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On accounting flows and systematic risk

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The body of work that relates accounting numbers to market measures of systematic equity risk was largely undertaken in the 1970s and early 1980s. More recent proposals on changes in accounting disclosure of risk mean that a rigorous theoretical model of the relationship between accounting measures and market measures of risk is timely. In this paper, such a model is developed. In addition, the assumptions required to develop the model are explicitly identified and explored. The model that has been developed highlights a clear relationship between accounting and market measures of risk. This relationship may prove particularly useful in situations where market data (security prices) are limited or not available for risk estimation, but where accounting data do exist.

Introduction

Work that relates accounting numbers to market measures of systematic equity risk was largely undertaken in the 1970s and early 1980s (Ryan 1997). More recent proposals on changes in accounting disclosure of risk (Scholes 1996) mean that a theoretically sound model of the relationship between accounting measures and market measures of risk is timely. In addition, the finding that earnings variability is the accounting variable related most strongly to systematic equity risk (Beaver, Kettler & Scholes 1970; Rosenberg & McKibben 1973; Myers 1977) suggests that a disaggregation of this number into the operational aspects of a firm that drive the earnings number might improve the empirical relationship between accounting estimates of beta and its market realisation. In this paper, a rigorous theoretical model of the relationship between accounting flow variables and systematic market risk of equity is developed.

Identification of this relationship is helpful on a number of fronts. Firstly, the instability of market betas over time means that *ex post* measures of market risk are not good predictors of future risk. Identification of an appropriate relationship between accounting variables and market risk could lead to improved predictive models of future market risk. Secondly, financial models of risk (such as the Capital Asset Pricing Model (CAPM)) do not identify the operational factors and environmental contingencies that influence risk. An accounting model gets closer to the identification of economic fundamentals that drive such relationships. Finally, interest in this relationship is further fuelled by being of practical use in situations where market estimates of risk are unavailable. Conventionally, these have been considered as situations such as the estimation of risk for private companies, initial public offerings or divisional capital budgeting. However, the transformation of former command economies to market economies and the growth in the number of developing economies where security markets are not fully developed creates a situation where theoretical models of risk assessment that can be used in the pricing of companies for privatisation purposes are at a premium.

The remainder of the paper is set out as follows: the previous literature in this field is briefly reviewed; the model is then developed, along with preliminary consideration of the relationship between the theoretical model developed and its empirically testable equivalent; and concluding remarks are made in the final section.

Previous research

Work in this field can be usefully divided between theoretical and empirical studies. The empirical work has largely been unguided by a theoretical model (Foster 1986). This has resulted in regressions of market measures of market beta on various accounting measures of risk (Beaver et al. 1970; Pettit & Westerfield 1972; Breen & Lerner 1973; Rosenberg & McKibben 1973; Thompson 1974; Lev 1974; Lev & Kunitzky 1974; Bildersee 1975; Beaver & Manegold 1975) or the use of accounting number analogues to market-derived measures of

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risk (Hill & Stone 1980). Given the lack of rigorous theory underlying these various models and the often high correlation between the accounting variables, these studies identify quite different significant explanatory variables. What does appear common across the studies, however, is that earnings variability is the most significant accounting variable in explaining risk, that both accounting variables and other information are useful in the assessment of risk, and that substantial room remains for additional research (Ryan 1997).

The theoretical work began with Hamada (1972) and Rubinstein (1973), who identified the multiplicative impact of financial leverage on the beta of the levered firm. Their, by now, well known result is that:

—

where = the levered firm's common stock beta,
= the unlevered firm's common stock beta,
= the corporate income tax rate,
D = the market value of debt, and
E = the market value of common equity.

Whilst was called operating risk, Rubinstein (1973) recognised that it reflected the combined effects of operating leverage, the pure systematic influence of economy-wide events and uncertainty surrounding the firm's operating efficiency. Lev (1974) separated operating leverage from the other two variables and found it to be individually significant.

Mandelker & Rhee (1984) explicitly incorporate measures of the degree of operating and financial risk into their theoretical model and arrive at the following relationship:

where: = the levered firm's common stock beta,
DOL = the degree of operating leverage

$$= \frac{\frac{\tilde{X}}{}}{\frac{\tilde{S}}{}}$$

where: = earnings before interest and taxes for company j in period t, and
= sales for company j in period t,
~ represents expectations

DFL = the degree of financial leverage

$$= \frac{\frac{}{}}{\frac{}{}}$$

where: = earnings after interest and taxes for company j in period t, and
= the intrinsic business risk of common equity of company j

$$= \frac{\frac{}{}}{\frac{}{}}$$

where: = the market value of common equity of company j in period t
= the rate of return on the market portfolio for period t-1 to t

A major contribution of the Mandelker & Rhee (1984) model over Hamada (1972) and Rubinstein (1973) type models is that they utilise leverage values based on accounting *flow* numbers (*degree* of operating and financial leverage) rather than market *stock* numbers (*level* of operating and financial leverage). In the Hamada model, for example, both the value of debt and equity are stock measures and, theoretically, should be market values. However, Bowman (1980) found that the market value of debt was not significant in assessing the effect of financial leverage on risk, but this may be attributable to the noise in his estimates of the market value of private debt (Ryan 1997). The difficulty of finding a market value of debt in many cases has led researchers (for example, Chance 1982) to use accounting book (stock) values of debt in leverage estimates. The use of book values is a major limitation on the subsequent leverage measures, as it effectively constrains the leverage measure to be a static one that is unable to respond and reflect the changing relative costs of equity and debt. The use of flow equivalents avoids this problem, even when using accounting data, and ensures that the resultant leverage measures are dynamic and responsive to changes in the economic environment.

Defining the degree of total leverage (DTL) as the percentage change in net income that results from a 1% change in sales, the degree of financial

leverage (DFL) as the percentage change in net income that results from a 1% change in earnings before interest and taxes, and the degree of operating leverage (DOL) as the percentage change in earnings, before interest and taxes (operating income), that results from a 1% change in sales, we have, by definition, that:

$$DTL = DFL*DOL$$

Unfortunately, the Mandelker & Rhee (1984) model suffers from two problems as a rigorous, accounting-based theoretical model of levered . Firstly, the impact of utilising accounting proxies for market measures of return is not explicitly recognised within the model and, secondly, their measure of the intrinsic business risk of the company incorporates both an accounting measure of profit and a market measure of value. The former is subject to accounting manipulation under different codes of generally accepted accounting principles (GAAP), while the latter is a non-accounting measure of value. Our intention in the next section is to develop a rigorous model that defines basic business risk utilising only published accounting data as free from accrual adjustments, which may vary from jurisdiction to jurisdiction, as possible.

Model development

Our model builds from the basic accounting equality:

$$NI = (S - VC - FC - I)(1-\tau) \quad \ldots\ldots (1)$$

where: NI = net income,
S = sales,
VC = variable costs,
FC = fixed costs,
I = interest payments, and
τ = the company average and marginal tax rate.

and thus, taking present values, leads to:

$$PV(NI)= [PV(S) - PV(VC) - PV(FC) - PV(I)](1-\tau) \quad \ldots\ldots (2)$$

Applying the linear additivity of systematic risk (Brealey & Myers 1993) and replacing $NI/(1-\tau)$ by earnings before interest and tax (EBIT) minus interest, equation (2) can be expressed as:

_____ ..... (3)

Where:

= *Cov(change in dividend adjusted value of equity, change in dividend adjusted value of total market equity)*
Variance(change in dividend adjusted value of total market equity)

= *Covariance(change in sales, change in dividend adjusted value of total market equity)*
Variance(change in dividend adjusted value of total market equity)

= *Covariance(change in variable costs, change in dividend adjusted value of total market equity)*
Variance(change in dividend adjusted value of total market equity)

= *Covariance(change in fixed costs, change in dividend adjusted value of total market equity)*
Variance(change in dividend adjusted value of total market equity)

= *Covariance(change in debt value, change in dividend adjusted value of total market equity)*
Variance(change in dividend adjusted value of total market equity)

Under the normal (see, for example, Brealey & Myers 1993) simplifying assumptions that:

1. = , and

2. = ,

equation (3) simplifies to

_____ _____ ..... (4)

The coefficient of represents 1 plus a *stock* measure of total leverage. In order to convert this model into one that uses the *flow* measure of degree of total leverage, two further assumptions need to be made:

3. the discount rate on all variables is equal, and

4. the growth rate on all variables is equal.

Given the presence of interest and fixed costs, the appropriate discount rate would appear to be the risk free rate, and the presence of interest would indicate a zero level of growth. However, it is only the equality of these rates, rather than their values, that is important, and under these conditions, equation (4) simplifies to:

——— ..... (5)

where:

DTL_f = the degree of total leverage based on actual accounting data and assuming riskless debt and fixed costs.

Thus we now have a model for levered based upon disclosed accounting variables. The model is, of course, very similar to the Mandelker & Rhee (1984) model, except that their measure of intrinsic business risk has been replaced in this model by a measure of sales risk. These can readily be shown to be equivalent, but the present formulation has the advantage of relying only on sales rather than profit and does not include any market-based variables. In addition, the assumptions that are necessary in order to arrive at this accounting based estimate of risk have been identified explicitly. By so doing, it is possible to investigate the likely impact of each of the assumptions on this estimate of systematic equity risk.

Assumption 1:

The possibilities of bankruptcy mean that debt is not totally riskless, and DTL_f thus overestimates the true impact of total leverage on common equity. The extent of the overestimation will be directly, and linearly, related to the bankruptcy risk of debt. With regard to fixed costs, their composition is likely to be dominated by asset charges (depreciation) and (un)employment costs. While the former are unlikely to vary with general market movements, the latter risks will be absorbed by the workforce to a greater or lesser extent, dependent upon the extent of employment protection legislation. Additionally, in capital-intensive industries, any employment influences are likely to be dominated by depreciation charges, so that any impact on the estimate of equity risk is likely to be small. The net effect of risky fixed costs would again be to overestimate . The required correction would be an additive adjustment to DTL that is proportional to measures of solvency and liquidity and inversely proportional to corporate employment legislation protecting employees against unemployment.

Thus: = $(DTL - k_1)$

Assumption 2:

On the assumption that prices include an element for variable costs, fixed costs and profit, the risk of sales revenue is likely to be greater than that of variable costs. The extent to which it exceeds will depend on the competitive nature of the industry in which a firm operates. In highly competitive industries, the importance of fixed costs and profit in the pricing equation will be smaller than in less competitive industries, and any difference between and would thus not be large. In any event, exceeding will lead to an underestimate of the true risk of common equity by using equation (5). Again, the adjustment will be inversely proportional to industry competition and an additive adjustment to .

Thus: = $(DTL - k_1 + k_2)$

Assumption 3: the discount rate on all variables is equal

Whatever the risk of debt and fixed costs, by definition, the risk and therefore the discount rate on EBIT will be larger. Thus, both the numerator and denominator of the coefficient of in equation (5) will decrease by the same amount. As the coefficient in equation (5) is greater than 1, this change will result in a decrease in the coefficient. In this case, the impact on the estimate of is multiplicative on and inversely proportional to $(r_{EBIT} - r_{FC})$. The most convenient indicator of this difference is likely to be the degree of operating leverage itself.

Thus: = $\{(1 + k_3)DTL - k_1 + k_2)$

Assumption 4: the growth rate on all variables is equal

Improving efficiency and economies of scale should ensure that the growth of earnings before interest and taxes should exceed the growth in fixed costs and debt. This will result in a decrease in the numerator and denominator of the coefficient of in equation (5) and thus a decrease in the

coefficient itself. The impact on the estimate of is again multiplicative on and inversely proportional to ($g_{EBIT} - g_{FC}$). Appropriate predictors of this value could be gross national product (GNP), industry growth levels or historical company growth levels in earnings before interest and tax.

Thus: $= \{(1 + k_3 - k_4)DTL - k_1 + k_2\}$

Concluding remarks

In this paper, a theoretically valid model to estimate the systematic risk of a company's equity has been developed. By commencing the analysis from the fundamental accounting equality, it is possible to generate a forecasting model that utilises accounting measures to the fullest extent. This is considered important because of the number of significant situations where market measures are unavailable. The model nevertheless still contains a measure of systematic sales risk that depends upon a market, but not a company-specific, measure of return. It is clearly an empirical, rather than a theoretical, issue for further research as to whether accounting proxies of such a measure provide suitable and accurate measures of systematic sales risk such that a pure accounting model can be developed.

The model generated is similar to that of Mandelker & Rhee (1984). However, their model weights the degree of total leverage by a measure of intrinsic business risk rather than sales risk. While the former turns out to be a simple linear function of the latter, the inclusion of this additional factor necessarily leads to increased measurement error on their measure of intrinsic business risk over the present simple sales risk. In addition, Mandelker & Rhee do not identify the specific assumptions made in order to convert market measures included in the fundamental equity beta definition into accounting proxies. By developing the present model from the fundamental accounting equality, it is possible to identify at each stage the assumption that needs to be made to arrive at the equivalent of their estimation model. This allows further theoretical refinement to identify the specific adjustments required. The identification of suitable proxy measures for these adjustments will be the subject of future empirical work.

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Measuring business performance: A case study

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Most studies consider business performance to be a multidimensional construct. Four dimensions (namely, business growth, profitability, image and customer loyalty, and product service innovativeness) were hypothesised to validate a measure for business performance in the South African context. Using partial least squares, 22 responses from top executives of banks in South Africa were analysed to test the validity of the four dimensions of business performance. The results of the study suggest that the non-financial dimensions (namely, image and customer loyalty, and product service innovation) are not valid dimensions for measuring business performance, while the other two dimensions (namely, business growth and profitability) show a high degree of correlation. This indicates that business growth is aligned with profitability, that growth for profitability is a major concern, and that profitability still remains the key measure of business performance in the South African banking sector. Parameters such as customer loyalty and innovativeness are not regarded as important for business performance, although these could be pressing issues for banks. The paper also validates a questionnaire that can be used to measure business performance and reviews various methods for measuring business performance.

Introduction

Measuring business performance is complex because of the many objectives of business. Profit maximisation remains one of the key objectives of business, although the debate around this issue has not reached any final conclusions.

Balance sheets and profit/loss accounts are the traditional and most popular means of measuring business performance. The inherent weakness of these measures, however, is that they fail to capture non-financial parameters such as goodwill and customer loyalty. These parameters become more meaningful when so-called 'financially sound' companies are liquidated overnight or go out of business in due course. Proponents of accounting-based performance measures give due cognisance to non-financial parameters, but they do not offer a measurement technique.

This paper deals with the various methods for measuring business performance, and develops an instrument for measuring business performance in the South African banking sector.

Literature review

Review of techniques used in measuring business performance

Recognising the importance of the issues of measurement, researchers and practitioners have developed a variety of performance measurement approaches (Parkan & Wu 1999: 202). A review of selected[1] measures follows.

Economic value added (EVA)

The concept of EVA is based on maximising shareholders value, as against the profit maximisation objective of a firm. The best way to maximise shareholder returns is to 'incentivise' management to make decisions that increase long-term value (Stern 1990). Stern further explains that incentivis-

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1 The techniques that are readily available in the textbooks (namely, accounting-based measures such as return on investments and return on assets) are not covered in this article. For details on these techniques, any textbook on financial management can be referred to.

ing management to increase shareholder value means nothing unless executives understand how value is created. Shareholder value is created only when the rate of return on capital exceeds the cost of that capital. The precise amount of value added is equal to the amount of total capital invested, multiplied by the difference between return on capital and cost of the capital. In essence, this is best described as 'residual income', referred to as economic value added (Stern 1990).

Evidence confirms that managers respond to EVA incentives, but there is no evidence thus far to support claims that EVA is more closely associated with equity returns or firm value than is net income (Biddle 1998). Biddle further refers to a study entitled 'Does EVA beat earnings? Evidence on associations with stock returns and firm values'. This study empirically tested whether EVA is superior to accounting-based competitors in explaining changes in shareholder wealth and found no support for this claim. In contrast, the study reported that earnings before extraordinary items dominate EVA in comparisons of relative information content for explaining stock returns and firm values.

The value added statement is published by about 210 of the 400 companies listed in the industrial sector of the Johannesburg Stock Exchange (Staden 1998). Staden examines the usefulness of the value added statement in South Africa. The result indicates that the respondents did not make significant use of value added statements and that the statements had severe shortcomings that impacted on their usefulness. Staden also observes a declining trend of use. The shortcomings experienced by most respondent groups are reported in Table 1.

Table 1: Shortcomings experienced with EVA

	Shortcomings	% Respondents
1.	It is confusing. Technical differences are encountered in practice.	57%
2.	It is not standardised. There is no statement of GAAP.	63%
3.	The information is not verifiable and is therefore under suspicion.	51%
4.	It is not a faultless measure of productivity.	57%
5.	There is no benchmark or other information with which to compare value added information.	51%

Source: Staden (1998: 56)

Staden (1998) further concludes that if the reactions of the users of external financial statements are used as a criterion for the publication of value added statements, these statements should no longer be published in South Africa, as no evidence of significant use can be found, and there is moreover no significant support for further use.

In European countries, EVA has had to overcome stiff resistance to gain acceptance, and sizable cultural differences explain the problem (Stern & Shiely 2001).

It is true that EVA is a measure of internal performance and causes managers to act like owners (thereby reducing conflict between owners and managers). Staden's (1998) study suggests that it is difficult to replace the traditional measures of performance with EVA.

Data envelopment analysis (DEA)

Financial ratios are used to measure the performance of banks. Yeh (1996) notes that the major drawback of this approach is its reliance on benchmark ratios, which could be arbitrary and may mislead analysts. These financial ratios do not capture the long-term performance and aggregate many aspects of performance, such as operations, marketing and financing (Sherman & Gold 1985).

Based on previous research, Sathye (2001) reports that, in recent years, there has been a trend towards measuring the performance of banks using one of the frontier analysis methods. In frontier analysis, the institutions that perform better relative to a particular standard are separated from those that perform poorly. Such separation is done either by applying a non-parametric or parametric frontier analysis to firms within the financial service industry. The parametric approach includes stochastic frontier analysis, for example, and the non-parametric approach is data envelopment analysis.

It should be noted that the DEA approach is a relative measure of efficiency, because it compares a firm's observed outputs and inputs and identifies the 'best practice' firm(s) in a group; each firm in a group is then measured relative to the 'best' firm. (Ayadi, Adebayo & Omolehinwa 1998). DEA calculates the relative efficiency scores of various decision-making units (DMU) in the particular sample, and it may be possible for a unit outside the sample to achieve higher efficiency than the best practice of a DMU in the sample (Sathye 2001: 9–10).

Knowing which efficient banks are most comparable to the inefficient bank enables the analyst to develop an understanding of the nature of inefficiencies and to re-allocate scarce resources to improve productivity. This feature of DEA is clearly a useful decision-making tool in benchmarking (Sathye 2001). Sathye suggests that as a matter of sound managerial practice, profitability measures should be compared with DEA results and significant disagreement investigated.

In a study comparing DEA and ratio analysis as tools for performance assessment, Thanassoulis, Boussofiane & Dyson (1996) found that the two methods agree reasonably closely on the performance of the units as a whole, though this depends on the way the performance indicators are combined into a summary figure of performance. They reach the following conclusions:

- The two methods can disagree substantially on the relative performance of individual units.
- Ratios do provide useful information on the performance of a unit on specific aspects.
- They support the communication of DEA results to non-specialists when the two methods agree on performance.

Operational competitive rating procedure (OCRA)

OCRA analysis is a relative performance measurement approach based on a non-parametric model (Parkan & Wu 1999). It requires simple, non-iterative computations to obtain ratings that gauge the production unit's (PU) relative operational performance, as compared with DEA, which uses linear programming as its computational procedure to obtain the PU's efficiency rating.

Other techniques

Another new measure, namely the balanced scorecard by Kaplan & Norton (1996), is intended for manufacturing organisations. The concept of the performance prism (Neely, Adams & Crowe 2001) addresses the shortcoming of many of the traditional measurement frameworks used by organisations today. The performance prism, with its comprehensive stakeholder orientation, encourages executives to consider the wants and needs of all the organisation's stakeholders, rather than a subset, as well as the associated strategies, processes and capabilities. The five interrelated facets of the prism are stakeholder satisfaction, strategies, processes, capabilities and stakeholder contribution, with each representing its role in the performance. It should be noted that the performance prism is not a prescriptive measurement framework but a tool that can be used by management teams to influence their thinking about the key questions they want to address when seeking to manage their business (Neely et al. 2001).

Despite the development of the techniques discussed, traditional financial measures in association with non-financial measures continue to be widely used by various studies, and multiple measures are employed to measure business performance. Accordingly, a review of 15 studies measuring business performance, covering a period of some two decades, is reported in the next section.

Review of studies measuring business performance

A review of various studies that measured business performance is summarised in Table 2. The first column in the table lists the authors and year of publication, the second column describes the study details and the third column refers to the parameters used by the study to measure business performance (such as return on assets or sales growth). The last column shows the type of measure (namely, subjective or objective). The objective approach refers to the financial data provided by the organisation, whereas the subjective measurement calls upon the perception of respondents (Croteau & Bergeron 2001). Objective measures would be actual percentage figures for sales, growth or profitability, and the term 'subjective' is used to mean that a company's performance score is derived using a scale with anchors such as 'very poor' or 'very good' compared to competitors (Dawes 1999).

Table 2: Review of studies measuring business performance

Author(s)	Topic dealt with	Parameters used to measure business performance	Type of measure: subjective/objective[2] financial and/or non-financial
Anderson (2000)	Strategic planning has positive performance effects across industries, and exists in tandem with autonomous actions.	Return on assets, sales growth and innovation.	Subjective, financial and non-financial
Anderson (2001)	Enhancement of an organisation's communication capacity using IT and business performance.	Self-assessments of an organisation's profitability, sales growth and the level of innovation in the organisation.	Subjective, financial and non-financial
Ansoff & Sullivan (1993)	A formula for strategic success, which states that the profitability of a firm is optimised when its strategic behaviour is aligned with its environment.	Objective, average financial performance (return on investment/return of equity) over the past five years.	Objective and financial factor
Bergeron, Raymond & Rivard (1999)	The concept of fit in IS research.	Long-term profitability, growth of sales, financial resources (liquidity and investment capacity), public image and client loyalty	Subjective, financial and non-financial
Cragg, King & Hussain (2002)	This study focuses on measuring the alignment of business strategy and IT strategy among small UK manufacturing firms and then investigates the link between alignment and performance.	Long-term profitability, sales growth, financial resources, public image and client loyalty were the dimensions used to measure business performance on the basis of executive perceptions.	Subjective, financial and non-financial
Croteau & Bergeron (2001)	To explore the existence of a direct link between IT managment and organisational performance. To determine, given the business strategy, what profile of technological deployment best helps firms enhance their performance.	User's perception of organisational sales growth and profitability.	Subjective, financial and non-financial

2 The objective approach refers to the financial data provided by the organisation, whereas the subjective measurement calls upon the perception of respondents (Croteau & Bergeron 2001). Objective measures would be actual percentage figures for sale, growth or profitability, and the term 'subjective' is used to mean that a company's performance score is derived using a scale with anchors such as 'very poor' or 'very good' compared to competitors (Dawes 1999).

Dess & Robinson (1984)	Strategic management researchers often encountrer problems in obtaining objective measures of selected aspects of organisational performance that are reliable and valid. In the case of privately held firms, such data are frequently unavailable. In the case of conglomerate business units, all or parts of such data are inextricably interwoven with corporate-wide data. This paper examines the usefulness of subjective performance measures, obtained from top management teams, when problems are encountered in obtaining accurate performance information.	The study uses sales growth, return on asset and global measures of organisational performance to collect data from 26 manufacturing organisations.	Subjective and objective, financial and non-financial. The study found a strong correlation between subjective and objective measures. However, it concludes that subjective measures should only be used where objective measures of business performance are not available for various reasons.
Durand & Coeurderoy (2001)	The study combines the dimensions of a firm's age, order of entry and strategic orientations, as well as industry conditions, to establish a contingency model of performance analysis.	Profitability, return on assets, growth of sales, growth of margins and growth in the number of employees.	The average of each item for a three-year period was standardised on a five-point scale. Objective, financial and non-financial.
Gopala-krishnan (2000)	Using data from the banking industry, this study builds a bridge between two dimensions of innovation (speed and magnitude) and two measures of a firm's performance (objective financial reports and executive ratings of perceived effectiveness). The results indicate that different dimensions were linked to different measures of performance. The results also showed that innovation speed resulted in positive financial performance, rather than executives' positive performance. Innovation magnitude is associated with executives' positive perception of firm performance, even thought it may not directly increase a firm's financial returns.	Two measures of bank performance were used: the objective measure of financial performance and the subjective executive rating of effectiveness. Return on assets was the only measure of financial performance used. The executives' rating of effectiveness was collected based on factors such as efficiency of operations and quality of services provided, as compared with the rival bank, on a five-point Likert scale.	Objective and subjective financial and non-financial. Some of the dimensions resulted in positive association with objective measures only, while other dimensions were associated with subjective measures only.

Table 2: (Continued)

Author(s)	Topic dealt with	Parameters used to measure business performance	Type of measure: subjective/objective financial and/or non-financial
Mehra (1996)	Explores the implications of studying industry competitive patterns at the leve of resource accumulation and the relationship between resource endowments and firm performance in the US banking industry.	The study used strategic performance as opposed to economic performance along three dimensions: profitability, productivity and ability to raise long-term resources.	Objective
Papke-Shields & Malhotra (2001)	The study examines the role of both influence and involvement in achieving better business performance, which authors expect to occur through alignment between the organisational and manufacturing strategies rather than directly.	The study uses respondents' perceptions on two dimensions (growth and profitability) to measure business performance, and each dimenson is operationalised using two indicators.	Subjective, financial and non-financial
Peek, Rosengren & Kasirye (1999)	Change in business strategy by the foreign owners (of US banks) was generally not successful in raising a bank's performance level to that of its domestic peers.	The study uses factors such as financial ratios, capital ratio, non-performiang loans and return on assets.	Objective, financial
Rogers & Bamford (2002)	Information processing theory is used to examine the unique planning processes of banks pursuing different strategies. The co-alignment of strategy, planning and information is examined in top-performing banks, and the performance implications of fit are revealed.	Archival measure of return on assets (ROA). Authors indicate that ROA is the most commonly accepted measure of performance in the banking industry.	Objective and only one financial indicator.
Venkatra-man (1989)	The study aimed at conceptualising and developing valid measurements of key dimensions of a strategy construct, termed 'stategic orientation of business enterprises'. Moving beyond the exploration of relationships between strategy dimensions, the study related business strategy to business performance.	Businesss performance was defined in terms of two dimensions (growth and profitability). These dimensions were operationalised using multi-item measures. Subjective assessments of respondents were sought.	Subjective, financial and non-financial

Woodside, Sullivan & Trappey (1999)	Assessing the relationship among strategic types, distinctive market competencies and organisational performance.	Three items (return on investment, profit and customer satisfaction).	Subjective, financial and non-financial

The review of studies measuring business performance reveals that:

- To measure business performance, there should be a relationship between the variable being tested and a specific dimension of business performance (Gopalakrishnan 2000).
- Financial measures are used as objective or subjective measures (Anderson 2000; Ansoff & Sullivan 1993; Bergeron, Raymond & Rivard 1999).
- Eight out of 15 studies listed in Table 2 use return on assets/investment as a measure of performance. According to Rogers & Bamford (2002: 209), return on assets is the most commonly accepted measure of performance in the banking industry.
- Most researchers consider business performancemance to be multidimensional. Organisational profitability, sales growth, level of innovation, return on assets, customer satisfaction, and growth in the number of employees are the main dimensions that are used by the studies to measure business performance, as summarised in Table 2.
- As regards the debate between using subjective or objective measures, Dess & Robinson (1984) conclude that neither approach (objective or subjective) is preferable to the other, each producing similar results; while Croteau & Bergeron (2001) report that in each case, the results obtained were comparable and significant. No evidence has been provided by any study to show that either objective or subjective measures are better. However, Dess & Robinson (1984) indicate that subjective measures are accepted research practice in situations where objective performance indicators are not available for various reasons, for example, in the case of conglomerate business units, where all or parts of such data are inextricably interwoven with corporate-wide data, as well as in the case of privately held firms, where such data are frequently unavailable. The Dess & Robinson study shows a high degree of correlation between subjective and objective data, however, and they warn that subjective measures should not be conveniently substituted for objective measures of a firm's economic performance. Based on previous research, Dawes (1999) also concludes that there is a strong correlation between objective and subjective performance measures. He cautions that this correlation is far from perfect, however, and concludes that researchers should attempt to validate their research by using both types of measures. Dawes' conclusion is theoretical, as perfect correlation is not possible in the social sciences. The high degree of positive correlation between subjective and objective measures suggests that researchers could use subjective measures, with the limitation that perfect correlation between the two is difficult to obtain in practice.

Development of a measurement instrument for gauging business performance

This paper deals with the development of a measurement instrument for gauging business performance in the banking sector in South Africa.

Selection of dimensions and construct conceptualisation

In line with the previous research summarised in Table 2, business performance (BP) was considered as multidimensional, with four dimensions: business growth (BG), profitability or financial profitability (FP), image and customer loyalty (CL) and product service innovativeness (INNOV). Each dimension was operationalised using the questionnaire shown in Annexure 1. A copy of the questionnaire is given in Table 3 to show the coding of indicators.

Subjective measures, as discussed earlier, should not be used where objective measures are available. The study faced two problems in relying on objective measures. Firstly, there were no objective measures for all the dimensions that were to be measured, for example, customer loyalty and innovativeness. Secondly, the majority of banking businesses in South Africa are conglomerate business units, and in such situations, the data, or parts of the data, are inextricably interwoven with

Table 3: Questionnaire for measuring business performance, showing coding of indicators

Sl. No.	Code used	Please indicate your best estimate of your bank's position on average **relative to that of close competitors over the past two years**.	**Much worse than competitors**					**Much better than competitors**
			1	**2**	**3**	**4**	**5**	**6**
1	**BP1**	Our sales growth						
2	**BP2**	The market share gains by us						
3	**BP3**	Our sales growth rate						
4	**BP4**	The after-tax return on assets						
5	**BP5**	The net profits after taxes						
6	**BP6**	Our financial liquidity						
7	**BP7**	Our public image						
8	**BP8**	Our customer compliments						
9	**BP9**	Our customer loyalty						
		Please answer the following additional questions to best reflect your organisation	Never	Seldom	Often	Very often	Mostly	Always
			1	**2**	**3**	**4**	**5**	**6**
10	**BP10**	To what extent are suggestions on doing things differently made in your organisation?						
11	**BP11**	To what extent is the way work is done in your organisation being changed?						
12	**BP12**	To what extent are new ideas converted into viable business opportunities in your organisation?						

either corporate-wide data or with a class of business. This left no choice but to rely on the responses of management, which was a limitation of this research.

In order to determine the relative importance of each dimension, business performance was considered to be a second order construct, with its four dimensions representing the first order construct, and the first order construct represented by questionnaire items referred to as indicators (see Figures 1 and 2). In Figures 1 & 2, BP refers to the construct business performance, and BP1, BP2, etc. are the indicators representing questionnaire items. Two types of models (molar and molecular) were considered, as the distinction between the two constructs is not always clear-cut. Figure 1 shows the molar model, and Figure 2 the molecular model. In the molar and molecular approaches, business performance is treated as a multidimensional construct of a higher second order. (For more details on the formulation of first and second order constructs, refer to Chin 2000).

In the molar mode, the paths are directed from first order constructs (dimensions of business performance) to overall second order constructs (business performance), while the reverse is the case with the molecular model. A molar model is a global or macro presentation of different dimensions of business performance. The molar model represents an emergent construct that is formed (caused) from the first order factors. The relative path weighting at an aggregate level in this model indicates the relative importance of the dimension. In the molecular approach, each dimension represents a separate business dimension that reflects overall business performance. A one-to-one correspondence exists between the overall business performance and each of its dimensions. In contrast to the molar model, which constructs from dimensions, an overall latent construct exists in a molecular model and is reflected (effect) by the first order dimensions. In a molecular model, the path loadings would be an indicator of the relative importance of each dimension in reflecting the overall performance. (For more details on these models, refer to Chin & Gopal 1995).

The molar and molecular models were also tested for the validity and reliability of questionnaire items. The partial least squares (PLS) method was used,

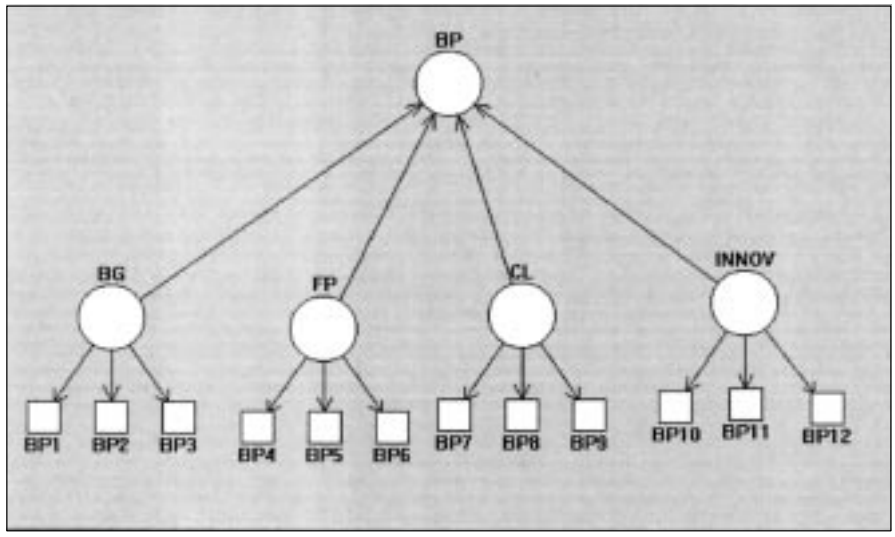

Figure 1: Molar model for business performance (BP). BP1, BP2, etc. represent questionnaire items

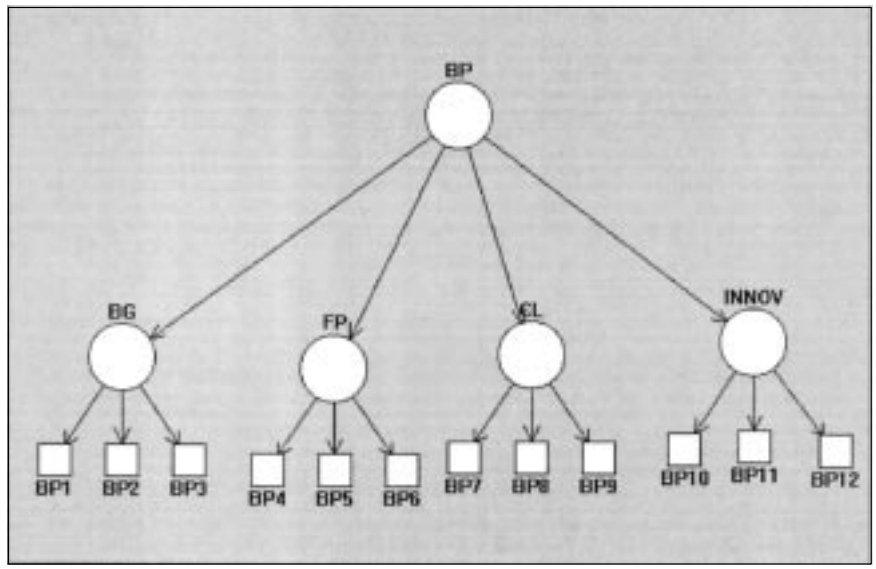

Figure 2: Molecular model for business performance (BP). BP1, BP2, etc. represent questionnaire items

as PLS works by simultaneously assessing the reliability and validity of measures of constructs and estimating the relationships among constructs (Chin 1998).

Banks in South Africa

The Bank Supervision Department of the South African Reserve Bank maintains a list of registered banks, branches and representative offices. The list provides the names of the chief executive officer, postal address, telephone and fax number. A list of e-mail addresses of the top management of banks was collected telephonically. As of March 2002, the Directory of Banks in South Africa has published information on the following categories of banks on its website:

- Locally controlled banks: 30 in number (2 under curatorship)
- Foreign controlled banks: 8 in number
- Branches of foreign banks: 15 in number
- Representative offices of foreign banks: 30 in number.

Sample size

The sample size in PLS is the larger of the two possibilities (Chin 1998: 311):

i the block with the largest number of formative indicators (in other words, the largest measurement equation), or
ii the dependent latent variable (LV) with the largest number of independent LVs influencing it.

If one were to use a regression heuristic of ten cases per predictor, the sample size requirement would be ten times either of (i) or (ii) (Chin 1998: 311). The sample size also has a direct and sizable impact on power (Hair, Anderson, Tatham & Black 1998: 165). Power (statistical power) in multiple regression refers to the probability of detecting a specific level of R2 (or a regression coefficient) as statistically significant at a specified significance level for a specific sample size. In addition to the statistical power, sample size also affects the generalisability of the results by the ratio of observation to independent variables, and a general rule is that the ratio should never fall below 5:1, meaning that there should be five observations for each independent variable in the variate (Hair et al. 1998: 166). Chin & Newsted (1999), using Monte Carlo simulation, infer that with PLS it is possible to successfully estimate and detect path loadings of 0.60 and 0.80 at the small sample size of 20, albeit with reasonably large standard error. However, they also found that increasing the sample size alone does not provide a better approximation to the population value; instead, the number of indicators also has to increase. Their overall results from the Monte Carlo simulation show that the PLS approach can provide information about the appropriateness of indicators at sample sizes as low as 20. Power analysis is useful here in achieving the trade-off between standard error and sample size.

There were 51 banks registered in terms of the Banks Act (as already reported), excluding foreign representative offices and the two under curatorship. The number of banks in the list keeps fluctuating as a result of mergers or liquidations. Telephonic communications with the representative offices of foreign banks indicated that most of them had skeleton staff and were not actively involved in banking in South Africa.

Based on the foregoing findings, a sample size of 20 or more samples was considered acceptable for the purposes of the study.

Data collection

Data were collected using e-mail. Twenty-two responses were obtained from various banks, including ABSA (Associated Banks of South Africa), BOE, Cape of Good Hope, FNB (First National Bank), Marriott, Nedcor, Imperial and Teba banks. The responses covered more than 90% of the commercial banking sector in South Africa. All the e-mails were addressed to the chief executive officer of the bank, but some of them responded through their deputies.

Results

PLS version 3.00, build 1016 (1993–2003) was used to carry out the analysis.

Although the PLS method analyses measurement and structural estimates together, the PLS model is analysed in two stages: (i) the assessment of the reliability and validity of the measurement model, and (ii) the assessment of the structural model. The sequence ensures reliable and valid measures of constructs before attempting to draw conclusions on the relationships among the constructs (Barclay, Thompson & Higgins 1995: 295).

The measurement model is assessed by examining: (i) individual item reliability, (ii) internal consistency, and (iii) discriminant validity of the constructs (Barclay et al. 1995: 295).

In PLS, individual item reliability is assessed by examining the loading, or simply the correlation, of the measures with their respective constructs. An item loading of 0.707 or more implies more shared variance between the construct and its measures than error variance (Carmines & Zeller 1979).

Internal consistency for a given block of indicators, developed by Fornell & Larcker (1981) as a measure of reliability, is computed as the sum of the loadings, all squared, divided by the sum of the loadings, all squared, plus the sum of the error terms. This ratio should be equal to at least 0.70. This measure is similar to Cronbach's alpha as a measure of internal consistency. Symbolically, the measure is represented as:

Internal consistency for a given block of indicators = (Sum)^2 /[(Sum)^2 + Sum var (ε)]

Where: ε is error or residual variance = 1– ^{2} and represents path loading.

The ratio should be equal to at least 0.7.

Discriminant validity indicates the extent to which a given construct is different from other constructs. One criterion for adequate discriminant validity is that a construct should share more variance with its measures than it shares with other constructs in the model. To assess discriminant validity, Fornell &

Larcker (1981) suggest the use of average variance extracted (AVE). AVE is calculated using the formula:

$$AVE = \frac{(\text{Sum } \lambda)^2}{(\text{Sum } \lambda)^2 + \text{Sum var } (\varepsilon)}$$

Where: ε is error/residual variance = $1 - \lambda^2$ and λ represents path loading

For discriminant validity of the construct, the square root of AVE (as obtained from the preceding formula) should be greater than the variance shared between the construct and other constructs in the model (in other words, the correlation between the two constructs), and for convergent validity of the construct, the decision rule is that AVE should be greater than 0.5, which means that 50% or more of the variance of indicators should be accounted for.

Assessment of the structural model in PLS is done by assessing the statistical significance of the path coefficients. T-values for path loading are obtained using jackknifing or bootstrapping. Jackknifing and bootstrapping are re-sampling techniques. The use of jackknifing, as opposed to traditional t-tests, allows the testing of the significance of parameter estimates from data that are not assumed to be multivariate normal (Barclay et al. 1995: 298). R^2, the coefficient of determination, is obtained for the dependent variable. It refers to the variance explained by the construct.

In order to determine item–construct loading, a factor analysis was conducted in PLS using the items and constructs with no relationship between the constructs. The result of the factor analysis is reported in Table 4.

Examination of factor loadings in Table 4 suggests that there was no major multicollinearity between the indicators, as the loading of the indicator with respect to its construct is greater than the other constructs. For example, BP9 has a factor loading of 0.878 with its corresponding construct customer loyalty, while its loading with other constructs (such as business growth and financial performance) is much lower. However, indicators BP1 to BP6 show some degree of correlation with both constructs, namely business growth and financial performance. The factor loadings of the indicators also suggest that the 11 indicators (BP1 to BP12, with the exception of BP12 with item loading 0.286) are valid indicators and can be used with confidence for measuring the various dimensions they represent. BP12 ('to what extent are new ideas converted into viable business opportunities in your organisation?') might not necessarily result from innovativeness but for other reasons. The factor loadings for BP6 and BP7 were not very much lower than 0.707 and were not dropped.

To determine internal consistency and discriminant validity, the constructs were joined in the model, and the model was run as a molecular model. The results are shown in Table 5, which shows the correlation matrix for the construct where the diagonal of this matrix is the square root of AVE.

The results shown in Table 5 suggest good internal consistency, and convergent and discriminant validity for all the constructs except innovativeness

Table 4: The factor loading and cross loading of measures for the construct business performance

	Business growth	Financial performance	Image and customer loyalty	Product service innovation
BP1	**0.948**	*0.735*	0.304	-0.253
BP2	**0.945**	*0.701*	0.361	-0.390
BP3	**0.803**	*0.516*	0.585	0.047
BP4	*0.604*	**0.869**	0.251	-0.388
BP5	*0.567*	**0.833**	0.210	0.000
BP6	*0.527*	**0.591**	0.139	-0.191
BP7	0.558	0.435	**0.581**	0.281
BP8	0.364	0.201	**0.895**	0.055
BP9	0.240	0.082	**0.878**	-0.120
BP10	-0.119	-0.166	0.042	**0.883**
BP11	-0.341	-0.346	0.120	**0.823**
BP12	0.091	0.160	-0.169	**0.286**

Table 5: Mean, standard deviation, internal consistency and discriminant validity constructs BP

	No. of items	Mean	SD	Fornell α	Correlation of construct and AVE				AVE
					BG	FP	CL	INNOV	
BG	3	11.64	3.27	0.92	**0.90**				0.81
FP	3	12.45	2.99	0.81	*0.73*	**0.77**			0.59
CL	3	12.36	2.56	0.82	0.53	0.35	**0.78**		0.61
INNOV	3	11.45	1.74	0.61	0.36	0.36	-0.20	**0.69**	*0.47*

(INNOV), with AVE less than 0.50. However, the financial performance construct also shares high variance (0.73 in Table 5) with the business growth construct, and the indicators (BP4 to BP6) of the financial performance construct also show some degree of multicollinearity with business growth indicators (see Table 4). This suggests that the two constructs could be combined into one construct, as the difference between the two is not distinct. It could be said that these two constructs are essentially a single construct for all practical purposes. However, the numeric difference calls for keeping the two constructs separate in this study.

Figures 3 and 4 show the results of the molecular and molar model. Bootstrap re-sampling was performed to examine the statistical significance of path loadings in the molecular model and weights in the molar model.

Table 6 shows the results of the analysis. The path loadings and weights suggest the relative importance of each dimension.

The results in Table 6 suggest that the paths joining customer loyalty and innovation were not statistically significant.

Table 6: The path, loading, weights and t-values for the construct business performance

Path	Loading	Weights	T-values
BP—BG	0.950		22.75**
BP—FP	0.865		12.83**
BP—CL	0.623		1.94
BP—INNOV	0.364		1.02
BG—BP		0.527	9.654**
FP—BP		0.351	4.48**
CL—BP		0.250	1.89
INNOV—BP		0.107	0.831

** *Statistically significant at p< 0.001*

Finally, the results of the analysis in Tables 4, 5 and 6 suggest the following:

- Eleven indicators (BP1 to BP12, with the exception of BP12) of business performance, representing four dimensions, were validated using factor analysis in PLS. These indicators can be used with confidence for measuring the dimensions they represent.
- Three constructs, namely business growth (BG), financial profitability (FP) and customer loyalty (CL), showed good internal consistency and discriminant validity.
- The two dimensions of business growth and financial profitability showed a high degree of correlation, indicating that business growth is aligned with profit for the sample of the study.
- The paths joining customer loyalty and innovation were not statistically significant. This suggests that these two dimensions were not valid dimensions for measuring business performance for the sample of the study.

Conclusion

The high degree of positive correlation between subjective and objective measures established by researchers (Dess & Robinson 1984; Dawes 1999) suggests that practitioners and researchers could make use of subjective measures, bearing in mind the limitation that perfect correlation between the two is difficult to obtain in practice. However, precautions should be taken to check the correlation between subjective and objective measures, wherever possible.

Most researchers consider business performance to be multidimensional. The results of this study suggest that the non-financial dimensions (namely, image and customer loyalty, and product service innovation) are not valid dimensions for measuring business performance, while the other two dimensions (namely, business growth and profitability)

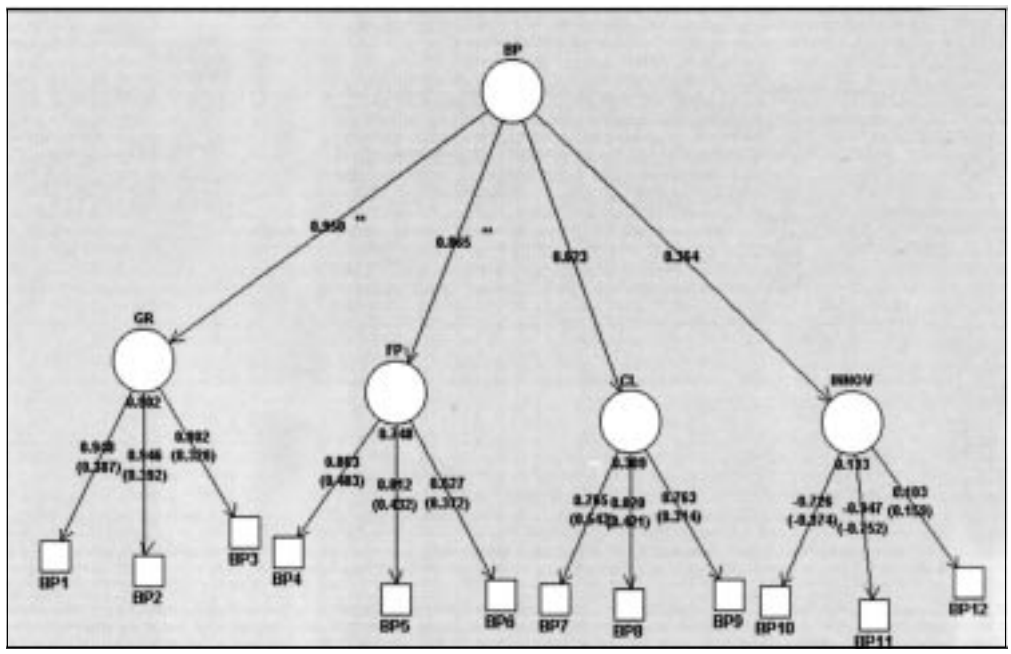

Figure 3: Molecular model showing the paths and loadings, **significant paths at P<0.001

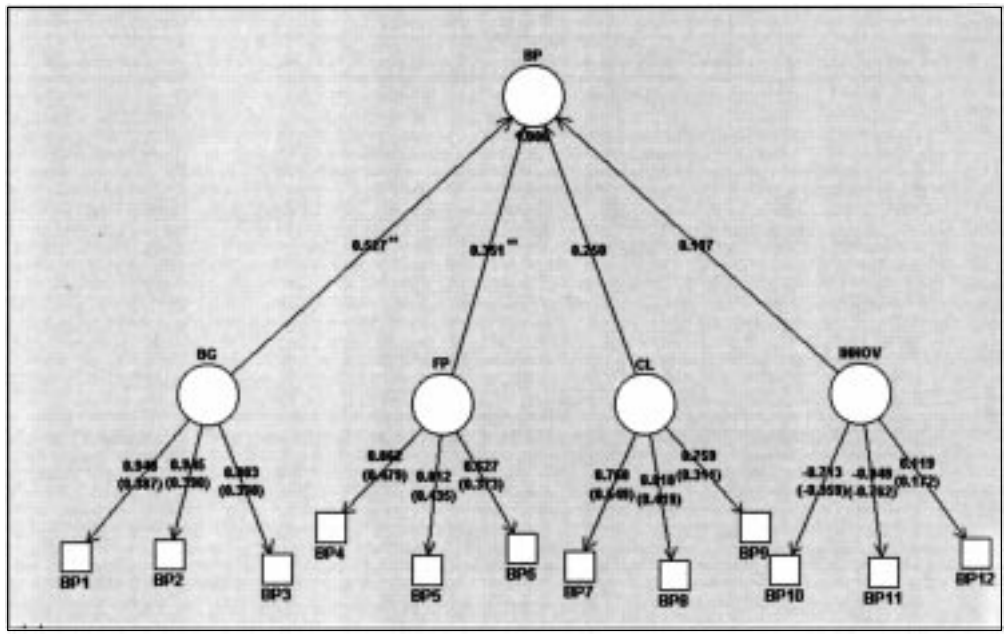

Figure 4: Molar model showing the paths weights, **significant paths at p<0.001

show a high degree of correlation. This indicates that business growth is aligned with profitability, that growth for profitability is a major concern, and that profitability still remains the key measure of business performance in the South African banking sector. Parameters such as customer loyalty and innovativeness are not regarded as important for business performance, although these could be pressing issues for banks.

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Annexure 1

Please indicate your best estimate of your bank's position on average relative to that of close competitors over the past two years. Select only one possibility per item and use a star (*) or any other preferred symbol in completing the questionnaire.

Sl. No.	**Please indicate your best estimate of your banks position on average relative to that of close competitors over the past two years.**	**Much worse than competitors**					**Much better than competitors**
		1	2	3	4	5	6
1	Our sales growth						
2	The market share gains by us						
3	Our sales growth rate						
4	The after-tax return on assets						
5	The net profits after taxes						
6	Our financial liquidity						
7	Our public image						
8	Our customer compliments						
9	Our customer loyalty						
	Please answer the following additional questions to best reflect your organisation	**Never**	**Seldom**	**Often**	**Very often**	**Mostly**	**Always**
		1	**2**	**3**	**4**	**5**	**6**
10	To what extent are suggestions on doing things differently made in your organisation?						
11	To what extent is the way work is done in your organisation being changed?						
12	To what extent are new ideas converted into viable business opportunities in your organisation?						

The cognitive structure of liking South African television commercials

Pierre Joubert[*]

This article investigates the cognitive structure that viewers use when deciding whether they like a particular television commercial or not. It furthermore purports to operationalise the attitude towards the television commercial concept among South African television viewers. The research was conducted over two phases. Phase one was more qualitative in nature and explored the cognitive structure of what viewers meant when they said they liked or disliked television commercials. The theoretical base for this investigation was personal construct theory (Kelly 1955). The second phase was more quantitative in nature and investigated the structure of affective response to television commercials as well as the psychometric properties of the Schlinger viewer response profile in South Africa. This instrument, constructed in the United States of America, is generally used to measure attitudes towards television commercials. It focuses on the affective and emotional components of communication effects and indicates how viewers feel after seeing a commercial.

Introduction

It is commonly assumed that advertising is necessary to build and sustain a brand. Advertising is, in essence, communication, and marketers will always have to communicate with customers. The marketer's challenge is to produce memorable and effective communications and place them where they can have the greatest impact.

It matters whether people like your advertisement or not. A seminal Advertising Research Foundation study (Rossister & Eagleson 1994) found that the best predictors of sales effectiveness were attitudes towards commercials. The more people like them, the better they work.

It is important, given escalating cost considerations, that marketing organisations determine the effect of their marketing efforts. According to Adindex, R3.6 billion was spent on television advertising during 2000, compared to R3.7 billion on newspaper and magazine advertising and R1.2 billion on radio advertising (SAARF 2001). Adindex's Sue Bolton (pers. comm. 20 February 2004) mentioned that the spend escalated to R5.6 billion on television advertising, R4.2 billion on newspaper and magazine advertising and R1.6 billion on radio advertising for the 12-month period ending October 2003.

The next section of this article provides a conceptualisation of attitudinal responses to television commercials, on the basis of which the purpose of the study and specific research questions are stated. This is followed by a brief discussion of the method used to address these questions. The results and conclusions are discussed in the final two sections.

Conceptualisation

With regard to the role of advertising in consumer behaviour, viewer response to television commercials is of the utmost importance. Stewart (1989) classifies viewer response into three distinct groups, namely, recall, attitude and behaviour measures. The most general measures include recall (spontaneous and aided) and recognition measures and represent a type of verbal learning. Attitude measurements include measures of belief, general evaluation or association. Two routes in attitude formation can be distinguished, namely, the central route (formation of belief-based attitudes) and the heuristic route (formation of attitude without much thinking or effort). Decisions based on central route attitudes do not change easily, but those based on heuristics can change quickly and with much less effort. Behavioural measures include measurement of brand choice, store visits and verbal response.

Various theories based on certain paradigms have been postulated to describe, understand and

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predict advertising response. Pressure response theory postulates that critical advertising spend (or exposures) are necessary to obtain an optimal response (or sales). This function is normally expressed as an S-shaped function. Active learning theory states that advertised information must be sufficiently meaningful to influence and change viewer attitudes towards the brand positively. The greater the change in attitude, the greater the probability of buying an advertised brand. Low involvement theory developed in reaction to active learning and postulates that viewers can process advertised information without much conscious effort. According to this theory, a change in brand attitude is mainly due to product experience, rather than to advertising *per se*. Cognitive dissonance theory (Festinger 1957) postulates that the reality that impinges on a person will exert pressures in the direction of bringing the appropriate cognitive elements into correspondence with that reality. Consumers may, given attitude changes, use advertising to justify these new attitudes.

Attitude towards commercials is used as a central construct in all these theories (except pressure response theory), with various researchers (Burke & Edel 1986; Ehrenberg 1992; Gardner 1985; MacKenzie, Lutz & Belch 1986; MacKenzie & Lutz 1989; Madden, Debevec & Twible 1985; Mitchell & Olsen 1981; Park & Young 1986; Shimp 1990) contributing to conceptualising this construct. The importance of this concept is furthermore underscored by the intentional nature of attitudes. A positive attitude towards a commercial should lead to a positive attitude towards the advertised brand and should therefore influence the intention to buy.

Some researchers adhere to the perspective that attitude is a one-dimensional, affective orientation towards an attitudinal object. Other researchers view attitudes as consisting of affective, cognitive and conative components. This is sometimes seen as part of a bigger explanatory system similar to the Fishbein model (Fishbein & Ajzen 1975).

A fundamental research need, however, is identified by Burke & Edel (1986), who state that a conceptual distinction should be made between cognitive evaluation of, and affective reaction to, television commercials. This distinction is justified by postulating that these two dimensions of attitude towards commercials involve separate thinking patterns. Cognitive evaluation is seen as a conscious process in which viewers' cognitive structures are dominant. Affective reaction involves an unconscious process in which viewers' feelings are dominant.

Attitude researchers focus on the explication and development of models that can parsimoniously explain how people evaluate and respond to various stimuli. Common to many perspectives on attitude research is an emphasis on understanding the relations between cognitive structure (namely, beliefs), affect and attitude.

Fishbein & Ajzen (1975) advocate one perspective on the determinants of attitude. In their view, cognitive structure, based on a person's salient beliefs, determines a person's attitude. This cognitive structure is proposed to mediate the influence of other factors (such as affect) on attitude. The initial step in operationalising cognitive structure is to identify the salient beliefs associated with performing the target behaviours.

Although Fishbein & Ajzen (1975) emphasise the centrality of cognitions as determinants of attitude, several researchers demonstrate the impact of affect on attitude. Holbrook & Batra (1987) found that multiple affect categories are related to attitudes. Trafimow & Sheeran (1998) found differences between affective- and cognitive-based beliefs and observed associations of each type of belief with attitudes. These results indicate the need for further systematic, rigorous examination of the relations between the constructs believed to influence attitudes.

Several authors (for example, Mane 1991; Russell 1980; Watson & Tellegen 1985) have posited a two-dimensional structure for affect that reflects a pleasure/pleasantness (valence) dimension and an arousal (intensity) dimension. Examinations of the parameter estimates indicate that positive affect (elated) and negative affect (distressed) consistently have significant relations to attitude.

On a practical note, recognising and treating affect and attitude as separate constructs necessitates the development and use of techniques for inferring attitudes that are capable of capturing the characteristics of each construct and reflecting their independent roles in the expression of attitudes in the form of evaluative responses. Thus, practitioners may be able to influence the formation of desirable attitudes and increase attitude-behaviour consistency by emphasising or de-emphasising the affective influence on an attitude and its expression.

As an individual accumulates knowledge and experience in a particular domain, the related cognitive structure becomes more complex and more tightly organised, which in turn provides a greater cognitive capacity (Fiske, Kinder & Larter 1983) and allows one to process more related

information at a deeper level. Cognitive structures are ''abstracted from experience'' (Fiske & Linville 1980: 543). They are crucial in determining the personal salience of the information; and in turn, information that is personally salient is more likely to be processed at a deeper level (Petty, Cacioppo & Kasmer 1988).

For processing a television advertisement with diverse content, cognitive structures for various contents will be central. If cognitive structures are abstracted from experience, amount of experience (either one's own or that of a close friend) should also indicate the degree of elaboration of cognitive structures related to the topic. Taking the degree of experience to indicate complexity of the relevant structure, several predictions can be made. On the one hand, one could hypothesise that having more complex cognitive structures relevant to the content of a television advertisement would make for more thinking, since there is more richness of meaning available. On the other hand, by making comprehension easier and less ambiguous, greater cognitive complexity could lead to less thought about the content.

The Schlinger viewer response profile is widely used in South Africa as an instrument for measuring affective reaction towards television commercials. One research house, Impact Information, measured more than 400 attitudinal responses to television advertisements between 1980 and 1990 (Du Plessis 1994). According to Du Plessis (pers. comm. 30 May 2000), more than 800 response profiles have been conducted to date.

Purpose

In order to describe and explain the concept of cognitive evaluation of commercials, the cognitive structure of attitude towards television commercials among South African television viewers was investigated. It was envisaged that such an analysis would contribute to a fuller understanding of the evaluative and cognitive dimensions of attitude towards a television commercial and what viewers actually mean when they indicate whether they like a commercial or not.

This research question was investigated within the framework of personal construct theory (Kelly 1955). The South African application of the Schlinger viewer response profile was further critically examined by comparing the factor structure of items to factor structure analysis conducted in the United States of America (Schlinger 1979).

The following specific research questions were addressed in the study:

- Which cognitive dimensions of attitude towards advertising do television viewers use when reacting to television advertisements?
- Which affective dimensions of attitude towards advertising do television viewers use when reacting to television advertisements?
- Does the viewer response profile exhibit the same structure (in terms of underlying dimensions or base factors) among South African television viewers as that which Schlinger (1979) found among television viewers in the United States?

Method

Phase one was more qualitative in nature and investigated the viewer's cognitive structure of attitude towards television commercials. During this phase, viewer beliefs and opinions were identified as cognitive constructs. Fifty individual in-depth interviews involving a repertory grid approach (Kelly 1955) were conducted. The repertory grid was developed by Kelly to elicit and measure personal constructs. Grids are particularly suitable when eliciting verbalisations of pre-verbal concepts. Five television commercials were included in this phase after consulting with experts in the advertising industry. The criteria for inclusion included that the commercials had to cover a spectrum of reactions, from particularly warm, entertaining and empathetic to confusing and scary. The effect that these constructs have on liking (affective dimension of attitude towards television commercial) was statistically analysed using INGRID (Slater 1972) and correspondence analysis (Greenacre 1984) computer programs.

A structured, non-random, opportunity sample was used during this phase. The sample represented adults who watch television at least twice a week, who are 16 years and older, covering particular age cohorts (16–24, 25–34 and 35+), gender (male and female), various home languages (Afrikaans, English, Zulu and Sotho) and race (black and white). All respondents are resident in a particular area (Gauteng).

The structure of this sample is reflected in Table 1.

Table 1: Demographic particulars of respondents participating in depth-interviews

Demographic category	N	%
Gender		
Male	24	48
Female	26	52
Age		
16–24	9	18
25–34	17	34
35+	24	48
Language group		
Afrikaans	13	26
English	14	28
Sotho	11	22
Zulu	12	24
Occupation		
Sales	4	8
Services	5	10
Trade	7	14
Housewife	8	16
Training and development	5	10
Administrative	5	10
Management	7	14
Other	9	18
Population group		
White	27	54
Black	23	46
Total	**50**	**100**

Note: Other occupations include scholar, student, small business owner and investigator

The profile of this sample compared to actual viewership is skewed towards the white population group. According to SAARF (2001), almost two-thirds of viewers in the Gauteng area are from the black population group.

Phase two was more quantitative or conclusive and investigated the feeling component of attitude towards commercials. This phase involved the analysis of the Schlinger viewer response profile in a South African context. Factor analysis, cluster analysis and multidimensional scaling were conducted on 402 viewer response profiles, representing 40 200 South African television viewers' responses. These profiles are based on 402 surveys, involving 100 television viewers per survey, conducted between 1980 and 1998. It should also be noted that the television viewers are themselves drawn from the population through time, and are not made up from the same sample. These viewers are representative of all the cultural groups in South Africa. This analysis was done in order to describe the attitudinal dimensions underlying attitude towards commercials and to determine whether similar attitudinal dimensions or base factors to those found among American viewers exist among South African viewers.

Results

It was found that, on average, viewers use six constructs to evaluate whether they like or dislike commercials. Table 2 contains an analysis of the total number of constructs elicited. Individual grid analysis and correspondence analysis identified a reduced number of construct groups.

An inspection of these construct groups reveals both general and idiosyncratic use of constructs. Descriptive terms were allocated to the general construct groups (Table 3).

Table 2: Number of constructs per respondent

Constructs	Respondents	Total
2	1	2
4	10	40
5	17	85
6	8	48
7	3	21
8	3	24
9	3	27
11	2	22
12	1	12
15	1	15
17	1	17
Total	**50**	**313**

Table 3: Number of respondents per construct group

CONSTRUCT GROUP		NUMBER OF RESPONDENTS
ENTERTAINMENT		27
Happy	Sad	
Lively	Dull	
Gelukkig	Ongelukkig	
Fun	Frightened	
Opgewek/opwindend	Vervelig/dooierig	
Entertaining/Exciting	Dull/Boring	
Gelukkig/Opgewek	Ernstig	
Vrolik	Ernstig	
Funny	Serious	
Joy	Fear	
Oulik	Irriterend	
Cute	Irritating	
SATISFACTION		31
Content	Worried	
Aangenaam	Teneergedruk	
Relaxed	Busy/Wild/ Forced	
Rustig	Wild	
Comfortable	Uncomfortable	
Tevrede	Teneergedruk	
Aangetrokke	Afstootlik	
Satisfied	Dissatisfied	
Lus gevoel	Behoudend	
Secure	Insecure	
Content	Restless	
Kalm	Wild	
Harmony	Chaos	
Relaxed	Aggressive	
Ontspanne	Gespanne	
Spontaan	Geforseerd	
RELEVANCE		21
Attention grabbing	Dull	
Informative	Indifferent	
Exciting	Boring	
Oorspronklik	Gewoon/alledaags	
Appealing	Dull	
Interesting	Dull/Boring	
Colourful	Dull	
Kleurvol	Vaal	
Stirring	Flat	
Interessant	Vervelig	
SOCIALITY		14
Togetherness	Alone	
Deelnemend	Afsydig	
Included	Excluded	
Belonging	Alienated	
Aangetrokke	Afsydig	
Saamwees	Alleen	
Caring	Indifferent	
CLEARNESS		11
Clear	Noisy	
Simple	Confusing	
Focused	Aimless	
Verstaanbaar	Onverstaanbaar	
Sincere	Doubtful	
REALISM		8
Real	Abstract	
Realisties	Vergesog	
Geloofwaardig	Ongeloofwaardig	
Believable	Doubtful	
TEMPO		5
Fast	Slow	
Vinnig	Stadig	
Calm	Busy	
Active	Passive	
Urgency	Lacks urgency	
EMOTIONALITY		6
Warm	Koud	
Warm	Cold	
Soft	Harsh	
Teer	Wreed	
OTHER CONSTRUCTS		
Trusted	Threatened	1
Protection/ Safe	Vulnerable/ Frightened	1
Volwasse	Kinderagtig	1
Bevorder produk beeld	Kraak produk beeld af	1
Relevant	Irrelevant	1
Strong	Weak	1
Anticipation	Predictable	1
Confident/Strong	Weak	1
Veilig	Bang	1
Familiar	Strange	1
Encouraging	Discouraging	1
Gratifying	Ungratifying	1
Valuable	Worthless	1
Adult	Childish	1
Popular	Unpopular	1

Table 3: Number of respondents per construct group (English translation)

Construct group		Number of respondents
ENTERTAINMENT		27
Happy	Sad	
Lively	Dull	
Fun	Frightened	
Entertaining/Exciting	Dull/Boring	
Playful	Serious	
Funny	Serious	
Joyous	Fearful	
Cute	Irritating	
SATISFACTION		31
Content	Worried	
Content	Restless	
Relaxed	Busy/Wild/Forced	
Relaxed	Aggressive	
Comfortable	Uncomfortable	
Appealing	Repulsive	
Satisfied	Dissatisfied	
Secure	Insecure	
Harmonious	Chaotic	
RELEVANCE		21
Attention grabbing	Dull	
Appealing	Dull	
Interesting	Dull/Boring	
Colouful	Dull	
Interesting	Dull	
Informative	Indifferent	
Exciting	Boring	
Original	Common	
Stirring	Flat	
SOCIALITY		14
Togetherness	Alone	
Included	Excluded	
Belonging	Alienated	
Caring	Indifferent	
CLEARNESS		11
Clear	Noisy	
Understandable	Confusing	
Simple	Confusing	
Focused	Aimless	
Sincere	Doubtful	

REALISM		8
Real	Abstract	
Real	Far-fetched	
Believable	Doubtful	
TEMPO		5
Fast	Slow	
Calm	Busy	
Active	Passive	
Urgency	Lacks urgency	
EMOTIONALITY		6
Warm	Cold	
Soft	Harsh	
Tender	Harsh	
OTHER CONSTRUCTS		
Trusted	Threatened	1
Protection/Safe	Vulnerable/ Frightened	1
Adult	Childish	1
Relevant	Irrelevant	1
Strong	Weak	1
Confident/Strong	Weak	1
Anticipation	Predictable	1
Safe	Scared	1
Familiar	Strange	1
Encouraging	Discouraging	1
Gratifying	Ungratifying	1
Valuable	Worthless	1
Popular	Unpopular	1

Five construct groups (entertainment, relevance, clarity, realism and emotionality) show a measure of similarity to the Schlinger factors or dimensions. All the construct groups show high levels of correlation with advertisement liking, which suggests that advertisement liking involves more than pure entertainment. Construct groups, which do not feature in the Schlinger factors, are satisfaction, sociality and tempo.

Table 4 reflects summary statistics of a factor analysis performed on the 402 South African viewer response items compared to a factor analysis conducted on the same items in the United States of America (Schlinger 1979).

Table 4: Factor loadings of viewer response profiles in South Africa and the USA

Factor	Item	USA (n = 3772)	South Africa (n = 40 200)
1. Entertainment	1	0.92	0.83
	2	0.85	0.84
	3	0.87	0.80
	4	0.93	0.77
	5	0.73	0.73
	6	0.83	0.70
	7	0.60	0.80
2. Confusion	1	0.79	0.89
	2	0.68	0.92
	3	0.60	0.90
	4	0.73	0.79
3. Relevant news	1	0.82	0.83
	2	0.87	0.85
	3	0.73	0.89
	4	0.77	0.79
	5	—	0.82
4. Brand reinforcement	1	0.70	0.84
	2	0.72	0.93
5. Empathy	1	0.84	0.55
	2	0.81	0.79
	3	0.81	0.77
	4	0.67	0.82
	5	0.74	0.73
6. Familiarity	1	0.84	0.90
	2	0.71	0.86
	3	0.83	0.65
7. Alienation	1	0.76	0.43
	2	0.67	0.32
	3	0.62	0.35
	4	0.61	0.74
	5	0.51	0.87
	6	0.43	0.48

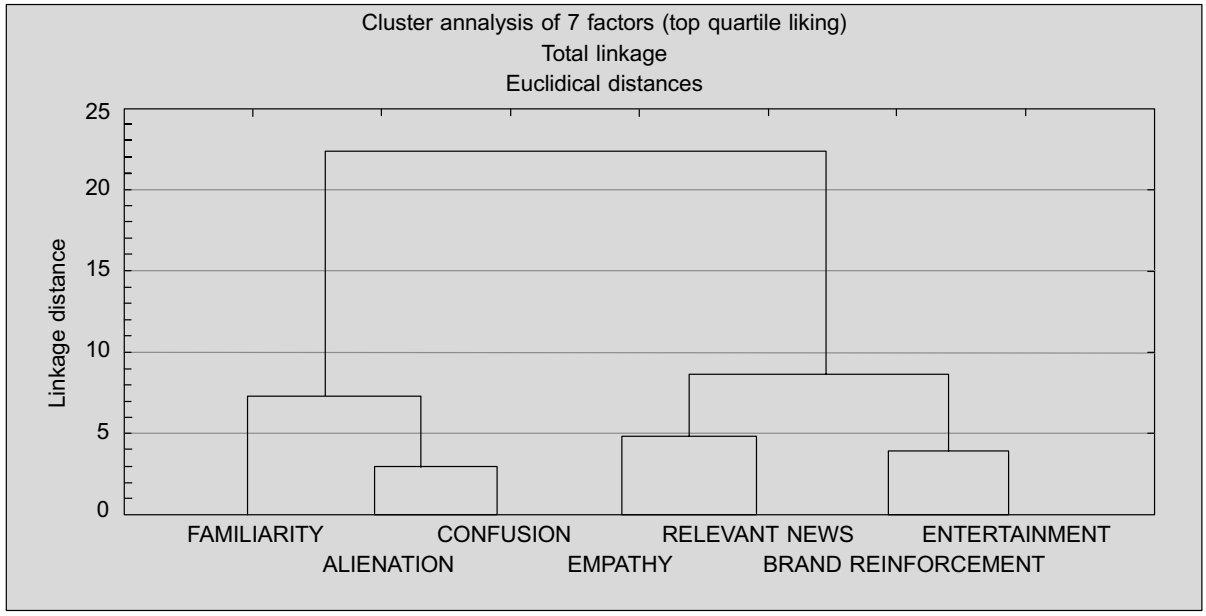

Figure 1: Cluster analysis of seven factors (top quartile liking)

Both analyses resulted in seven factors. The first five factors (entertainment, confusion, relevant news, brand reinforcement and empathy) show similar factor loadings. The other two factors (familiarity and alienation) show different loadings, but these differences could be explained given the nature of commercials tested (existing commercials and new commercial concepts) and the cross-cultural nature of South African viewers.

A cluster analysis was furthermore performed on the seven factors of the 25% most-liked commercials. This analysis links the factors in successive steps, yielding a tree that ultimately joins all the factors (Figure 1).

Three natural clusters form at a relatively low level of dissimilarity, namely, confusion and alienation, empathy and relevant news, and brand reinforcement and entertainment. The analysis indicates that likeability can be described as the extent to which entertainment, empathy or relevant news is achieved without confusion, alienation or familiarity.

Conclusion

An analysis of the cognitive structure of attitude towards television commercials shows that, to a large extent, viewers use the same dimensions when reacting affectively. All identified cognitive construct groups show high levels of correlation with advertisement liking. This finding suggests that advertisement liking involves more than pure entertainment and that cognitive dimensions such as satisfaction, sociality and tempo are also used when reacting to television commercials.

The first five Schlinger factors (entertainment, confusion, relevant news, brand reinforcement and empathy) show similar factor loading to factor analytical studies done in the United State of America. The other two factors (familiarity and alienation) show different loadings, but these differences could be explained given the nature of commercials tested (existing commercials and new commercial concepts) and the cross-cultural nature of South African viewers.

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Customer perceptions of the attractiveness of shopping centres in Pretoria

*E.J. North & T. Kotzé**

The primary objective of this study was to investigate the perceptions of patrons regarding the attractiveness of shopping centres in Pretoria. The study was executed in two phases. The aim of phase one was to explore this field of study in the local context, while phase two endeavoured to measure respondents' perceptions with regard to certain attributes of one of the largest shopping centres in Africa. The measuring instrument used in the study was based on scales used in studies abroad and adapted for local use. The study found that male and female customers do not differ significantly with respect to their perceptions of certain shopping centre attributes, while differences do exist between the perceptions of black[1] and white respondents regarding some of the attributes used to measure the attractiveness of the centre.

Introduction

Changes in consumers' natural and social environments have a huge impact on their buying and shopping behaviour (Arnould, Price & Zinkhan 2002; Schiffman & Kanuk 2004). Technology and lifestyle changes largely determine what consumers buy, when they buy and how and where they buy. Consumers have more choices than previously; the Internet offers new channels of distribution for many retailers, and shopping malls offer extended shopping hours. The challenges facing the retail industry, however, are not caused only by changes in demographics, lifestyles or culturally influenced buying behaviours of shoppers, but also by the extremely fierce competitive retail environment (Kaufman & Lane 1996; Frasquet, Gil & Mollé 2001). Levy & Weitz (2004: xi) contend that strategic thinking and the consideration of financial implications ''are critical for success in the present dynamic, highly competitive retail environments''.

These competitive forces and other environmental factors challenge retailers to employ strategies that will differentiate and position them in the minds of consumers. Managers of shopping centres employ various strategies and tactics to make the shopping experience as enjoyable as possible. Convenient shopping hours, adequate parking facilities and entertainment activities are examples of effective tools to attract patrons to shopping malls (Wakefield & Baker 1998; Haynes & Talpade 1996; Sit, Merrilees & Birch 2003). According to Barnes (2002: 11) shopping centres in South Africa, for example, are increasingly utilising the marketing opportunities offered by various kinds of entertainment activities, not only to draw customers to the centres, but also to build possible long-term relationships. These relationships will become imperative in determining future strategies for shopping centres: ''Psychologists have taught us that people form relationships with places. People come to depend on places.''

The advent and expansion of planned shopping centres or malls has been one of the major retail revolutions in South Africa over the past 15–20 years. Berman & Evans (2001: 330) define a planned shopping centre as a ''group of architecturally unified commercial establishments built on a site that is centrally owned.'' Further distinguishing characteristics of such centres are that they are based on balanced tenancy and surrounded by ample parking facilities. From a marketing point of view, the balanced tenancy ensures that the stores in the centre complement one another with respect to quality and variety, making the centre an attractive one-stop shopping experience for patrons (Levy & Weitz 2001; Berman & Evans 2001). Other positive attributes or advantages of these shopping centres that promote their attractiveness for consumers are: entertainment (Sit et al. 2003); family shopping (Berman & Evans 2001); merchandise variety (Terblanche & Boshoff 2002); easy access, parking and security (Frasquet et al. 2001); atmospherics and resting seats (Wong et al. 2001); and extended shopping hours (Kaufman & Lane 1996).

According to Howard (in Frasquet et al. 2001) there

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is a serious lack of literature dealing with shopping centre management. Frasquet et al. (2001) further state that the literature on store choice is quite extensive, while the applications to shopping centre choice are not as numerous. In the South African context, a literature study revealed that not a single study had focused on shopping centre attractiveness, shopping centre selection, or the association between shopping centre retail image and shopping preferences.

As will be pointed out in the literature review, authors use different terms to describe the factors that influence consumers' selection of or preference for a specific centre. Frasquet et al. (2001) refer to ''shopping centre choice'' or ''shopping centre selection''; Sit et al. (2003) use the term ''shopping centre image''; the main aim of Budkin & Lord's (1997) study was to determine the key reasons that shoppers are attracted to certain centres, while Wong et al. (2001) use the acronym SCATTR (which stands for shopping centre attractiveness). The latter formed the basis for the South African study.

Problem statement and objectives of the study

The challenging retail environment, and the fact that investment of foreign funds calls for effective management of shopping centres, necessitates the need to manage these centres effectively. Wong et al. (2001: 77) report that the various economic reforms taking place in China since 1979 and the gearing towards a more open market economy required an understanding of the consumer market. Likewise, the dramatic changes that have been taking place on the political and social fronts in South Africa since 1994 require a thorough understanding of the tastes and preferences of consumers from all cultural backgrounds in South Africa. No formal studies in this field have been conducted in South Africa to date, and the need for research in this field is therefore evident. The main aim of this paper is to establish a South African perspective of shopping centre attractiveness.

Literature review

The pioneering study to assess and predict shopping centre patronage, consumers' perceptions of a store, or shopping centre image was executed by Martineau in 1958 (Sit et al. 2003). He addressed the retail store image as a multidimensional concept, comprising distinct attributes such as merchandising, accessibility, service and atmospherics. Huff's 1962 study (in Wong et al. 2001) postulates that retail shopping areas or centres were basically similar except for the size of the centre and distance from the consumer. Nevin & Houston (1980), however, suggest that the size of the centre or locational factors might not be good measures of its attractiveness, and that non-locational factors are becoming more important with respect to consumers' perceptions of the attraction of shopping centres.

Referring to work done by Spiggle & Sewall in 1987, Frasquet et al. (2001: 26) are of the opinion that the factors that influence shopping centre selection can be grouped into three categories, namely: consumer characteristics, consumer psychological states and outlet characteristics. This article, in alignment with Frasquet's work, will focus on outlet characteristics. Moreover, Wee (1986) and Frasquet et al. (2001) emphasise that shopping centre choice modelling should be based on attributes specific to the centre, avoiding retailer-specific attributes, for example, in-store shopping experience as discussed by Berman & Evans (2001) and Terblanche & Boshoff (2002). A brief discussion follows of three studies (undertaken in Australia, Spain and China) in which certain dominant attribute types and specific attributes to measure consumer preference in shopping centre selection or attractiveness are identified. The specific attributes form the basis for the discussion of the study undertaken in South Africa.

Shopping centre attributes

According to Sit et al. (2003), a review of the retailing literature reveals four dominant attribute dimensions in shopping centre image (attractiveness) studies: merchandising, accessibility, service and atmospherics. These authors state, however, that the aforementioned 'big four' attributes neglect three other attribute types, namely: entertainment, food and security. The aim of the Sit et al. (2003) study in Queensland, Australia was firstly to identify a model of attributes that represented the shopping centre image, and secondly, to identify market segments of shopping centre patrons. A qualitative phase in this study identified 48 items, which were reduced to 39 attributes representing shopping centre image (Sit et al. 2003: 87). In this phase, the screening exercise revealed that the entertainment dimension should be divided into two separate attributes, namely specialty entertainment and special event entertainment. The accessibility dimension was further divided into two sub-attributes, namely micro and macro accessibility. In total then, 11 attribute dimensions were used in the

Sit et al. study. Further detail with regard to the specific attributes used in the study is presented in Table 1.

The main aim of the study in Spain (Frasquet et al. 2001: 31–32) was to analyse the components or dimensions of the construct 'perceived shopping centre value'. A principal components factor analysis was performed, which resulted in four factor loadings of 19 specific shopping centre value attributes. The four factors (or main dimensions) are as follows:

- Factor 1 contains items mainly referring to retail assortment and quality.
- Factor 2 refers to atmospheric aspects such as events and exhibitions and attractive design and décor.
- Factor 3 applies to the accessibility of shopping centres (for example, easy access and parking).
- Factor 4, termed efficiency, refers to one-stop shopping and time-saving advantages.

Many of the attributes or items in the Spanish study are the same as those in the Australian study. (See Table 1 for a summary of the specific items or attributes that overlap in the various studies.)

The SCATTR instrument

Based on Churchill's (1979) work and the modification thereof by Smith (1999), Wong et al. (2001) developed an instrument to assess the attractiveness of joint venture shopping centres (JVSCs) in China. Planned shopping centre development is a manifestation of these joint venture retail enterprises. The research process followed by Wong et al. (2001: 80–83) for the study entailed the following steps:

1. The work of Nevin & Houston (1980), which identified 14 attributes categorised into three main dimensions, was modified. Some attributes were eliminated and others added that would be more applicable to situations in China.
2. A focus group survey was conducted with 30 Chinese consumers, which led to the establishment of a preliminary SCATTR instrument.
3. A sample of 500 shoppers in a shopping centre was interviewed to test the instrument. They were asked to rank the 21 attributes on a 5-point Likert scale. The instrument was then subjected to measures for internal consistency

Table 1: Attributes used in three shopping centre studies

	Attributes Wong (Chinese study)	Corresponding attributes Sit et al. (Australian study)	Corresponding attributes Frasquet et al. (Spanish study)
1. Service quality	✓	✓	✓
2. Owner's reputation	✓	✓	✓
3. Resting seats	✓	×	×
4. Merchandise variety	✓	✓	✓
5. Merchandise quality	✓	×	✓
6. Service variety	✓	×	×
7. Vertical transportation	✓	✓	✓
8. Store atmosphere	✓	✓	✓
9. Special events/exhibits	✓	✓	✓
10. Food court	✓	✓	×
11. Availability of supermarket	✓	×	✓
12. Layout	✓	✓	✓
13. Sales promotion	✓	×	✓
14. Late closing hour	✓	✓	×
15. Adequate entrances	✓	✓	✓
16. Parking facilities	✓	✓	×
17. General price level	✓	×	✓
18. Uniqueness	✓	×	×
19. Fashion	✓	✓	✓
20. Located at retailing belt	✓	×	×

and the assessment of its predictive and construct validity. The final SCATTR instrument (Wong et al. 2001: 82) contains 21 attributes (see Table 1).

Table 1 contains a list of the 21 attributes in the SCATTR instrument, indicating those that were also used in the Australian and Spanish studies that have been discussed. The attributes in the SCATTR instrument form the basis for the comparison because it was used as the starting point for the South African study. It should be noted that it is not the intention to highlight the differences in the studies to indicate possible shortcomings in any study, because the focus, specific objectives and circumstances of the three studies differed. A common factor in the three studies, however, is that they all used certain attributes to determine shopping centre attractiveness or shopping centre image. The information in Table 1 indicates that nine attributes are included in all three studies. Four attributes listed in the SCATTR instrument are not included in either of the other two studies, namely: resting seats, service variety, uniqueness and located at retailing belt. Some other surprising omissions in the Australian study are: merchandise quality, availability of supermarket, sales promotion and general price level. The omissions in the Spanish study are: food court, closing hour, parking and location.

Formulation of hypotheses

The new social order brought about by the post-apartheid era in South Africa after 1994 has resulted in changes on many fronts. Special emphasis has been placed on the role of women in the transformation process, resulting, *inter alia*, in more women in prominent positions in the political, educational and business environments. It is believed that the effect of the emergence of dual-income families has also affected the buying and shopping behaviour of various members of the family. In many family households, husbands act as purchasing agents for family purchases, with the result that they are more exposed to shopping and to visiting shopping malls. In this regard, the following hypotheses were formulated for this study:

- H1: No differences exist between male and female patrons' perceptions of the general atmospherics of Menlyn Shopping Centre.
- H2: No differences exist between male and female patrons' perceptions of the attractiveness of décor in Menlyn Shopping Centre.

The new dispensation in South Africa has also witnessed the establishment of roleplayers from previously disadvantaged communities in prominent positions in a wide spectrum of spheres in the economy. Marketing researchers are therefore keen to understand the effects of these changes on the consumer and buying behaviour of customers from various cultural backgrounds. In this regard, many questions need to be answered. The following hypotheses were therefore formulated:

- H3: White respondents who visit the centre are less price sensitive than black respondents.
- H4: Black and white respondents differ with regard to their perceptions of the quality of services rendered by stores in the centre.
- H5: Black and white patrons perceive the attractiveness of décor in the centre differently.

Methodology

This exploratory study was executed in two phases, the first in 2001 and the second in the latter half of 2002. The literature study revealed that the SCATTR instrument had not been used in any formal research in South Africa to date. The main aim of phase one, therefore, was to explore the field of study and to lay the foundation for the follow-up study as described in phase two. A brief overview of the execution and main findings of phase one is presented.

Phase 1

The first survey was conducted during 2001 in the three largest shopping centres in Pretoria. The main objective of the exploratory research study was to determine how customers rate the three centres for 18 of the attributes of shopping centre attractiveness (SCATTR) included in Wong's (2001) scale, and to determine the overall attractiveness of each of these centres. The Kolonnade shopping centre, with a gross leasable area (GLA) of 62 260 m^2, is situated in the northern suburbs of Pretoria, offering customers a choice of 142 shops. Brooklyn Centre has 160 shops (56 987 m^2 GLA) and caters mainly for residents of the central and eastern suburbs. Menlyn Shopping Centre offers the widest variety of shops and entertainment facilities to residents who reside mainly in the far eastern and southern suburbs of Pretoria. More than 300 tenants operate in Menlyn centre (118 000 m^2

GLA). (SACSC *Shopping Centre Directory* 2002). The demographic profile (for example, income and educational level) of the residents who live close to Brooklyn and Menlyn centres are similar, and the perception exists that these centres cater more for up-market consumers. However, cross-shopping takes place because residents living near the Kolonnade centre can easily travel the 6–7 kilometres to do their shopping in Menlyn or Brooklyn. The distance between the latter is approximately 3 kilometres.

A convenience non-probability sampling method was used in this study. In this mall intercept survey, only respondents who were 18 years or older were approached. To be included in the sample, the respondent had to indicate that he/she had shopped in all three of the shopping centres (namely Kolonnade, Brooklyn and Menlyn) over the past six months. This screening question was followed by a question requiring respondents to indicate which of the three centres they liked most. The rest of the questionnaire contained the statements with regard to the SCATTR attributes and demographic information. The main findings obtained from the information supplied by 228 respondents in the three centres (69 respondents completed the questionnaire in the Kolonnade centre, 79 in Brooklyn and 80 in Menlyn) were as follows:

- Seventy-one per cent of the sample consisted of white respondents; 22% were African; and the remaining 7% were coloured or from other cultural backgrounds. The gender distribution was 66% female and 34% male. Almost half the respondents were in the 18–25 age category.
- Forty-three per cent of the respondents said that they visit Menlyn Centre at least once a month, compared to 10% for Kolonnade and 34% for Brooklyn.
- As expected, Menlyn achieved the highest score (4.7) on a 5-point Likert scale (1=very poor; 5=excellent) for the attribute 'variety of stores and services', compared to 3.6 for Kolonnade and 3.7 for Brooklyn.
- Kolonnade obtained the highest score (3.8) for 'general price level'. By implication, this finding may indicate that the general price level at Kolonnade favours more price-sensitive buyers. This finding is in agreement with the speculation mentioned earlier that the Menlyn and Brooklyn centres cater for more up-market consumers, who are probably less price sensitive.
- Menlyn obtained the highest score for overall attractiveness (8.26) on a 10-point rating scale (1=not attractive at all; 10=extremely attractive). Brooklyn scored 7.03 and Kolonnade 6.16.

The overall conclusion of phase one of this study was that Menlyn outscored the other centres on most of the attributes in the SCATTR scale. It is not surprising, therefore, that Menlyn Shopping Centre received the International Council of Shopping Centre's award for the best re-developed centre in the world in May 2002 (*Shopping South Africa* 2002). This served as the impetus for phase two of the study.

Phase 2

Qualitative research in 2002 was first undertaken to refine and adapt the SCATTR instrument for use in the Menlyn Shopping Centre survey. The fieldworkers were briefed about the project and asked to roam through the centre for two hours and list their impressions of positive factors that contribute towards the attractiveness of the centre, as well as negative factors that are detrimental to Menlyn's attractiveness as a shopping centre. Following the same procedure as the Wong et al. (2001) study, a focus group survey was then conducted with 25 fieldworkers, which led to the establishment of a SCATTR instrument that would be more suitable for the assessment of Menlyn Shopping Centre. For example, as a result of the high crime rate in South Africa, it was deemed fit to include the attribute 'level of security', which was not on Wong's list. Both Frasquet et al. (2001) and Sit et al. (2003) included security as an attribute. The SCATTR instrument for the Menlyn survey resulted in 20 items. The other six attributes that were added to the attribute list are: clear signage, accessibility of centre from main routes, availability of information help desks, cleanliness of rest rooms, facilities for disabled persons and availability of a play-centre for children.

The sampling procedure followed in phase one was basically repeated for phase two. A convenience sample of 281 respondents was interviewed during weekdays in the parking areas of Menlyn Shopping Centre. Only people older than 18 years were included in the sample.

Empirical results

Descriptive statistics

Two hundred and eighty one respondents completed the questionnaire. Thirty-two per cent said

they visit the centre at least once a week, 39% visit it at least once a month and 16% frequent it at least once every six months. The majority of the respondents are females (66%), while 57% of the sample is in the 18–25 year age group. Twenty-five per cent are in the 26–35 year age group. Four per cent of the respondents are older than 50 years. Sixty-one per cent of the respondents were white, 29% African and 10% from other cultural backgrounds (for example, Indians and coloureds). The instrument for the evaluation of the total data set resulted in very satisfactory reliability test results. The internal consistency (Cronbach's alpha) for the 20 scale items was Alpha = .9000.

Inferential statistics

Null hypothesis 1 states that no statistically significant differences exist between male and female patrons' perceptions of the general atmosphere of Menlyn Shopping Centre. The research hypothesis states that statistically significant differences do exist between male and female patrons' perceptions of the general atmosphere of Menlyn Shopping Centre. Patrons' perceptions of the general atmosphere were measured by a single item in the SCATTR scale (see Table 2, Q.3). This single item measure was treated as an ordinal scale. Consequently, the non-parametric Mann-Whitney U test was used to test for significant differences between male and female patrons' perceptions of the general atmosphere of the centre. The results indicate that there are no significant differences between male and female patrons' perceptions of the general atmosphere in the centre (See Table 2, Q.3: p-value = .683). Null hypothesis 1 was therefore not rejected.

Null hypothesis 2 states that no statistically significant differences exist between male and female patrons' perceptions of the décor in Menlyn Shopping Centre. Patron's perceptions of the décor were again measured by a single item in the SCATTR scale (see Table 2, Q.20). This item was again treated as an ordinal scale. Consequently, a non-parametric Mann-Whitney U test was again used to test the hypothesis. The results indicate that there is a significant difference in the perceptions of male and female respondents' of the décor in the centre (See Table 2, Q.20, p-value = .023). Null hypothesis 2 was therefore rejected.

It should, however, be noted that the aforementioned result could be the consequence of a Type I error, as the Mann-Whitney U test was part of a series of Mann-Whitney U tests conducted to investigate gender differences across the individual items included in the SCATTR scale. Green, Salkind & Akey (1999: 395) recommend that a correction method, such as the Bonferroni method or Holm's sequential Bonferroni method, be used to control for Type I errors in analyses involving multiple hypothesis tests. These authors point out that the aforementioned two methods can be used for any application involving multiple hypothesis tests, including applications using non-parametric tests.

When the Bonferroni correction method is applied, the p-value of 0.023 for question 20 is no longer smaller than the adjusted significance level of 0.05/20 = 0.0025. With the application of the Bonferroni method, null hypothesis 2 was therefore not rejected.

With regard to hypothesis 3, regarding black and white perceptions of the general price level, the results indicate (at a significance level of 0.05) that there are no significant differences between black and white perceptions of the general price level of products and services offered in the centre (see Table 3, Q.10: p-value = .342). Null hypothesis 3 was therefore not rejected. After applying Bonferroni correction tests to account for the increase in the probability of committing a Type I error when multiple significance tests are conducted, the p-values Q.12 = .00024879 and Q.20 = .0019339 were found to be smaller than the adjusted significance level of 0.05/20 = 0.0025. The null hypotheses for hypotheses 4 and 5 could therefore be rejected.

Conclusion and recommendations

The highly competitive nature of the retail environment calls for innovative and effective retail strategies by managers to attract customers to their stores and malls. Kim & Han (2000: 58) assert that many consumers often make purchase decisions based ''more on the image of a store or brand than on its actual physical attributes''. For many consumers, shopping centres are becoming brands on which they depend to satisfy their needs. These brands need to be managed, and that implies that managers need to know who the target customers are, and which attributes of a shopping centre differentiate it from the competition.

The findings of this study indicate that Menlyn Shopping Centre is not only the most liked centre of the three investigated in this survey, but that it also rates high on most of the attributes used in the survey. The variety of shops and services available

Table 2: Test statistics: Gender differences

Test Statistics (a)				
Variables	**Mann-Whitney U**	**Wilcoxon W**	**Z**	**2-tailed p-values***
1. Variety of stores and services available	7861.500	12047.500	-.355	.723
2. Quality of the merchandise sold by stores	7496.000	22896.000	-.676	.499
3. General atmosphere	7817.500	23570.500	-.408	**.683**
4. Hosting of special events or exhibits	5273.500	8354.500	-1.102	.270
5. Clear signage in the centre	7626.500	11631.500	-.127	.899
6. Convenient shopping hours	7683.000	11688.000	-.285	.776
7. Adequate parking facilities	7737.500	22788.500	-.084	.933
8. Accessibility of centre from the parking area	7428.500	11614.500	-.703	.482
9. Emergency services (medical care, fire escape)	2450.500	8228.500	-.256	.798
10. General price level	7198.000	11293.000	-.886	.376
11. Uniqueness of the centre	7897.500	12083.500	-.112	.911
12. General quality of service provided at stores	7664.000	11850.000	-.444	.657
13. Accessibility of centre from main routes	7821.000	23221.000	-.096	.924
14. Availability of information help desks	6848.500	21383.500	-.543	.587
15. Availability of resting seats	7366.000	22072.000	-.130	.896
16. Cleanliness of restrooms	7105.500	10933.500	-.533	.594
17. Level of security	5482.500	17572.500	-.219	.826
18. Facilities for disabled people (parking, wheelchair)	3257.500	5087.500	-.888	.374
19. Availability of babysitting and/or play-centre for children	1300.500	1895.500	-1.134	.257
20. Attractiveness of décor in centre	6539.000	10544.000	-2.273	**.023**
a Grouping Variable: Gender * p< 0.05				

Table 3: Test statistics: differences between black and white consumers

Test Statistics (a)				
Variables	**Mann-Whitney U**	**Wilcoxon W**	**Z**	**2-tailed p-values***
1. Variety of stores and services available	6211.500	20072.500	-.030	.976
2. Quality of the merchandise	5307.500	18673.500	-1.716	.086
3. General atmosphere	4968.000	18829.000	-2.604	.009
4. Hosting of special events or exhibits	4018.000	6163.000	-1.234	.217
5. Clear signage in the centre	4746.000	17949.000	-2.484	.013
6. Convenient shopping hours	5669.500	8297.500	-.704	.482
7. Adequate parking facilities	5712.500	8268.500	-.385	.701
8. Accessibility of centre from the parking area	5521.500	19216.500	-1.063	.288
9. Emergency services (medical care, fire escape)	1516.000	5257.000	-2.593	.010
10. General price level	5624.500	18827.500	-.949	.342
11. Uniqueness of the centre	4996.000	18691.000	-2.456	.014
12. General quality of service provided	4319.000	18180.000	-3.664	**.00024879**
13. Accessibility of centre from main routes	5580.000	19441.000	-1.022	.307
14. Availability of information help desks	4460.500	16706.500	-2.413	.016
15. Availability of resting seats	5534.000	8235.000	-.502	.616
16. Cleanliness of restrooms	4472.500	17192.500	-2.755	.006
17. Level of security	3642.000	12553.000	-2.335	.020
18. Facilities for disabled people (parking, wheelchair)	2749.000	4180.000	-.126	.900
19. Availability of babysitting and/or play-centre for children	982.000	2935.000	-2.325	.020
20. Attractiveness of décor in centre	4514.500	18375.500	-3.100	**.0019339**
a Grouping Variable: White and black * p< 0.05				

and the entertainment value of the centre make it a preferred place to shop. The extended trading hours (especially during the festive season) contribute towards management's goal of offering patrons a pleasant shopping experience.

The results of this study indicate that male and female respondents do not differ significantly in their perceptions of the general atmosphere (for example, lighting, music and use of colour) and the attractiveness of décor in the centre. Hawkins, Best & Coney (2001: 98, 102) report that there is a notable trend for adult consumers to move from the traditional to a more modern gender orientation. Blackwell, Miniard & Engel (2001: 385) state that the roles of men in families are changing substantially and that they are increasingly shopping for household products. It can therefore be assumed that men who do their shopping in malls will probably be inclined to notice and pay more attention to detail such as décor, colour and other atmospheric aspects while frequenting a shopping centre. It should be noted that more than 80% of the sample in this study falls into the 18–35 year age group. Likewise, it can be argued that the young adults and consumers in this age category regard shopping also as a leisure and social activity. They are thus more exposed to interior aspects in the centre than older people.

A limitation of the study is the fact that the sample does not reflect the composition of the South African population. There is definitely a need in South Africa to learn more about the shopping behaviour of consumers from black cultural backgrounds. Future studies in this field should therefore endeavour to include more black respondents. Over weekends especially, Menlyn Shopping Centre attracts many customers from nearby townships (for example Mamelodi and Eersterust). Unfortunately, permission was granted to the fieldworkers conducting the research for this study on condition that interviews were conducted on weekdays only. The fact that only 29% of the sample comprised black respondents emphasises the need for future studies to include more respondents from black and other cultural backgrounds. The finding that no differences exist between black and white respondents' perceptions with regard to the general price level was therefore not expected. It is also not clear why black patrons do not rate the quality of service as high as white patrons. Future research is recommended among a larger sample in similar sized malls. As expected, respondents in the various cultural groups perceived the attractiveness of décor in the centre differently. It was not the aim of this study to determine why these differences exist between sub-samples, and it is therefore recommended that this aspect be addressed in future studies.

Future research could also focus on entertainment as a means of differentiating a centre from other centres. The influence of cross-shopping between shopping centres should also be investigated. Future studies could focus on the buying patterns of patrons in the centre, and also determine the role or influence of children in family choices with respect to shopping centres. Future studies could also reflect more demographic details of respondents such as the marital status and monthly income of respondents, number of children in the household, and whether the respondents are employed full-time or part-time. It is very likely that such differences will impact on the buying behaviour patterns of consumers. Lastly, it is suggested that a SCATTR instrument be developed to determine the perceptions of shopping centre attractiveness among children in various age groups.

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Profile of informal microenterprises in the retail sector of South Africa

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The importance of the informal retail sector is highlighted by the fact that its sales amounted to more than R38 billion in 2003. The reality that the informal retailer acts as an important delivery channel of goods to consumers is increasingly being acknowledged by manufacturers and wholesalers. The informal retail sector can also play a key role in unleashing entrepreneurial spirit in South Africa. Knowing the dynamics of the informal retail sector may contribute towards an increased awareness of this important but unrecorded sector of the economy. This article is aimed at highlighting the profile and functioning of the informal retail trade sector in South Africa with regard to aspects such as its size, owner and household engagement, assortment of merchandise, relationship with suppliers and constraints encountered. The analysis is based on a national survey among 481 informal retailers in which three types of informal retailers were distinguished, namely: hawkers, spazas and township general dealers.

Introduction

The informal sector constitutes an important part of the South African economy. Its emergence is largely attributed to the divergence between the growth in the urban population, in particular, and employment growth in the formal economy. Job creation in the formal sector frequently trails growth in the labour force. The shortage of productive employment opportunities in the formal sector, therefore, compels people to fend for themselves.

Although the emergence of the informal economy is largely stimulated by unemployment and low income, it is evident that informal businesses are also being established as a result of entrepreneurs seizing business opportunities. The emergence of a spirit of entrepreneurship is extremely encouraging and should ultimately result in the establishment of sustainable businesses.

In most countries, including South Africa, the majority of informal businesses are located in the trade sector. A business census conducted in selected township areas of South Africa confirmed that almost 70% of all informal businesses were located in the trade and commerce sector (World Bank 1993). This article focuses on informal businesses in this sector.

Objective and outline

The objective of the article is to construct a profile of informal retail outlets in township areas in order to establish their functioning and dynamics within the informal sector. Aspects such as the informal retail entrepreneur, the interaction of informal retailers with their customers and suppliers, as well as aspects such as capital needs and sources, employment, turnover, assortment of merchandise and constraints encountered will be addressed. The particular role of informal retailers within the broader retail environment will also become evident from the study.

The article is organised into the following sections:

- Brief overview of the importance of entrepreneurial spirit in development
- Definition of the informal sector, as well as the different types of businesses included in the survey
- Placement of the informal retail trade in a macroeconomic perspective
- Brief exposition of the survey methodology and the main findings of the research
- Summary of the discussion and some conclusions.

Entrepreneurship and development

Entrepreneurial conduct holds the key to wealth creation. The growth of the USA during the past 30

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years, for example, is largely ascribed to entrepreneurial initiative. Timmons (1999: 3) argues that the new generation of entrepreneurs in the USA has permanently altered the economic and social structure of the USA and the world, and has set the ''entrepreneurial genetic code'' for future generations. It will determine more than any other single impetus how the world will live, work, learn and lead in the 21st century and beyond.

Up until quite recently, it was widely believed that the large, multinational, dominant firms were the key to economic success. Since the beginning of the 1980s, however, it has been established that the new and growing smaller firms create the majority of jobs. Innumerable research studies on job creation statistics have concluded that small and medium-sized firms (with fewer than 100 employees) create the majority of new jobs (Kirchhoff 1995: 19). In the late 1990s, only one in every 14 persons was employed in the 500 largest companies (Fortune 500 companies) in the USA (Timmons 1999: 5). This figure stood at one in four in the 1960s, confirming the huge change in the employment pattern from large multinationals to smaller dynamic firms.

The generation of new entrepreneurs has become the creators and leaders of entire new companies and even industries. At the heart of the entrepreneurial process is the innovative spirit. Similar to the old beliefs about job creation, it was established that since World War II, small entrepreneurial firms have been responsible for half of the innovation and 95% of all radical innovation of new technologies, products, processes and services in the USA. Wealth and job creation in a country can only succeed if entrepreneurship thrives.

In a recent international study, it was established that developing countries show higher average rates of entrepreneurial activity than other countries (GEM 2003: 8). The *Global Entrepreneurship Monitor* (GEM) measures the level of entrepreneurship according to a total entrepreneurial activity (TEA) index. The TEA index provides an estimate of the proportion of adults aged 18–34 years who are either actively involved in starting a business or are owner-manager of a business less than three and a half years old. The GEM study (2003: 8) reported significantly lower entrepreneurial activity levels in South Africa than in other developing countries. Total entrepreneurial activity rates in South Africa are nearly 50% lower on average than in developing countries such as Argentina, Brazil, India and Mexico.

Given the central role of entrepreneurship in development and the lacking performance of South Africans in this regard, every effort should be made to improve the entrepreneurial spirit in South Africa. Key aspects in this regard include the promotion of entrepreneurship among young people, client-based skills development of formal entrepreneurs and support of informal entrepreneurship with regard to management and technical skills development (GEM 2003: 5).

The rest of this article shows encouraging entrepreneurial activity in the informal trade sector. This phenomenon should be fostered to unleash further entrepreneurial spirit and trading up of small retail firms into larger dynamic firms.

Definitions

This article focuses on the informal sector, particularly on a subset of the sector consisting of hawker tables, spaza shops and township general dealers. The following sections provide concise definitions of these concepts.

The informal sector

It is widely acknowledged that no single definition of the informal sector exists, nor is one anticipated (Naidoo 2002). In economic literature, the term 'informal sector' does not refer to a homogeneous group of businesses but is meant to identify a subset of economic activity in order to describe a domain similar to, for example, the rural or urban sector, merely to focus and demarcate research activities in order to facilitate policy development. Just as in the case of the urban or rural sector, one needs to disaggregate the informal sector in order to draw meaningful conclusions (Sethuraman 1997).

The International Labour Organization's (ILO) International Conference of Labour Statisticians (ICLS) describes the informal sector for the purposes of collecting statistics on the sector (ILO 1993). The resolution states that the informal sector may be broadly characterised as consisting of units engaged in the production of goods and services with the primary objective of generating employment and incomes to the persons concerned. These units typically operate at a low level of organisation, with little or no division between labour and capital as factors of production, and on a small scale. Labour relations – where they exist – are based mostly on casual employment, kinship or personal and social relations rather than contractual arrange-

ments with formal guarantees (ILO 1993). Charmes (2000: 62) defines the informal sector as consisting of enterprises of informal employers employing employees on a continuous basis, where employment is below (in terms of number of jobs) thresholds set by statistical practices of legislation in the country (thresholds of five or ten jobs being the most frequently used), or the enterprise has not registered these employees, or the enterprise is not registered (for example, as a company or for tax purposes). Where countries opt for an employment size criterion, cognisance should be taken of the possible overlapping between formal and informal enterprises.

On the basis of the preceding discussion, informal enterprises portray, *inter alia*, the following characteristics:

- As far as legal identity is concerned, informal enterprises do not have corporate status.
- They do not maintain a complete set of accounting books.
- From a production destination point of view, at least some portion of production output is destined for the market.
- Enterprises are non-registered units in terms of taxation, labour or any other regulatory frameworks.

Generally, the majority of people in developing countries (and to some extent, those in transition countries) resort to the informal sector as the only means of survival (Tansel 2000: 10).

Although the foregoing description can be regarded as very general, it provides some perspective on the nature of enterprises considered to be part of the informal sector.

Retail businesses

This article embraces the retail activities of hawkers, spazas and township general dealers. These entities may be depicted as follows:

- Hawker tables or street vendors operate from a temporary or permanent structure on a street or at a taxi rank or train station.
- Spazas or tuck shops are defined as businesses operating in a section of an occupied residential home or in any other structure on a stand zoned or used for residential purposes and where people permanently live.
- Township general dealers are stand-alone businesses with a brick and mortar superstructure, often located in a business area, but they may also be located in residential sections of townships. They carry a wider product range than spazas and have more fixtures and fittings allowing self-service to clients.

The business practice of all these entities entails ordinary retailing (in other words, the buying of consumer goods from manufacturers, wholesalers, producers or even supermarkets or hypermarkets and the selling of goods at a profit margin to clients).

The retail sector in South Africa

A perspective on retail sales in South Africa would create a clear picture of the status of retail sales channelled through the informal retail sector.

Table 1 shows the relationship of retail sales to consumption expenditure in 2003. Total consumption expenditure (namely, expenditure of households on goods and services) amounted to R761.9 billion in 2003, of which 60.6% (R461.6 billion) was spent on goods and 39.4% (R300.3 billion) on services. Potential retail sales (namely, expenditure on goods less expenditure on personal transport equipment such as cars, tyres, petrol, paraffin and household fuel and power, which are not classified as retail items by Statistics South Africa), amounted to R377.7 billion. Of this, R235.2 billion (or 62.3%) was channelled through formal retail outlets such as Pick 'n Pay, Checkers, Spar and other retail outlets. More than a third (37.7% or R142.5 billion) was channelled through the following outlets:

- Informal retail outlets, such as spazas, hawkers and township general dealers
- Non-store retailers, such as mail order services and vending machines
- Non-retail establishments, such as wholesalers and agricultural and manufacturing outlets
- E-commerce/e-tailing services.

It is estimated that approximately 10% of potential retail trade, amounting to approximately R38 billion, was channelled through informal outlets in 2003 (Martins 2001, 2002, 2003). A substantial portion of these sales can be attributed to spazas, hawkers and township general dealers.

Survey methodology

A national survey was conducted among a sample of 481 informal retailers between July and September 2003. The sample was selected from a list of

Table 1: Relationship between retail sales and private consumption expenditure (2003)

	2003 Bureau of Market Research estimate
	Rand (billion)
1. Total private consumption expenditure (2+3)	761.9
2. Expenditure on services	300.3
3. Private consumption expenditure on goods	461.6
4. Private consumption expenditure on personal transport equipment, fuel and power*	83.9
5. Potential retail sales (3–4)	377.7
6. Retail sales by formal sector	235.2
7. Retail sales other than by formal retail outlets (5–6)	142.5
	%
8. Services as % of consumption expenditure	39.4
9. Potential retail sales as % of private consumption expenditure	49.6
10. Formal retail sales as % of potential retail sales	62.3
11. Other than formal retail sales as % of potential retail sales	37.7

* Not regarded by Statistics South Africa as retail expenditure items

Source: Tustin (2003: 16)

14 200 informal businesses. The database comprised a street-by-street business census of all points of purchase in township areas as well as at train and taxi ranks in and outside township areas. The following areas were selected for inclusion in the survey:

- Gauteng, including areas such as Soweto, Mamelodi, Mabopane, Tsakane and Daveyton
- Eastern Cape, including Mdantsane, Zwide and KwaZakhele
- KwaZulu-Natal, including Umlazi and KwaMashu
- Western Cape, including Kayelitsha, Mitchells Plain and Grassy Park
- Mpumalanga, including KwaNdebele and KaNyamazane.

A random disproportionate sample was drawn, resulting in the following representation by business type:

- Hawkers: 19.8%
- Spazas: 65.8%
- General dealers: 14.4%.

Results

This section reports on the most important findings of the informal business survey. The results are portrayed by type of business, distinguishing between hawker tables, spazas and township general dealers.

The informal retail owner

Most people in the economic and political world agree that promoting entrepreneurial spirit is the key to creating jobs and improving competitiveness and economic growth (Antipolis 2000: 17). Entrepreneurship combines innovation (in other words, risk-taking and the provision of 'new' goods and services) and individual initiative, resulting in organisational renewal (namely, the improvement of existing businesses and/or the establishment of new ones) (Cross 1995: 4; RCE 2002: 2).

Some characteristics of owners and/or entrepreneurs are depicted in the following sections to establish a profile of the entrepreneur in the informal retail sector of South Africa, by type of business.

Educational level

Table 2 shows the educational level of business owners by type of business. Educational level is positively correlated with the level of business sophistication, with hawker tables being regarded as less sophisticated and general dealers as more advanced business types. More than half of the hawkers (53.7%) had either only a primary school qualification or no formal schooling. The corresponding percentage for spazas is 30.5% and for

Table 2: Educational level of business owner (by business type)

Educational level	Hawker/ street vendor	Spaza/ tuck shop	General dealer in township
	%	%	%
No formal schooling	13.7	2.2	0.0
Primary schooling (Grade 1–7)	40.0	28.3	10.1
Secondary schooling (Grade 8–11)	27.4	33.3	33.3
Matriculation (Grade 12)	15.8	27.9	36.2
Tertiary (Post-matriculation)	3.2	8.3	20.3
Total	**100.0**	**100.0**	**100.0**

general dealers, only 10.1%. At the higher end of the qualification spectrum, 56.5% of general dealers reported that they had a matriculation certificate or a tertiary qualification, while only 19.0% of hawkers had attained this relatively high level of qualification.

Engagement in business

More than eight in every ten business owners (83.8%) were engaged in their businesses on a full-time basis. Almost all the hawkers (95.7%) were involved on a full-time basis, compared with only 70.1% of the owners of general dealers. The percentage of spaza owners that were engaged in their business full-time (83.1%) correlates closely with the 84.4% recorded in a national spaza survey in 2000 (Ligthelm 2002: 15).

Gender

Women are more involved in less sophisticated businesses than in more advanced businesses. Women owners represented only 28.8% of general dealer owners, while 37.2% of spaza owners and 40.0% of hawkers were women.

Business training

Nine in every ten respondents confirmed that they have no formal business training. No less than 96.8% of hawkers do not have any formal business training. This percentage decreases to 91.1% for spazas. Two in every ten owners/managers of general dealers (18.8%) confirmed that they had received formal business training.

As might be expected in the light of the foregoing finding, the majority of respondents (68.7%) answered in the affirmative when asked whether they need formal business training. The training requirements expressed by respondents are shown in Table 3. The majority of respondents expressed a need for training in business management (73.8%), bookkeeping (58.5%) and marketing (57.1%). Hawkers highlighted sales as being of particular importance (64.9%).

Engagement prior to starting the business

Table 4 confirms limited appropriate exposure to business management experience among respondents prior to starting their businesses. Among respondents, 38.6% indicated that they had been unemployed immediately prior to starting the business. This was particularly true among hawkers and to a lesser extent among spaza owners. Among general dealers, 30.9% indicated that they had been engaged as a shop assistant/sales person prior to starting their business. This limited and/or inappropriate exposure of respondents to

Table 3: Business training needs as expressed by respondents (by business type)

Training need	Hawker/ street vendor	Spaza/ tuck shop	General dealer in township
	%	%	%
Management	70.2	73.4	83.3
Bookkeeping	61.4	58.5	53.3
Marketing	61.4	54.8	63.3
Sales	64.9	43.6	36.7
Computer skills	15.8	31.4	40.0
Credit control	21.1	17.6	16.7
Customer/human relations	3.5	7.4	10.0
Labour relations	1.8	6.9	10.0
Literacy/numeracy training	0.0	0.0	6.7

Table 4: Engagement of respondents immediately prior to starting business (by business type)

Employment	Hawker/ street vendor	Spaza/ tuck shop	General dealer in township
	%	%	%
Unemployed	55.3	36.8	23.5
Shop assistant/sales person	11.7	13.2	30.9
Housewife	12.8	9.7	7.4
Office worker	1.1	8.4	5.9
Retired	2.1	5.8	5.9
Other	17.0	26.1	26.5
Total	**100.0**	**100.0**	**100.0**

business management experience make it imperative that training and education in business management should be regarded as an urgent requirement to improve the sustainability of informal retailers.

Business as career path

The reply to the question 'Will you accept a job in the formal sector if offered today?' can be regarded as indicative of the extent to which informal business owners/managers regard their businesses as a career path or only as a stop-gap to counter unemployment and poverty temporarily.

Figure 1 confirms a considerably higher level of stability and permanence among general dealers than among hawkers. Only two in every ten owners of general dealers (23.2%) indicated that they would accept a job in the formal sector if offered today. In contrast, just more than six in every ten hawkers (63.4%) would leave their businesses if alternative employment opportunities were available in the formal economy. The corresponding figure for spaza owners was 42.8%, which correlates closely with the figure of 41.1% for spaza owners recorded in a national survey in 2000 (Ligthelm 2002: 53).

These findings clearly show that the majority of hawkers regard hawking purely as a survival strategy, while the owners of more sophisticated businesses regard themselves as permanently in the market place.

Summary

Although informal retailers are often depicted in the literature as survivalist enterprises operating at bare survival level (Rogerson 1996; Ruiters, China &

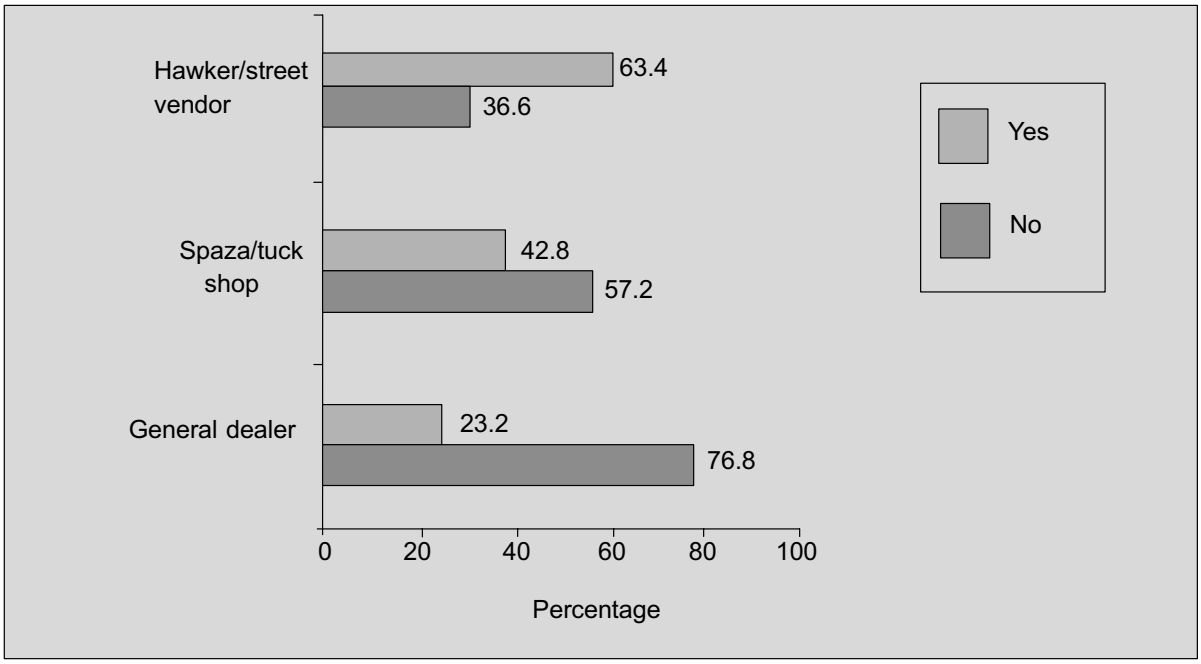

Figure 1: Attractiveness of employment in the formal sector

Spicer 1994), the foregoing evidence shows clear signs of small retailers becoming a permanent phenomenon on the South African economic scene. It is interesting to note that several respondents indicated that they own more than one informal retail business. This points to some entrepreneurial spirit among owners to establish more than one business to augment their income. However, the true entrepreneurial acumen that normally results not only in the creation of businesses, but also in the enhancement, realisation, renewal and dynamic growth of enterprises, is not evident in the informal trade sector.

Retail business owners and their households

Informal retail businesses are strongly integrated with the households of the owners and are often described as a subset of household activities. The well-being of the household often depends on the success and profitability of the business, particularly in the case of hawkers. Nine in every ten (87.4%) workers in hawker businesses and 79.2% of workers in spazas emanate from the owners' families or household. The percentage for general dealers drops to 54.7%.

The household size of respondents (including the respondent) amounted to an average of 4.8 people. This finding is indicative of the number of South Africans dependent on income from small retail businesses. The household size of respondents by type of business varied from 4.7 in the case of spaza owners to 5.1 for owners of spazas and general dealers. Based on an estimate of approximately 250 000 informal outlets (Woodward 1999: 38), a total of 1.25 million people in South Africa owe their existence to informal retail business activities.

A further indication of the dependence of informal business owners and their households on their business income is conferred by the fact that no less than three in every four hawkers (73.1%) confirmed that no household member (including the owner) earned an income outside the business. This figure is just more than half in the case of both spaza retailers (57.4%) and owners of general dealers (53.6%).

General business characteristics

Reasons for starting business

Table 5 shows the reasons for starting a business. These reasons differ substantially by type of business and can be related to the potential long-term sustainability of the different types of businesses.

The survey results show that more than eight in every ten hawkers (82.6%) started their businesses as a result of unemployment. This percentage amounted to 48.7% for spazas and only 32.8% for general dealers. Unemployment as motivational factor for starting a business often suggests that a business is established without the identification of a lucrative business opportunity, and therefore presupposes a high potential for business failure. The findings point to substantially greater stability with regard to sustainability among general dealer and spaza owners than among hawkers.

The finding that almost half of the spazas (48.7%) were established as a result of owners being unemployed correlates closely with the results of a national spaza survey in 2000, which found that 52.1% of spaza owners were unemployed when they started their own business (Ligthelm 2002: 13).

It is encouraging that just more than a third (35.8%) of general dealers joined a family business, which is evidence of some form of business culture among African communities. The figure for spazas is 15.7%, which confirms a degree of continuity in spaza activities. As could be expected, family business succession is almost non-existent in hawker trade (2.2%).

The emergence of entrepreneurship in the informal retail trade can be inferred largely from the extent to which informal retailers seize a business opportunity. One in every seven general dealers (14.9%) were established when owners identified a lucrative business opportunity, while one in ten spaza owners (9.9%) and almost none of the hawkers (2.2%) had started their business as a result of identifying a good opportunity for business. It therefore seems that a minority of informal retailers are motivated to enter the retail trade through their entrepreneurial spirit rather than the mere need for survival.

Age of business

The period that the various types of businesses had been in operation largely supports the findings already discussed. The age of a business reflects its market experience and affects its ability to grow and trade up to the next size class. Market experience and size are also important variables that determine business access to financial resources.

Table 5: Reasons for starting a business (by business type)

Reasons	Hawker/ street vendor	Spaza/ tuck shop	General dealer in township
	%	%	%
Unemployed	82.6	48.7	32.8
To increase income	7.6	23.1	13.4
Joined family business	2.2	15.7	35.8
Seize business opportunity	2.2	9.9	14.9
To work from home	3.3	2.2	1.5
Other	2.2	0.3	1.5

Table 6 confirms a far higher level of business maturity among general dealers than among spazas, and more especially among hawkers. Almost two in every three general dealers (63.7%) had been in operation longer than five years. The corresponding percentages for spazas and hawkers are 36.0% and 19.0% respectively. At the other end of the scale, almost one in every three hawkers (31.5%) had been operating for less than one year, compared with 5.7% of general dealers and 13.6% of spazas. Once again, these findings are an indication of the fact that hawking seems to be a survival activity, while other retailers portray a higher degree of career path development as business people.

Assortment of merchandise

The information that follows shows the response to the question: ''Indicate the five most important products for your business in terms of monthly turnover (sales)''. Respondents were also requested to rank them in order of importance. The indices show the relative importance of the products. The most important product is expressed as an index of 100. A product with an index of 50, for example, would therefore contribute only half that was contributed by the most important product.

The following five products were reported as the most important contributors to business turnover:

1. Hawkers	Index
Sweets	100
Fruit and vegetables	82
Cigarettes and tobacco	59
Soft drinks	18
Bread	14

Sweets were reported as the most important product sold by hawkers, followed by fruit and vegetables. This was followed by cigarettes and tobacco, which were about 60% as important as sweets with regard to total turnover.

2. Spazas	Index
Soft drinks	100
Bread	97
Cigarettes and tobacco	67
Milk	46
Sweets and chocolates	46

Soft drinks and bread contributed almost the same amount to spaza turnover, followed by cigarettes and tobacco, which contributed two thirds of the amount contributed by the first two products. Milk and sweets were both only half as important as soft drinks and bread with regard to business turnover. It is important to note that some seasonal variation is experienced in the sales patterns of informal

Table 6: Period that institution had been in operation (by business type)

Age	Hawker/ street vendor	Spaza/ tuck shop	General dealer in township
	%	%	%
Less than 6 months	14.7	2.5	1.4
6 months and longer but less than 1 year	16.8	11.1	4.3
1 year and longer but less than 2 years	21.1	12.7	1.4
2 years and longer but less than 3 years	16.8	17.5	13.0
3 years and longer but less than 5 years	11.6	20.1	15.9
5 years and longer but less than 7 years	3.2	11.5	7.2
7 years and longer	15.8	24.5	56.5
Total	**100.0**	**100.0**	**100.0**

retailers. Sales of confectionary peak around school days but decline in summer, compared with the percentage contribution of fruit and vegetables.

3. General dealers	Index
Soft drinks	100
Bread	76
Sugar	61
Maize meal	56
Cigarettes and tobacco	47

The most important products identified by general dealers confirmed a more diversified merchandise for general dealers than for the other two types of retailers. As was the case with spazas, soft drinks and bread occupied first and second position with regard to business turnover.

Physical characteristics and infrastructure

Efficient service delivery, good infrastructure, and safety and security are some of the leading factors that contribute to a productive business climate and influence an entrepreneur's decision to establish a business in a certain area. This section highlights some of these locational factors.

Location of business

As indicated in the section on objective and outline, the sample frame was representative of all types of areas. Informal retailers are highly concentrated in areas convenient to their clients. Spazas, by definition, are concentrated in residential areas (93.9%), and hawkers in areas of high pedestrian volumes (21.1% at taxi ranks/train stations and 53.7% on the street), while the majority of general dealers are also established close to the residences of customers, often in demarcated business areas.

Shop accommodation

The type of shop accommodation differs substantially by type of business from more permanent in the case of general dealers to temporary in the case of hawkers (see Table 7). Spazas were overwhelmingly located on residential properties, either inside or outside the dwelling (82.6%). Hawkers occupied a substantial variety of structures, but primarily conducted their business on the street (71.3%), while general dealers tended to conduct business from buildings other than their homes (66.2%). General dealers that operated their businesses from an outside building on the same property as their home (17.6%) represented businesses ranging from small spaza shops to larger businesses with the characteristics of general dealers (see definition in the section on definitions). Relocation to a demarcated business area may jeopardise the profitability of the business as a result of a potential loss of customers; hence the continuation of business on the same residential property, often in a larger superstructure. The majority of small retail businesses are aimed at the convenience level.

Hawkers were also requested to express their locational preference in terms of the following two alternatives:

1. Freedom of choice of location; or
2. Centralised location/facilities provided by government.

Just more than seven in every ten (71.6%) expressed the view that they prefer freedom of locational choice for their businesses. A mere 28.4% would prefer government-provided facilities. This is an extremely important finding in view of government's express intention to supply more permanent facilities to hawkers.

A follow-up question to hawkers enquired about their willingness to pay rent. Just more than eight in every ten respondents who preferred government facilities indicated that they would be prepared to pay rent. Those that confirmed their willingness to pay were requested to indicate the maximum amount is that they were prepared to pay for rent

Table 7: Type of accommodation (by business type)

Type of accommodation	Hawker/ street vendor	Spaza/ tuck shop	General dealer in township
	%	%	%
Inside main house	0.0	51.1	0.0
Outside building on same property	0.0	31.5	17.6
Building other than home	0.0	7.3	66.2
Metal container	4.3	5.4	0.0
Shack	7.4	4.1	0.0
Fixed stall in market	5.3	0.0	0.0
On street	71.3	0.0	0.0
Other	11.7	0.6	16.2
Total	**100.0**	**100.0**	**100.0**

per month. Two in every three hawkers (64.9%) indicated that the maximum rent they would be prepared to pay amounted to less than R20 per month. This amount would not be sufficient to compensate for the investment of providing even limited facilities such as water and sanitation. In economic terms, rental of R20 per month would justify only the investment of a few hundred rand per hawker stand. Any attempts to supply hawker facilities would therefore entail a huge subsidy.

Water and electricity

With the exception of hawkers, a substantial percentage of the other businesses confirmed the availability of water and electricity on the stand from which the business operates. All the general dealers have access to water and electricity. Almost nine in every ten spaza owners/managers confirmed the availability of tap water (85.9%) and electricity (97.5%) on their stands. The availability of tap water (7.7%) and electricity (15.2%) is extremely low among hawker businesses. However, the majority indicated that these services are not applicable to their businesses due to their mobility and type of business accommodation, often on streets.

Employment

Recent government policy stances highlight the notion that small business development can become an important source of employment and income generation. However, average employment of informal retailers is very limited, and is often eroded as a result of a high degree of business mortality.

The average employment of informal retailers was 2.5 employees per business. Average employment by type of business reveals the following averages:

- Hawkers 1.6 employees
- Spazas 2.4 employees
- General dealers 3.8 employees.

The gender composition was fairly evenly distributed between males (47.8%) and females (52.2%), but spazas and general dealers employed slightly more females, while male employees predominated in the case of hawkers (58.2% male). Almost three in every four informal retail employees were involved in the business on a full-time basis.

Financial issues

Start-up capital

As indicated in the section on the reasons for starting a business, unemployment was advanced as one of the principal reasons for starting informal retail businesses. As a result, available start-up capital is limited. The average start-up investment on businesses amounted to R3607, ranging from R1593 for hawkers to R9554 for general dealers. Spaza/tuck shops were launched with an initial amount of R3232. This is 25% less than the start-up investment of R4058 for spazas found in a national spaza survey in 2000 (Ligthelm 2002: 21).

Sources of capital

Survey findings indicate that the majority of retailers sourced their start-up capital requirements from their own private savings or the savings of other household members. Private savings dominated in all categories (spazas 79.5%, hawkers 84.8% and general dealers 82.5%). Other important sources of capital were stokvels (11.9% on average) and loans from relatives, which were of particular importance among general dealers (12.3%). Retrenchment payments also formed an important source, especially among spaza owners (13.3%). Loans from banks represented a relatively important source for general dealers (8.8%). Only one general dealer reported financial assistance from a government institution. It was also reported that social grants paid by government play a role in financing small businesses, especially hawkers.

The question that arises from these responses is whether the limited use of external capital arises from a lack of access to external financial resources or whether it is purely a matter of not needing debt capital for starting a business. In a survey among small and medium enterprises (SMEs) in Johannesburg in 1999, the World Bank (Chandra 2000: 37) concluded as follows with regard to access to capital markets: ''The majority of firms that do not use bank finances are not necessarily limited by lack of access to capital. On average, poor business conditions that preempt the need for capital investment seem to be a far more critical explanation than limited access to capital markets.'' A GEM (2003: 5) survey among entrepreneurs in South Africa also reported that a lack of financial support is widely viewed as the main problem facing entrepreneurs in South Africa. A thorough cross-country analysis, however, reveals that:

- Compared to other countries, South Africa does not stand out as having a financial system that is reluctant to support entrepreneurs.
- Internationally, formal financial institutions appear to provide funding to a small minority of entrepreneurs. The entrepreneurs' savings and their ability to access informal investment from friends, family and colleagues appear to be far more important sources of start-up finance.

Turnover and expenditure

The average monthly turnover of businesses ranged from a high of R15 168 for general dealers to R3459 for hawkers and R10 593 for spaza retailers.

Respondents were asked to estimate the running costs of their businesses for the preceding month by expenditure item. A word of caution is relevant here. Although respondents were asked to estimate the operational costs of the business such as telephone, transport, water and electricity, it was not always possible to distinguish between household costs and business costs. In the case of spazas, where the business is located on the same premises, it was not possible to divide the cost of electricity between residential and business use. Operating costs therefore also include an element of household expenditure. 'Purchase of merchandise' constitutes the most important expenditure item, accounting for the following percentages of total turnover:

- Hawkers: 69.9%
- Spazas: 72.6%
- General dealers: 77.8%.

'Purchase of merchandise' is followed by salary and benefits of owners and employees. Salary and benefits of owners, together with remuneration of employees, amounted to the following:

- Hawkers: 7.4% of turnover
- Spazas: 7.5% of turnover
- General dealers: 10.5% of turnover.

Considering an employment size of 1.6 for hawkers, 2.4 for spazas and 3.8 for general dealers (full-time and part-time), the labour remuneration constituted a small percentage of total cost.

A comparison of running costs with turnover shows the following surplus of income over running costs:

- Hawkers: 16.7% of turnover
- Spazas: 12.2% of turnover
- General dealers: 3.0% of turnover.

General dealers confirmed in the survey that they were more severely affected by competition than spazas and hawkers. One could reasonably assume that this could result in a smaller mark-up and hence a lower surplus.

Relationship with suppliers

The linkage between informal retailers and producers and/or wholesalers shows significant development. The important role and size of the informal sector is being acknowledged and increasingly regarded as a significant delivery channel to consumers. The interrelationship between informal retailers and producers/wholesalers is explored in this section and serves to illustrate the increasing linkages between the informal and formal sectors.

Wholesalers and mobile supplier units are recorded as the most important suppliers of merchandise. It is important to note that more than eight in every ten businesses of all three types are serviced by mobile supplier units delivering different types of products. The most important products delivered are bread, sweets, soft drinks, dairy products, paraffin and cigarettes and tobacco. This is indicative of the importance that producers and wholesalers attach to the informal retailer in the delivery system to customers.

Informal retailers expressed their satisfaction about suppliers keeping them informed of new products and promotions (specials). Although hawkers reported that suppliers inform them about new products and promotions, they were less satisfied than general dealer and spaza owners. This might have been expected, since hawkers often operate from unstructured locations and are therefore far more difficult to communicate with.

Suppliers are increasingly providing some form of support to retailers. The most important types of support are the following (with type of business indicated in brackets):

- Deliveries (all three types)
- Promotional material (spazas and general dealers)
- Signboards (spazas and general dealers)
- Shop equipment (spaza and general dealers)
- Discount prices (general dealers)
- Wholesaler credit (small percentage of all three types).

These linkages between the formal and informal sectors confirm an increasing endeavour by formal businesses to support small, medium and micro enterprises (SMMEs). This originates not only from an appeal by government to involve SMMEs, but it also makes business sense to acknowledge the sheer size of the informal retail sector.

Constraints encountered by informal retailers

Respondents were asked to indicate the three most serious problems that they experience. The types of problems do not differ substantially by business

type. Shortage of merchandise and finance emerged as the primary problem among all three business types, and were mentioned by just more than half the respondents. This was followed by the high crime rate mentioned by 44.7% of general dealers and by almost a third of the other two business categories. Unavailable and expensive transport was singled out by spazas (39.9%), and especially by hawkers (45.2%). General dealers (31.9%) perceived the level of competition as a serious problem.

Some additional questions were posed to respondents regarding the level of crime in their areas. Approximately one in every four respondents had been victims of crime during the 12 months preceding the interview. The type of crime to which respondents were exposed differed somewhat by business type. Eight in every ten spaza and general dealer owners were victims of break-ins and property theft. Just more than half the hawkers experienced this type of crime. Physical attacks were the second most important category of crime experienced by general dealers (31.3%) and spaza owners (21.2%). The different nature of hawker businesses exposed them not only to physical attack (37.5%) but also to vandalism (37.5%). Theft by employees was mentioned as the fourth most important crime category experienced by all three business types.

These findings clearly confirm that lawlessness and disrespect for the property and person of fellow inhabitants seriously jeopardise business profitability and the sustainability of the informal retailer. Surveys among SMMEs in Johannesburg and Pretoria confirmed that business owners regarded the establishment of a crime-free environment as one of the most important functions to be performed by government institutions (Tustin 2001; Ligthelm 2001).

Summary

The picture that emerges from the foregoing analysis depicts a continuum of informal retailers ranging from fairly developed businesses to enterprises established purely for household survival purposes. This wide array of informal retailers creates an excellent foundation for advancing entrepreneurship and allowing some of the businesses to gradually trade up to more formal business structures. At the same time, it should be noted that a large percentage of the businesses were established in non-lucrative business environments and are therefore operating at bare survival levels.

The continuum of fairly established to survivalist businesses largely correlates with the business types identified in this study. Township general dealers seem to be far better established than hawkers. Spaza shops occupy more or less a middle position. Far more owners of general dealers than hawkers perceived their businesses as long-term endeavours.

The relative stability by type of business is also confirmed by the survival rate of various types of businesses. The percentages of retailers that had been in operation for longer than five years ranged from 19.0% for hawkers to 63.7% for general dealers. The fact that limited alternative career opportunities exist in the economy compels the survivalists to stay in the market, often with limited levels of profits for quite a number of years.

The reality of the informal retailer as an important delivery channel of goods and services to consumers creates important linkages between manufacturers/wholesalers and informal retailers. Manufacturers and wholesalers have also realised that the informal retail market holds an important share of the retail market in South Africa. This share was estimated at approximately R38 billion in 2003 (Ligthelm 2003: 66). The linkage between formal and informal sectors contributes considerably to the survival potential of small informal retailers through the availability of merchandise at more affordable prices, which, in essence, allows them to continue with their trading businesses. This linkage is manifested in various ways, *inter alia*, through increased product delivery to informal retailers, promotion sales available to them and even the availability of manufacturing/wholesale credit, especially to township general dealers.

In operating their businesses, informal retailers encounter serious problems that impact negatively on their profitability. These problems range from market realities such as severe competition among informal retailers to a hostile external environment. Paramount in this regard is the high level of crime. Break-ins, property theft, vandalism and physical attacks on owners and employees can be devastating to a small informal retailer. Crime not only impacts negatively on profitability but can even jeopardise the existence of businesses with small turnovers and profit margins.

The majority of respondents indicated their intention to continue with their businesses. The need for

further business management training and other support emerged very strongly. The availability of effective business support services should be considered as an urgent imperative by government institutions. Such support services should be as comprehensive as possible, including management and business skills training, financial support systems and counselling on running a business. It should always be borne in mind that informal businesses are constrained not only by financial factors but more importantly by non-financial factors such as crime, lack of education, inadequate technical skills, poor access to markets, lack of information and unreliable infrastructure (ILO 2003: 3). The availability of a wide array of financial and non-financial services critical to the establishment, survival, productivity, competitiveness and growth of informal enterprises could open up opportunities for the entrepreneurial poor to raise their income. However, the continuum of informal retailers, from well-managed township dealers to survivalist street hawkers, implies that there will always be a percentage of businesses at the lower end of the scale that will never trade up to higher levels but will operate on a temporary basis as a means of survival.

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