	(0.00***)
VOT	61.82	54.06	0.00***
	(60.00)	(51.00)	(0.00***)
VOTTOT	1.39	1.59	0.00***
	(1.11)	(1.61)	(0.00***)
NM	0.23	0.84	0.00***
	(0.00)	(1.00)	(0.00***)
ROA	3.78	6.66	0.01***
	(3.20)	(5.55)	(0.00***)
SIZE	5.96	7.16	0.00***
	(6.02)	(7.10)	(0.00***)
LEV	59.87	66.04	0.00***
	(61.50)	(65.40)	(0.00***)
GROW	21.82	17.05	0.33
	(13.92)	(12.91)	(0.98)

The sample is divided into 2 groups: companies listed and not listed on the ISE. The average (median in parentheses) value of each firm characteristic is reported. The definition of the variables can be seen in section 3.We conduct a statistical test to analyze whether the differences in average (and median) are significant between the two groups, and the p-value is reported. ***, ** and * indicates difference statistically significant at 1%, 5% and 10%, respectively

Table 4. Firm Value and Social Responsibility

	I	II	III
ISE	0.55***	0.58**	0.54**
	(0.02)	(0.02)	(0.02)
VOT		0.01	0.01
		(0.98)	(0.73)
VOTTOT		-0.68**	-0.68**
		(0.02)	(0.02)
NM			-1.20
			(0.40)
ROA	0.05*	0.03*	0.03*
	(0.06)	(0.06)	(0.06)
SIZE	-3.11***	-2.78***	-2.48***
	(0.00)	(0.00)	(0.00)
LEV	0.09***	0.07***	0.06***
	(0.01)	(0.01)	(0.00)
GROW	0.02***	0.01***	0.01***
	(0.01)	(0.01)	(0.01)
R^2 aj	0.66	0.75	0.75

Random-effects panel regressions from 2005 to 2009 with price-to-book as dependent variable. The definition of the variables can be seen in section 3. The p-values, adjusted for autocorrelation and heteroscedasticity, are reported in parentheses. ***, ** and * indicates statistical significance of 1%, 5% and 10%, respectively

Table 5 shows the results of event studies. We can see that firms entering the ISE show positive abnormal returns, although the results are not statistically significant. On the other hand, companies that leave the ISE show negative abnormal returns and the results are significant at 10%.

Table 5. Abnormal Returns and Social Responsibility

Abnormal Return	ISE Entrance	ISE Exit
AR_0	0.05%	-0.22%
	(0.46)	(0.38)
AR[-1,1]	-0.12%	-1.60%*
	(0.44)	(0.09)
AR[-5,1]	0.32%	-1.89%*
	(0.39)	(0.10)
AR[-5,5]	0.67%	-2.99%*
	(0.32)	(0.08)

Abnormal returns around the companies' entrance and exit of ISE from 2005 to 2009. The abnormal returns are calculated using the market model with an estimation window of 250 days. The abnormal returns on the event date (AR0) and cumulative abnormal returns (AR [-1,1], AR [-5,1] and AR [-5,5]) are calculated. The p-values are reported in parentheses. ***, ** and * indicates statistical significance of 1%, 5% and 10%, respectively

5 Conclusion

The relationship between corporate social responsibility (CSR), firm value and return has been vastly studied in the international literature. However, there is no consensus whether CSR significantly impacts firm value and return. Some studies show a positive relationship whereas others show CSR is not significant.

This study examines whether CSR increases firm value and returns in Brazil. We analyze listed companies from 2005 to 2009 using two methodologies (panel regressions and event studies). The results indicate that companies present in ISE have higher price-to-book when compared to non-ISE companies. The event studies reveals that companies that leave ISE show negative abnormal returns, whereas firms entering ISE show positive abnormal returns, although the latter results are not statistically significant.

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THE CHALLENGES OF INFORMATION TECHNOLOGY (IT) GOVERNANCE IN PUBLIC UNIVERSITIES OVER TIME

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Abstract

Using an in-depth case study, this paper examines challenges that the IT Governance of a public university responds to over time. Our findings indicate the traditional model of IT Governance did not enable the organization to manage their IT resources to match their operational IT needs over a 10 year period. A more process orientated model of IT Governance including organizational drift may be more appropriate to explain the changes over time. To be governed responsibly, the organization over time needs to use their information technology in a manner that is consistent with organizational strategy. The study demonstrated that the best way forward for public universities may be to adopt IT and corporate governance models that allow their management to examine their needs to meet the challenges of matching their IT purchases to their operational needs.

Keywords: Information Technology, Corporate Governance, IT Governance, Public University

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1 Introduction

Corporate governance is related to how organizations are managed and governed. Part of corporate governance is the management of the IT resources which is IT governance. IT governance first surfaced in the early 1990's and there are many definitions of it. The main aspects of these definitions are that IT governance is an 'accountability framework' that makes decisions relating to IT purchases among its various stakeholders. These purchasing decisions allow for the alignment between the IT and the objectives of the organization so that IT is used in the most efficient and effective manner.

The aim of this paper is to examine how public university IT governance responds to the challenges of operational needs and the IT unit. We do this through an in-depth case study of a large Australasian public university engaged in teaching and research over a ten year period. Our research interest is not only on how universities reconcile the conflicting tensions between operational activities and management control, but more importantly how IT governance is performed to ensure that the portfolio of IT investments meets the goals of the agents involved. The remainder of the paper is structured as follows. Section two provides a brief overview of the literature on IT governance and university information systems generally. Section three provides a discussion of the senesemaking literature and interpretation of data to help inform the study. Section four briefly outlines the research method and section five presents the case study findings. Section six provides a discussion of the findings and the final section is devoted to some concluding remarks.

2 Literature Review

The literature review begins with the concepts of corporate governance and IT governance, as well as some IT governance standards and how they fit in with good corporate governance. The viewpoint of IT governance will be covered from the traditional rational agency model which will be used in the case study. Lastly, some comments from studies on public universities show the importance of IT governance issues.

Corporate governance is how an organization is managed and governed and the Organization for Economic Co-operation and Development (OECD) define it as "The set of relationships between a company's management, its board, its shareholders and other stakeholders ... [it] provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined" (OECD, 2004, pg. 11).

If these relationships are not managed properly the chances of business success will be reduced. The OECD also documented eight principles for good corporate governance. These principles place responsibility on how an organization manages and uses information technology within the business. The issue of IT governance is important as a significant amount is spent on IT investment every year. According to Gartner, worldwide IT spending is forecast to be up 3.7% from 2011 or a total $3.8 trillion in 2012 (Gartner, 2012). Given this importance of IT in organizations, the governance and management of IT is important. Therefore, the IT governance frameworks and standards that an organization uses to assist with their IT management are important.

Within the responsibilities of corporate governance is the issue of IT governance. IT governance is a function of the board of directors and the high-level executives within the organization (Considine et. al., 2012). It centres on making sure that an organization is using information technology in a manner that is consistent with its overall organization strategy (Lainhart, 2000). IT governance issues relate to decisions about how IT is to be implemented and used in the organization as well as the methods used to promote the use of IT consistent with the organization's intentions (Considine et. al., 2012). The IT Governance Institute cites four main objectives of IT governance which are:

1. Ensuring that the IT being used or adopted within an organization is consistent with the organization's goals and meets expectations.

2. Using IT to make the most of existing business opportunities and benefits.

3. Ensuring the organization's IT resources are used responsibly.

4. Ensuring the organization has appropriate management strategies and techniques in place for dealing with IT-related risks (IT Governance Institute, 2003, pp. 11).

Within these four objectives are five specific areas that need to be considered by those with the responsibility of managing IT (IT Governance Institute 2003, pp. 20–31). These five areas are:

Adding value — ensuring that all the IT within the organization is contributing to the organization in an efficient and effective manner. This can be a subjective area to gauge.

Managing risk — making sure that the organization's IT resources are able to provide reliable service and service can be recovered quickly if any IT problems arise.

Matching IT to strategy — this ensures that the strategy of the business currently and where it wants to be in the future can be matched to IT resources to support them. Therefore, we can say that the strategy needs to be aligned to the operational IT. This is important as there is a difference between what the organization says its strategy is versus what it is able to achieve with its IT. Particularly given the increasing role that information technology now plays within organizations, representing the means of implementing strategy and supporting business processes, makes managing IT and ensuring IT supports organizational strategy critical for organizations (IT Governance Institute, 2007; ISACA *COBIT 5*, www.isaca.org; IT Governance Institute 2003).

Measuring performance — this refers to the IT systems measure of performance in terms of financial information or even the much broader performance measuring balanced scorecard (Schrage, 2006).

Managing resources — this ensures that all resources are used to support the business process that they are meant to. This includes people, hardware and software.

IT governance involves being clear on who is involved in IT decisions, who makes the final decision and how the decision makers are accountable for their decision outcomes. IT governance encompasses areas including principles, infrastructure, architecture, and investment and prioritisation (Weill & Woodham, 2002).

Frameworks such as CoBIT (Control Objectives for IT) (ISACA, 2013) and ITIL (IT Infrastructure Library) provide an auditable list of items that should be considered in an IT governance framework.

Other authors describe that IT Governance may be more closely examined by looking at a more process orientated model which includes looking at systems that are not created through management approval but by the users. These shadow systems indicate there are problems with the IT portfolio and this organizational drift into shadow systems is an indication of this problem (Singh, 2010). The shadow systems are systems that are set up by users and these are of different types such as workarounds of the existing systems (Safadi and Faraj, 2010, Azad and King, 2008; Boundreau and Robey, 2005), systems created as the current systems does not provide the functionality needed (Boundreau and Robey, 2005; Safadi and Faraj, 2010) or the user does not realise that the organization's systems contains the functionality that they do. These shadow systems cause extra time and work and drain the resources of supporting the organizations current IT systems.

In relation to university information systems, Oliver et al., (2005, pp. 594) examined eight publicly available university web sites relating to comments used to justify the adoption of a new system by the categories (technology, process, organization and people). They found that dissatisfaction with existing administrative systems was a common theme expressed by all the universities analysed. The themes related to a sense that the systems are reaching or have exceeded their 'use-by-date'. These systems are variously described as: 'aging', 'outdated', 'unworkable, 'costly', 'inadequate', 'inefficient', 'outmoded', 'expensive', 'poorly coordinated', 'inflexible', 'disparate', 'limited', 'old', 'idiosyncratic', 'redundant', 'cumbersome' and 'technologically inferior'.

Exemplifying this attitude is the following statement from the University of Colorado "…equipment is maintained at significant cost past its useful life and costs are incurred in maintaining systems that should be replaced" (University of Colorado, 1988).

"Expressions of dissatisfaction provide one rationale upon which the move to implement new systems is based. They are important in creating a climate of opinion receptive to the introduction of new systems. The following statements from the University of Colorado, California State University, and Central Queensland University use evocative phrases such as 'provide a roadblock', 'limping along' and 'cries or despair' which create powerful images. The current systems prevent new systems from being created as putting more resources into the old systems means there is less money to put into developing new systems. "Putting more scarce resources to keep inadequate legacy systems limping along is a waste" (California State University, 1999)" (Oliver et al., 2005, pp. 594)

"I have probably heard, and indeed contributed to, more cries of despair in relation to the quality of our systems than to any other single matter" (Chipman, 1999). In the following statement, California State University indicates that these legacy system difficulties create a problem that demands a solution. "The CSU is headed for severe problems with current existing (legacy) administrative systems and must do something about it (California State University, 1999).

Sometimes, new initiatives have been difficult to implement because of constraints imposed by legacy systems. This has created a situation of functional and technological deprivation in the minds of university administrators. Central Queensland University expresses this sense of restraint in the following terms "CQU recognised that inefficient and outmoded administrative systems and processes were impacting on its ability to respond to challenges within higher education" (Central Queensland University, 1999).

The Year 2000 issue was, for many of the universities in this study, a motivation for change, as it forced attention on information systems/information technology (IS/IT), possibly raising awareness of other deep-seated problems in this area. Many universities focussed their attention on this issue during the mid to late 1990s. Year 2000 was an example of a change in the environment in which IS/IT is situated that created adaptation problems, albeit one that was foreseeable.

Dissatisfaction with existing systems is a strong rationale for new systems adoption. Most of the universities in this study portrayed existing systems in a poor light. Universities expressed dissatisfaction with the performance of current systems in various ways which left no doubt that they were in urgent need of replacement, basically because they were too old, did not meet the needs of users, were unfriendly, fragmented and incapable of adaptation.

As a result of these discussions we can see that universities are suitable candidates to study. They have corporate governance structures and IT governance structures and their processes are documented and placed on their web sites.

3 Theoretical Perspectives

A theoretical perspective is needed that makes sense of what has happened in the case study university over time. Sensemaking is a suitable method in this study, in that sensemaking looks at the 'sense' in the construction of reality around decisions in the implementation of information systems. Using the stakeholders, the dialectical processes look at the same processes from a promoting to opposing change perspective. The sensemaking method enables an analysis of the outcomes of systems implementations and provides some theoretical explanation as how they have occurred.

Sensemaking is a viable research avenue, to gain an understanding of how an organization makes implementation decisions given its contextual environment. The sensemaking approach has been developed and used extensively in the management literature and therefore the method's use is novel and contributed to the literature in the area. The sensemaking literature is discussed from the construction of sensemaking (Maitlis, 2005, Weick, 1995).

Sensemaking is the process of examining the past to interpret what action to take in the future (Weick et al., 2005). By that the past is turned into a situation that can be used as a 'springboard' for future action. Therefore, sensemaking involves the retrospective analysis of the past and the extraction of relevant cues that are used to make sense of the situation, and turned into a story (a plausible account) that is described in words that serve to guide future actions. Also, sensemaking does not occur at one point in time, it occurs continually with the reinterpretation of the past. Therefore in sensemaking organizational life is turned into words, and this serves as a guide for action (Gioia & Chittipeddi, 1991; Vaivio et al, 2010).

Sensemaking usually occurs when a dramatic event has occurred that you wish to make sense of; this is called a sensemaking trigger (Weick et al., 2005, Weick 1993, Maitlis & Lawrence, 2007). Sensemaking involves the process of noticing and bracketing, which looks at past events and selects events that are worthy of considering together (Jensen & Aanestead, 2007). These past events that have been bracketed are labelled in ways that relate them together. This is done retrospectively. Looking at the past events a pattern is discerned. Then a sequence of accounts is honed to represent a plausible account of what has happened in the organization. The plausible account does not have to be true; it is a construction of reality that enables action to occur. Sensemaking is not about truth, it is about a story that incorporates most of the data and is resilient to criticism (Weick, 1993). What is plausible for management may not be plausible for employees. It is an account accepted by the organization. Communication is needed to make ongoing sense of a situation through the medium of text, symbols and interaction. It is only through the articulation that a plausible account can be created to establish identity and a course of action (Weick et al., 2005). These retrospective interpretations can be used for future organizational action; they can also be used to benefit from the lessons learnt (Scott & Barrett, 2005; Jensen & Kjaergaard, 2010).

Maitlis (2005) in her study of sensemaking examined the interactions within three symphony orchestras over a two year period and found four differing organizational sensemaking forms - guided, fragmented, restricted and minimal sensemaking. The differing forms depend on the interaction of the organizational actors (leaders and stakeholders) and the level of control and animation which determine whether they were high or low sense giving. The four differing forms of sensemaking were evidenced in all orchestras; the form that manifested depended on the interaction of the leaders and stakeholders regarding a particular issue. Therefore, the issue that is being looked at is critical with regards to the type of sensemaking involved.

The different forms are a result of the amount of sensegiving that each of the leaders and stakeholders engage in relating to an issue. Each of the four forms of sensemaking is also related to particular organizational outcomes in relation to the actions that they enable.

Sensemaking involves the individual making sense of the situation. How users construct knowledge of the situation they are in. Sensegiving occurs in circumstances in which one party (leader or stakeholder) tries to influence the other party's understanding (sense) relating to an issue, you are giving sense in relation to an issue. Sensetaking is when you are influenced by the sense (construction of meanings) that someone else is giving you in regards to an issue. A sensetaker in the organizational sensemaking process they accept the accounts of the sensegivers but do not contribute a perspective of their own.

4 Research Method

A ten year in-depth case study was conducted of an Australasian university with approximately 1,000 staff (the faculty studied had 350 staff). The data analysis method used sensemaking. The methods of data collection involved the use of participant observation, interviews, examination of strategic and regular memoranda, intranet documents, advertising material, published documents and internal newsletters, as well as the researcher's knowledge of the organization. Complementary data about the organization was obtained from internal archival records to ensure accuracy of the data. Unstructured interviews were conducted with all senior management, several IT development people and academic staff groups both at the start of the research period and during the following years. Informal meetings were held after this point to clarify issues. Notes were taken for all meetings. All administrative paper documents from emails, memoranda, reports, meeting and external marketing information were read and scanned electronically for most years.

Data collected was archived in year folders identified by day, month, individual initiating the document, subject matter and page number. Data which had original file names given to it by the author were left named as such, as their naming indicated how they viewed a particular topic. Approximately 15 GB of file space was used which was written onto 81 CD ROMs for backup storage. All written works were scanned and converted to text files and archived in the correct year from 1993 to 2003.

Klein and Myers (1999) suggest a set of seven principles for how interpretive research such as this sensemaking should be assessed. The first principle of Klein and Myers (1999) discusses the fundamental principle of the hermeneutic circle which has been used in the write up of the individual systems practices and then the write up of all systems. The differing development of each of the systems (the parts) enabled us to interpret the use of technology in the organization (the whole). Principle 2 – the principle of contextualisation has been used extensively throughout, giving the context in which the information systems are situated and the changes to these systems as well as strategic changes in the organization over time. This is particularly interesting in that a long period of context (10 years) has been given so that any changes can be explained in relation to the contexts in which the systems have been situated. The story of the organization is shown as producing the culture of the organization in way they interact rather than just being there and being observed. The organization is a cultural work in progress in the way the social practices produce and reproduce culture in an everyday work situation.

Principle 3 – the principle of interaction between the researcher and the subjects has been considered in relation to the particularly long time in the field. This has given more of an understanding of how to construct meaning from the data from the perspectives of the various discourses. Principle 4 – the principle of abstraction and generalization has been used in that sensemaking has been used as a lens to look at the changes in information technology use within the organization. The use of one organization and analyzing it in depth gives us valuable insights that can be abstracted, generalised and applied in other organizations.

Principle 5 – the principle of dialogical reasoning has been considered in the selection of the research methods and their consistent philosophical bases, i.e. in-depth case study and sensemaking. Principles 6 and 7, the principle of multiple interpretations and suspicion respectively, are considered together. Corroborations from multiple sources of information using principle 2 --- the principle of contextualisation --- were used. In particular, to understand events, actions and outcomes that had occurred within the organization, the influences on the discourses of the historical background are needed to aid in interpretation of any contrary actions and well as re-questioning participants in the study. Finally, the study was given to the head of the organization for checking and comment.

5 Case Findings

The changes in the organization over the 10 years will be discussed first. Then an overview of the four different technology evolutions will be discussed next, followed by the practices of management and users sensemaking in relation to the technologies.

The senior management stayed the same over this period of 10 years with the Dean and Deputy Dean maintaining all budgetary control. The faculty is one of the largest of several faculties within the university. It contains approximately 350 staff. The faculty provides business education in the form of certificates, diplomas and degrees. It covers subject areas such as accounting, law, economics, information technology, tourism, management and marketing. It has a Dean as its head who is responsible for the overall administration of the faculty and is accountable to the university for its learning outcomes.

The technologies were classified into four main groups- email communication systems, internet/intranet, on-line courses and networks hardware and software. There were more systems but for presentation purposes only four are discussed here. A description of each of these main groups follows.

5.1 Email communication systems

The original email system from 1993 till 1999 was PMail, a system that had been developed by a staff member of another university within the country. Its use was free to the university (which included the faculty). The problem with the system is that updates occurred at irregular intervals and the number of users and the number of emails kept were far greater than the capacity of the system. Once a user had over about 10 folders and 500 emails the system would crash for them. Given that more and more information was sent over email and staff members wanted to keep electronic copies, the system needed to change to a more robust system. In 1997 senior management participated in the Lotus Notes Groupware trial in which they all used Notes Mail. This was suggested at the time as a mail package to replace PMail; however, at $50 US per person funding was not forthcoming as it was considered too expensive. The price did include the email package plus all the groupware products. The movement to GroupWise began in 2000 for all staff within the faculty – this product was provided free with the Novell Groupware operating system and was more robust with industrial strength than what had previously been used. The IT group mandated the movement to GroupWise.

5.2 Internet/Intranet

Internet usage began with Netscape/Mosaic/Archie browsers with 8 users in 1995 and progressed to cover all computer account users by 2000. The use of an Intranet for the whole university began in 2000. The pages were subsequently redesigned and all strategic plan information in 1996 was placed on the Intranet along with other channels such as voicemail and email. Email memoranda were used to indicate the Intranet page on which data would be kept and updated. In 2001 only one set of meetings notes were kept on the Intranet pages by the faculty; its full use as an internal document repository was not utilised. On-line purchasing was possible for authorised users in 2002.

5.3 On-line courses

On-line courses were funded in 1998 when the new research head for the university was hired. In 2000, staff of the faculty were shown an on-line curriculum in the new on-line course product and various staff used the product as part of their teaching. Staff were encouraged by management to learn how to use the product in 2001 for on-line discussion and sharing of information. In 2003 it was decided that the on-line course product would not be re-launched until staff had time to learn the system. Also, the positive benefits of the system needed to be communicated so that students understood that the product was a learning tool and not a substitute for teaching. The other issue was the constant changing of the on-line course product each semester as programmers upgraded it. No data from previous semesters' use was made available in the current version as it was all archived. No statistical data such as the number of logins and when logged was recorded, nor could it be used as a forum for posting messages. As a result the university mandated a change to a commercial product, called Blackboard, in 2002.

5.4 Networks, hardware and software

In the late 1990's when most staff received a new leased computer, the main problem was their inability to utilise it without time for training. Staff simply used fairly basic features of computer technologies to get the job done. The pressure on staff to complete higher qualifications (one-third of staff were currently involved in these) as well as to develop new courses and produce research meant that computer training provided by the professional development group and by an electronic training discs company (CBT) was not utilised to the extent it could have been. An internal study on the use of "CBT" clearly indicated this. However, from 2000 onwards, the network was relatively stable with fewer problems.

5.5 Earlier year's management decisions

The information technology division was accountable in the earlier years to the Associate Director of Planning and then in the late 1990's to the Director of Information Technology. The IT group in total received funds from the facilities that they could use as they felt fit to satisfy the universities IT requirements. The faculty had three staff accommodated in its building that were from the IT group and were the main technicians that worked on the faculty's information technology job requests. This consisted of a site technician for the faculty who supervised 2 technicians. However, if the job related to web services or network maintenance they would be allocated to the staff member in the central IT group that performed those services for the whole university. If helpdesk jobs were not performed you generally contacted the helpdesk to find out the status or your job and who could be contacted in relation to the job. This could mean contact with network technicians, web developers and/or the Operations Manager depending on the type of job request.

In the earlier years it was the IT group that made the decisions and there were problems with not being enough and adequate hardware in the organization. When more machines were added, the network was unable to cope as the quote below shows.

There have been considerable problems in 1994 as workstations have been added on an almost ad hoc basis. Faculty networks were at the point of collapse. Recent changes to the ownership and location of fileservers should also help in the rationalization of the system in the near future (Vision statement in 1995).

There were also issues relating to the quality and level of service provided by the IT group. Emails and letters were sent to the Head of the IT group as well as to upper of both the faculty and the whole organization's management. These emails related to the services provided by IT to faculty users in desktop support, network outages and change management.

The quality and level of service provided from IT group is vital if we are to offer our courses at all. But increasingly the scope and importance of computing facilities to the organization is growing. … Simply put if the system is down, or if key products are not working or components missing, the teaching activity is disrupted. … the evidence of sound change and problem management, performance and service level monitoring, capacity planning and other class I.T. skills is simply lacking. ...the group also seems to lack skilled senior technical staff, who can cope with the more complex software or networking problems. We understand that there are no plans to deal with this issue (Letter to General Manager of organization, Academic staff manager faculty, 26 July 1994).

In particular the issues relating to the IT group were communicated by faculty staff to the IT group management, their own faculty management and the management of the organization.

The above group wishes to table a critique of the service that your department now appears to offer this faculty. It has become apparent that the IT Group can no longer meet the basic service needs of '(X)'. Over the last twelve months there have many reports to the committee about lack of service from the IT Group (Faculty Computer Chairperson letter to IT Group head in May 1994 copied to General Manager of the organization).

Communicating with the staff on the issue raised or management of the faculty was slow or non-existent.

The IT Group no longer gives explanation or data about delays, expected time for completion of work or information to give to frustrated staff who need to use the equipment … We would urge you to consider our appraisal. We do not wish to be surveyed, asked to supply further data etc. This appears to have all been done before and with no increase in efficiency or service. This is not an appraisal of your services for 1994 only but is in reference to an ongoing long standing chronic situation (Faculty Computer Chairperson letter to IT Group head in May 1994 copied to General Manager of the organization).

IT group goals appeared to be to keep the main infrastructure of the network going. It had tried to develop software but given its lack of expertise in that area it had spent time and resources on this area and had not produced satisfactory results.

Application programming is an area that the IT group has provided in the past with differing levels of success. For network usage such as finding users on a network etc this has been useful but for sophisticated programs such as a contracts database, placements systems this was not found to be a viable method (IT Audit response, to IT group from faculty, 1998).

The primary goal of the IT group, as they believed it, was to keep those networks and computers operational.

Our primary role is operational, keeping things running and helping the faculty staff [across the organization] use IT efficiently. The little development work we do is mainly in the Intranet or Internet area and this is dependent on the availability of staff (IT Group Manager, Email to faculty, 1998).

5.6 Faculties find their own solutions

One of issues was that the IT group was focused on providing the network infrastructure and had admitted that it was not useful at producing the software that the faculty wanted. Therefore, the faculty was left to satisfy its own IT requirements. They did this by selecting the software they thought would meet their needs. Once they had purchased the software they asked the IT group to integrate it into the other systems on the network. Even though the IT group did not have time or wished to select the software that the different groups wanted to use. They were not happy with the time they then had to spend to try to get these disparate systems to integrate on the network as the below quote shows.

Our issues have increased problems in these areas recently – particularly as certain departments have tried to fix their own information requirements and have installed differing communication systems such as Admission – Optica, the Library's intranet, IT's GroupWise, faculty's Lotus Notes. With each department is trying to find their own solution there are problems when each Faculty wants these systems to communicate with each other in that additional time is spent trying to make this happen" (Faculty's IT audit response 1998).

5.7 IT group fights back

The IT group then decided to not support the groups in providing their software requirements. They did this through charging for all their services by connections, by software. In particular they excluded from their service agreement these systems that departments purchased to satisfy their information requirements.

With the exception of the Lotus Notes and Oracle server all of the services the IT Group provides are used by most of the university or needed to run the universities business (IT Group Manager, IT Charter, 1998).

In this way, through the Charter, the IT group controlled the ongoing development of the isolated systems introduced by individual faculties to solve their problems, charging separately for servicing these systems. Regarding the faculty's Notes service system, the IT group took the view that if the faculty wanted the service they needed to enter into a SLA [service level agreement] for it: "Other configurations with less common software will be given a lower priority unless a separate service level agreement has been entered into" (IT Group Manager, Email, 1998).

The IT group concentrated on network infrastructure and machine implementations and varying groups that needed software was not part of this. The three years prior to 1999, the IT group concentrated on network and servers. This is important to the sensemaking because to make sense of the future we need to make sense of what has occurred previously.

During the three years prior to 1999 the IT group concentrated its efforts on the network infrastructure and fileservers. This was necessary to provide a stable and easily expandable foundation on which to build our future. Before this work started it was not uncommon for some of the busiest fileservers to fail twice a day. Each failure would take minimum of 45 minutes to recover (Network Infrastructure, IT Group, 1999 Annual report).

5.8 Management and new purchases

In the year 2001 there was a stand-off between the IT group and the facilities over the software the facilities required and the reluctance of the IT group to set-up and maintain it. Management of the university at this point nominated that they were going to buy various products as this was an effective way to get the software immediately and the IT group would set up the software. In essence the management of the university was taking back control of the IT governance. The only issue with this would be would the products purchased satisfy the needs of the end users. The quotes below show the decisions to purchase various products.

New purchases in information systems included the 'Blackboard' system for learning management, a system for managing Alumni and Development contacts, a web-based system for procurement, and the 'Valumax' system for project accounting (2002 University annual report).

The 'X' student administration system enables 'Y' to adopt best management practices. This system developed within 'Y' by Registry staff takes advantage of the latest and emerging technologies in a most cost effective manner. Its usability and sound business methodology has resulted in its sale to another Tertiary Education Institution (2002 University annual report).

New information systems implemented in 2003 were the Library system, the online procurement system for computers, the Human Resources self-service system, an online enrolment system and a programme costing system. Development continued on a web-based portal system for students (2003 University annual report).

6 Discussion

IT Governance looks how IT is going to be used in the organization to meet the stakeholders' needs. The IT infrastructure appeared to be the IT group's responsibility and in the earlier years did seem to be underfunded and uncoordinated. Once substantial issues occurred in the business, the IT group focused on providing the IT infrastructure on which all other services such as software and networked desktops would work on. The IT group were the sensemakers in this period; they made sense of the IT system and used the resources they had to set up the infrastructure. They decided on the IT investment and prioritisation. Therefore, in the first phase, the IT group seemed to be responsible for the IT governance for the university.

In the second phase, the users groups were not able to have their software needs satisfied as the IT group was focused on infrastructure and their attempts at developing software was not satisfactory. IT users groups then became sensemakers and decided on what software they needed and had the resources in their budgets to purchase these products. They did not have the technical IT skills so required the IT group to assist them. The IT group resented spending time on this.

In the third phase, the IT group came up with a charging scheme for managing their resources so that facilities paid for what they used rather than just contributing a lump sum to the IT group to spend as the IT group sought fit. This was a higher level of accountability to the faculties relating to how resources were managed. However, the IT group excluded the software that the groups had bought to satisfy their information needs.

In the last phase, the management of the organization took control. They decided that the users had information needs that needed to be satisfied and the IT group would be in charge of setting up and maintaining this software. Therefore the management of the university decided on the software to match the organizations strategy and what they believed that the users' needs were. The management of the organization became the sensemakers and imposed their sense on the IT group and the user stakeholders in the faculties in the university. The only issue with the management's choice on the software is that it may not suit what the users wanted. Therefore, despite these four phases and 10 years, this organization was still limping along without an effective IT Governance system. The ability of the IT system to add value, match the IT to strategy and manage resources was still an issue.

7 Conclusion

IT governance is an important part of the corporate governance in an organization as the IT spend in an organization can be large. Generally their does appear to be problems with the IT Governance in universities as evidenced from prior literature.

The study has demonstrated how a public university had governed across a ten year period. Good governance models must serve different purposes in different contexts. The traditional model did not seem to be useful as it did not assist the organization in meeting its IT governance needs when the organizational changes were looked at historically. A model incorporating some sort of process or organizational drift may be more superior in explaining what has happened and why.

The results of this study suggest that universities critical dependency on IT calls for a specific focus on IT governance. Governing bodies of public universities should develop good governance practices that helps them understand and take advantage of information technology opportunities. The study provides some useful guidance to support public universities to design frameworks for responsive and accountable governance to meet the dual challenges of information technology needs and the IT governance.

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SELL-SIDE SECURITY ANALYSTS IN THE NEXUS OF PRINCIPAL-AGENT RELATIONS: AN INFORMATION ECONOMICS PERSPECTIVE

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Abstract

In this paper we investigate in depth the contractual partner relationships between sell-side security analysts and the correspondently involved parties, where the sell-side security analyst is considered as both principal and agent. We break the activities of security analysts down into a nexus of principal-agent relationships where the most striking contractual partner relationship in this network appears among sell-side analyst and the (to be) assessed company (evaluand). By analyzing the research question in this fashion we find considerable potential for information and moral hazard risks.

Keywords: Security Analysis, Principal-Agent Theory, Information Risk, Moral Hazard Risk, Financial Regulation

JEL Classification: G20, G24, G32, G38

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1 Introduction

It has been recognized for some time that, in the presence of informational asymmetries, contractual partner relationships are subject to imperfect market allocations (Arrow, 1971). In the financial system where intermediaries emerge as a result of both specialism and task sharing, market participants are inevitably affected by informational asymmetries. A certain group among financial intermediaries whose behavior, regulation and impact on capital markets has been controversially discussed over the last decades is security analysts. In this paper we investigate the contractual partner relationships between sell-side security analysts and the correspondently involved parties, where the sell-side security analyst is considered as both principal and agent. That is, we approach this issue by drawing on the New Institutions Economics (NIE) paradigm which addresses, models and tries to solve for imperfect market allocations and asymmetric distributed information in the framework of financing relationships (Jensen and Meckling, 1976; Fama and Jensen, 1983; Fama, 1988). In the spirit of Oehler and Voit (1999) we break the activities of security analysts down into a nexus of principal-agent relationships where the most striking contractual partner relationships in this network appear among investors, analysts, assessed company and broker or banks.

Thus far, however, researchers have merely considered sell-side security analysts as agents (e.g. Fisch and Sale, 2003; Hodgkinson, 2001). By doing so, academics and regulators alike have scarcely paid attention to the information and moral hazard risks that come to light when this network of contractual relations is thoroughly explored. Our attempt is therefore to close this research gap and provide a holistic elucidation on security analysts' contractual partner relations. As our work touches upon this issue we close this research gap and believe that our work is informative in several ways. First, results from this piece of research can be used to understand the complex contractual partner relationships between investors, applicants and analysts in a consistent manner. Second, as academic researchers have by now considered security analysts only as agents we complete this picture and call regulators attention on information and moral hazard risks that become obvious when we approach this research question in the aforementioned fashion.

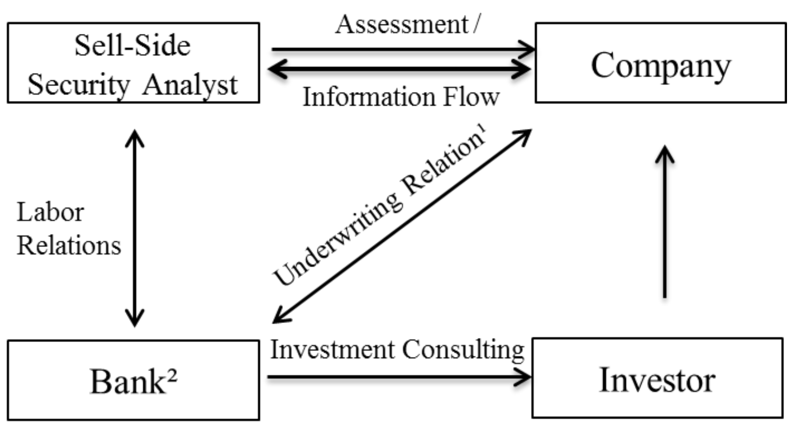
The paper is structured as follows: the next Section includes an overview of prior research undertaken in this field of study. Section 3 outlines the characteristics of the relation between security analysts and respective stakeholders while Section 4 addresses the exchange of information within the scope of analysts' activities. Section 5 examines the principal-agent relation where analysts are considered as principals and agents; Section 6 concludes.

2 Related Research

As the relationship between contractual partners is affected by imperfect and asymmetric distributed information, NIE describes a situation where the behavior of one contracting party can potentially impair its counterpart's wealth (Ross, 1973; Grossman and Hart, 1983; Pratt and Zeckhauser, 1985; Oehler and Voit, 1999). Dating back to the pioneering contributions of Coase (1937), Jensen and Meckling (1976), Jensen and Fama (1983) and Fama (1988), it is the NIE's objective to model and design contracting partner relations in a fashion that accounts for imperfect and asymmetrically distributed information, concernment and power of decision. A crucial element within the NIE is the principal-agent theory which describes the framework of cooperating business partnerships in relation with the delegation of decision making power. Generally, principal-agent relations are characterized by an economic entity who gives instructions (principal) to the agent who acts as part of its professional activity on behalf of the principal. Undoubtedly, since the power of decision is temporarily delegated, the consequences and implications of the agent's operations must be borne by the principal (Garen, 1994; Sannikov, 2008). In this common and everyday situation the power of decision, information and concernment are asymmetrically distributed among the contractual partners (Arrow, 1985). As a consequence of the aforementioned asymmetries a set of risks emerge on the principal's side: First, there can possibly appear exogenous risks which are independently from the agent's behavior and, second, behavior-dependent risks which may come up as a result of the aforementioned principal-agent situation and its respective asymmetries (Holmstrom and Milgrom, 1991). Inherently, it is rather difficult for the principal to recognize and assess the agent's professional qualification (qualification risk) and behavior (behavioral risk) ex ante. The latter risk specification emerges as a result of agent's poor elaborateness which is closely related with moral-hazard and the principal's inability to consistently supervise all actions undertaken by agents.

Analysts' behavior, regulation and impact on capital markets have been thoroughly studied by academics and practitioners alike. Findings from the extant literature show that analysts' research has an investment value in terms of recommendations, earnings forecasts or target prices (Lys and Sohn, 1990; Womack, 1996; Brav and Lehavy, 2003 and Liu, 2011). Further, there is evidence that security analysts deliver superior recommendations than naïve time series models (Brown and Rozeff, 1978; Givoly and Lakonishok, 1984; Capstaff et al., 1995 and Bailey et al., 2006). The momentousness of analysts' activities is further emphasized by Piotroski and Roulstone (2004) and Chan and Hameed (2006) who find that firms that are covered by analysts' exhibit greater return synchronicity which is evidence that analysts facilitate the incorporation of market-wide and industry-level information into stock prices. Thus far, however, the role of security analysts has not yet been examined holistically; in particular the literature on the regulation of security analysts does not grasp their activities in terms of information and moral hazard risks entirely (Fisch and Sale, 2003; Hodgkinson, 2001). Our attempt is therefore to close this research gap and provide a holistic discussion on analysts' contractual partner relations and associated information economics aspects.

Figure 1. Principal-Agent Relations within the Framework of Analyst's Activities



1) This only applies if the bank acts as an underwriter as part of the IPO-process.
2) Bank is synonymic for sell-side analyst's employer.

3 The Relation between Security Analysts and respective Key Stakeholders

By analyzing the activities of sell-side security analysts numerous implicit and explicit contractual partner relations become obvious which can be presented as a net of principal-agent relations. Figure 1 illustrates that analysts' activities initialize certain principal-agent relations either directly or indirectly. That is, beyond the quite obvious relation between analysts and investors, numerous stakeholders such as banks or brokers (as employers) and assessed companies (as evaluand) are affected by analysts' opinion. Investors and other intermediaries can make use of analysts' research findings to decide on investments and act as clients' investment advisory servant, respectively.

As sell-side analysts are generally employed at banks and investment firms which offer investment and advisory services, at first, research reports are conventionally passed down to the in-house investment banking division and to clients of the bank (Langevoort, 1990; Reidenbach, 2006). In the follow-up, a modified and abbreviated version of the report is published to address a larger potential group of investors and capital market participants in general.[1] Usually, banks publish reports of sell-side analysts after their research has been circulated internally in order to boost securities business transactions and related services.

If the evaluated company has an underwriting relation with the analyst's employer, certain conflicts of interest are likely to emerge. Thereof, in the following discussion we differentiate whether the bank is masterminding the initial public offer (IPO) process or not. Beyond the situation described in Figure 1 above it is obvious that analysts, banks and companies are in competition or exist co-evolutionary with other economic agents. In this respect, analysts' recommendations affect investors in several ways: That is, the bank utilizes analysts' research recommendations to act as investment advisor for investors. In the following, (potential) investors are likely to act as purchaser or seller of company stocks in response of banks advisory which, again, impacts the respective subject company[2]. As the most striking relation in terms of information exchange and associated risks (information and moral hazard risk) appears among analyst and evaluand we focus in the following examination on these economic entities.

[1] It is interesting to note that before being published to ordinary investors, banks often oversimplify research reports in a way that recommendations are substantially altered (Forum Group, 2003).

[2] In this respect, Boot and Thakor (1997), Oehler (2000) and Oehler (2006) show that other financial intermediaries, such as stock exchanges, are in competition and co-exist in a complementary manner to each other.

4 On the Exchange of Information within the Scope of Analysts' Research

As a matter of principle, sell-side analysts employ public information using a range of different sources such as annual financial statements, letters to shareholders, industry sector reports, archive materials from earlier studies, central bank reports, press releases, research reports of other analysts, etc. (Capstaff et al., 1995; Bae et al., 2007). In particular the latter is crucial since sell-side analysts often use existing reports as a primary source to conduct research. Note, however, that regulators and legal practice insist that it is part of analysts' job to carry out individual and informative research and gather information which must be reflected in analysts' opinion (Langevoort, 1990; Cholakis, 1999; Meister, 2000; SEC, 2001; Reidenbach, 2006).[3]

Apart from publicly available information, analysts grasp a large proportion of the processed information directly from the evaluated company. By doing so, analysts either gather new information or merely gain an impression of internal processes, management and business culture. This additional source of information which goes beyond the publicity available information pool is mostly communicated by the firm within the framework of analyst conferences.[4] In some cases analysts can directly refer to a companies' contact person which is particularly common in the Anglo-Saxon banking system (Lang and Lundholm, 1996). Generally, research on security analysts has shown that attendees of these conferences have a greater ability to make accurate forecasts. Note that these forecasts tend to be closer to the respective consensus forecast (Bowen et al., 2002). Another crucial differentiation emerges based on whether an analyst conducts either primary or secondary research. The former assesses companies when they go public, whereas the latter rather affects the secondary market. Secondary research supplies the market with information on a regular basis, whereas analysts who undertake primary research come up with reference quotations. Since it is difficult for investors to identify the value of company stocks during the IPO process, primary research plays an important part to supply potential investors with relevant information (Craft, 2001). As we will discuss later in more detail, analysts who undertake primary research are generally employed at underwriting member banks (Michaely and Womack, 1999).

[3] In this context, Brudney (1979) and Meister (2000) show that research which comprises new information impact the overall demand for research services positively.

[4] Alternatively, analysts or analyst associations such as EFFAS (European Federation of Financial Analysts Societies), respectively may invite firms to hold conferences.

5 Principal-Agent Relations

5.1 The Analyst as Agent

With reference to the characteristics of principal-agent relations, banks as employers instruct sell-side security analysts to observe a number of companies, normally part of the same industry, and evaluate a company's prospects in terms of earnings, revenue and stock price forecasts on a regular basis. First, asymmetries emerge as the analyst has his hands on the competences to conduct research, whereas the evaluand can scarcely influence the definite appraisal. The evaluand as principal, on the other hand, is monetarily affected by analyst's opinion, creating a situation where positive forecasts can potentially lead to higher stock prices which are considered as a proxy for successful business operations.[5] As a result, an analyst report that has been made public comes along with immediate consequences for the firm (asymmetric concernment).

A significant distinction in the network of contracts emerges during the IPO process when analysts evaluate companies that have business dealings with the analysts' employer. From a contractual perspective there exist explicit stipulations between the analyst's employer and the evaluand creating a complex situation for the analyst as agent. As the corporate finance division of the bank has an interest in successful IPO placings, numerous conflicts of interest may possibly arise with regard to analysts' objective to provide unbiased research (Michaely and Womack, 1999).[6]

The relationship between sell-side analyst and evaluand is characterized by asymmetric distributed information; leading to a situation where the evaluand as principal is concerned by potential information risks both at the beginning of and during the corresponding assessment process.[7] In general, the analyst possesses an informational advantage with respect to the assessment criteria and weighing, respectively. In contrast, the evaluated company as principal does not possess this information and relies on the agent's willingness to release any information before publication. In the following, most appropriately, we should again differentiate whether the analyst's employer has any business relation in the framework of an underwriting process or not.

If there is no such underwriting relation, the analyst requires and demands information from the evaluand. The principal, however, is unaware whether all relevant information is handed over, exposing herself with risks with respect to incomplete and missing information. Potentially, this can impair the overall research report negatively as the analyst cannot consider all information. If the evaluand drives a policy of greater information transparency, a more favorable report is likely to be conducted by the analyst. A significant remedy is therefore the analyst conference between the management of the assessed company and analysts. In this meeting open issues and supplementary information can be discussed and handed in, respectively.

If a bank acts as an underwriter for a firm, the information risk is less distinctive as the analyst can gather additional information at numerous occasions such as road shows, publicity ploys and within the framework of the due-diligence process (Lin and McNichols, 1998; Dugar and Nathan, 1995). As a result, underwriter analysts have an information advantage and are expected to be more knowledgeable and possess superior information than competing analysts whose employer does not have an underwriting relation with the firm (Allen and Faulhaber, 1989; Michaely and Womack, 1999). If this holds, investors should pay more attention to underwriter analysts as their forecasts are likely to be superior in terms of timing and accuracy. Even after the placing it is plausible that – as a result of a successful IPO transaction – the evaluand supplies the underwriter analyst with superior information (Michaely and Womack, 1999).

Aside from the informational risk there exist further challenges for the evaluand as principal which are rooted in potential changes of analysts' behavior. This behavioral pattern known as moral hazard goes at the expense of the principal both during and after the assessment process. A potential moral hazard risk can be observed when the report has not been conducted based on valid criteria. Further, the evaluand is likely to be concerned about an unfavorable change in assessment criteria or weightings, respectively, which can potentially cause a decrease in firm value (monetary concernment). If an analyst exhibits the aforementioned pattern in the long term he/she runs the risk of diminishing reliability and reputation. As an analyst acts as an individual within a large population of security analysts who are in competition to one another, certain selection and control mechanisms apply. That is, analysts' whose forecasts are rather inaccurate get less likely promoted and run the risk of job loss (Hong and Kubik, 2003; Loh and Mian, 2006). This creates a control mechanism because accuracy is rewarded whereas inaccurate analysts are likely to be sorted out.

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[5] What is more, a greater firm value provides a basis for e.g. successful mergers and acquisitions and capital increase measures (Jensen, 1986).

[6] The Wall Street Journal (1992) unveiled an internal memo from Morgan Stanley which explicate conflicts of interest between a bank's corporate finance arm and its brokerage operations: "Our objective … is to adopt a policy, fully understood by the entire firm, including the Research Department, that we do not make negative or controversial comments about our clients as a matter of sound business practice".

[7] This also applies when analyses are carried out on a regular basis.

In the case of an underwriting relation between firm and broker the aforementioned considerations apply only with reservations. That is, conflicts of interest are likely to arise because the corporate finance division has an interest in a successful IPO transaction, whereas analysts aim to protect and ameliorate their reputation. As sell-side analysts compensation is a function of their individual reputation and "helpfulness" to achieve a favorable IPO placing, positively biased recommendations are likely to be published (Michaely and Womack, 1999; Dechow et al., 1997; Lin and McNichols, 1998). That is, from a principal-agent viewpoint, the evaluand that is going public faces a relatively modest moral hazard risk because the underwriter is more in control of analysts' activities.

5.2 The Analyst as Principal

Aside from considering sell-side analysts merely as agents, the following remarks show that it is plausible to examine analysts also as principals. First, the evaluand as agent possesses an informational advantage (asymmetric distribution of information). In contrast to the principal, the firm is thoroughly aware of its strengths and weaknesses with respect to internal processes, corporate and financing policy and risks associated with ongoing and future projects. Second, further asymmetries emerge because the strategic alignment in terms of investment and financing policy can be hardly influenced by the analyst as principal. Finally, after the publication of investment reports a change in the evaluand's behavior and activities can potentially undermine analysts' reputation. In this specific situation an asymmetric concernment emerges which can potentially involve monetary consequences for the analyst including salary decline, job loss, etc.

The aforementioned characterization reveals the distinct information advantage of the evaluand as agent. The firm does not only possess more precise information with respect to internal plans, project risks and future business policy but can also evaluate its standing within an industry and sector more elaborately. As a consequence, the analyst relies largely on distinct firm-specific information. This creates a situation where the principal is concerned by information risk which is likely to emerge when the agent does not pass relevant information to the analyst. Again, the information risk is reduced because the evaluand does not know the exact assessment criteria and their respective weightings and, thus, the agent is prone to supply analysts sufficiently with information in order to avoid faulty and unfavorable recommendations. As we have seen, in the case of an underwriting relation between the evaluand and broker, analysts can gather more inside information which is not necessarily reflected by analysts' public opinion due to the aforementioned conflicts of interest.

In terms of behavioral changes, the reputation of the principal is at risk when the evaluand acts contradictory to the primary communicated business strategy. That is, the firm can potentially choose riskier projects or go more into debt; the implementations of amended strategies force security analysts to correct and refine the initial published investment recommendation in the end. Obviously, such a correction goes at the expense of analyst's reputation which ultimately impacts the principal's salary (monetary concernment). Firms' behavioral changes can best be inhibited by the analyst when the evaluand is assessed on a regular basis. Although, these behavioral changes merely come to light when a risk event occurs (hidden action), the analyst as principal can be considered as an effective watchdog. In this respect, security analysts are likely to play a decisive role as a supervision body within a firm's governance structure (Jensen and Meckling, 1976; Chen and Steiner, 2000; Chung and Jo, 1996; Moyer et al., 1989). In order to facilitate an effective control mechanism, security analysts must communicate the outcome of their assessment effort. If such a piece of information has not yet been integrated into the publicly information pool, market participants react to analysts' (adjusted) recommendations. In the case of a negative market reaction, pressure is put on the firm's management. Obviously, this endows analysts with a certain control function.

6 Conclusion

In this paper we investigate the contractual partner relationships between sell-side security analysts and the correspondently involved parties, where the sell-side security analyst is considered as both principal and agent. We break the activities of security analysts down into a nexus of principal-agent relationships where the most striking contractual partner relationships in this network appear among sell-side analysts and the (to be) assessed company (evaluand). Furthermore, (potential) investors and banks as analyst's employers are further key stakeholders within this nexus of contractual partner relationships.

A crucial differentiation which must be made is whether the analyst's employer has an underwriting relation with the evaluand. If there is such a relation as part of an IPO process, conflicts of interest with respect to information and moral hazard risk are likely to emerge – especially when the analyst is examined as agent. On the other hand, if the sell-side analyst is considered as principal, his/her reputation is at risk due to evaluand's potential behavioral changes and fragmentary information policy.

From a practical point of view, having analyzed this nexus of contractual partner relationships, numerous implications for regulators become obvious. First, and most importantly, the regulatory regime in terms of disclosure practice should be tightened in particular if a bank has an underwriting relation with the evaluand. Aside from disclosure practices, analysts should be more independent from the bank's corporate finance division in terms of compensation. In this respect, we leave these issues for future research.

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AN INVESTIGATION INTO CONSUMERS' APPAREL PURCHASE PATTERNS WITHIN BLACK URBAN AREAS OF TSHWANE, SOUTH AFRICA

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Abstract

The primary aim of this research paper is to investigate the clothing expenditure patterns of consumers residing in black urban areas in the Tshwane area of South Africa. Housing, food and clothing are generally perceived as the most basic needs that people have throughout their lives. Demand for these items is generally expected to increase over time as consumer income increases and expenditure is expected to increase as income increases (Dyer, Hou & Dyer, 2004). Households in black urban areas are already by far the largest group in the middle-income (LSM 5-8) market, where their figures maintain to growth gradually (Chase, Legoete & van Wamelen, 2010:2). A quantitative approach was used for this study where a survey questionnaire was used as a 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: Clothing Purchase Patterns, Informal Black Urban Areas, Consumers, Shopping Preferences, South Africa

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1 Introduction

In recent years, retailers have had to deal with consumers who are gradually becoming more sophisticated and more demanding due to their changing lifestyles (Terblanche & Boshoff, 2004:1). The result of this has introduced new and often unexpected competition from both domestic and foreign sources and a wave of new technological advances (Terblanche & Boshoff, 2004:1). The last 4 years of economic hardships and economic turmoil has resulted in consumers having to adapt their buying behaviour, and to relook at their appetite for certain types of products. In so doing consumers have had to modify their needs and wants to meet the realities of their disposal and discretionary incomes. Many therefore have had to start looking at lower priced items and retailers in order to achieve a better fit between needs and available income. Housing, food and clothing are generally perceived as the most basic needs that people have throughout their lives and demand for these items are generally expected to increase over time as consumer income increase (Dyer, Hou & Dyer, 2004).

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 consumers) 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 black population (Burger, Van der Berg & Nieftagodien, 2004:5);
- Expenditure patterns may possibly also 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 black consumption patterns provides insight into the emerging black middle class, a occurence drawing a great deal of attention from analysts and commentators (Nieftagodien & Van der Berg, 2007:3).

An investigation into the income variations among the South African population conducted by the South African Institute of Race Relations showed that for 2008, white South Africans earned significantly more income than other races (Mail & Guardian, 2009). According to the findings of the study, the average per capita income of all South Africans living in South Africa for the 2008 period was R32 599, while the per capita income for white people was R135 707 (Mail & Guardian, 2009). Indian South Africans had the second highest per capita income at R56 173, with coloured South Africans at R23 569 and black South Africans with the lowest per capita income at R 19 496 (Mail & Guardian, 2009). The fact that the gap between these groups is so high paves a path for variations in the way this income is spent. The lifestyle patterns between these cultural groups are also huge and the changes in lifestyle have a very profound impact on retail sales and shopping behaviour (Prinsloo, 2006). It is also a fact that new retail formats have been developed to cater for these changing needs with lifestyle centres being developed mainly to offer the shopper a different tenant mix and shopping experience (Prinsloo, 2006). This study focuses on the clothing purchase patterns of consumers residing in black urban areas of Tshwane due to the fact that limited research has been done in this regard. Gauteng is the smallest province in South Africa but the most densely populated. Its population is estimated at 7 870 000, which includes people from surrounding areas such as Evaton, Sebokeng, Sharpville, Tshwane and Soweto among others (SA Townships, 2012).

Household spending statistics on products and services are key markers in estimating consumer buying power, lifestyles and expenditure on clothing has a strong correlation with household size and income (MGP Information System, 2012). For the purpose of this study, the term 'Black urban area' will refer to underdeveloped urban residential areas in which non-white inhabitants live. These residents include black, 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). There is a higher concentration of people residing in these areas but there are also limited shopping centres within their immediate surroundings where they could shop.

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 investigate clothing purchase patterns of consumers residing in black urban area in the Tshwane area. In pursuit of establishing these patterns, additional objectives of this study comprises of the following:

- To determine where, how and why consumers residing in black urban areas of Tshwane purchase their clothing.
- To determine which retail outlets consumers residing in black urban areas of Tshwane have accounts with.
- To ascertain the amount of money consumers residing in black urban areas of Tshwane currently owe on their clothing store accounts.

3 Literature review

3.1 Clothing purchase patterns and expenditure of consumer living in black urban areas of Tshwane

One of the biggest problems facing South African households is financial stability. The abuse of credit can be considered one of the key contributors of this issue (Sternberg, 2012). A recently conducted financial wellness study shows that virtually 60% of South African households sampled were shown to fall in the bad debt category which would imply that South Africans' expenses far exceed their income. Sternberg (2012) explained that consumers who rely on credit purchases often do not consider the interest they are charged should they be unable to make their payments within the required time period. Hence, shopping in South Africa's big department stores and malls can be quite expensive (Castro, 2009). With recent economical developments, South African retailers have struggled with consumers holding on more to their money as the markets are reeling under the economic pressures of the past few years and a definitive downturn in the economy. The common prices of goods have constantly gone up and consumers have been on the lookout for long lasting solutions to the high cost of living (Castro, 2009). Many consumers are therefore resorting to private label products, especially for grocery items, where all major retailers offer private label options at prices cheaper than their non-private label counterparts (Euromonitor International, 2012).

Smith (2005) stated that black consumers spend more on clothes as a proportion of total household expenditure than any other race group in South Africa and this pattern strengthens as you move towards the lower income groups. Therefore, it is important that retailers understand where consumers spend this proportion of their household income.

3.2 Shopping pattersn and preferences of consumers living in black urban areas of Tshwane

Shopping centres catering to small and mid-sized towns in rural areas are becoming more formalised providing fresh opportunities for retailers, franchisees and independent store owners to expand (Forsite, 2011). Some towns have up to 600 000 people and consumer demand for convenience as well as steady population growth offers major prospects for retailers (Forsite, 2011). In South Africa, people living in black urban areas (or second economy locations) spend more than R308-billion annually; representing 41% of total consumers spending (Forsite, 2011). Growth of shopping centre development in the traditionally black urban areas is expected to accelerate rapidly in future (Prinsloo, 2006). Centres that are currently being developed in traditionally black urban areas vary between 15 000m^2 and 57 000m^2 (Prinsloo, 2006). These areas will always experience outflows of disposable income to the suburban centres and the central business districts (CBDs) mainly because of work and transport opportunities, variety of stock as well as the fact that people like to socialise and browse (Prinsloo, 2006).

The term 'Shopping patterns' refers to the typical manner in which consumers purchase goods or services in terms of amount, frequency and timing (Business Dictionary, 2012). The concept of consumer preferences originates from the idea that customers prefer one product or one service over another (International Communications Research, 2011). Research into this area of consumer behaviour has brought understanding to some of the major issues with regard to standard customer satisfaction (International Communications Research, 2011). The most important issue being that high customer satisfaction does not assure continued customer preferences (International Communications Research, 2011). This is important for this study because shopping patterns of black individuals living in black urban areas of Tshwane may differ as they may not have unrestricted access to malls and shopping within their immediate surroundings. A study by Wiese (2004) aimed to investigate consumer preferences of students at the Tshwane University of Technology's Witbank campus. The majority of the respondents were Black and the results concluded that 65 percent of students preferred to shop at shopping centres. Fifty-six percent of these students indicated that they usually shop in town (CBD), 46 percent shop close to where they stay and 50 percent of students admitted to shopping where it saves them time. Although students preferred to shop at shopping centres, a large proportion of them shopped at places where it was convenient and time saving.

Retail establishments in CBD areas continue to perform well as CBDs remains the main destination supported by the various public transport providers (Prinsloo, 2006). The success of retail outlets in CBD areas are mainly the result of the support of large numbers of shoppers from the widest possible metro-wide catchment area (Prinsloo, 2006). The living standard measures (LSM) profile of most CBD areas has been established to cater for LSM segments 4 to 7 (Prinsloo, 2006). Since limited similar research has been done in the Tshwane area, this study is imperative to understanding the reasons why Tshwane consumers living in black urban areas prefer to shop where they do. In addition, this might help in identifying new development opportunities for these black urban areas.

Research conducted by Tustin (2008), provided great insight on consumer shopping patterns of black individuals residing in the Soweto urban area of Gauteng. Although scarce research is available on the Tshwane area, Soweto provides a good illustration and motivation of existence of a need within the black urban area. The opening of four major shopping malls or centres (Protea Gardens, Baramall, Jabulani and Maponya Mall) in Soweto since 2005 has changed the entire shopping landscape and shopping experience of residents. With further development still to be done in this area, past shopping behaviour trends of Sowetans to shop outside Soweto are bound to change (Tustin, 2008). According to the research done by Tustin (2008), more than nine of every ten Sowetans buy from local Soweto retailers whereas 20 percent of household goods and services are purchased from businesses located outside Soweto. Only 10.4 percent and 7.2 percent of consumers' purchases are from home-based and vendors/ hawkers/ street front shops respectively.

There can be a number of reasons why consumers in black urban areas shop where they do. The study conducted by Wiese (2004) provides one reason, namely; convenience. According to the review of all other sized shopping centres in Gauteng by Bizcommunity (2012), most shopping centres are located in wealthier suburbs and not necessarily where the largest demand or concentrations of people are located. Furthermore, this inequality is worse in Johannesburg where large shopping centres are located much closer to one another than those in Tshwane (Bizcommunity, 2012). On average, each shopping centre is 8 minutes travel time away from its nearest competitor while their uncontested catchment areas have a radius of only 4 minutes travel time (Bizcommunity, 2012). If consumers have to travel longer distances to shopping centres to acquire goods they need to survive, this increases their travel expenses per month (excluding daily travel expense to and from work). Therefore, people's preferences can somewhat be influenced by factors such as convenience or simply the products they seek at these shopping centres or malls.

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 determine apparel shopping patterns of black consumers residing in black urban areas; and this can be done through an analysis of frequency data. The population sample consisted of 38 Black individuals residing in black urban areas of Tshwane. Both males and females were approached and thus included in the target population. 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.

The questionnaire covered various facets in pursuit of determining the apparel shopping patterns of black consumers in black urban areas; but those significant to the study are discussed. Respondents were given a list from which they had to indicate which retail outlets they purchased their clothing from. Participants were thereafter asked to indicate the clothing store they had credit accounts with. As mentioned earlier, credit is one of the key reasons why many South African households experience financial difficulty. Participants were therefore asked to indicate the amount that they owed to the clothing retail stores. The study concluded with a question posed to participants concerning the reasons why they purchased their clothing at various locations.

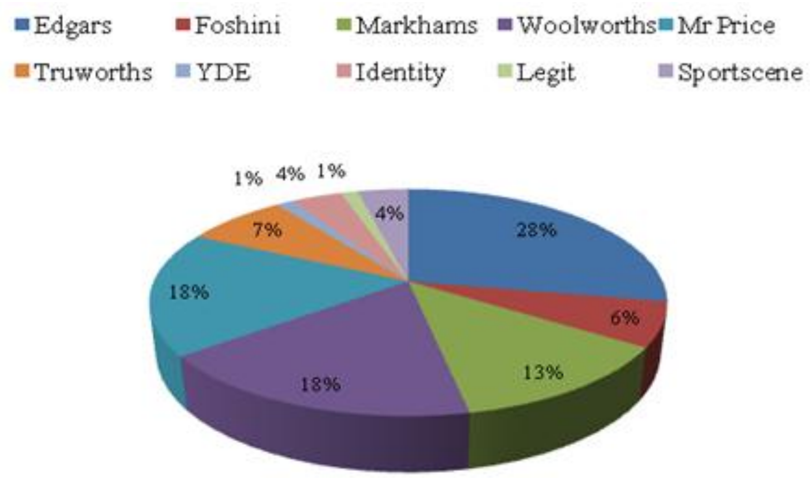
5 Research findings

The preceding section provided a review of literature on consumers residing in black urban areas of Tshwane. This section shall now report on the key findings from the research conducted. Completed questionnaires were received from 38 respondents (n=38) who lived within the black urban areas of Tshwane.

5.1 Clothing purchase patterns and expenditure of consumers living in black urban areas of Tshwane

In pursuit of finding out which clothing stores respondents purchased their clothing from, a list was provided in the data collection instrument whereby respondents had to indicate which of the stores they shopped at. Figure 1 provides an overview of which retail stores the sample population purchase their clothes from. Twenty-eight percent of the sample population purchase their clothes at Edgars and Woolworths. Mr Price was the second most popular stores among the sample and Markhams ranked third. Young Designers Emporium (YDE) and Legit were the least favourites, where only 1 percent of the respondents shopped there. It was interesting to see that 18 percent of respondents indicated that they purchase their clothes at both Mr Price and Woolworths respectively since these two retail stores are on opposite sides of the spectrum in terms of their strategies. Mr Price focuses on providing value through relatively low and affordable fashion for a wide market segment whereas Woolworths, on the other hand, provides value to its customers through quality and this high quality is reflected in their prices. Woolworths is relatively more expensive than Mr Price yet an equal number of consumers indicated that they shop there.

Figure 1. Retail stores where clothing are purchased



With the economic turmoil South Africa has been through, 68 percent of the respondents indicated that they purchased their clothing items for cash, whereas only 32 percent said they did not. However, when asked which retail stores respondents had an account with, the results showed that none of the respondents had an account with Woolworths, Identity, Legit and Sportscene. The remaining stores were relatively popular among the sample population. Sixty-one percent of those who responded to this question had an account with Edgars owing between R250 to R1000. Twenty-five percent of those who responded had an account with Markhams. Fourteen percent indicated that they had an account with Markhams and owed between R500 and R1000. Only 11 percent owed between R0 to R250. Mr Price, Truworths and YDE each had 1 percent of the sample population that have an account with them. Their debt ranged from R250 to R1000.

5.2 Shopping patterns and preferences of consumers living in black urban areas of Tshwane

The respondents were given a list of retail stores common to South African consumers. These retail stores included brands such as but not limited to Edgars, Foschini Markhams, Woolworths, Mr Price and Truworths. Sixty-eight percent of those who completed the question indicated that they did not have these retail stores at their disposal within their immediate surroundings (within the black urban area they lived in) and 32 percent indicated that they did in fact have these stores within their immediate surroundings where they could shop.

Figure 2 provides a summary of the reasons given by respondents as to why they purchased at the different locations.

Figure 2. Reasons for shopping at different locations

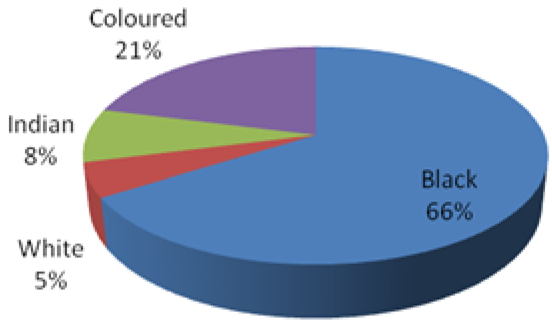
Respondents indicated that the main reason they preferred to shop at malls was because the products offered were of good quality. Surprisingly enough, only 11 percent of the respondents went to shopping malls for recreational purposes (to watch movies etc.). Twenty-seven percent of the respondents from the population found products offered at shopping malls were affordable, therefore it was for that reason they shopped there. Twenty-two percent of the respondents indicated that they shopped at malls because malls were closest to them than other generic stores.

Reasons given by respondents for shopping at generic outlets varied compared to the reasons given for shopping at malls. Six percent of the respondents admitted that the items offered at generic stores were of inferior quality but was the only thing that they could afford. Affordability was popular among the respondents, 61 percent of them indicated that this was the reason they bought products items at generic clothing stores. The relative distance of these stores showed 16 percent of the respondents acknowledging this as a reason for shopping at generic stores.

5.3 Dempographic 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-white inhabitants live. These residents include black, coloured and Indian individuals. Figure 3 represents the racial group distribution of consumers who completed the questionnaire.

Figure 3. Racial distribution of respondents



Of the respondents who participated in the research study, 66 percent were black, 21 percent were coloured and 8 percent were Indian. However, regardless of the perception given by the definition provided earlier, that black urban areas of Tshwane was restricted to black, coloured and Indian consumers; 5 percent of consumers who partook in the study were in fact white. The gender distribution among the respondents was equally distributed; 50 percent of the respondents who answered the questionnaire were male and equally so, 50 percent were female.

Figure 4. Age distribution of respondents

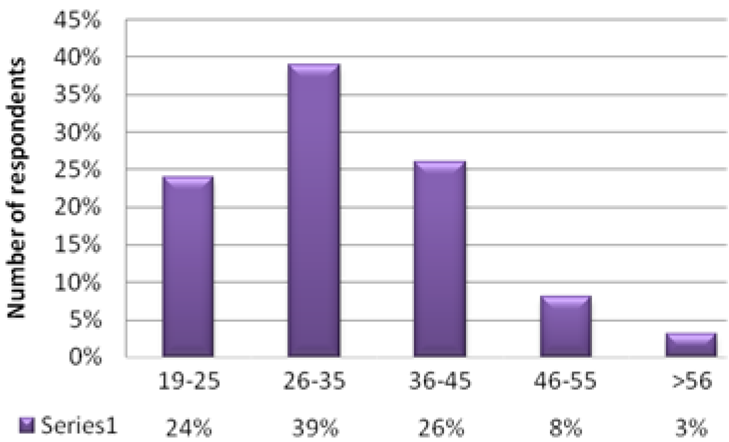


Figure 4 depicts the age distribution of the consumers who took part in the research study. Thirty-nine percent of the respondents were between the ages of 26 and 35 years; 26 percent were between 36 and 45 years and 24 percent were between the ages of 19 and 25 years. The age group 46 and 55 represented only 8 percent on the total respondents and only 3 percent were older than 56 years.

6 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 apparel patterns determined cannot be generalised to represent the entire Black urban area community of Tshwane. They can only provide a picture as to what and how the sample spends their household (disposable) income on.

7 Recomendations

This study investigated various purchasing patterns of black consumers residing in black urban areas. 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. Their caution however does not mean that they restrict their basic needs. The study found that more consumers are starting to purchase their clothing for cash, meaning that they are cautious about credit. In addition, reward programs in the retail environment have increased tremendously; therefore an opportunity for research exists to investigate township consumers' perceptions as to reward programmes. Light can be shed on consumers' perceptions of these programs and the rate in which consumers buying for cash have accepted them.
- The study found that established brands such as YDE, Identity and Legit retail stores were not so

popular among the sample population. Research can be conducted in investigating the reasons behind this because there is not much of a difference in terms of quality and price of its stock compared to retailers such as Edgars and Truworths.

- Further research can be conducted to determine the factors that can facilitate the process by which black consumers adapt their behaviour and develop preferences to shop at malls located within their immediate surroundings.

8 Conclusion

The primary objective of this paper was to investigate the clothing expenditure patterns of consumers residing in the black urban areas of Tshwane. The data collected thus reflects such expenditure patterns of consumers residing in black urban areas of Tshwane. Although the sample size was not representative of the entire population, it provides a clear view of spending patterns as well as shopping preference. The results show that a large amount of the household income is spent on fulfilling basic needs such as food, clothing and shelter. However, in pursuit of lower costs, the desire for quality goods and services is not compromised. Respondents preferred to shop at malls and well established retail stores such as Edgars instead of at generic retail outlets.

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