Southern African Business Review

Editorial policy
The aim of the *Southern African Business Review* is to serve as a vehicle for the publication and dissemination of research in the field of business leadership, management and administration, with a special focus on Southern African business issues and concerns.

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Design of contents by Studio M Design, Pretoria
Cover design by Liana Schröder Graphic Design
Printed by UNISA
The *Southern African Business Review* is sponsored by the Faculty of Economic and Management Sciences, University of South Africa

ISSN 1561 896 X *Southern African Business Review*

Southern African Business Review
Volume 6 Number 1

Contents

Electronic journal

An electronic version of this journal may be accessed on www.sabusinessreview.co.za

People in poor countries need jobs, but politicians everywhere need votes

A while ago, South Africa hosted the United Nation's World Conference on Sustainable Development jamboree, where many things of great (and some not so great) importance were discussed. I would like to focus on only one of the more important of these (for Africa at any rate): the inequality and unfair position of developing nations *vis-à-vis* the developed nations in the international market place, and the idea that there is a feasible way of righting this wrong.

The crux of the problem is that wealthy developed nations subsidise their industries (primarily the agricultural sector) and impose import tariffs, which make it impossible for developing nations to gain entry into these lucrative markets despite having relatively cheap labour. The developed nations offer two responses to this situation, which essentially amounts to a moral accusation, namely that they will lower or dispose of import barriers and/or that they will increase their financial assistance (or 'handouts') to the poorer nations. To my mind, this proposal will at best not solve the problem, however sincere it may be. At worst, it is disingenuous for a number of reasons, only three of which will be mentioned here. Firstly, and most importantly, in most developed countries (most notably the United States and France) the agricultural sector represents a critically important political lobby, and it would amount to political suicide for politicians to estrange this lobby by allowing serious foreign competition. Secondly, even if import barriers were to be completely removed, political considerations would make it highly unlikely that subsidies to the agricultural sector would not be increased proportionally to wipe out the 'advantage' granted to farmers of the developing world. (It has been said that for every dollar that the USA donates to the developing world, fourteen dollars are given by way of subsidies to its own farmers.) Thirdly, the USA, while preaching free trade to all and sundry, has shown itself to be only too willing to impose barriers to free trade if its own industries are threatened by foreign competition. Earlier this year, President Bush swiftly imposed stiff tariffs on steel imports when its domestic steel industry came under threat from foreign competition, despite wide-spread international protestations. Political expediency and self-interest, rather than moral consistency, are the name of the game in foreign relations and international trade.

Why do I start my second term as editor of the journal on this sceptical note? I believe that Africa should stop looking to the rest of the world for its salvation, even if it may justly blame others for the quagmire in which it finds itself. And if the *Southern African Business Review* may lay claim to any higher objective at all, it is to make a very small contribution to a home-grown solution. Apart from good national governance, which is a *sine qua non* for everything else, the development of Southern Africa's human resource capital must form an indispensable part of any salvage plan. Although our focus is on the world of business, we operate in a broader socio-political framework, and the journal will accept contributions dealing with the broader issues as they relate to our primary field of interest. In this vein, three contributions in this issue may be mentioned in particular: the investigation into the retailing needs of a disadvantaged community by Johan Strydom, Johan Martins, Marius Potgieter & Mildred Geel (pp 18-23), which provides insight into the outshopping of black consumers in Soshanguve near Pretoria; Ruhiiga's modelling of accelerated business growth (pp 31-37), which reports the results of an investigation into constraints on business growth in thirteen small towns in the eastern Free State; and Johan Martins' investigation into consumer market segmentation in South Africa, which is a "multicultural country where first and third world values meet" (pp 7-17). The subtext of all three contributions: we live in Africa, not North America or Europe.

Going back to the issue of investing in human resource capital as indispensable for a nation's prosperity; this is also not without its problems in the context of a developing country. In the past, the hallmark of international trade by 'third world countries', including pre-democratic South Africa, was to export unrefined mineral resources cheaply, but with a 'quick return on investment', and to buy refined products dearly from the developed world. In short, a short-term perspective, with a focus on making 'a quick buck' (which normally accrued to the ruling elite, with very little being invested in the development of the country's people as a whole). The major challenge is to change to a long- term perspective, but this is also not without its political risks. The return on investing in human capital resources (by increasing life expectancy and levels of basic education, providing basic services, and attending to skills development, for example) takes a long time in coming. Meanwhile, politicians in a democracy must face an impatient electorate every few years - much easier to go for the quick fix than to channel resources into the development of the next generation, who are at any rate too young to vote. For this, a country needs statesmen of the highest calibre, but most of us are served by mere politicians. Carel van Aardt's contribution (pp 1-6) highlights the dire economic consequences if a country allows its aggregate human resource capital to be depleted, in this case by AIDS (but the loss and consequent economic decline may be attributable to any number of causes, for example, skilled people leaving for greener pastures elsewhere because they find their country of birth too inhospitable to their personal comprehensive conceptions of the good).

Lastly, the contribution of A.K. Garg, Reinhold Joubert & René Pellissier (dealing with strategic alignment, on pp 38-44) and that of Hester Nienaber, Michael Cant & Johan Strydom (on the effect of market strategy on the performance of companies in the food industry - on pp 24-30) serve to remind us that apart from the challenges that we face as a 'developing' country, the imperatives of a modern economy place additional demands on us.

Marius van Wyk, Editor
September 2002
Midrand

The demographic and economic impact of HIV/AIDS in South Africa

Carel van Aardt*

It appears from available statistics that HIV/AIDS is already having dire demographic and economic consequences. It is expected that it will have even more severe demographic and economic consequences during the decade to come.

South Africa has one of the highest per capita HIV prevalence and infection rates in the world, with an HIV prevalence rate for adults of 25% in 2001. The comparative figure for the whole population was 13%. The percentage of adult deaths that could be attributed to AIDS-related diseases increased from 9% in 1995/1996 to 40% by 2000/2001. It is anticipated that HIV/AIDS will also impact on future population outcomes - the South African population was expected to grow to over 60 million by 2015 in the absence of AIDS, but the expected population outcome for 2015 will now be less than 50 million.

HIV/AIDS will impact on the economic lives of South Africans in many respects. It will impact on labour supply in the sense that a substantial percentage of the economically active population will die as a result of AIDS, while labour demand could be affected if employers opt for capital-intensive production in the face of anticipated reduced production and productivity due to workforce losses.

It is also foreseen that HIV/AIDS will impact negatively on human capital realisation, skills availability and skills shortages in South Africa. HIV/AIDS will also have dire consequences for household income and household expenditure patterns.

Background

The AIDS debate in South Africa has been making local and international headlines, especially because of the very high HIV prevalence rates in the country and the viewpoints of the South African government about AIDS. There are also indications that South Africa may be experiencing the fastest growing AIDS epidemic in the world (Pillay 1998). Furthermore, South Africa is part of sub-Saharan Africa where some 25.3 million of the world's 36.1 million HIV-positive people live, making sub-Saharan Africa the world's AIDS hotspot (UNAIDS 2000).

South Africa has one of the highest per capita HIV prevalence and infection rates in the world. It was estimated that by 2000, the adult HIV prevalence rate (as derived from antenatal surveys) was just below 25%, and the HIV prevalence rate for the total population was between 11 and 15%, depending on the assumptions made about the numbers and structure of HIV prevalence among the youth. An example of such an estimate is the ASSA600 model, which predicted a national HIV prevalence rate of 12% for 2000 (Dorrington, Bourne, Bradshaw, Laubscher & Timaeus 2001). An HIV prevalence rate of this magnitude for the whole population would translate into an estimated 5.4 million people being HIV-positive by 2000 and 6.2 million people being HIV-positive by 2001.

In a paper for the Medical Research Council, Dorrington et al. (2001) estimated the percentage of adult deaths (for ages 15-49) that could be attributed to AIDS-related diseases, using available death registration data (Table 1).

It appears from Table 1 that there has been rapid growth in the percentage of adult deaths (aged 15-49) that could be attributed to AIDS-related diseases, namely, from 9% during the period 1995/1996 to 40% by 2000/ 2001, constituting a 444% growth over a period of five years. On the basis of available statistics, the authors of this paper estimate that there were about 230 000 to 290 000 AIDS-related deaths among the total South African population in 2000, a figure that is expected to rise to between 400 000 and 500 000 in 2004, and to between 700 000 and 850 000 in 2008.

Table 1. Percentage of adult deaths (15 to 49 years of age) that could be attributed to AIDS-related diseases (1995-2001)

Year	Percentage of adult deaths (15 to 49 years of age) that are AIDS related (%)
1995/1996	9
1996/1997	14
1997/1998	19
1998/1999	26
1999/2000	33
2000/2001	40

Source: Dorrington et al. (2001)

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A note of caution needs to be introduced at this stage in relation to 'AIDS-related deaths' or 'deaths that could be attributed to AIDS-related diseases'. Firstly, the reliability of statistics on the basis of which the number of such deaths is determined has not yet been ascertained, and secondly, it is assumed that the difference in the expected number of deaths and the real number of deaths (as derived from death registration statistics) can be attributed to AIDS-related diseases. Furthermore, in all circumstances there are competing causes of death (for example, a person with full-blown AIDS will not necessarily die of an AIDS-related disease but could die as a result of a motor vehicle accident, violence, or exposure to adverse climatological conditions). Furthermore, some HIV-positive people die from diseases such as pneumonia and tuberculosis, while their T-cell counts are still relatively high and would thus be expected to be able to cope with opportunistic diseases. However, there are many HIV-positive people who still live fairly productive lives with T-cell counts below 200. The figures used in this paper to determine the number of AIDS-related deaths are thus by no means perfect and should be regarded only as an indication of the severity of the ravages of AIDS, both currently and as anticipated in the next decade.

When focusing on the HIV prevalence levels among people of different provinces, an interesting picture starts to emerge. It appears that HIV prevalence rates are not uniform throughout South Africa, but that they differ from province to province. It is clear from Table 2, reflecting the HIV prevalence rates of women attending antenatal clinics, that the highest prevalence rates among antenatal clinic attendees during 2001 were found in KwaZulu-Natal (33.5%), Mpumalanga (29.2%) and Gauteng (29.8%), while the lowest prevalence rates were found in the Western Cape (8.6%), the Northern Cape (15.9%) and Limpopo (14.5%).

Although KwaZulu-Natal has the highest antenatal HIV prevalence level of all the provinces, the percentage growth in the HIV prevalence rate during the period 1995-2001 was lower in KwaZulu-Natal than in all the other provinces. Interestingly enough, the Western Cape, with the lowest antenatal HIV prevalence in 2001, experienced the highest growth in HIV prevalence during the period 1995-2001 - almost 506% (Department of Health 2002). A possible reason for this could be that the AIDS pandemic had an earlier take-off in KwaZulu-Natal and is approaching a saturation level with respect to the antenatal HIV prevalence rate, while the Western Cape experienced a later take-off of the pandemic but is now showing strong growth in the antenatal HIV prevalence rate.

Gauteng, the powerhouse of the country's economy and the driver of economic development in South Africa, deserves special mention. It appears from Table 2 that 29.8% of antenatal clinic attendees tested HIV-positive during 2001 (Department of Health 2002). This figure could translate into an estimated 13-16% of the total 2001 Gauteng population being HIV-positive, which could have potentially disastrous consequences for both the Gauteng and national economies in years to come.

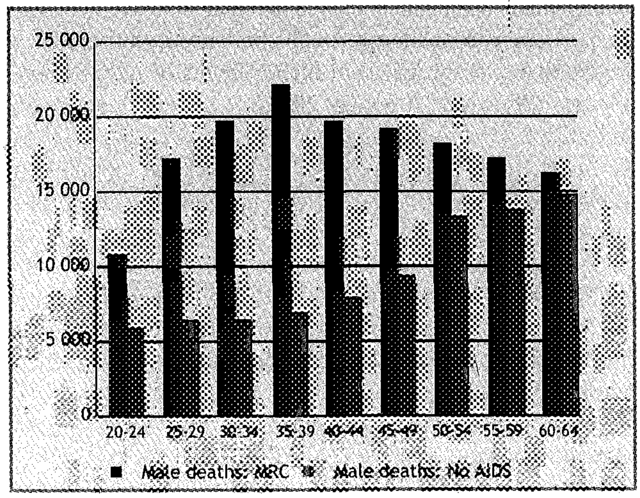
Having discussed the estimated number of AIDS-related deaths during 2000 and the HIV prevalence levels recorded at antenatal clinics, it is also important to focus on the age and sex composition of AIDS-related deaths. On comparing the corrected death registration statistics released by the Medical Research Council (Dorrington et al. 2001) with the Bureau of Market Research estimates of the number of deaths in the absence of AIDS, it appears that a substantial number of male and female deaths remain largely unexplained (Figures 1 and 2). Even if 15-20% of the unexplained deaths of men and women between the ages of 20 and 64 are assumed to have occurred because of violence or another external factor, the implication would still be that about 40% of the deaths of men and women in 2000 remain unexplained and could in all likelihood be attributed to AIDS.

Figure 1 shows that AIDS ravages in 2000 were most severe in the cohort aged 25-49, where 50% or more of deaths could be attributed to AIDS. However, the pattern among females seems to differ from that among males.

Table 2. HIV prevalence rates of women attending antenatal clinics (1995-2001)

Area	1995	1996	1997	1998	1999	2000	2001	% growth
South Africa	10.4	14.1	16.0	22.8	22.4	24.5	24.8	238.5
Eastern Cape	6.0	8.1	12.6	9.9	18.0	20.2	21.7	361.7
Free State	11.0	17.5	19.6	22.8	27.9	27.9	30.1	273.6
Gauteng	12.0	15.5	17.1	22.5	23.9	29.4	29.8	248.3
KwaZulu-Natal	18.2	19.9	26.9	32.5	32.5	36.2	33.5	184.1
Mpumalanga	16.2	15.8	22.6	30.0	27.3	29.7	29.2	180.2
North West	8.3	25.1	18.1	21.3	23.0	22.9	25.2	303.6
Northern Cape	5.3	6.5	8.6	9.9	10.1	11.2	11.2	211.3
Limpopo	4.9	8.0	8.2	11.5	11.4	13.2	14.5	295.9
Western Cape	1.7	3.1	6.3	5.2	7.1	8.7	8.6	505.9

Source: Department of Health (2002)



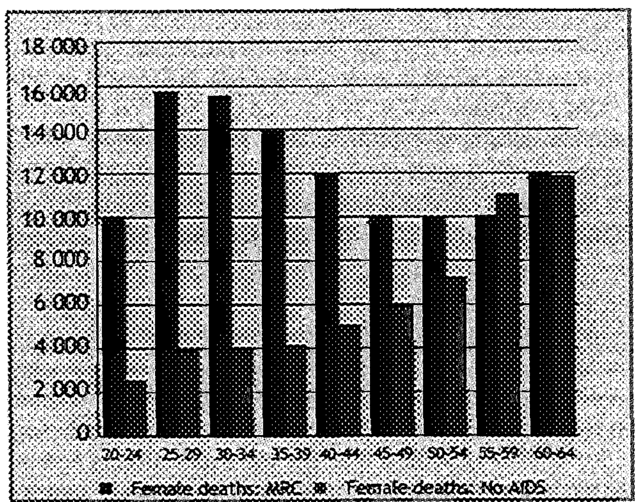
Sources: Dorrington et al. (2001: 27) and BMR estimates
Figure 1. Comparison of actual male deaths with expected male deaths in the absence of AIDS, for ages 20 - 64 (2000)

It appears that the ravages of AIDS among females are more severe at an earlier age, with more than half the deaths in the cohort aged 20-24 possibly being attributable to AIDS.

Reasons why the HIV prevalence and AIDS-related death rates are so high in South Africa

A number of reasons have been identified by various authors for the high HIV prevalence and AIDS-related death rates in South Africa. Each of these reasons pertains to a factor or combination of factors that facilitate the rapid spread of HIV/AIDS. Some of these reasons are discussed in greater detail below to provide some insight into how the said factors contribute to the rapid spread of HIV/AIDS in South Africa. These reasons are as follows:

- Social and family disruption due to apartheid to apartheid and labour migration. According to Whiteside & Sunter (2000) the apartheid system in South Africa gave rise to a situation



Sources: Dorrington et al. (2001: 27) and BMR estimates
Figure 2. Comparison of actual female deaths with expected female deaths in the absence of AIDS, for ages 20-64 (2000)

where the black population was forced to stay in crowded and impoverished 'homelands' that gave rise to a breakdown of traditional cultural structures. The situation was aggravated by influx control measures according to which blacks were not allowed to migrate beyond the borders of the homelands without permission. Those who obtained permission to migrate to mines or factories for work purposes had to live in single-sex hostels. This resulted in a system where the males who migrated from the rural homeland areas often had wives in the rural areas but made use of sex workers near the hostels where they worked. In many cases, both husband and wife migrated to separate urban destinations, which in many cases gave rise to family break-ups and children being cared for by somebody other than their parents. Many such parents living at separate locations would, without divorcing, enter into relationships with new sex partners, often resulting in distinct new family units being formed.

- Inadequate knowledge of how to avoid AIDS. It was found in the 1998 South African demographic and health survey that respondents had inadequate knowledge of how to protect themselves from contracting HIV/AIDS. For example, about 20% of respondents regarded a good diet as protection against HIV infection, 24.1% believed that by avoiding public toilets they would not contract HIV, and 37.5% of respondents believed that protection against mosquito bites would prevent HIV infection (Medical Research Council, Macro International and Department of Health 1999).

- High-risk sexual behaviours. UNAIDS (2000) provides a list of high-risk sexual behaviours that drive the sexual transmission of HIV in countries where fairly high HIV prevalence rates are found. These factors also pertain to the South African situation and include low levels of condom use during sex (the 1998 South African demographic and health survey found that fewer than 30% of respondents between the ages of 15 and 49 had ever used condoms), a relatively widespread practice of having multiple sex partners, overlapping sexual relationships (thus increasing the chances that if one person in an overlapping relationship is HIV-positive the others will also become HIV-positive), sexual networks consisting of people with sex partners distributed over a large geographical area (for example, a wife at home in the rural areas and a girlfriend and sex workers near the place of work), age mixing with respect to sexual relationships, and the economic dependence of women on marriage or prostitution for cultural and economic reasons (Medical Research Council et al. 1999).

- High levels of poverty, high levels of inequality and the low status of women in many communities. Whiteside & Sunter (2000) indicate that 47.3% of the country's income accrued to the richest 10% of the South African population in 1993, while the poorest 40% of people received only 9.1%. Inequality (and poverty, which goes hand-in-hand with inequality) facilitates the rapid spread of HIV, because poor women with limited financial resources are compelled into sexual relationships to ensure their survival and that of their children.

- Crime and rape. Crime and rape are currently widespread in South Africa, with the result that rape has become an important HIV vector. In 1998 alone, nearly 50 000 rapes and 5 000 sexual assaults were reported (Whiteside & Sunter 2000). However, it appears from available anecdotal evidence that a substantial number of rapes and sexual assaults are not reported, with the result that the figures could actually be far higher. Rape is associated with a far higher risk of HIV infection than normal sexual relations since forced vaginal or anal penetration is often accompanied by bleeding. Moreover, when taking into account that the HIV prevalence among rapists is higher than among the general population because of their violent and promiscuous sexual behaviour, it can be assumed that rape victims have a significant chance of becoming HIV-positive.

Demographic impact of HIV/AIDS in South Africa

ING Barings (2000), using the ASSA600 model developed by the Actuarial Society of South Africa (ASSA), predicts a population of about 49.4 million for South Africa by 2015, compared with a population of 60.9 million in the absence of AIDS (Figure 3). It is clear from Figure 3 that, although HIV/AIDS is expected to have a massive impact on the size and growth of the South African population during the next 15 years, it is unlikely that the epidemic will lead to negative population growth and an absolute decrease in population numbers (Whiteside & Sunter 2000).

Although HIV/AIDS is not expected to give rise to negative population growth, it is expected to have a significant impact on life expectancy and fertility rates in South Africa. As regards life expectancy, it appears from available statistics that the average life expectancy of South Africans at birth has already declined from about 63 in 1996 to about 55 in 1999 (Whiteside & Sunter 2000) and is expected to decline even further to below 45 by 2008 (United Nations 1998). As regards fertility, it should be noted that the impact of HIV/AIDS on fertility will be threefold:

1. HIV/AIDS will lead to a reduction in the number of births, since many women die during their reproductive years.
2. HIV/AIDS will reduce fertility due to the physiological effects of HIV/AIDS.
3. Fertility will decline through the increased use of condoms, resulting from higher levels of AIDS awareness (Whiteside & Sunter 2000).

Apart from the impact of HIV/AIDS on population size and growth, life expectancy and fertility, it is also expected that HIV/AIDS will impact on dependency ratios in South Africa. AIDS will give rise to the death of many young adults, which, together with higher levels of ageing of people over the age of 50 who are less affected by HIV/AIDS, will give rise to increasing old age dependency burdens.

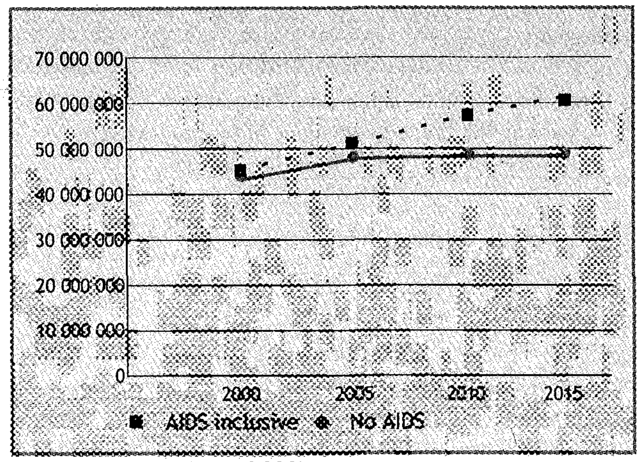
Economic impact of HIV/AIDS

It is anticipated that HIV/AIDS will impact on many aspects of the economic lives of South Africans, South African firms and the national economy, including labour supply and demand (because people will die of AIDS-related diseases in their key productive years), skills availability, the health sector, households, production and productivity. These impacts are discussed in greater detail below.

Since HIV/AIDS primarily affects adults of working age, it can be expected that substantial losses in labour supply will be incurred as a result of AIDS-related diseases. Abt Associates (2001) indicates in this regard that the labour loss from AIDS-related diseases could amount to 40 - 50% of the current workforce of some companies. The impact of workforce losses on a company will depend on the nature of the business, its production processes, the products being manufactured and the services being rendered.

Human capital realisation, skills availability and skills shortages in South Africa will also be affected by HIV/AIDS. Although AIDS will impact more on the semi- and unskilled segments of the labour force, ING Barings (2000) is of the opinion that the impact of AIDS on the skilled and highly skilled segments of the labour force will be substantial. It is anticipated that about 13.1% of the highly skilled segment and 22.8% of the skilled segment of the labour force will be HIV-positive by 2005. Such high levels of HIV among the highly skilled and skilled segments will lead to much lower human capital realisation rates and will exacerbate existing skills shortages (Barker 1999). Whiteside (in Barker 1999) believes that more highly skilled workers may be affected by HIV/AIDS to a greater extent than less skilled workers, because their higher salaries enable them to 'purchase beer and sex', and they are more mobile than less skilled workers and the unemployed.

Probably the most direct impact of HIV/AIDS will be on the South African health sector. According to Bollinger & Stover (1999), AIDS will affect the South African health sector in two ways: firstly, the number of people requiring services from the health sector will increase and, secondly, health care for AIDS patients is generally more expensive than for most other medical conditions. It



Source: ING Barings (2000)

Figure 3. The impact of HIV/AIDS on future population outcomes

appears from calculations made by Bollinger & Stover (1999) that the per capita cost of AIDS treatment varies between R150 000 and R300 000 (40 000 to 80 000 Dutch guilders) over a period of 13 years. Such expenditure is expected to impact severely on government and medical funds in South Africa when multiplied with the number of HIV-positive people in the country.

According to Bollinger & Stover (1999), the economic impact of HIV/AIDS on households is multi-faceted:

1. AIDS results in the loss of the income of the AIDS patient, who is the breadwinner in many instances.
2. The expenditure of the household on medicines and medical services may increase dramatically.
3. The death of household members who were economically active may result in a permanent loss of income for the household.
4. Members of the household who are not sick because of AIDS-related diseases (although they may be HIV-positive) may be obliged to stay at home to care for household members with AIDS, thus being forced to stay away from school or work.
5. Rising numbers of orphaned children will give rise to lower levels of social and human capital devel-opment among children.
6. The number of burials will increase dramatically, with resultant financial impacts for households.

In addition, Abt Associates (2001) indicates that high expenses on medicines and treatment often reduce the household's ability to pay for education, food, housing, home maintenance and basic utilities. Furthermore, surviving family members my be forced into very low paid work, prostitution, crime or sexual relations with richer community members, which, in turn, place such family members in the high risk group with respect to HIV infection.

It is also anticipated that HIV/AIDS will impact negatively on production and production costs: Barker (1999) indicates that AIDS will lead to reduced production and increased absenteeism, as well as a loss of experienced staff. It appears from Barker's analysis by means of the Doyle model that over 90% of the adults that will be affected by AIDS will be in their key productive years, aged between 20 and 50. Production costs could also be affected because of higher group insurance, more expensive medical aid contributions, the cost of recruiting replacement labour and losses in foreign direct investment (brought about by lower levels of investor confidence because of high HIV prevalence rates among the economically active population).

As regards the future impact of HIV/AIDS on real growth of the gross domestic product (GDP), Arndt & Lewis (2000) believe that, in the absence of HIV/AIDS, real GDP growth would have increased from 2.3% per annum in 1998 to 3.75% by 2010. However, due to the anticipated impact of HIV/AIDS on the economy, they maintain that these levels of real GDP growth will not materialise. Instead, they expect real GDP growth to decline from 1.9% in 1998 to 0.9% by 2008.

Arndt & Lewis (2000) conducted an analysis to determine the major drivers behind the above discrepancies in real GDP growth between the 'AIDS' and 'no-AIDS' scenarios, and identified the following factors:

- Loss in government savings
- Reduction in overall total factor productivity
- Production losses
- AIDS impacts on labour supply.

In their research on the impact of HIV/AIDS, Bollinger & Stover (1999) anticipate a significant impact on firms. They are of the opinion that AIDS-related illnesses and deaths among employees would give rise to both an increase in firm expenditure and a reduction in firm revenues. The major factors leading to increased firm expenditure are increased health care costs, burial fees, training costs and recruitment costs. Firm revenues could furthermore be negatively affected by employee absenteeism due to illness, time spent on training and higher levels of labour turnover.

Bollinger & Stover (1999) go on to describe the manner in which HIV/AIDS will impact on the macro-economy:

- HIV/AIDS reduces the number of suitably qualified workers available since the virus has a particularly severe impact on the age cohorts of people in their productive years. As HIV-positive workers are progressively debilitated by HIV-related diseases, their productivity also declines.

- The impact of HIV/AIDS on labour supply will result in higher wages owing to worker shortages. Higher wages, in turn, give rise to higher production costs, which, in turn, lead to lower levels of international competitiveness. A loss in international competitiveness leads to lower levels of foreign direct investment and foreign exchange shortages.

- It is also anticipated that increased health expenditure and a loss of worker income will give rise to lower government revenues and reduced private savings, which, in turn, will result in a significant drop in general savings and capital accumulation. This will give rise to slower employment creation in the formal sector of the economy.

- Lower levels of labour productivity and investment due to HIV/AIDS will also give rise to lower levels of job creation in the formal sector. This will result in a situation where a substantial number of workers will not be able to obtain jobs in the formal sector and will thus have to take up low paying jobs in the informal sector.

Arndt & Lewis (2000) anticipate that the overall impact on the macro-economy will be small at first but will increase dramatically over time.

As regards the impact of HIV/AIDS on the health sector, Bollinger & Stover (1999) refer to a health economics model for South Africa, designed by the United States Bureau of the Census. They use this model to determine the total direct costs of HIV/AIDS for the South African health sector in relation to various possible AIDS impact scenarios. In terms of a low AIDS impact scenario, expenditure on HIV-related diseases would increase from 0.5% of total health expenditure in 1991 to 34% in 2005. A high impact scenario shows that expenditure on HIV/AIDS-related diseases as a percentage of total health expenditure could increase from 0.8% in 1991 to about 75% of total health expenditure in 2005.

Closing remarks

It appears from the discussion that researchers anticipate that HIV/AIDS will have severe demographic and economic impacts during the next two decades. The impact on future population size outcomes, human capital realisation, labour and skills availability in the labour market, household income and expenditure patterns, GDP growth rates, government revenues and expenditures, levels of foreign direct investment and international competitiveness should not be underestimated. However, there are indications that the doomsday prophecies of many observers that the economically active population and the South African economy will be decimated by HIV/AIDS are not likely to materialise, given the measures already taken by households and firms to cope with the epidemic. It is imperative that such coping mechanisms be investigated to inform the formulation of strategies and policies to deal with the epidemic as a next step in the debate about the demographic and economic impact of HIV/AIDS on South Africa.

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Consumer market segmentation in South Africa: A multicultural country where first and third world values meet

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Segmentation is the division of the population into identifiable categories, each of which may have its own special requirements and habits. In general, demographic, geographic, psychographic and behavioural segmentation can be distinguished. In Europe, the ESOMAR Social Grade segmentation scale was developed to improve comparability of sociodemographic data across countries. Consumer market segmentation in South Africa, a country with 44.7 million people in 2000, is done by a Living Standard Measure (LSM) scale. Twenty variables (each carrying a different weight, some positive, some negative) are used for the classification of households into eight different LSM groups. The New SAARF Universal LSM, which came into operation in 2000, shows that 47.3% of the households in Gauteng fall into LSM group 8 and 44.2% into LSM group 7. The demographic profile, level of education, household and earners' income, unemployment rate and expenditure pattern by LSM group provide a clear indication of the requirements and habits of groups of people in order to determine a target market. Marketing managers can use the information to identify the characteristics of the people who are/will become their main clients to enable them to develop a marketing mix strategy in their best interest.

Introduction

South Africa's population was estimated at 44.7 million people in 2000 (Steenkamp & Van Wyk 2000), the majority being African/Black (34.6 million), followed by 5.2 million Whites, 3.8 million Coloureds and 1.1 million Asians/Indians. Nine different home languages are spoken among Africans/Blacks, while more than half the Whites and Coloureds have Afrikaans as their home language. English is the home language of the remaining Whites and Coloureds as well as for most of the Asians/Indians. The World Bank (2000) states: "While South Africa's per capita income of about $3170 places it among the middle-income countries, its income disparities are among the most extreme in the world. Thirteen per cent of the population (about 5.4 million people) live in 'first world' conditions. At the other extreme, 53 per cent of the population (about 22 million people), live in 'third world' conditions." Under these diversified conditions, the segmentation of the population is essential for effective marketing. Segmentation may be briefly defined as the division of the population into identifiable categories, each of which may have its own special requirements and habits.

Costa & Bamossy (1995) maintain that many of the important issues with which marketers are confronted are related to the ways in which consumers identify themselves, and the ways in which marketers identify the market. The intensification of globalisation and the loosening of cultural bonds challenge marketers. In the past, most segmentation in South Africa was done along racial lines. Though the importance of ethnicity cannot be denied, factors other than ethnicity or race may play a more important role in the marketing of certain products and services.

The first part of this paper presents a theoretical background to segmentation in general, followed by a section on cross-country segmentation in Europe, and a section on and cross-ethnic and cross-race segmentation in South Africa. The attention then turns to an analysis and discussion of primary research data and provides three examples of the practical application of segmentation by LSM group.

Market segmentation

Churchill & Peter (1998: 201) describe market segmentation as a process of dividing a market into groups of potential buyers with similar needs and wants, value perceptions or purchasing behaviour. The particular market segment that a marketer chooses to serve is called a target market. In similar vein, Gilmour (1996) sees market segmentation as the division of a market into parts, each of which has identifiable characteristics of actual or potential economic interest. Most often, segmentation is done in terms of either the characteristics of the product or service, or of purchaser/user characteristics. Sometimes methods of sale and distribution form a viable basis for segmentation. Performance, specialised application, other product attributes and price are used for product-based segmentation. Purchaser/user characteristics used for segmenting consumer markets include: reasons for purchase (for example gifts/own use/family use); mode of usage and other product-related behavioural characteristics; purchase criteria and attitudes towards the product; and geographic, demographic and psychographic classifications. Industrial markets are often segmented by customer size and industrial classification.

Only when marketers know about the size and profile of existing market segments can they select successful marketing strategies. According to Kotler (2000: 262), there is a three-step procedure for identifying market segments, namely a survey stage, analysis stage and profiling stage. During the survey stage, the researcher

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conducts exploratory interviews and focus groups to gain insight into consumer motivations, attitudes and behaviour. The researcher then prepares a questionnaire and collects data on attributes and their importance ratings; brand awareness and brand rating; product-usage patterns; attitudes toward the product category; as well as the demographic, geographic, psychographic and mediagraphic characteristics of the respondents. Thereafter, the researcher applies *factor analysis* to the data to remove highly correlated variables, and then applies *cluster analysis* to create a specified number of maximally different segments. In the profiling stage, each cluster is profiled in terms of its distinguishing attitudes, behaviour, demographics, psychographics, and media patterns, depending on the complexity of the product or service. Each segment is given a name based on its dominant characteristic. However, it must always be remembered that segmentation must not go beyond what is useful for the marketer. Businessmen need useful rather than interesting information. It is therefore also important that market segmentation should be redone periodically, since market segments change over time, as has happened in South Africa. According to the South African Advertising Research Foundation[1] (SAARF 2000), surveys that covered all South Africans traditionally used factors such as population group, urban/rural residence, level of education and income as primary classification tools. This carried the implication that a fairly sharp differentiation existed between the categories of these variables. SAARF originally used population group as one of the more fundamental ways of disaggregating its All Media and Products Survey (AMPS) data. Nowadays, marketers of consumer goods and services also apply other types of segmentation, such as Living Standards Measure (LSM) groups, which will be discussed later. Although the eight LSM levels originally identified by SAARF were extended to ten during 2001, the segmentation outcomes discussed in this paper are still structured according to the original eight levels.

Kotler (2000: 263-271) distinguishes five types of consumer market segmentation, namely behavioural, demographic, geographic, multi-attribute and psychographic segmentation. Churchill & Peter (1998: 205-217) distinguish the following types of segmentation: demographic and psychographic segmentation, segmentation based on thoughts and feelings, segmentation based on purchase behaviour, and multiple bases for segmentation (geo-demography). Strydom, Cant & Jooste, (2000: 106-118), however, distinguish four types of segmentation, namely demographic, geographic, psychographic and behavioural segmentation. A brief overview of the latter four types of segmentation follows.

Demographic segmentation

The most common means of segmenting consumer markets is by means of demographic features, which involves dividing the market on the basis of population characteristics. This may be because of the relative ease with which the approach can be applied. Information about variables such as gender, age, race or ethnicity, income level, occupation, education level and household size and composition is readily available from population censuses and other official statistics. Another reason is that consumer needs, wants, preferences and usage are often associated with demographic variables. Even when the target market is described in non-demographic terms, for example personality type, there will be a link back to demographic characteristics in order to estimate the size of the target market. Most of the published research in South Africa reports on income and expenditure, as well as market potentials, supply information by segment on the basis of race, and sometimes even on the basis of language (Martins 1999; Martins 2000).

Geographic segmentation

With geographic segmentation, the market is divided into different geographical units, such as provinces, regions that may cut across provinces, countries or a group of countries, metropolitan areas, cities or neighbourhoods, such as suburbs or townships. Population density or type of township (whether formal or informal) and climate may also be important in segmentation. For instance, the three main metropolitan areas in South Africa (Durban metropolitan area, the Cape Peninsula and the whole province of Gauteng) are important since 54% of all household expenditure in the country was expended in these areas in 2000 (Martins 2001).

Psychographic segmentation

While demographic and geographic segmentation are relatively simple and straightforward, this is not the case with psychographic segmentation. People are divided into different groups on the basis of lifestyle, personality, social class and/or values. Kotler (2000: 266-267) distinguishes six categories, namely strivers, devouts, altruists, intimates, fun seekers and creatives. Churchill & Peter (1998: 211) refer to the following five psychographic categories as identified by Global Scan: strivers, achievers, adapters, pressured and traditional buyers. Strydom et al. (2000: 115-116) describe the following five value groups in South Africa, as identified by AC Nielsen South Africa's Sociomonitor Value Groups Survey:[2]

1. The South African Advertising Research Foundation (SAARF), whose main objective is to direct and publish media and product research, organises a national biannual sample survey, known as the All Media and Products Survey (AMPS), on the basis of which the South African market is segmented according to living standards.

2. A syndicated survey conducted every two years among a probability sample of 6000 adults for in-depth consumer behaviour analysis.

- **Conformists (19.6% of the South African adult population)**
  This value group is characterised by conformity to group value systems. Traditions, religion and the family and home are paramount. They feel more secure with group norms than by standing out as individuals. They do not desire much in the way of novelty, excitement or risk. They are typically not comfortable with new products and technology and would probably need coaxing to change from the brands they use.

- **Transitionals (20.5% of the South African adult population)**
  This value group is characterised by traditional values, with some focus on personal achievement and thus the assimilation of some individualistic and more modern values. There is a strong group-orientation, with the emphasis on Ubuntu (living in harmony with one's fellow man), familism, religion and cultural customs.

- **Progressives (18.8% of the South African adult population)**
  A modernised group whose primary needs are self-development but who also show some harmony in acquiring meaning from and giving back to the group. They are focused on self improvement and development of every aspect of their personal lives - so they like to take care of, enhance, and project beautiful physical looks, their health and home environments, and want to acquire new skills to stimulate their minds. Quality and intrinsics are a primary need in everything they do, including purchasing.

- **Non-conformists (17% of the South African adult population)**
  This group rejects any group-oriented, civil or traditional values in favour of individualism. They tolerate and accept other individuals easily, regardless of gender or race differences, and uphold the right to individual choice. They are drawn to technology. The products that they acquire will be selected for their technological innovation and relevance to their lives.

- **Today-ers (24.1% of the South African adult population)**
  Today-ers present a tough 'don't-care' exterior to the world. They emphatically reject anything resembling group-civility or conventions. They will buy on brand externals and lower price rather than intrinsics, and need to show off to others what they have and who they are. Stimulants and relaxants such as alcohol, cigarettes and sex are used for sensation and escapism. They have little to look forward to and have little self-confidence as individuals, hence the need for bolstering from their peer group. They take little interest in selfimprovement - probably due to lack of opportuni-ties - and consequently feel disempowered and cannot relate to their personal role in improving their lot.

Behavioural segmentation

In behavioural segmentation, buyers are segmented into groups on the basis of their knowledge of, attitude towards, use of or response to a product or service. Kotler (2000: 267) identifies the following behavioural variables:

- Occasions - occasional buyers develop a need, purchase a product, or use a product
- Benefits - benefits buyers seek
- User status - non-users, ex-users, potential users, first-time users, and regular users of a product
- Usage rate - light, medium and heavy users
- Loyalty status - hard-core loyals, split loyals, shifting loyals and switchers
- Buyer-readiness stages - unaware of the product, aware, informed, interested, desire for the product and intent to buy
- Attitude - enthusiastic, positive, indifferent, negative and hostile.

Churchill & Peter (1998: 213) distinguish the following three segments based on purchase behaviour: usage rate, loyalty status and user status. Strydom et al. (2000: 116-118) adhere to the seven segments based on the buying behaviour of consumers as identified by Kotler (2000): purchase occasions, benefit sought, user status, usage rate, loyalty status, buyer readiness stage and attitude towards the product.

Market segmentation in a first-world environment

The ESOMAR[3] Social Grade has attempted to lay down guidelines for market segmentation for households living in the European Union (EU). The development of both the ESOMAR Social Grade and the LSM is based on the philosophy of comparability of segments of people, the former across first-world nations in the EU and the latter across ethnic or race groups, some based on first-world values and others on third-world values.

Interest in the harmonisation of socioeconomic and demographic variables within the European market has been in evidence for several decades. With the growing importance of pan-European research and the prospect of a single European market, interest developed during the 1980s in the idea that an attempt should be made to improve the comparability of sociodemographic data across countries.

The ESOMAR Social Grade (ESOMAR 1997) is a composite variable constructed from:

- The Occupation of the Main Income Earner in the household (the MIE)

3. European Society for Opinion and Marketing Research

- The Terminal Education Age (TEA) of the MIE following a period of employment and, in the case of nonactive MIEs,
- The Economic Status of the household, based on the household ownership level of ten selected consumer durables.

The definition of each of the MIE Occupation categories on which the matrix is based is as follows:

1. General management, director or top management with responsibility for six employees or more
2. Self-employed professional
3. Employed professional
4. General management, director or top management with responsibility for five or fewer employees
5. Middle management, other management with responsibility for six employees or more
6. Middle management, other management with responsibility for five or fewer employees
7. Business proprietor, owner (full/partner) of company OR owner of a shop, craftsman, other self-employed person with responsibility for six employees or more
8. Employed position, working mainly at a desk
9. Business proprietor, owner (full/partner) of company OR owner of a shop, craftsman, other self-employed person with responsibility for five or fewer employees
10. Student
11. Employed nonmanual position, not at a desk but travelling or in a service job
12. Farmer and fisherman
13. Responsible for ordinary shopping and looking after the home, housewife
14. Supervisor and skilled manual worker
15. Other (unskilled) manual worker, servant
16. Retired or unable to work through illness, unemployment or temporarily not working.

It should be noted that the MIE's Terminal Education Age takes into account any professional training or education undertaken by the respondent even after completion of the main period of education.

The Economic Status Scale reflects the penetration of ownership of ten key consumer durable items at household level. The original objective in compiling the Economic Status Scale was to construct a variable capable of representing the financial status of the consumer, without the inevitable problems associated with asking sensitive questions about income and having to cope with high non-response rates. Instead of attempting to determine household income, the focus is placed on the ownership of key consumer durables selected to reflect the level of disposable income in the household.

However, it is recommended that the Economic Status Scale should only be used to assess a respondent's Social Grade when it is impossible to obtain details of the MIE's occupation. The Economic Status should not be regarded as an easy alternative method. The ten products selected for inclusion in the scale are:

- A colour television set
- A video recorder
- A video camera
- Two or more cars
- A still camera
- A PC or home computer
- An electric drill
- An electric deep fat fryer
- A radio-clock
- A second home or a holiday home/flat.

It should be noted that this list may be subject to revision in the future in accordance with market developments. For instance, if one of the items (for example, a colour television set) no longer differentiates effectively between markets because of increasing penetration and therefore high ownership levels throughout Europe, it would be feasible to replace this with a new item differentiating better between grades.

Market segmentation in a combination of first- and third-world conditions

During 1988/89, SAARF developed a measure called the AMPS Living Standards Measure (LSM) (SAARF 2001b), which was better able to distinguish living standards than any single demographic variable. Basically, it is similar to the Economic Status Scale already discussed, but designed more for catering for both first-world and third-world circumstances. The LSM scale is used for indicating the socioeconomic status of a group. Eight levels were initially distinguished, but this has since been extended to ten. However, the segmentation outcomes discussed in this paper are still structured according to eight levels. Therefore, the eight levels (AMPS Living Standards Measure) used for segmentation are discussed first, and what is envisaged for the development of the New SAARF Universal LSM is then summarised.

Table 1. Weights of attributes

Attribute	Squared multiple correlation	Weight
Built-in kitchen sink	0.62736	0.2643
No car in household	0.73556	-0.3330
Flush toilet - inside or outside homes	0.81764	0.5662
Supermarket shopper (personal)	0.86244	0.5758
Microwave oven	0.89737	0.2639
Credit facility	0.91680	0.2743
Fridge/freezer	0.93247	0.2453
Washing machine	0.94348	0.3665
No financial services used	0.95253	-0.2848
Traditional hut	0.95961	-0.4325
Stove/hotplate (electric)	0.96423	0.2887
Polisher/vacuum cleaner	0.96883	0.8259
No insurance policy	0.97287	-0.2915
Hi-Fi/Music centre	0.97630	0.1947
Video cassette recorder	0.97877	0.2311
No domestic servant	0.98089	-0.2732
Television set	0.98246	0.1919
Car/sedan/beach buggy/hatchback/ two-seater coupe	0.98407	0.2780
Hot running water	0.98548	0.2548
Home telephone	0.98681	0.1864

Source: Adapted from SAARF (2001b)

AMPS living standards measure

Twenty variables were identified for the classification of households into eight different LSM groups. Each of the 20 variables carries a different weight, some positive and some negative, as calculated by a stepwise regression analysis of the results of the SAARF AMPS 2000A Survey conducted among 19 264 households. The total LSM of a household determines into which of the eight LSM groups it falls.

Table 1 reflects the stepwise regression analysis of the results of the SAARF AMPS 2000A Survey (the survey conducted in the first six months) for the 20 variables, including the squared multiple correlation after each step, and the weights. The squared multiple correlation reflects the proportion of variation.

The range of possible SAARF LSM scores was divided into eight groups. The groups are numbered from 8 (which indicates the highest living standard) to 1 (which indicates the lowest). Table 2 reflects the range decided on by SAARF of the eight LSM groups in terms of the weights of the 20 attributes.

Table 2. Range of LSM groups

LSM group	Range of weights
8	More than 5.9940
7	4.9311 to 5.9940
6	3.9801 to 4.9310
5	3.2501 to 3.9800
4	2.5941 to 3.2500
3	1.9431 to 2.5940
2	1.3302 to 1.9430
1	0.0000 to 1.3301

Source: Adapted from SAARF (2001b)

During 2001, SAARF decided to create an improved Living Standards Measure and, simultaneously with the release of AMPS 2001A results (SAARF 2001b), launched the New SAARF Universal LSM (SAARF 2001a). The New SAARF Universal LSM is based on universally applicable variables only. This means that all respondents can answer all the LSM questions, leading to a new universal index applicable to all adults of 16 years and older, without introducing a bias such as the one created by 'supermarket shopper' in the past, which sometimes resulted in a husband and wife not being in the same LSM category. The New SAARF Universal LSM is similar to the old version, but starts out with ten groups. What were previously referred to as LSM 7 low, 7 high, 8 low and 8 high are now known as groups 7, 8, 9 and 10 respectively. As South African society develops, the New SAARF Universal LSM has the ability to be extended beyond ten, and groups 11, 12 and so forth will be added in the course of time.

New SAARF Univeral LSM

Of the original list of 20 variables used to determine a person's LSM category in the previous LSM system, 15 household variables have been carried through to the New SAARF Universal LSM. In addition, the total number of variables has been extended to 29 to give finer definition to the scale.

The 29 SAARF variables are as follows: hot running water, fridge/freezer, microwave oven, flush toilet inside/outside house, no domestic in the household, video cassette recorder (VCR), vacuum cleaner/floor polisher, no cell phone in the household, traditional hut, washing machine, PC in home, electric stove, television set, tumble dryer, home telephone, fewer than two radio sets in the household, hi-fi/music centre, rural outside Gauteng/Western Cape, built-in kitchen sink, home security service, deep freeze, water in home/on plot, M-Net/DStv (pay channel) subscription, dishwasher, electricity, sewing machine, Gauteng, Western Cape and motor vehicle in household.

The range of weights for the original 8-group system, in Table 2, was used for classifying households by LSM group for the study serving as the basis for this article.

Data

The data for the study were obtained from a household income and expenditure survey conducted in Gauteng province, South Africa, towards the end of 2000. The results of the study are of a limited nature in that only 496 households were interviewed in Gauteng, and no households falling into LSM groups 1 and 2 were included. Further research in the rest of South Africa is required to define the total South African consumer market by LSM group. Gauteng is one of nine provinces in South Africa, housing 8.2 million people, or 18.4% of the total population of 44.7 million in South Africa in 2000 (Steenkamp & Van Wyk 2000). Gauteng's share in the total personal disposable income of South Africa was estimated at 35.4% in 2000 (Van Wyk 2000), while the province's contribution to Gross Domestic Product was calculated at 42% in the same year. The average disposable income per capita in Gauteng was approximately 92% higher than the average for South Africa and 25% higher than for the Western Cape, the province with the second highest disposable income per capita in 2000 (Van Wyk 2000).

With no sample frame available by LSM group, a disproportionate random probability sample of 120 household addresses, each in residential areas where mostly Asians and Coloureds live, and 130 in residential areas where mostly Blacks and Whites reside, was drawn. The survey population was segmented by race group to ensure the inclusion of all races. The people living at the selected addresses were interviewed, irrespective of their race. Personal in-home interviews were conducted. A weighting factor was used to add the totals of the four race groups together. This was possible since population statistics by race group are available.

The question that arises is: "How representative are the respondents in the survey of the LSM groups in Gauteng?" The only way to verify their representativeness is to compare the percentage distribution of households by LSM group used for this article with the percentage distribution of the population 16 years and older, as estimated by the 2000 AMPS sample surveys (SAARF 2001b). Table 3 shows the percentage distribution of the population 16 years and older in Gauteng by population and LSM group for 2000 indicated by the AMPS sample survey as well as the percentage distribution of the responding households in this survey.

Although the results of the two sample surveys are not entirely comparable, a comparison of the sample distribution in Table 3 with the AMPS population distribution for Gauteng suggests that relatively fewer households falling into LSM group 8 were included in this sample survey than in the AMPS sample survey. However, the opposite is true for LSM group 7. No households falling into LSM groups 1 and 2 were interviewed in this survey. However, the percentage of people falling into these groups is very small (Table 3).

The data are analysed according to demographic characteristics, income features and household expenditure patterns. The data for LSM groups 3 and 4 are grouped together due to the limited number of observations.

Demographic profile of respondents

Table 4 shows the demographic profile of responding households in Gauteng by LSM group for 2000.

The variation in the average age of household heads is limited and may be ascribed to sample error. There is therefore no tendency towards older household heads in higher LSM groups. However, there is a clear tendency towards relatively more male than female household heads as LSM group status improves - from a percentage of 46.1% male household heads for LSM groups 3 and 4 to 81.9% for LSM group 8. The number of salary/wage earners, as well as the percentage of household members who work for a salary/wage, increases with an improvement in LSM group status. Average household size varies from 3.37 members for LSM group 6 to 4.10 members for LSM group 5, with no visible trend according to the status of LSM groups.

Table 3. Percentage distribution of the population 16 years and older and respondents (households)

	Asians			Blacks			Coloureds			Whites		
LSM		Sample			Sample			Sample			Sample	
group	Population*	N	%	Population*	N	%	Population*	N	%	Population*	N	%
1	0.0	0	0.0	1.4	0	0.0	0.0	0	0.0	0.0	0	0.0
2	0.0	0	0.0	4.6	0	0.0	0.5	0	0.0	0.0	0	0.0
3	0.0	0	0.0	10.2	10	6.9	0.0	1	0.9	0.0	0	0.0
4	2.4	0	0.0	21.0	23	16.0	5.4	4	3.6	0.1	1	0.8
5	6.5	6	5.3	26.0	38	26.4	14.6	16	14.5	1.8	1	0.8
6	18.6	18	15.9	21.7	27	18.8	31.2	31	28.2	7.5	9	7.0
7	41.9	63	55.8	11.0	41	28.5	27.8	45	40.9	32.9	57	44.2
8	30.7	26	23.0	4.2	5	3.5	20.5	13	11.8	57.6	61	47.3
Total	100.0	113	100.0	100.0	144	100.0	100.0	110	100.0	100.0	129	100.0

*Adapted from SAARF (2001b)

Table 4. Demographic profile of households in Gauteng by LSM group

Demographic profile	LSM group 3 and 4	5	6	7	8	Total
Household heads						
Average age (years)	39.9	42.6	39.7	44.4	43.8	42.4
Males (%)	46.1	56.1	55.8	63.7	81.9	60.5
Females (%)	53.9	43.9	44.2	36.3	18.1	39.5
Recipients of income						
Salary/wage earners per household (number)	0.70	0.90	1.20	1.28	1.25	1.09
Salary/wage earners as a percentage of household members (%)	19.4	22.0	35.6	34.0	36.6	29.6
Male salary/wage earners as a percentage of all salary/wage earners (%)	44.6	43.3	40.9	41.8	50.8	43.6
Household members						
Average household size	3.59	4.10	3.37	3.76	3.42	3.69
Males (%)	33.0	43.2	42.3	43.8	49.7	42.5
Females (%)	67.0	56.8	57.7	56.1	50.3	57.5

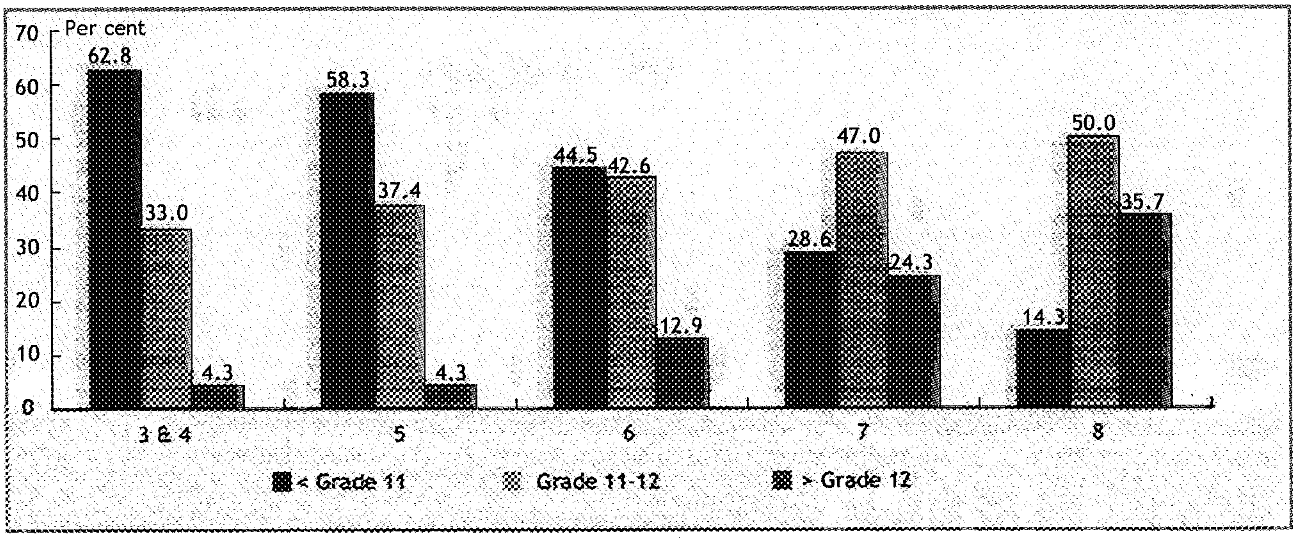

Figure 1. Level of education by LSM group (household members 16+ years)

There is a tendency towards more female members in the lower LSM groups than in the higher groups. Two thirds (67.0%) of household members are female in LSM groups 3 and 4, while the percentage is only 50.3% for LSM group 8.

Figure 1 shows that the level of education of household members aged 16 and older increases with improved LSM group status. There is a decrease from 62.8% for LSM groups 3 and 4 of household members 16 years and older with a qualification below grade 11 (number of years of successfully completed formal schooling) to 14.3% for household members in LSM group 8. The percentage increases from 4.3% to 35.7% for household members with a qualification higher than grade 12 (post-school qualifications) for the mentioned LSM groups respectively.

Household income

Figure 2 reflects the average income of households in Gauteng for 2000 by LSM group in terms of indices. The income of households falling into LSM group 8 is taken as 100.0. The index is as low as 10.2 for LSM groups 3 and 4. The figure also shows the percentage that salaries and wages contribute to total household income. The share that salaries and wages contribute to household income increases from 69% for LSM groups 3 and 4 to a maximum of 84% for LSM group 6, whereafter it decreases to 71% for LSM group 8.

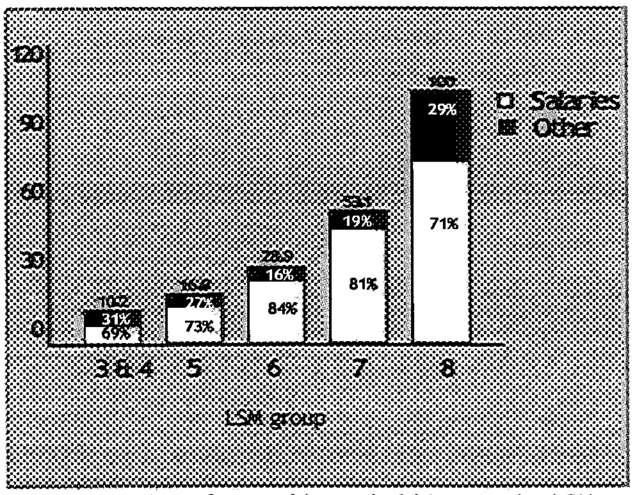

Figure 2. Index of annual household income by LSM group (LSM group 8 = 100.0)

Table 5. Percentage of unemployed household members 16 years and older by LSM group

LSM group	Male %	Female %	Total %
3 & 4	29.6	45.3	40.8
5	34.6	29.1	32.4
6	17.3	25.2	22.2
7	16.8	13.1	14.8
8	1.7	4.2	3.1
Weighted total	20.2	23.3	22.4

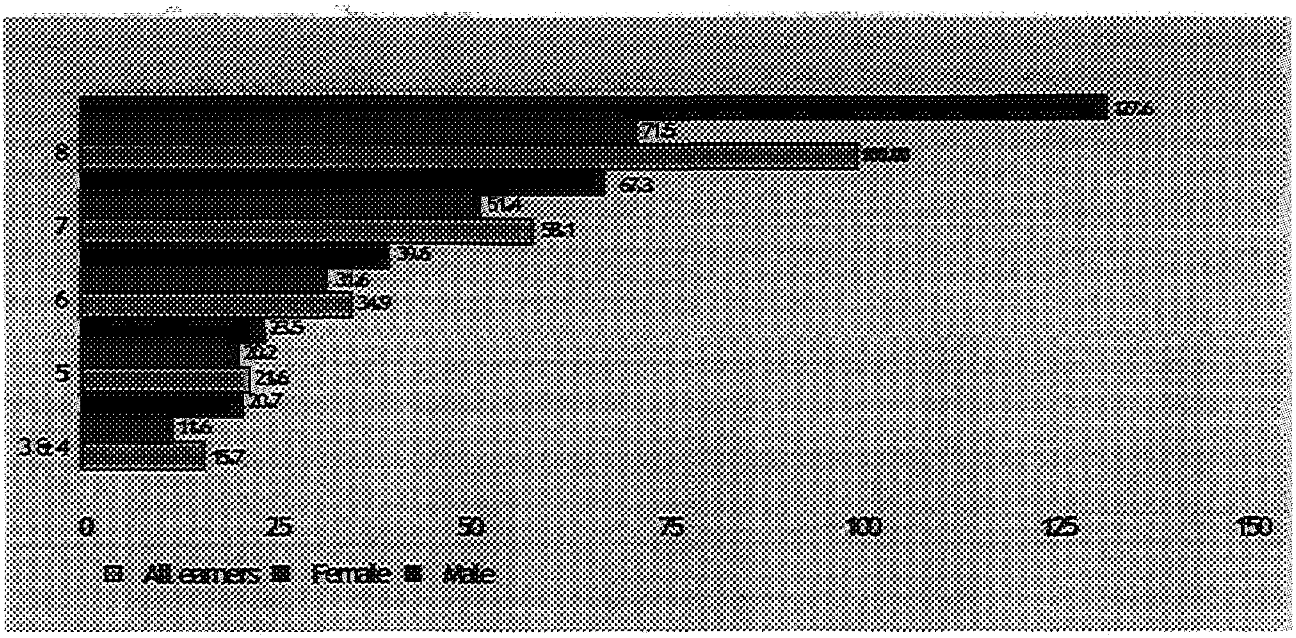

Figure 3. Index of annual income of earners by gender and LSM group (all earners of LSM group 8 = 100.0)

The percentage share of income from own business in total income is as follows: LSM groups 3 and 4-16.2%; LSM group 5-14.8%; LSM group 6-2.9%; LSM group 7-6.2%; and LSM group 8-18.8%. A comparison of the level of education of household members, the LSM groups into which they fall (which can be associated with income) and income from own business shows that people with relatively low levels of education cannot find employment and have to start their own survivalist businesses. People in LSM groups 5 to 7 are better educated and a higher percentage of them work for a salary/wage. People in LSM group 8 are the best educated and those that started their own businesses have clearly succeeded, as the level of 'other' income in Figure 2 indicates.

Social pensions contribute 3.1% of the total income of people in LSM groups 3 and 4 and 2.8% of the total income of people in LSM group 5. This percentage drops to 0.6% for LSM group 6, to 0.5% for LSM group 7 and to 0.0% for LSM group 8. The contribution of pension funds to the income of people falling into LSM groups 3 to 6 is less than 1%, while it is 4.3% for LSM group 7 and 3.3% for LSM group 8.

Table 5 shows the unemployment rate of household members 16 years and older by LSM group. The percentages for males do not show the same clear pattern of diminishing percentages as for female household members 16 years and older as LSM group status improves.

Earners' income

Figure 3 shows an index of the average annual income of earners by gender and LSM group. The average income of all earners falling into LSM group 8 is taken as 100.0.

The average annual salaries and wages of male earners vary from an index of 20.7 to 127.6, those of females from 11.6 to 71.5 and those of all earners from 15.7 to 100.0. The lowest salaries paid are for earners falling into LSM groups 3 and 4, representing the following percentages of earnings in LSM group 8: male 16.3%, female 16.1% and all earners 15.7%. The percentage difference between the income of male and female earners is the highest for LSM groups 3 and 4, where female workers earn only 56.0% of the salaries/wages of males, followed by LSM group 8, where the corresponding percentage is 56.1%. Many of the females falling into LSM groups 3 and 4 are domestic workers with relatively low salaries.

Household expenditure

Table 6 shows the percentage distribution of the annual cash household expenditure by main expenditure and LSM group. The expenditure patterns of the LSM groups reflect the law of Engel, namely the poorer a family the greater the proportion of its total expenditure is devoted to the provision of food (Cochrane & Bell 1956). One third (33.2%) of the cash budget of households falling into LSM

Table 6. Percentage distribution of annual cash household expenditure by main expenditure and LSM group

	LSM group					
	3 and 4	5	6	7	8	Total
Main expenditure group	%	%	%	%	%	%
Food	33.2	26.7	23.4	15.5	11.4	16.8
Clothing, footwear and accessories	8.7	6.8	5.9	4.3	3.7	4.7
Housing and electricity	5.7	6.5	12.5	13.9	16.9	13.7
Fuel and light	3.0	0.9	0.2	0.2	0.1	0.3
Transport	9.9	9.6	8.7	9.9	10.0	9.8
Medical and dental	1.3	4.0	2.5	4.2	3.7	3.7
Education	2.9	2.7	3.1	2.5	1.9	2.4
Insurance and funds	4.1	5.5	7.3	8.5	8.6	7.9
Recreation, entertainment and sport	0.2	0.4	0.7	0.9	1.8	1.1
Furniture and household equipment	6.9	5.9	3.9	4.1	2.8	3.9
Alcoholic beverages	1.6	4.3	2.8	2.0	2.1	2.3
Cigarettes and tobacco	0.5	0.6	0.7	0.9	0.9	0.8
Washing and cleaning materials, etc.	2.8	2.0	1.9	1.3	0.9	1.4
Dry cleaning and laundry	0.1	0.4	0.2	0.1	0.1	0.2
Personal care	6.2	5.4	4.6	3.1	2.0	3.2
Communication	1.6	2.5	3.1	3.1	3.0	3.0
Reading matter and stationery	0.4	0.8	0.8	0.7	0.4	0.6
Servants	-	-	0.5	0.9	2.0	1.1
Support of relatives (cash)	2.4	1.1	0.9	0.2	0.2	0.5
Holiday/weekend (excl. transport)	0.0	0.1	0.7	0.6	1.1	0.7
Income tax	2.4	3.6	8.1	16.2	20.7	15.0
Miscellaneous	2.7	3.0	2.7	1.9	1.5	2.0
Savings	3.1	7.2	4.6	5.1	4.3	4.9
Total	100.0	100.0	100.0	100.0	100.0	100.0

Table 7. Expenditure patterns of households

Declining percentages	LSM 3 and 4	LSM 8
	%	%
Food	33.2	11.4
Clothing, footwear and accessories	8.7	3.7
Fuel and light	3.0	0.1
Furniture and household equipment	6.9	2.8
Washing and cleaning materials	2.8	0.9
Personal care	6.2	2.0
Increasing percentages	LSM 3 and 4	LSM 8
	%	%
Income tax	2.4	20.7
Housing and electricity	5.7	16.9
Insurance and funds	4.1	8.6
Recreation, entertainment and sport	0.2	1.8
Servants	0.0	2.0
Holidays/weekends	0.0	1.1

Table 8. Percentage distribution of annual cash household expenditure on food by main food and LSM group

Main food group	3 and 4	5	6	7	8	Total
	%	%	%	%	%	%
Grain products	24.1	19.2	17.4	14.0	9.7	15.1
Meat products	30.9	29.9	33.3	31.4	24.5	29.9
Fish products	2.0	3.1	2.9	3.0	3.4	3.0
Fats and oils	3.9	2.9	2.5	2.9	2.5	2.8
Milk products and eggs	6.2	6.5	7.5	8.4	9.3	8.0
Vegetables	13.6	11.2	11.0	12.3	9.1	11.3
Fruit and nuts	3.5	6.3	7.1	7.4	7.5	6.9
Sugar products	3.9	4.7	3.6	3.5	4.3	3.9
Non-alcoholic beverages	4.1	3.4	3.2	3.2	4.2	3.5
Miscellaneous food	5.4	6.8	5.8	6.4	5.9	6.2
Prepared food	2.4	5.9	5.6	7.6	19.6	9.3
Total	100.0	100.0	100.0	100.0	100.0	100.0

groups 3 and 4 was spent on food, while the percentages for the successive LSM groups decline to 26.7% (group 5), 23.4% (group 6), 15.5% (group 7) and ultimately to 11.4% for LSM group 8. The average for Gauteng is 16.8%. The next main expenditure item making inroads into households' cash budgets is income tax, with a share of 15.0% for all households. However, the opposite trend occurs here, with payments for income tax increasing from 2.4% of the cash budget of households falling into LSM groups 3 and 4 to 20.7% for households in LSM group 8.

Expenditure on 12 of the 23 main expenditure groups shows a definite trend on comparison of the spectrum of LSM groups. The six main expenditure groups where the relative importance of cash expenditure increases with the status of LSM group can generally be described as encompassing 'luxury expenditure items', including luxury housing and compulsory payments of income tax associated with income levels. Main expenditure groups such as personal care and washing and cleaning materials may be viewed as necessities as in the case of food, clothing and footwear, and basic furniture - hence the relatively high percentage expenditure on these items among households in the lower LSMs. Expenditure on electricity is replaced by expenditure on fuel and light items (for example, paraffin, gas, coal, wood, candles) by some households in the lower LSM groups.

The expenditure patterns in Table 7 are in agreement with what is expected when moving from low- to high-income households.

No specific expenditure pattern that can be linked to the status of LSM groups emerges for the other 11 main expenditure groups, where expenditure may be influenced by personal preferences, aspirations, beliefs, values and addictions. Relatively high expenditure on education by households falling into a low LSM group may be ascribed to households preferring to send their children to more expensive and, in their opinion, better schools. Consequently, the percentage expenditure on education of households falling into LSM groups 3 to 6 is higher than the percentage expenditure of those falling into LSM groups 7 and 8.

Table 8 shows the percentage distribution of annual cash household expenditure on food by main food and LSM group.

Meat products constitute the major expenditure in all LSM groups. Meat products represent 24.5% of the cash food budget of households in LSM group 8 and 33.3% of those in LSM group 6. Meat is followed by grain products for LSM groups 3 to 7, while prepared food is second (19.6%) after meat for LSM group 8. While the percentage share of expenditure on grain products declines consistently with an improvement in LSM group status, the opposite is true for milk, milk products and eggs, fruit and nuts and prepared food (with the exception of LSM group 6).

Discussion of the results and implications for marketing management

Costa & Bamossy (1995) write as follows: "We live in confusing times. More than a hundred new countries have come into existence since the end of the two great ground wars and the cold war of the 20th century. Still, the proliferation of new nations is overshadowed by the emergence of a new world order in which the conventional barriers of nation-states become less meaningful under the weight of global economic forces." This paper illustrates the development of segmentation tools whereby consumers can be universally grouped into homogenous groups across borders of countries (ESOMAR Social Grade) or across race and ethnic groups (LSM) for target marketing purposes. Although ethnicity, nationalism and cultural identity still play an important role in the study of consumers, especially in terms of behavioural factors, Costa and Bamossy (1995) warn that "ethnicity today expresses an identity problem and is a bricolage of the images provided by consumer society. Today more than ever ethnicity deals with the uncertainty of identity." Previously, most marketing research data in South Africa were segmented on racial grounds. However, socioeconomic and political changes in South Africa and the increase in the number of black middle- and upper-income households have brought about the development of the LSM segmentation tool. By using this tool, 496 households were grouped into five homogeneous groups according to LSM requirements, on the basis of information collected from them for the purposes of this study.

Management implications

Marketing managers must take into account the major differences that occur between the different LSM groups when targeting one or more of these groups in marketing campaigns.

First and foremost, differences in the demographic profile of LSM groups have implications for the selection of the means of communication. Age structure, gender composition and levels of literacy play major roles in media selection.

Secondly, there are significant differences in the level of income, the source of income and unemployment rate of the different LSM groups, with implications for affordability and credibility.

Thirdly, expenditure patterns of LSM groups differ radically with regard to some products, and less so with regard to others. This type of information is important when marketing managers define their target market.

Practical applications

An effective marketing mix strategy is possible if a marketing manager has a profile of his customers. This article illustrates the use of LSM groups for identifying and/or ascribing a number of characteristics to customers. However, the discussion is only applicable to main expenditure and main food groups and does not extend to individual products or services, or to brand level. Some examples of the practical uses of LSM segmentation are:

- To identify more accurately who should be included in a target market for a specific product or service, for example, the primary market for the Audi A6 will be LSMs 7 and 8, while the primary market for the Toyota Tazz will be LSMs 5 and 6.

- To determine the possible impact of HIV/AIDS on the fast moving consumer goods (FMCG) market, for example, HIV/AIDS appears to have its most serious impacts on LSMs 1 to 3, which could affect sales of non-UHT milk, samp, maize meal and maas/sour milk dramatically, since these are staple foods of these groups
- To ascertain emerging trends in the market, based on the demographic composition of LSMs, for example, should LSMs 7 and 8 become younger and more female, sporty luxury cars for younger females might sell very well.

Limitations and further research

This article has illustrated segmentation on a different basis from a classification based on nationality, race or ethnicity but has not ventured into comparisons with other countries. Further research is required to determine whether there are any similarities between certain LSM groups and, for instance, specific ESOMAR Social Grade groups for marketing purposes.

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The retailing needs of a disadvantaged community in South Africa

Johan W. Strydom, Johan H. Martins, Marius Potgieter & Mildred Geel*

This article provides insight into the outshopping of black consumers in Soshanguve near Pretoria, administrative capital of South Africa. There was a need to determine the specific types of retailers that the residents of Soshanguve require to fulfil their consumer needs. Personal interviews were conducted among 300 residents of Soshanguve. Variables such as sociodemographic attributes, outshopping patterns, attitudes toward local merchants and preferred retailers required in Soshanguve were researched. The results indicate a need for more retail stores in the Soshanguve Township. The survey also highlights the responsibility of the national retailing groups to become more involved in the disadvantaged communities of South Africa.

Introduction

Retail businesses have traditionally competed with other retailers situated in the same community. With the advent of improved road systems, mass media and generally better-informed consumers, the nature and range of competition have changed. Today, consumers are more exposed to retailers and trading areas some distance away from their homes. Increasingly, some of these consumers travel to other trade areas to buy goods and services-spending part of their income outside the local community. These consumers can be described as outshoppers (Engel, Blackwell & Miniard 1993; Choe, Pitman & Collins, 1997: 1). In an increasingly competitive retailing environment, there is great concern among local retailers about the outflow spending from the community. To add to the woes of South African retailers, the structural problems inherited from the political system of apartheid have created disadvantaged township communities with the barest of retailing infrastructure. The majority of formal retailers in these communities can be classified as general retailers, while informal retailers comprise spaza shops (a convenience retailer operating from a room in a house), hawkers (selling mostly perishable products) and shebeens (selling beer and other forms of liquor). In most of the traditionally black residential areas, businesses are scattered throughout the area, and it is only in the newer areas that commercial sectors are properly planned and developed. The lack of planned retail development has exacerbated the outshopping of consumers from traditionally black residential areas in South Africa. After the change in the political dispensation in 1994, the call went out to rectify this situation and to address the needs of residents in these previously disadvantaged areas.

This article provides insight into the outshopping of black consumers in Soshanguve, an expanding township with 281 943 residents (2002 figure) near Pretoria, administrative capital of South Africa (Steenkamp 2002: 52). Soshanguve forms part of the new Tshwane Metropolitan Council, which also includes Pretoria, Centurion and other townships where previously disadvantaged people live, such as Mamelodi and Atteridgeville. In addition to investigating the outshopping phenomenon, the specific retailing needs of the residents of Soshanguve were also investigated. This area is served by only one relatively large formal regional shopping centre (the Nafcoc centre) and five small formal neighbourhood centres, with between three and five shops each. The assumption is that the Soshanguve area is seriously 'under stored' according to the definition of Dunne, Lusch, Gable & Gebhardt (1992: 159). The question constituting the focus of the study was therefore: What specific types of retailers do the residents of Soshanguve require to fulfil their consumer needs?

Background

The establishment of separate black residential areas in South Africa, of which Soshanguve is one, and the restriction of business development in these areas, was the result of continuous interaction between socioeconomic and political forces over more than a century (Butler 1989: 50). With this historic disadvantage, township retailers struggled to survive, and consumers were under-serviced, with only rudimentary retail services provided. Most of the problems that these township retailers encounter are, however, not unique to South Africa but are generic to retailers in developing countries. Samiee (1990: 34) summarises the problems that retailers encounter in developing markets as:

- Lower income levels of residents
- Limited car ownership of residents
- Inconvenient public transportation
- Lack of electricity and refrigeration
- Lack of adequate storage areas.

Nel (1982: 12-13) and Martins (1998: 34-35) refer to the problems that black South African consumers have with retailers in the townships:

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- Lack of self-service. For most of their purchases, black consumers prefer self-service outlets, where they have the opportunity to select the product themselves and compare prices. In most cases, local retailers use counter-service to sell to the consumer.
- Price. Consumers feel that they are exploited by local retailers, who charge high prices for products and services.
- Quality. There is a negative perception among township residents that they are paying high prices for stale and sub-standard goods.
- Variety. The variety of goods available in township businesses is limited.

It is evident from the above discussion that restrictions in the past have retarded the development of retailers in these areas and have resulted in considerable outshopping from the traditionally black townships to the traditionally white suburbs and central city shopping areas in South Africa. In a study conducted in 1999, it was found that middle- and upper-class blacks, 75% of whom still lived in the traditionally black townships, spent 93.4% of their total household budget at formal outlets and only 6.6% at informal outlets. Most of these formal outlets were outside the townships. Expenditure at informal outlets took place inside the townships at spaza shops and shebeens (Martins 2000: 35-37).

Research on the types of retailers required by disadvantaged communities is not freely available in South Africa. However, Bruwer (1997: 160-172) undertook research in Constantia, an upper-class (mostly white) suburb near Cape Town in the Western Cape. The objective was to determine the ideal tenant mix in a neighbourhood shopping centre in the predominantly white suburb. The preferred anchor tenant for this shopping centre was a national chain supermarket group. Ranking was used, and the preferred supermarket group was Pick 'n Pay, followed by Shoprite/Checkers, Hyperama (hypermarket) and OK Bazaars (since amalgamated with Shoprite/Checkers). The composite tenant category for this centre includes, in order of ranking, a restaurant, pharmacy, butchery, general clothing outfitter, book/stationery store, financial institution, bakery, shoe store and a music/CD shop. The preferences of these up-market consumers were compared with the results of the Soshanguve study concluded in 1999, in order to determine the differences between the needs of a previously disadvantaged (black) community and an up-market (mostly white) community in South Africa.

With the new political dispensation and concomitant socioeconomic changes in South Africa, consumers in townships such as Soshanguve expected that they would soon be serviced by modern retailers in the areas where they live. This process has taken longer than anticipated for a number of reasons, including the hesitancy of the large retailers to invest in the townships because of rampant crime in these areas. Against this background, it was decided to conduct research in the Soshanguve Township to determine:

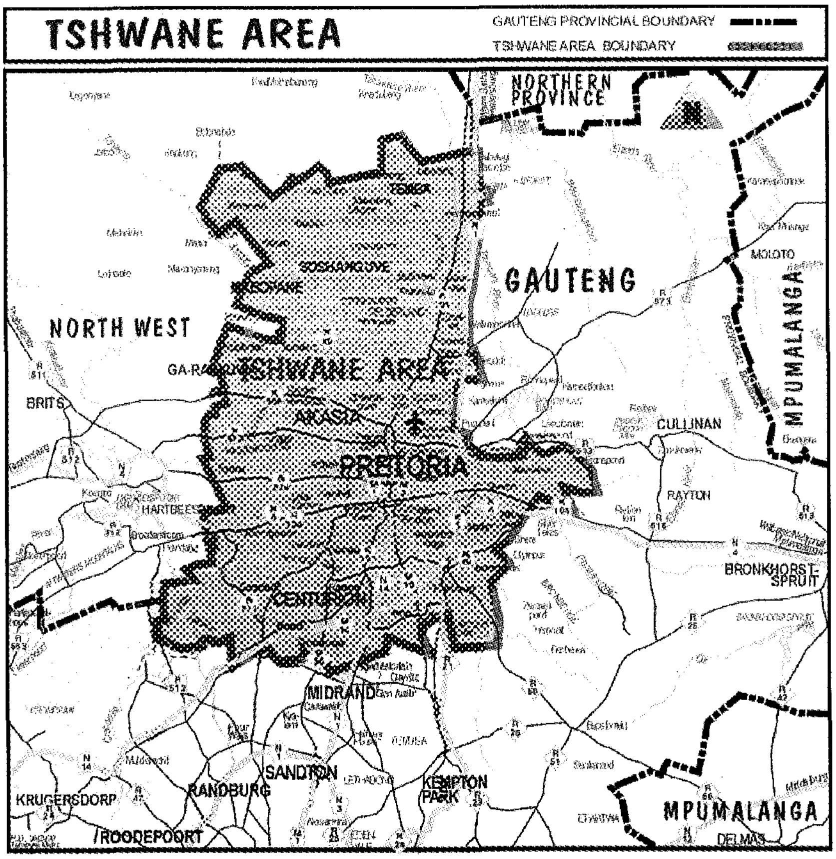

Figure 1. Area map of the Tshwane region

- Where consumers that live in this township currently buy their products and services
- The types of retailers the residents in the Soshanguve Township would require if they had a free choice
- The differences, if any, between the retailing needs of a previously disadvantaged community and an advantaged community in South Africa.

Methodology

As previously mentioned, Soshanguve forms part of the Tshwane Greater Metropolitan Area in the Gauteng Province of South Africa (Figure 1).

Research design

Private households of the Soshanguve area were selected for data collection. The sample elements interviewed were adult consumers who live in Soshanguve and who make the household purchases.

Data collection method

Data were collected by means of personal interviews. The sample frames comprised a database and maps of the regional planners of the City Council of Soshanguve. A stratified sampling technique was used.

Street blocks were identified and the sample units (dwellings) within each street block were randomly selected. Every tenth house in a street block was identified as a sample unit. This was done for both the formal residential areas as well as the three informal areas (comprising mostly squatter homes) in Soshanguve. The informal areas in Soshanguve account for 40% of the total number of residents; therefore 120 sample units were identified in the informal areas and 180 in the formal areas. In total, 300 interviews were conducted in the township.

Measures

The data collected in the study were related to the following major categories of variables:

1. Sociodemographic attributes
2. Outshopping patterns
3. Attitudes toward local merchants
4. Preferred retailers required in Soshanguve.

A five-point Likert scale was used to assess respondents' attitudes towards local retailers. Outshopping patterns were measured by the frequency of shopping for products and services outside Soshanguve. The preferences of the respondents regarding retailers required in Soshanguve were measured by using a list of six product categories. Specific store names for each of the six categories were determined through probing.

Results and analysis

Income distribution

Income categories of consumers illustrate their spending ability. The study showed that 17.8% of the respondents in the formal areas have a monthly household income of less than R1000 ($125 US at the current rate of exchange); 23.3% between R1001 and R2000; 22% between R2001 and R3000 and 22.8% between R3001 and R4000. Only 7.8% have a monthly household income higher than R4000. The household income of the remainder is unknown. Fifty per cent of respondents in the informal areas indicated that they have a household income of less than R1000 a month, and 30% an income between R1001 and R2000 per month. Only 0.8% of the respondents in the informal areas have a household income of more than R4000 per month.

Vehicle ownership

Ownership of a vehicle gives consumers mobility between their homes and retail trading areas. Of the respondents living in the formal areas of Soshanguve, only 33.9% have a motor vehicle of their own, while a mere 12.5% in the informal areas own a vehicle. The low rate of vehicle ownership results in the utilisation of public transport, which inhibits shopping.

Table 1. Areas where Soshanguve residents currently buy their products

	Product category					
Area	Perishables	Groceries	Electrical	Clothing	Furniture	Liquor
Total group						
Soshanguve	60.7	19.8	6.8	1.0	1.3	80.4
Rosslyn	4.7	4.0	2.9	2.0	1.3	3.1
Babelegi	0.0	0.0	0.5	0.0	0.7	0.8
Mabopane	14.8	41.8	25.2	24.7	22.2	5.4
Formal group						
Soshanguve	55.6	16.1	8.0	1.1	1.7	79.5
Rosslyn	5.0	4.4	1.7	1.7	0.6	4.0
Babelegi	0.0	0.0	0.0	0.0	0.6	1.3
Mabopane	18.0	45.6	26.3	17.4	18.9	5.9
Informal group						
Soshanguve	68.3	25.2	0.0	0.8	0.8	81.7
Rosslyn	4.2	3.4	9.7	2.6	2.6	1.8
Babelegi	0.0	0.0	3.2	0.0	0.8S	0.0
Mabopane	10.0	26.1	19.4	35.6	27.1	4.6

Distance to the nearest shopping centre

The distance to the nearest shopping centre is a determining factor for a community where the majority do not own a vehicle. The study revealed that nearly one third (32.8%) of the respondents in the formal areas live between two and four kilometres from a shopping centre, while a quarter (25.6%) live within a two-kilometre radius of a shopping centre. The informal areas are further away from shopping centres. Only 23.3% indicated that they are between two and four kilometres from a shopping centre, 31.7% between four and six kilometres and 20% more than eight kilometres.

Distance is used by most retail planners to determine the trade catchment area of a store or shopping centre. Traditional views on this are encapsulated in the writings of Applebaum (1966: 127) and Levy & Weitz (2001: 267), who distinguish between primary, secondary and tertiary retail zones for a store or centre. The primary zone is the geographic area where the store obtains between 60% and 65 % of its customers. This usually covers the area within a five to eight kilometre radius of the store. The secondary zone generates about 20% of the sales and is between eight and twelve kilometres away. The tertiary zone is up to 25 kilometres away and makes up the remaining customers for the shop or centre. According to this benchmark, it would seem that most of the consumers in Soshanguve reside within the primary trading zone of local shops. However, cognisance must be taken of the fact that Applebaum and Levy & Weitz developed their theories on the trade catchment area for American retailers marketing to consumers with a high car ownership figure. Travelling by foot or using the limited available public transport alters the situation dramatically, since the mobility and choice of the consumer are limited.

Location of retailers frequented

Table 1 provides a summary of the location of retailers currently frequented by Soshanguve residents.

Soshanguve is the most popular area for the purchasing of perishables and liquor - 60.7% of respondents indicated that they buy perishables such as bread, milk and vegetables in Soshanguve, while 80.4% indicated that they buy alcoholic beverages in the township. The high percentage sales in both these categories may be attributed to the convenience factor (the proximity of spaza shops and informal shebeens in the area) and the lack of cold storage facilities in most homes. Groceries are bought mainly at formal retail outlets such as the single regional shopping centre on the border between Soshanguve and Mabopane, a nearby township. Durable items such as electrical goods, clothing and furniture are bought in the city centre of Pretoria. It is clear from Table 1 that there is strong correlation between the responses recorded in the formal and informal areas.

Mode of transport used for shopping trips

Kombi-taxis (private taxis, such as the 12 seater VW Kombi vehicle) are used as the main mode of transportation for the products indicated in Table 2.

Table 2. Kombi-taxis as mode of transport for taking products home

Perishable products	42.3%
Groceries	68.3%
Electrical products	66.7%
Clothing	74.6%

Furniture is generally delivered by the delivery vehicle of the retailer, while alcoholic beverages are usually purchased (50.3%) from a convenience store (in other words, a shebeen) close to the respondents' homes. The popularity of Kombi-taxis as mode of transportation may be ascribed to the low vehicle ownership rate in the townships. Again, strong correlation between the responses recorded in the formal and informal areas is evident.

Factors influencing the purchasing decisions of consumers

Twenty-one factors were identified as influencing consumers' choice of retailer/centre. These factors were ranked as shown in Table 3.

It is interesting to note that both product freshness and hygiene are rated higher than price, indicating the discerning taste of consumers in the township and their need for high quality stores in their suburb. This finding is supported by the research of Brink (1997: 344-349), who also found that product quality and freshness are of primary importance to the consumer.

Table 3. Factors influencing purchasing decisions of consumers

Ranking	factor	Percentage
1	Product freshness	93.0
2	Hygiene	91.3
3	Price	88.0
4	Rest room facilities	85.5
5	Security	83.1
6	Public phones	83.0
7	Location (near home)	82.5
8	Attitude of personnel/owner	82.1
9	Discount	77.7
10	Delivery service	75.7
11	Product range	72.5
12	Store range	71.3
13	Demonstrations	68.8
14	Trading hours	68.6
15	After-sales service	67.2
16	Volume buying	61.8
17	On taxi route	60.8
18	Credit facilities	55.4
19	On bus/train route	52.3
20	Single-item purchasing allowed	45.2
21	Ethnic affiliation of owner of store	31.8

Specific retailers required in Soshanguve

Specific retailing requirements of consumers living in Soshanguve are summarised in Table 4.

For groceries, the consumer would prefer a national chain of supermarkets such as OK Bazaars, Pick 'n Pay or Shoprite/Checkers. This points to a dire need for more chain supermarket groups to become involved in the disadvantaged communities of South Africa.

The perishable product category produced similar results, reflecting a need for a chain supermarket group (such as OK Bazaars, Spar or Pick 'n Pay, in order of preference) to locate to the Soshanguve Township.

In the electrical goods category, respondents expressed a need for an electrical chain store. The majority did not indicate a preference for a particular electrical retailing group, while the remainder favoured OK Bazaars followed by Dions.

Similarly, in the clothing category, most respondents that expressed a need for a clothing store did not specify a preferred retailer. The balance favoured the traditional clothing chain retailers, Edgars and Sales House. This response also indicates considerable need for clothing stores in Soshanguve.

Table 4. Specific retailers required by Soshanguve consumers

Product category	Percentage
Groceries:	
OK Bazaars	39.7
Pick 'n Pay	22.3
Other	20.3
Shoprite/Checkers	12.7
Perishable products:	
OK Bazaars	27.6
Other	24.7
Spar	24.3
Pick 'n Pay	14.7
Electrical products:	
Other	34.0
OK Bazaars	26.0
Dions	13.7
Clothing:	
Other	38.6
Edgars	28.3
Sales House	17.7
OK Bazaars	7.7
Woolworths	7.7
Furniture:	
Other	56.4
Morkels	14.3
OK Bazaars	12.3
Railway furnishers	11.0
Joshua Doore	6.0
Alcohol:	
Any liquor store	50.3
Shebeen	18.3

It is interesting to note that the most urgent need is in the furniture category. More than 50% of the respondents are of the opinion that any furniture store would be welcome. This was followed by a preference for the traditional furniture stores available in the city centre such as Morkels and OK Bazaars. The results corroborate the findings shown in Table 1, which indicates that only 1.3% of the residents buy furniture in Soshanguve.

In the liquor category, half the respondents indicated a need for any kind of liquor store, followed by 18.3 % that prefer a shebeen. According to Table 1, 80.4% of the respondents currently buy liquor from shebeens (existing informal retailers) inside Soshanguve.

Overall, there were no major differences between the needs of residents in the formal and informal areas of Soshanguve.

Comparison of the needs of consumers in Soshanguve and Constantia

In the final instance, the shopping needs of the disadvantaged Soshanguve community in Gauteng were compared with the preferences of residents of the up-market suburb of Constantia in the Western Cape. In four of the six product categories, meaningful deductions could be made. The results are depicted in Table 5.

In the grocery category, the preferences of the two communities are similar. Both list the major supermarket chains, though in a different order. In the clothing category, the clothing chain Edgars ranked second in both communities. On the whole, Constantia residents preferred the up-market clothing chain stores Markhams, Truworths and Stuttafords, while Soshanguve residents opted for discount clothing retailers, such as Sales House and OK Bazaars.

The furniture category reflected different preferences. Most Soshanguve residents would be happy with any furniture chain, while Morkels was rated second. Constantia residents preferred Lewis furniture stores.

In the liquor category, there were considerable differences. Soshanguve residents opted for any liquor store, with a shebeen as second choice, while the up-market consumers of Constantia preferred a national liquor chain store, namely Solly Kramer.

Conclusions and recommendations

The results of the study indicate that outshopping occurs in the disadvantaged Soshanguve community mainly because the area is under-stored. More specifically, it was found that convenience products are bought from the retailers operating in the townships, but that the more expensive product categories (clothing, electrical products and furniture) are bought outside the township.

Table 5. Comparison of the shopping needs of consumers of Soshanguve and Constantia

Soshanguve (Gauteng)		Constantia (Western Cape)	
Groceries	**Ranking**	**Groceries**	**Ranking**
OK Bazaars	1	Pick 'n Pay	1
Pick 'n Pay	2	Shoprite/Checkers	2
Other	3	Hyperama	3
Shoprite/Checkers	4	OK Bazaars	4
Groceries	**Ranking**	**Groceries**	**Ranking**
Others	1	Markhams	1
Edgars	2	Edgars	2
Sales House	3	Truworths	3
OK Bazaars	4	Stuttafords	4
Groceries	**Ranking**	**Groceries**	**Ranking**
Other	1	Lewis	1
Morkels	2		
Groceries	**Ranking**	**Groceries**	**Ranking**
Any liquor store	1	Solly Kramer	1
Shebeen	2		

The criterion applied by Soshanguve residents when buying products and services is quality, which supercedes price as a determining factor in the purchasing process.

A comparison between the disadvantaged community of Soshanguve and the up-market Constantia resident reveals similar preferences regarding groceries and (to a lesser extent) clothing, while there are major preference differences in the furniture and liquor categories.

Overall, the results indicate a need for more retail stores of standing in the Soshanguve Township. The results also highlight the responsibility of the national retailing groups to become more involved in the disadvantaged communities of South Africa.

Only once sufficient retailers of standing locate to the townships will the residents of disadvantaged townships such as Soshanguve be able to fulfil their needs without resorting to outshopping.

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An exploratory investigation into the application of market strategies by selected JSE-listed companies in the food sector in the period 1996-1999

Hester Nienaber, M.C. Cant & J.W. Strydom*

The study was sparked by the observation that similar firms, faced with a similar situation and seemingly applying similar market strategies may achieve very different degrees of success. The question was whether the market strategies applied by these firms adhered to the principles of a sound market strategy put forward in the literature. The study found that the market strategy applied by the firms in question complied with the principles of market strategy, to varying degrees. The firms that adhered to these principles to a greater degree appear to have been more successful than others. It appears that the less successful firms neglected the principle of 'sustainable competitive advantage'. It was concluded that adherence to the principles of a sound market strategy could lead to improved performance.

Introduction

The study was sparked by the observation that similar firms, faced with a similar situation and seemingly applying similar market strategies, may achieve very different degrees of success. All South African firms engaged in the production and processing of poultry were affected by the importation of 'dumped' poultry, high feed prices and depressed consumer prices in the period 1996 to 1999. From newspaper reports (*Business Day* 20/11/96; *Business Report* 18/11/97; *Business Day* 23/7/98), it would appear that all these firms applied, *inter alia*, a 'restructuring' (harvesting) market strategy. Today, some of these firms have disappeared completely, others are struggling, and some appear to be doing well. The reason for the phenomenon described may be, at least in some part, ascribed to the market strategy applied by these firms. Market strategy is the tool a firm's management uses to adapt to changes and thus ensure survival and growth in an ever-changing environment. To be effective, market strategy should comply with sound principles, as manifested in a model of market strategy (Aaker 1998; Thompson & Strickland 1998; Pearce & Robinson 1997; Wheelen & Hunger 1998; Van der Walt, Strydom, Marx, & Jooste 1996).

A model of market strategy

The model of market strategy used in this study is illustrated in Figure 1. In terms of Figure 1, market strategy should be based on 'sustainable competitive advantage'. The literature review (Coase 1937; Selznick 1957; South

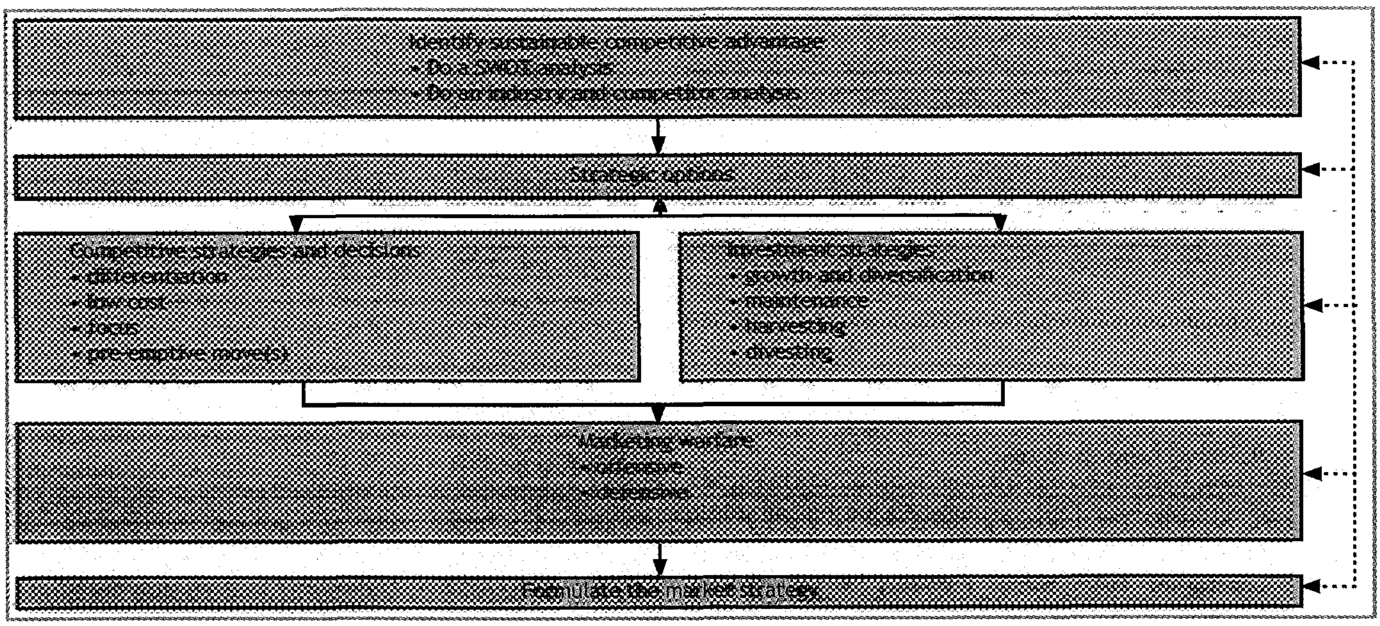

Figure 1. A model of market strategy
Source: Adapted from Van der Walt et al. (1996: 542)

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An exploratory investigation into the application of market strategies by selected JSE-listed companies in the food sector in the period 1996-1999

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1981; Porter 1985; Prahalad & Hamel 1990; Aaker 1993 & 1998; Drucker 1994; Grant 1995; Slater 1996; Van der Walt et al. 1996; Thompson & Strickland 1998; Javidan 1998; Hao 1999) established that sustainable competitive advantage (SCA) consists of three facets, namely:

- The product-market served
- What the customers value
- The required assets/resources and skills to sustain customer value in the chosen product-market served.

SCA is determined by doing a SWOT (strength, weakness, opportunity and threat) analysis as well as an industry and competitor analysis. These analyses give the firm a customer orientation - in other words, substantiating what customers value. If a firm's market strategy were to be based on its SCA, it would achieve above-average industry profits (Porter 1985; Thompson & Strickland 1998). The identification of the SCA forms part of the process of deciding on the strategic option, as represented by the dotted lines in Figure 1. The dotted lines represent the facets underpinning market strategy, for example:

- It is an iterative process.
- A change in one component may change one or several other components.
- The process is not necessarily sequential in nature.
- Change may be pro-active - the firm may adapt its market strategy in anticipation of a change in the environment.
- Market strategy is externally orientated, taking into account the demands of the market, competitor actions and occurrences in the external environment.
- Access may be sought to good management information systems to capitalise on the information at its disposal.

The process followed impacts on the strategic option selected, which determines whether the option is effective or not given the prevailing situation. Other factors that may impact on the strategic option selected include the industry format, for example, pure competition, monopolistic competition, oligopoly and monopoly. The market structure of the South African food sector is deemed an oligopoly, in that few large firms dominate the market. The oligopolistic nature of the industry is considered to lend itself ideally to the application of market strategy to ensure that competitors are outwitted in the market place. A further factor that impacts on the application of market strategy is the life cycle of the firm, product or market, for example, growth, mature or declining phase. The mature phase is deemed relevant for the South African food industry. Thompson & Strickland (1998) warn that firms in a mature industry should not apply compromising market strategies (namely, a combination of focus, low cost and differentiation), as this would bring forth mediocre rather than exemplary results.

This study focused on the selected firms manufacturing foods in the major groups of meat, fish, fruit, vegetables, oils and fats, listed on the Johannesburg Stock Exchange (JSE) in the period 1996 to 1999, because:

- In terms of their aggregate food turnover, these firms represented more than 50% of South African food sales.
- Consumer expenditure on the major groups of meat, fish, fruit, vegetables, oils and fats represented more than 50% of total consumer expenditure (National Department of Agriculture 2000).
- Total sales of the major groups of meat, fish, fruit, vegetables, oils and fats increased slightly over this period and represented 30% of total food sales in 1999 (Statistics SA 1999: 23-33).
- Food and food products were the single most important contributor (14.4%) to manufacturing output (Statistics SA 1999: 2).
- Manufacturing contributed most (approximately 20%) to the South African gross domestic product (GDP) in the period 1996 to 1999 (National Department of Agriculture 2000).
- The period 1996 to 1999 was selected because this period witnessed dramatic changes in the food industry and was the most recent meaningful period in which data could be collected.

The purpose of this article is to report on the study and its findings as well as to suggest future research in this area.

Problem investigated

The problem investigated was whether the market strategies applied by the selected firms adhered to the sound principles of market strategy put forward by some of the leading authors in the field, such as Aaker (1998), Thompson & Strickland (1998) and Van der Walt et al. (1996), and depicted in Figure 1. A perusal of the annual financial reports of the manufacturing firms listed on the JSE food sector, in the period 1996 to 1999, indicated that these firms seemed to be performing well. In most cases, turnover and profit increased between 1996 and 1999. However, it appeared that the success achieved by the firms differed and that they did not achieve above average industry profits, which for the purposes of this study were deemed net profit margin, return on assets and return on equity. Table 1 summarises examples of the market strategies applied by these firms (named A to E for the sake of confidentiality) and the resultant performance.

A closer look at Table 1 shows that the firms in question seemed to apply market strategies discussed by these theorists. This is evidenced by market strategies such as 'growth', 'diversification', 'divest', 'low cost', 'harvesting' and 'maintaining'. Firm C seemed to be the only firm that applied market strategies consistently, associated with improved performance, as its share price, headline earnings and operating profit increased. The performance of firms B and D appears to have improved in 1998 and

Table 1. Summary of selected South African food firms, the apparent market strategies applied, and resultant performance

Firm	Market strategy	Performance
A	Sell 50% of its biscuit and confectionery interest (i.e. divest strategy)	Improved - EPS increased 25% for six months to May 1996
	Turnaround by selling non-core assets overseas (i.e. harvesting strategy)	Disappointing - operating income declined 13.5%
	Restructure - merge or sell certain assets	Disappointing - 30% decline in headline earnings
B	Sell animal food interests (i.e. divest strategy)	Poor - posted R57.2m loss for year end 1996
	Restructure by delisting and liquidation of a holding company (i.e. maintenance or harvesting strategy)	Poor - R128.6 million loss (interim)
	Management change - appoint new chief executive officer	Improved - share price rose 30% and closed at 26c
	Restructure - move head office	Improved - operating profit of R34 million fir year ending March 1999
C	Acquire a major US malt firm - growth by expanding into malt	Share price decreased from R71 to R60
	Restructure - invest in world class manufacturing	Headline earnings improved 25.4% to R561.6 million (year end 1999)
	Joint venture (Heinz SA)	Improved - operating profit rose to R1.1 billion
	Expand (grow) into emerging markets (India, Philippines, Chile)	Improved
	Divest (sell) stake in catering concern	Improved - headline earning improved from R2.33/share to R0.25/share
D	Restructure - close of factories	70% drop in net income (1996); Net income dropped by 46% (1997)
	Restructure	Improved - losses were smaller (R24 million compared to R80 million in previous period)
	Change of control	Unknown
	Restructure - sell unprofitable businesses	Improved - loss of R6.92 versus previous R24 million
E	Introduce value-adding processes (growth)	Unknown
	Joint venture between Australian and US firm	Unknown
	Acquire frozen food interests with divestment of one of its rivals	Unchanged - share price remained at R2.40
	Take steps to restore profitability by selling non-core businesses	Dissappointing - 31% decline in headline earnings

1999. The market strategies applied by firm C, (for example, restructuring, acquisition and joint ventures), did not appear to differ from those applied by the other firms. Furthermore, the conditions prevailing in the business environment were the same, including a depressed consumer market, an incidence of dumped poultry from the USA and high feed costs. Despite similar conditions prevailing in the (external) environment, firm C generally appears to have performed better than its rivals. The question was why this occurred if all apparent competitors applied the same, or at least similar, market strategies. From the media coverage, it also appears that the underperforming firms were aware of their poor performance and were addressing the situation. Steps taken by firms A, B, D and E to rectify the situation included applying market strategies such as turnaround, restructuring and rationalisation or harvesting. In the case of firms B and D, this seems to have contributed to improved results. The less successful firms (for example, A and E) appear to have applied similar market strategies, yet achieved less success than firm C, for instance. From Table 1, it would appear that the overall market strategies applied by these firms succeeded to only a limited extent.

The assumption, for the purposes of this study, was that these firms did not understand and apply market strategy in the way described by these theorists (Aaker 1998; Thompson & Strickland 1998; Van der Walt et al. 1996). The conflicting results in Table 1 and the different views in the literature on market strategy pose the problem and reasons for the study as set out at the beginning of this section. Schnaars (1991: 19) points out that there is no consensus on the subject, or on the concept of market strategy, except for the historical origin of the concept of 'strategy'.

It is hypothesised that the firms that understood and applied market strategy, as described in the literature, would perform successfully, while those that did not know about market strategies, or did not adhere to the principles of a sound market strategy, would be less successful.

Research method

The study was qualitative in nature, while the specific research design was exploratory-descriptive (Malhotra 1996: 87 & 89). The problem investigated necessitated a qualitative approach, more precisely the exploratory-descriptive design. The most important reason was the absence of information on market strategy. Expert opinions were needed to lay the foundation in this regard. There was little information available on this subject in general, or on these firms specifically. Experts in these firms were therefore identified to collect the necessary data. Secondary sources were also used to augment the primary data collected. The population consisted of South African firms manufacturing food in the major groups meat, fish, fruit, vegetables, oils and fats listed on the JSE between 1996 and 1999. The sample selected comprised the larger firms in the population. Non-probability sampling, especially judgement sampling, was used to select the sample. Judgement sampling was deemed appropriate for the purposes of this study in view of the fact that:

- Expert opinions were sought.
- Significant players could be included in the sample.
- The sample consisted of a small number of firms due mainly to the oligopolistic nature of the market. Few of the firms were listed on the JSE food sector, and few were involved in the manufacturing of food of the major groups of meat, fish, fruit, vegetables, oils and fats.

The judgement sample, in this case, was deemed more reliable than other non-probability samples, as it ensured that the larger firms were, in fact, included in the sample, thus making the study more reliable. Larger firms were selected, as they were deemed to be successful firms, given that growth is an objective of the firm and, as such, is measured in terms of turnover, market share and number of employees. Five firms were selected for the purposes of this study:

- The number of firms complies with the norm (between four and 10) required to obtain good information and address the issue of complexity (Eisenhardt 1989: 545).
- Firm C (in Table 1) was the largest of the firms in the sample frame in terms of turnover, namely R20 837.4 million in 1999.
- Firm C was related to a number of the other firms/items in the population via shareholding or joint ventures.
- At least one significant competitor of firm C in the major groups of meat, fish, fruit, vegetables and oils and fats was selected for the purposes of comparison. Firms A, B, D and E were therefore selected. These competitor firms were considered the larger firms (in terms of turnover), with similar activities to firm C (intra-type competition). The oligopolistic nature of the market restricted the selection of relevant competitors. Top management of these firms were furthermore deemed experts in the field of market strategy, who could provide the information required to gain insight into and an understanding of the application of market strategy by these firms.
- These firms represented the corporate and SBU (strategic business unit) levels, which were relevant in the application market strategies.

The questionnaire

A self-administered questionnaire was used to obtain data. The questionnaire was electronically mailed to the respondents. The questions in the questionnaire reflected the principles of a market strategy as reflected in a model of market strategy, depicted in Figure 1. The questionnaire was administered by the University of South Africa's Bureau of Market Research during the period between October 2000 and June 2001, taking into account the closure of businesses between 16 December and the New Year.

Findings

Five firms were selected and seven (including some of these firms' SBUs) returned the questionnaire. However, one questionnaire was rejected because a firm manufacturing products other than meat, fish, fruit, vegetables, oils and fats responded. The responses were accepted as the respondents indicated that they shared the strategy responsibility in the firm, although they represented the corporate, SBU and functional levels of management. Four of the six responding firms were involved in the manufacture of meat products and one each in fish, fruit and vegetables oils and fats. Some of the firms in question were experiencing management problems and therefore appointed new managers (see Table 1), resulting in improved performance. Responses from such firms were accepted for the purposes of the study, although the respondents were not involved in strategy for the entire period under review.

The responses indicated various different views on the required principles of market strategy, which did do not always correspond entirely with those of the literature consulted for the purposes of this study. It was also apparent that the respondents' marketing departments contributed to strategy formulation and implementation, in collaboration with the top structure. Only half of the respondent firms indicated that they were continuously formulating market strategy, which appeared to be consistent with the theory and the demands placed on the firms by the volatile environment in which they were conducting their business.

From the responses, it is doubtful whether they applied SCA as intended in the literature, especially since customer value, the critical aspect of SCA, was generally omitted. These responses would furthermore seem to indicate that the basis exists for SCA, as well as the opportunities for advancing the concept. However, the responses indicate that these firms do not exploit either the basis or the opportunities to advance SCA to the fullest. Neglecting customer value can generally be traced to the omission of comprehensive mission statements, including customers served, in their annual reports.

All the respondents appear to have applied the strategic options as mentioned in the literature to a greater or lesser extent. However, on closer scrutiny, not all the respondents seemed to view and/or apply these options as intended in the literature. Generally, the firms did not appear to have based their market strategies on their SCAs. Furthermore, most of the firms appear to have applied compromising strategic options that jeopardised their results. Table 2 summarises the different market strategies applied by the firms surveyed.

Table 2. The various market strategies employed by the firms

Firm[1]	Market strategies applied
1	Low cost, focus
2	Differentation, low cost, focus, first mover, synergy, growth, warfare
3	Differentation, low cost, focus, first mover
4	Differentation, focus, first mover, synergy, growth, maintenance, harvesting, divesting, warfare
5	Differentation, low cost, focus, growth, maintenance
6	Differentation, low cost, focus, first mover, synergy, growth, maintenance, harvesting, divesting, warfare

Table 2 shows that all the firms in question apparently applied a combination of the available strategies (namely, competitive and life cycle strategies). Furthermore, they also applied a combination of the competitive strategies (low cost, differentiation and focus), which appears to be in conflict with Thompson & Strickland's (1998) view that firms in a mature industry should preferably apply only one of the competitive strategies. The reason advanced for this was that the firms might jeopardise their results by applying compromising strategic options. This could perhaps be the case in the example of the firms under investigation, and it might explain why some of the firms did not perform as expected and achieve above-average industry profits.

According to Table 2, four of the responding firms appear to have applied competitive strategies and decisions and life cycle strategies, as illustrated in Figure 1. These seem to have been consistent with the theory. However, two of the firms apparently only applied competitive strategies, which seem to have been inconsistent with the theory. This could indicate that some of the firms surveyed did not view market strategy as intended in the literature and might partly explain why some of the firms did not achieve the expected above-average industry profits.

Conclusions

The conclusions of this study can be summarised as follows:

- The responding firms indicated that they adhered to varying degrees to the principles of sound market strategy.
- Those that indicated that they adhered to a greater extent to these principles appear to have been more successful than the others.
- The firms that indicated that they adhered to a lesser degree to the principles of a sound market strategy neglected SCA. These firms appeared to be insufficiently market orientated, leading to the incorrect identification of SCA, which resulted in the application of ineffective market strategy options.
- Closer adherence to the tested model could lead to improved performance, especially in achieving above-average industry profits.

Recommendations

Based on the evidence provided in this study, it is recommended that:

- Better training and education is needed on this topic.
- Academics should endeavour to contribute to clarifying matters in connection with market strategy in order to assist practitioners to benefit from this vehicle, which ensures that firm's achieve their ultimate goal of survival and growth in an ever-changing environment.

Limitations of the study

The qualitative nature of the study is considered its major limitation, in that the findings cannot be generalised to the population. Other limitations include the sample frame, the sample and the period in which the data were collected. The study contributed to testing a theoretical model of market strategy in practice. The understanding and insight gained in the application of market strategies should be further tested to validate the findings.

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Appendix: Newspaper articles on the topic (1997)

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Modelling accelerated business growth

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This paper reports the results of an investigation into constraints that face business growth in thirteen small towns in the eastern Free State, South Africa. A questionnaire was administered to a randomly selected sample of 220 business owners following the conducting of a ground survey. The data collected were analysed using descriptive statistics centred on frequency distributions. The findings indicated the critical role of both management and the factor market in determining the performance and growth potential of firms. Since internal constraints at firm level were consistently cited, a business model that captures the essence of the process of accelerated business growth was developed. Accelerated business growth becomes a possibility only when management achieves a critical set of optimal input mix at the level of the individual firm. The paper discusses insights into the model and its practical applications and acknowledges its limitations.

Introduction

Why some firms grow while others struggle to survive remains a lively area of research today. It is, however, becoming increasingly clear that there are sets of conditions that appear to act as the basic and necessary prerequisites for any growth of business to occur. These prerequisites are sector and industry independent. Given that there are generally agreed factors that come into play in understanding the process of business growth, it becomes possible to model these conditions that cumulatively lead to business growth at the level of the firm. At a second level of conceptualisation, once these are understood, it should be possible to enquire into the possibility of actually accelerating the rate of growth of firms. What in essence we are concerned with is not just the general growth of firms, but more significantly, the mechanisms for accelerating such growth. The model therefore attempts to put together a set of conditions aimed at optimising the probability of increased growth rates at the level of individual firms, irrespective of the industry they belong to.

In terms of structure, this paper is divided into six sections. The first part has provided an introduction. The second part addresses the problem and objectives of the study. The third part introduces the methods of data collection and analysis and presents the findings. The fourth part presents the accelerated business growth model developed on the basis of the findings. The fifth part reviews the integration, insights, applications and limitations of the model. The last part provides a brief conclusion.

The problem

For the purpose of this paper, a firm is understood to be any organisation that mobilises factors of production - land, labour, capital and technology - to make a product or provide a service in the market for which it expects returns. For firms to become profitable, they must invest in input combinations that approach the optimal in time and space, subject to limitations imposed by the factor market, on the one hand, and management on the other. While firms may reap satisfactory profits without real growth, for them to become profitable, they must of necessity achieve growth. Different firms grow at different rates and across different sectors of the economy. Growth itself often goes through cycles of boom followed by recession, such that growth is not simply an upward trajectory in time. Different firms require different inputs from the factor market and display different management approaches. Firms are not the same in the way they respond to similar growth opportunities. Firms show variations in the way that they understand markets within which they operate. The same applies to the way they forecast future conditions. This does not mean that every firm is so unique as to defeat attempts at isolating generalisations across all firms. The purpose of this paper is to design a model, based on a set of feasible conditions, that may approximately describe the actual process of accelerated business growth.

Two objectives of this paper are advanced. The first is to identify internal constraints at the level of the firm that militate against the pursuit of accelerated business growth. The second is to develop a model, based on the findings, that could be used to override such internal constraints.

Methods, analysis and findings

This study was undertaken during the latter part of 1999 and the first quarter of 2000. The focus was on thirteen small towns (namely Kestell, Clarens, Memel, Warden, Paul Roux, Rosendal, Lindley, Petrus Steyn, Arlington, Clocolan, Fouriesburg, Marquard and Cornelia) in the eastern part of the Free State province, South Africa. The study involved carrying out field observation of business activity and administering a questionnaire to a randomly selected sample of 220 business owners in the area. The focus of the observation and the questionnaire was to isolate what

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local business owners regarded as constraints to performance, potential for business growth and an evaluation of their assessment of business prospects in the area. The data collected were then analysed using simple descriptive statistics to isolate key features of the business sector.

A summary of the findings is presented. With reference to classes of business operating in the area, it was found that sole traders accounted for 83.2% of the sample, indicating the dominance of the small, micro and medium enterprises in the area. The majority of business units, totalling 71.3%, were family businesses. In terms of employment creation, 81.4% of the businesses employed fewer than five people. The pricing policy pursued by most business owners was out of touch with the buying power of the local market. The majority reported competitive prices, but this was disputed by responses from consumers and by the results of observation. Prices tend to be so high that a significant percent of consumers make periodic shopping trips to larger regional centres. Internal management systems indicated that close to 77.8% of firms could be classified as having satisfactory accounting systems, 52% however, scored poorly with reference to the use of modern technology. About 61% of owners indicated that they had acquired business skills while already operating their businesses. Over 86% reported short-term cash flow support from local banks. Fewer than 10% reported having received long-term loan finance from these banks. Overall, local business did not see competition as a threat to their operations, but the response to the perception of consumption patterns showed limited understanding of market dynamics. The overall picture gathered from their assessment of the business climate in this area was that 65% believe constraints to growth are a result of the internal conditions within individual firms. It is on this basis that, given the right mix of inputs and management control, it should be possible for a significant number of these firms to pursue accelerated business growth strategies.

A model of accelerated business growth

Background

What is being advanced here is an example of a generalised model of accelerated business growth, abreviated hereafter as the ABG model. This model is a natural development from what has thus far been raised with respect to the findings. It is essential that a simplified version of the reality of accelerated business growth be mapped. What in essence is at stake is whether or not it is possible to conceptualise the process of accelerated business growth in time and space and to present this by means of flowline charts.

It is necessary first to draw a distinction between 'normal business growth' and 'accelerated business growth'. In the first case, this is a gradual improvement in the performance of a firm as occasioned by greater capitalisation, better use of management resources, higher sales, a greater role in the niche market and a reduction in unit costs. The focus of accelerated business growth shifts to include the time dimension and the ability of the firm to quickly achieve a performance that is above the average expectation, given the industry in which it operates, its capitalisation and its resources. Where such a firm succeeds in sustaining such a growth profile by exploiting the momentum and multipliers released, we may say that it has entered the stage of accelerated business growth.

Prerequisites for a generalised model

To be useful and applicable, a model that attempts to capture the process of accelerated business growth should meet several conditions. It should be applicable to all types of business management structure, irrespective of firm size, sector or industry. It should offer helpful guidelines to management at any point in the decision-making process. The model should preferably be simple. It should offer flexibility of application and interpretation to management so as to become an aid rather than a constraint. The model should be adaptable, allowing it to operate irrespective of time limits. It should include an inherent dynamism to cater for continual change.

Assumptions

The first step in modelling business growth is to advance certain assumptions:

- Profit: Every firm aims to receive returns on capital invested; that is, every firm wishes to make a profit (McAleese 2001: 98). This is different from the profit-maximisation assumption of the classical theory of the firm (Hardwick, Langmead & Khan 1999: 179). Sloman (2000: 203) talks of a "long-run-profit maximisation theory" as an alternative, but this poses problems of interpretation.
- Finance: Every firm needs access to funds in order to mount a growth campaign.
- Information: Management has access to relevant information on market conditions on the basis of which decisions are made.
- Consumption and perception: The operations of every firm are place-sensitive, depending on the market served and the understanding of consumer preferences.
- Resources and factor market: Every firm is free to deploy resources as it sees fit in order to achieve its objectives.
- Strategy and interaction: Management is aware of the interaction between internal and external factors and of their impact on growth.
- Optimisation: Every firm has an optimal set of conditions, the mastery of which should allow for rapid growth.
- Capabilities and competencies: Every firm has particular qualities, the enhancement of which leads to rapid growth. A distinctive capability is a broadly based and deep-seated source of advantage (Ferguson & Ferguson, 2000: 79).

- Economic system: Every firm requires an environment conducive to business growth.

Modelling process

In the second stage of the modelling process, each of the inherent terms in the assumptions is explained so as to indicate scope and applicability:

- Profit is an expression of the interest that owners of the enterprise wish to receive in return for investing capital. Profitability is a more precise concept indicating the returns per unit Rand expressed as a percentage of the ratio of net income to sales. In this modelling effort, interest falls mainly on maximising profitability.
- Finance refers to all the different sources of funding that a firm can resort to when faced by the increased demands on resources as a result of accelerated growth. It includes loan capital, share capital, private savings and a wide range of borrowing instruments.
- Information is any relevant data that has a bearing on the present operations and future prospects of the individual firm.
- Consumption is the process by which consumers make use of products within the market.
- Resources include land, labour, capital, organisation, technology and entrepreneurship, which are prerequisites for launching a growth strategy.
- Strategy is an extension of the business plan of a firm, indicating how it wishes to achieve specific objectives against precise time frames.
- Optimisation is where an individual firm attains the greatest efficiency possible in lowering its costs of production, expanding its niche market through aggressive marketing, attaining returns on capital far greater than the average for the industry and sustaining a performance that becomes the envy of its rivals.
- Capabilities are the peculiar strengths of a firm which, when exploited, allow it to experience sustained growth yet make it difficult for competitors to imitate, reproduce or match its performance.
- Economy refers to the entire productive activities of a country, together with the extent to which production factors are freely available for exchange.

A management model that comes close to the ABG model is the contingency model (Swanepoel, Erasmus, Van Wyk & Schenk 2000: 379). This is an attempt to visualise management in an integrated fashion, in different ways, with different aspects, in different situations, with different people, under a continually changing environment. The focus is on situational factors that determine leadership. Effective leadership depends on a fit between personality, task, power, attitudes and perception. The model developed essentially from organisation theory in relation to leadership and stresses patterns of exchange between the manager and subordinates. To achieve the goal of improved performance, managers must be sensitive to the threats, opportunities and environmental constraints within which they operate. This calls for skills in implementation, problem solving, planning, control and organising. The model identifies efficiency factors related to the structure of the management activity, and effectiveness factors related to skills that make things happen. The model may be criticised on several grounds:

- It appears static, yet it deals with a continually changing environment.
- It splits effectiveness and efficiency factors, which in real life are essentially the same thing.
- It identifies the manager as an individual decision-maker, while modern business sees the manager as part of a team.
- It oversimplifies the internal structural elements of business.

The strength of the model lies in its flexibility, allowing managers in different situations to apply the same model to their peculiar situations without constraints.

Profit models developed in the late 1960s attempted to identify factors that determine profitability and how return on investment changes in response to changes in strategy and in market conditions. While such a model could in theory be used to predict which firms are likely to be profitable against a standard procedure, it falls far short of the rigorous requirements of understanding accelerated business growth. These early views have since been refined, if not overtaken, by recent developments in investment theory, decision making and investment appraisal techniques (McAleese 2001: 247).

From these assumptions, it is possible to depict normal business growth as a function of eight variables. Equation 1.1 without the time element would be a simplified version of the conditions necessary for normal business growth. Accelerated business growth must include the time element, since it is a process whose assessment cannot be outside the context of the time factor.

Equation 1.1

ABG: The full model

$$P_t = f(I, F, C, R, S, O, B, E)_t$$

Where

t is a measure of the time variable required for the operation of the growth process

P = Profitability in a time context

I = Information access at the level of the firm

F = Financing sources

C = Consumption capacity in the market in terms of volume, variety and quality

R = Resources made available by the factor market

S = Business strategy employed at firm level

O = Optimisation of resource uses to expand sales, net income and return on investment

B = Capabilities of the individual firm

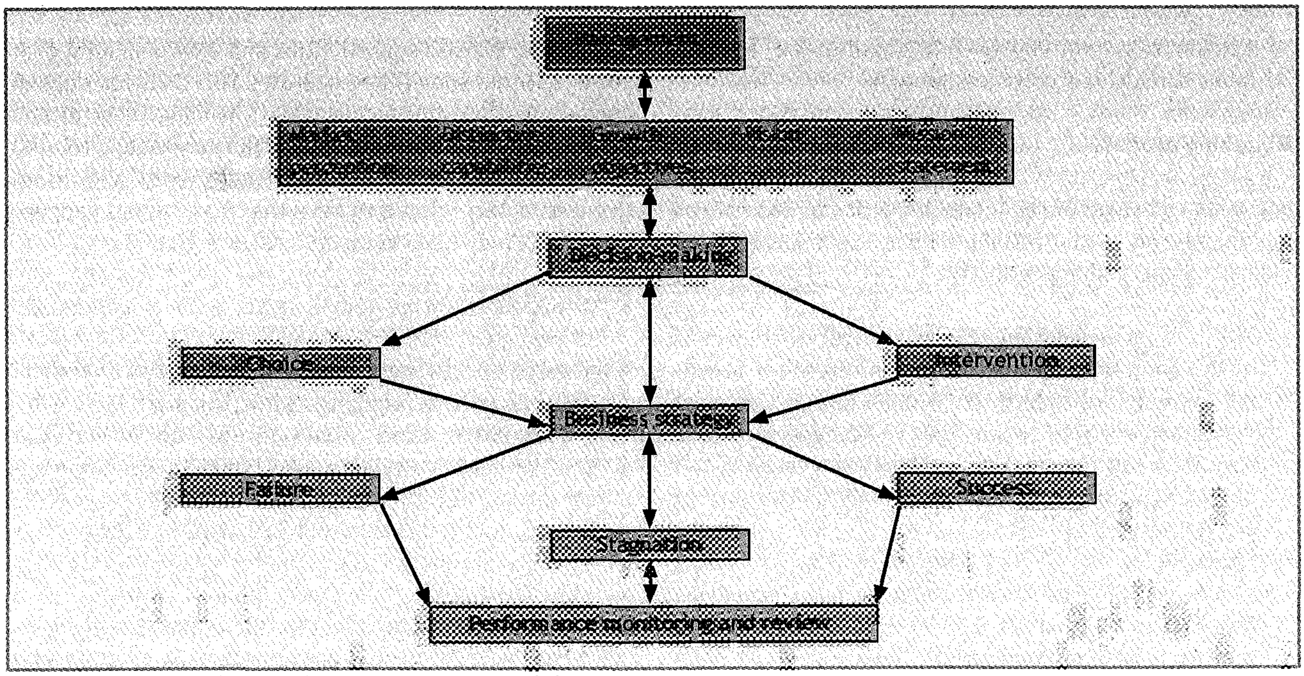

Figure 1. The accelerated business growth model

E = Economy in terms of the structure of productive sectors and output, levels of domestic inflation, and the freedom of transactions in the context of market forces.

The full model is presented by means of a flow-line diagram in Figure 1.

At level I of the model, management interacts with the factor market and identifies threats, opportunities and risks in the market. At level II, based on the firm's capabilities, vision, mission statement and growth objectives, a perceived opportunity is assessed. At level III, the decision-making process is initiated, leading to the choice of a particular business strategy at level IV. The strategy that is developed addresses the question: 'How best can the firm exploit the growth opportunity so identified?' At level V, intervention leads to possible outcomes - success, failure or stagnation in the fortunes of the firm. This may require that a review of both strategy and management structure be undertaken. In so doing, the process of accelerated business growth completes just one cycle. The cyclical nature of the model captures the continual adjustments that management must make to handle changing market conditions and internal relationships.

A model made up of eight variables is problematic to apply. To be useful, it must be a means to an end. It is possible to collapse the model to reduce the number of critical variables. Strategy (S), Optimisation (O) and Capabilities (B) are all expressions of the nature of management at the level of the firm. They are replaced by (M) for Management. Note that in this model, management is seen as the main mover in the internal environment of business. Resources (R), Economy (E), Finance (F), Consumption (C) and Information (I) can all be collapsed into the factor market (K). A reduced model is derived as in Equation 1.2.

Equation 1.2

ABG: The reduced model

$$P_t = f(K, M)_t$$

The ability to raise money for any expansion campaign will depend on the type of firm, its performance record, its management and the assessment of risk by potential creditors. Sources of finance potentially available to the firm include floating shares on the stock exchange, converting holdings in other firms into cash, mergers (Sloman 2000: 207), discarding unprofitable divisions to free resources, approaching creditors for loan finance and a wide range of other convertible instruments. Once again, not all firms may have access to certain of these sources. These issues cannot be divorced from the competence of management.

The reduced model has important implications for understanding the dynamics of business growth first, and accelerated business growth second. In reducing growth to a function of the factor market, on the one hand, and management on the other, this approach identifies the two as the most critical pillars of business growth. The factor market (K) caters for conditions in the external environment, while management (M) describes the control of interactions within the internal environment of business. The model needs to be interpreted with caution. The presence of the factor market and management in a time context may guarantee neither growth nor accelerated growth. The interaction between these two must be placed in the context of the inherent internal dynamism (Ruhiiga 1999) of the firm and its interface with the factor market.

The weighting allocated to each of the elements in Expressions 1.1 and 1.2 ultimately depends on the individual firm and its growth strategy. This is critical for the success of any growth programmes, because it recognises that firms are neither similar, nor do they behave in the same way under similar conditions. Within the assumptions of the model, therefore, alternatives and possibilities exist at literally every level, provided that these give rise to accelerated growth.

Discussion

The discussion section is built around three sub-sections. The first, on integration, presents an overall characterisation of the model. The second, on insights, provides comment on the applications of the model to South African conditions, while the third part acknowledges potential limitations.

Integration

According to this model, the potential for accelerated business growth is a function of the factor market and management. The probability of achieving accelerated business growth is enhanced when management succeeds in putting in place the right combination of factor inputs. At any time, managers may pursue different objectives from the wishes of the owners (Sloman 2000: 199) and in their interaction with the market. The external environment generates the outside forces that have the potential to significantly influence the likely success of products. This is a challenge to all management, irrespective of the type of firm or industry. Once the required inputs are in place, what remains is to fine-tune their application in such a way that the expected outcomes are in rhythm with the specific objectives of the firm. This calls for foresight, the ability to take risks, the ability to keep track of market fluctuations and sensitivity towards the activities of rivals in the same market place.

The model appreciates the fact that one major role of the management activity is concerned with managing the interface between the internal and external environments of the firm. In this respect, the model is in agreement with aspects of the contingency model (Swanepoel et al. 2000: 379), the profit model and the management control model (Morrison, Rimmington & Williams 1999; Barnatt 2000). Where the model departs from these other models is in its focus on the mechanism for realising accelerated business growth. The model treats the entire firm as a dynamic entity, continually adjusting its internal physique and external interactions to maximise the possibilities of growth.

The character of the factor market may either hinder or encourage the growth of business. This should depend on the extent to which management is capable of exerting a level of control over its interactions with this market. This calls for the ability of management to read market signals correctly. Such a level of control over external events, which still have a strong influence on the individual firm, presupposes various scenarios. One of these is that the firm has to display an internal management structure and resource allocation geared to matching its mission statement, vision and growth strategy. The second possibility is that management has to be sensitive to the distinctive capabilities of the firm, and these should accordingly be deployed in pursuing specific growth objectives. Any intervention strategies so undertaken by the firm for the purposes of achieving accelerated growth are sensitive to the critical role of business planning, timing, prediction and synchronisation of factor inputs. Many good ideas, for example, are never applied effectively because they are ill timed (Hough & Neuland, 2000: 91). The third scenario is where management is successful in minimising unit costs of production, for example, through business process re-engineering (Barnatt 2000: 72) and total quality management approaches (Huxtable, 1995: 9), making it possible for the required resources to be deployed in pursuing growth opportunities whenever and wherever possible. This is not possible in the absence of a high degree of internal financial discipline. Japanese firms, for example, are world leaders in the minimisation of costs per unit of output (McAleese 2001: 103).

The model makes use of concepts developed through the scientific approach in its treatment of the decision-making process as rational, goal seeking, purposeful and deliberate. It applies ideas associated with the behavioural school in its recognition of internal organisational stress that may impair the ability of management to respond to growth opportunities. In the sense that the model calls for management to re-structure the internal relations of the firm so as to be strategic in responding to the external market, it makes use of aspects of management by objectives. The interdependence within the sub-systems of the firm, which need synchronisation for the growth process to be managed, falls within the systems approach.

The factor market makes available inputs of different types of labour, finance options, capital, technology, commercial services, personalised services, support infrastructure, raw materials and stocks of finished goods at certain varying price regimes, depending on time and place. In addition, distribution and supply networks are important in allowing for the free flow of these factors. Such flows are conditioned by the forces of demand and supply, though the mobility of inputs varies in time and space. Every firm is part of this wider system. The firm is merely isolated to study the nature of its interactions within this system. The factor market can, to a certain extent, be manipulated by groups of firms in specific industries if such firms control a dominant niche. Suppliers of certain key resources, for example, may establish cartels that make it impossible for new firms to enter the field. In other cases, retail outlets may engage in a destructive form of competition that only the tough can survive. These measures are essentially short-lived; they cannot be sustained for a prolonged period of time because they carry a heavy cost burden. The way individual firms respond to the conditions in the market, identify growth opportunities that match their distinctive capabilities, mobilise essential inputs, and design alternative intervention strategies for pursuing growth objectives points once again to management. The model caters for this freedom of possibilities and differences in outcomes.

Insights

What new insights on accelerated business growth does this model offer? In the first place, it simplifies complex firm-market relationships in such a way as to be understood by the layman. It places management at the centre of business growth, instead of treating management as just one of the factors. Departing from the contingency model of management, the model treats management as comprising interdependent functional units within the firm. The fortunes of every firm revolve around how management decisions are made, transmitted in the organisation and implemented to effect specific outcomes.

The model is flexible in identifying multiple growth interfaces, allowing individual firms the freedom of choice in pursuing whatever growth strategy they may feel applies to them. This is in line with the stages of business growth where provision is made for alternative growth paths. It is one of the few attempts today to model the entire business sector in terms of accelerated growth possibilities, irrespective of inter-industry differences. This is without doubt one of its most promising applications. It does not, however, imply a wholesale application of the model to every form of business growth. The added advantage of the model is that it offers an integrated vision of business growth at the level of individual firms by including the interface between management and the factor market. The model ignores the need to place boundaries in the form of application exclusions and instead is free for application to the business universe. The model offers a generalised look at business as a subset of the economic system and, in so doing, makes it possible to revisit cumulative growth multipliers. This would not be possible if individual sectors were studied in isolation. It highlights certain universals in business behaviour that can be applied to specific industries for testing responses. The model departs from the traditional neo-classical theory of the firm, which sees its driving objective as the maximisation of profit. Instead, it appreciates the reality of firms, in that their owners wish to make a profit or receive a return on their investment. The significance of this is that the model is sensitive to the criticisms that have been directed at the neo-classical theory of the firm. The model replaces profit maximisation with profitability in a time context. This makes sense, because sustained profitability is at the core of the process of accelerated business growth. The business structure of the individual firm is very much the outcome of management decisions, initially at the time of its launch and over time in response to its particular field of operation. The strategies that a firm pursues in marketing, procurement, customer relations, operations research and growth will depend on the mission statement of the firm and on its growth objectives. These, in turn, are very much a reflection of the personality, experience, perception and competence of its top management personnel.

For the business sectors in the eastern Free State, within South Africa, and beyond its borders, the model developed in this paper offers several practical applications, which are presented in point form:

- Achieving business growth and accelerated business growth is closely related to the abilities (competence) of management at the level of individual firms. This is irrespective of the type and size of the firm. Business owners need to invest significant resources in improving their know-how, because this is critical in developing management competence.
- Business growth requires that the deployment of essential inputs be synchronised for maximum impact. This calls for a deliberate strategy of timing intervention. Finance is a critical problem that most business units face, for example. The model, however, implies that it is not just a lack of finance or any other material inputs that kills business or constrains growth. Rather, it has more to do with the way inputs are used to achieve specific objectives of the firm. This flies in the face of common views about business success and failure that are widespread in local literature in South Africa. Little attention is given to the internal chemistry of firms.
- Conditions in the market in which firms operate need to be understood, since they impact on the fortunes of firms. The local consumer market, for example, cannot merely be taken 'as given' and assumed to be a fixed quantity. The same applies to different market segments. Given that very few firms invest resources in conducting periodic consumer surveys, there is a danger that lack of up-to-date information may impair the response of most firms to market opportunities.
- For successful accelerated business growth to become a reality, it is very important that the individual firm's internal structure be carefully scrutinised. This means that the firm must be aware of its weaknesses, strengths, rivals and competitors. This presupposes, however, that the firm is capable of re-adjusting its internal allocation of resources for achieving specific objectives. Often firms fail to grow because of a mismatch between their organisation and the requirements of the target market.
- According to the model, business growth is not just an accidental occurrence or a chance event. It is a product of deliberate intervention and strategic planning by management. This viewpoint contradicts a widely held view in sections of South African society that business success is simply explained by reference to 'African medicine' (*muti*).

Potential limitations

The first limitation arises from the design stage. The eastern Free State (where the data that form the basis of the model were gathered) is a relatively small region. This raises questions of the generalisations implicit in the model. It is not certain that similar studies in other parts of South Africa would necessarily produce the same results. Similar studies are needed at other sites to increase our confidence in the generalisability of the model.

The second limitation arises from the types of firms that are dominant in the study area. The majority of firms are small, micro and medium enterprises. The absence of large corporate entities in the original sample means that the behaviour of such firms cannot be predicted with confidence. It is not clear how this would affect the internal elements of the model.

The third issue is that the model may be criticised, firstly for being too simplified, and secondly for its view of management. There may be some truth in such a view, but the simpler the model, the easier it is to apply and test. In any case, several variants can be expanded from the original full model, depending on the intended uses. In the second instance, it is accepted that management and the organisation *per se* are not one and the same. The premise of the model is that, irrespective of the size of the firm, the institutional decision-making organ at the top that determines structure, conduct, capitalisation options, business strategy and resource allocation is the domain of management. Where a firm is a one-man outfit, all the management functions of planning, budgeting, accounting systems, purchasing, production, procurement and marketing can still be isolated. Management, then, is not being given undue significance in the model; it is only being given its natural position.

Conclusion

The study has indicated that the internal environment of firms accounts for the majority of constraints to business growth. On the basis of this, the basic components of the accelerated business growth model as a response in addressing problems of business growth at firm level has been presented. It has been shown that the model offers a fresh approach in terms of application possibilities. The model has been shown to be robust in its approximation to the reality of business growth. The limitations of the model have been commented upon, but there are still possibilities for further refinement. There is potential in using the model as a platform in explaining and predicting the complex process of accelerated business growth.

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Review of strategic alignment: Its meaning, measurement and impact on business performance

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Strategic management of information technology (IT)[1] continues to be a key issue in exploiting IT capabilities and achieving higher business performance. Strategic alignment is an important aspect in this regard. This review paper presents the meaning and importance of strategic alignment as applicable to the business. It also presents measurement techniques of strategic alignment described by various researchers. The conclusions drawn from this review forms the background of research on strategic alignment issues in South African business conditions.

Strategic alignment

Various terms and definitions have been used in the literature to describe the concept of business strategy and information technology (IT) strategy alignment: 'strategic alignment' (Henderson & Venkatraman 1993; Luftman 1996; Chan & Huff 1993, Papp 1995), 'linkage' (Reich & Benbasat 1996) and 'harmony' (Woolfe & Cash 1992). For Woolfe & Cash (1992), 'strategic alignment' occurs when a company[2] has harmonised its overall strategy and its information technology (IT) systems.

Chan & Huff (1993) explain that organisations typically achieve 'strategic alignment' by passing through three levels: awareness, integration and alignment. The awareness level indicates that the firm has reached a level of awareness in recognising and acting upon the importance of having information systems (IS) more closely connected with the business. The second level is concerned with integrating operational business and IS plans and activities. The final level (strategic alignment level) concerns integrating IS with the organisation's fundamental strategies and core competencies.

Referring to Sambamurthy & Zmud (1992), Reich & Benbasat (1996) indicate that information technology management can be conceptualised as a problem of coordinating the relationship between the business domain and IT domain. In this context, information systems (IS) planning is only one of the several mechanisms that can be utilised to accomplish this task. A comprehensive treatment of this issue has been labelled as 'linkage'.

Papp (1995) defines 'strategic alignment' as the appropriate use of information technology in the integration and development of business strategies and corporate goals. In essence, four sets of decisions by an organisation - on business strategy, IT strategy, business infrastructure and IT infrastructure - need to be coordinated or aligned (Luftman 1996).

Conceptual model of strategic alignment

Strategic alignment model (Henderson & Venkatraman 1990, 1993)

Strategic management (SM) is considered as a set of managerial decisions and actions that determines the 'long-run' performance of a corporation (Wheelen & Hunger 1998: 3). According to them, SM consists of four basic elements: environment scanning, strategy formulation, strategy implementation, and evaluation and control. Environment scanning is the monitoring and dissemination of information from the external and internal environments, to identify strategic advantage, leading to the formulation of strategy.

Strategy is a comprehensive master plan stating how the organisation will achieve its mission and objectives (Wheelen & Hunger 1998). It maximises competitive advantage and minimises competitive disadvantage.

Based on past research, Henderson & Venkatraman (1990) classify strategies into three broad categories, namely:

- Corporate strategy (concerned with the portfolio of and interrelationship among businesses)
- Business strategy (focusing on deploying a strategy at unit or product level that maximises the organisation unit or product's comparative advantage to best compete in the marketplace)
- Functional strategy (reflecting efficient allocation of resources allocated to the particular firms).

Within the framework of hierarchy of strategy, IT strategy is conventionally considered at functional level, but Henderson & Venkatraman argue that the competitive role of IT represents a significant point of departure. Referring to the work of contemporary researchers,

1. Information technology (IT) and information systems (IS) are used interchangeably.
2. Firms, organisation and company are used interchangeably.

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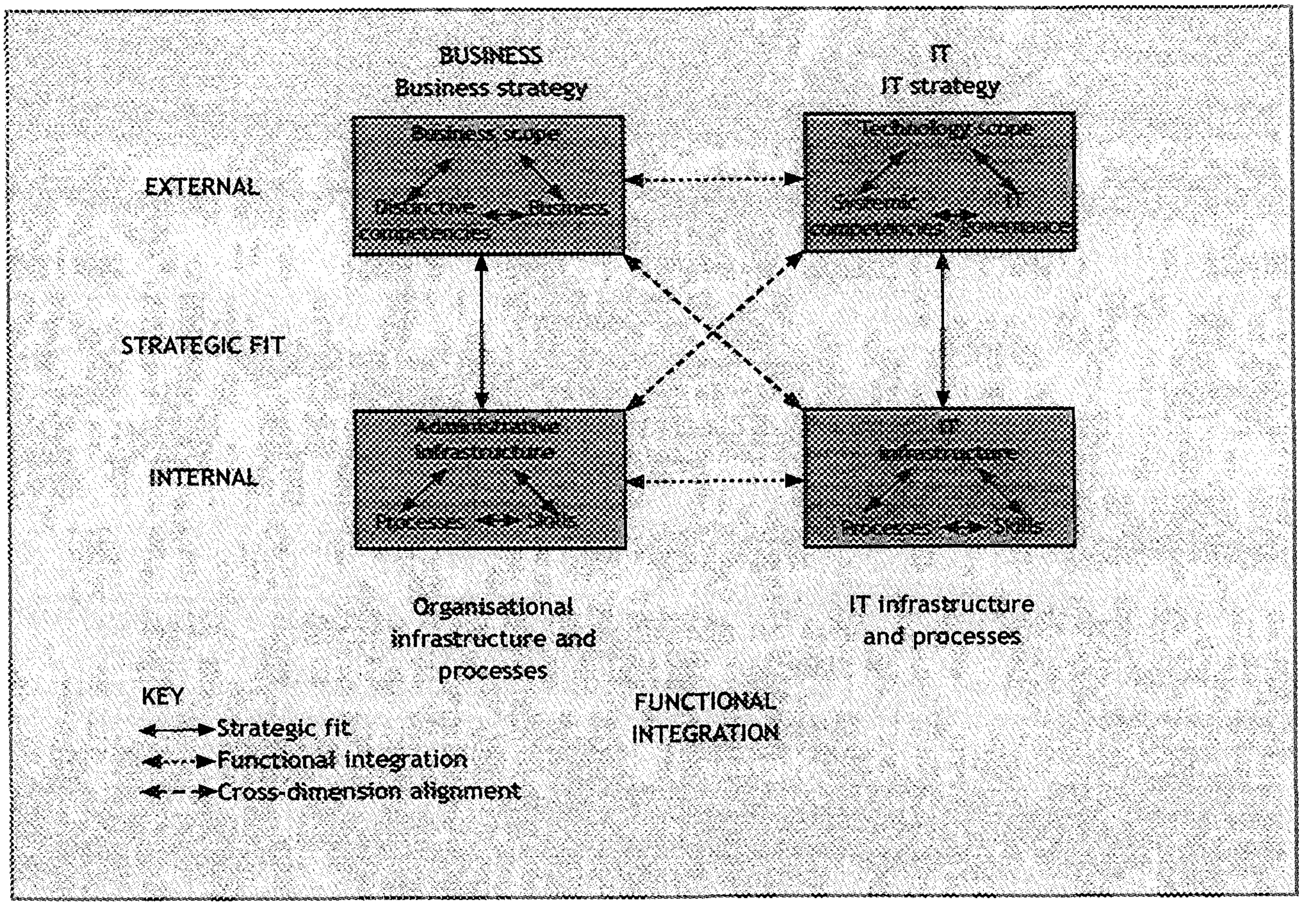
namely, Cash & Konsynski (1985), Copeland & McKenney (1988), and Venkatraman & Kambil (1990), they explain that extending beyond the internal, efficiency focus, the capabilities now exist for organisations to deploy new IT applications that leverage information and technology attributes to obtain differential sources of competitive advantages in the marketplace and indicate that several frameworks have been proposed to address the challenges of recognising the competitive role of IT. Based on a general assessment, Henderson & Venkatraman found that these frameworks are useful for describing and highlighting the emerging interconnection between IT capabilities and the organisation's actions, but they fail in their lack of articulation of the fundamental logic and rationale for exploiting IT capabilities as well as the complexities of organisational transformation required to leverage technological capabilities. In view of this, Henderson & Venkatraman have developed a conceptual model, the Strategic Alignment Model (SAM), to address the issue of exploiting IT capabilities in their competitive role and for the strategic management of IT.

The model

The model holds that an organisation's business and information technology strategies and its organisational and information technology infrastructures must all be in alignment for organisations to benefit fully from investments made in IT (Figure 1). The four sets of decisions - on business strategy, IT strategy, business infrastructure, and IT infrastructure - need to be coordinated, or 'aligned' (Luftman 1996). The Strategic Alignment Model has conceptualised the relationship between these elements. More specifically, the concept of strategic alignment is based on two building blocks: strategic fit and functional integration. The strategic fit axis recognises the need for any strategy to address both external and internal domains of business and IT strategy. The external domain is the arena in which the firm competes, while the internal domain is concerned with the choices that define organisational infrastructure and process. Functional integration specifies two types of integration between business and IT domain. The first is at the strategic level and the second is at operational level. Strategic fit and functional integration are bivariate fit relationships (in other words, linking two domains, either horizontally or vertically). The model suggests that effectiveness of strategic IT management will be significantly greater for any cross-domain perspective than any bivariate fit relationship.

The SAM suggests four cross-domain perspectives, labelled as technology exploitation, technology leverage, strategy implementation and technology implementation, for effectiveness of strategic IT management. However, Henderson & Venkatraman (1993) indicate that there is no best universal alignment perspective. The authors indicate that the potential of IT is so varied that the



Source: Henderson & Venkatraman (1990)

Figure 1. Strategic alignment model

executives must consider alignment perspectives as alternative conceptual lenses and be prepared to make continuous adaptations. The research suggests that strategic alignment is a dynamic process; it is a journey and not an event.

Importance of strategic alignment

Papp (1995) indicates that the importance of strategic alignment has been documented since the late 1980s and continues to be ranked one of the most important issues faced by business executives. He examines the impact of firm performance, given the firm's current alignment perspective.

Henderson & Venkatraman (1993) argue that the inability to realise value from IT investments is, in part, due to a lack of alignment between the business and IT strategies of organisations. Eventually, a competitor will always find a way of copying or improving upon any new IT system, but the lasting advantage is derived only from using IT in conjunction with business operational change to add value to the company (Luftman 1996). They further suggest that the challenge is to put IT on an equal footing with other business investment, as IT investments are often huge - perhaps $10-50 million, with lasting operational cost implications. Executives routinely live with the risk of business decisions worth far more - perhaps $100 million-$1 billion for a new factory or acquisition.

Chan & Huff (1992-1997) have empirically proved that information system strategic alignment has a relationship with business performance.

This discussion shows that strategic alignment is important to business.

Measuring strategic alignment

Studies by various researchers provide guidance in strategic alignment measurement, namely:

- Luftman (2000)
- Tan (1999)
- Reich & Benbasat (1996)
- Chan & Huff (1992-1997)
- Coakley, Fiegener & White (1996)

***Luftman** (2000)*

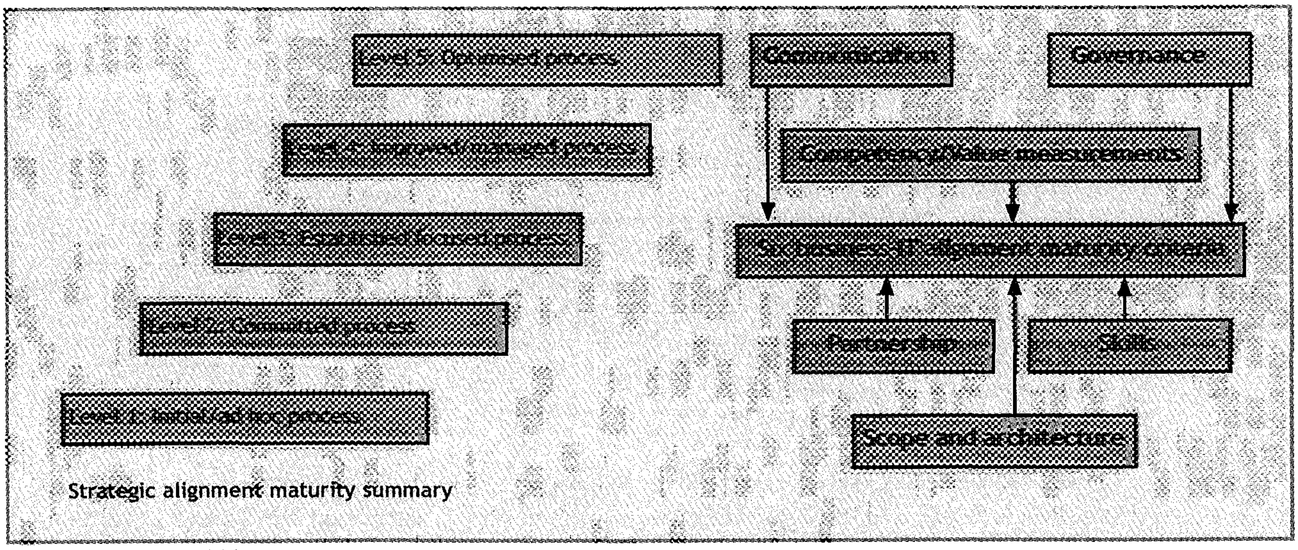
Luftman's assessment model (2000) is built up on the conceptual Strategic Alignment Model proposed by Henderson & Venkatraman in 1990. According to Luftman, the twelve components (four each for business strategy, organisation infrastructure and processes, IT strategy, and IT infrastructure and processes) are the elements of strategic alignment. It is the relationship that exists among the twelve components that further defines business-IT alignment (Luftman 1996). These twelve components in concert with the enablers/inhibitors research (Luftman, Papp & Brier 1999) form the building blocks for the strategic alignment maturity assessment method (Luftman 2000).

The model involves the following five levels of strategic alignment maturity:

1. Initial/ad hoc process
2. Committed process
3. Established focused process
4. Improved/managed process
5. Optimised process.

The model uses six IT/business alignment maturity criteria, namely:

1. Communication maturity
2. Competency/value measurement maturity
3. Governance maturity
4. Partnership maturity
5. Scope and architecture maturity
6. Skills maturity.



Source: Luftman (2000)

Figure 2. Luftman's model (2000) (Assessing business-IT alignment maturity)

Table 1. Business-IT alignment

Dimension/linkage	Potential factors influencing linkage (causes)	Linkage (effect)
Intellectual dimension	I. The methodologies for formulation of IT and business mission, objectives and plans and the comprehensiveness of the planning activities.	II. The degree to which the set of IT and business mission objectives and plans are internally consistent and externally valid.
Social dimension	III. Choice of actors, timing, decision making and communication used in the formulation of mission, objectives and plans for IT and the business.	IV. The levels of understanding of the business and IT mission, objectives and plans by IS and business executives.

Source: Reich & Benbasat (1996)

Each organisation is measured on a rating scale in terms of these criteria, and a combined rating is given, which is the assessment of the level of alignment for the organisation concerned. The model is shown in Figure 2.

Tan (1999)

The study of business-IT alignment is categorised in two dimensions: intellectual and social (Reich & Benbasat 1996). The intellectual dimension explores the content of IS plans and consistency with business plans and examines the state of alignment in organisations. The social dimension describes the mutual or shared understanding between business and IS executives of business and IT objectives and plans. Tan (1999), through the application of Personal Construct Theory and the repertory grid, endeavours to explore the nature of the social dimensions of alignment and its relationship to the intellectual dimension.

Reich & Benbasat (1996)

The business-IT alignment, as categorised by Reich & Benbasat, is shown in Table 1.

Their work was based on a study that created and tested measures to operationalise the 'mutual understanding' aspect of the social dimension of linkage. However, they did not empirically investigate the 'commitment' aspect of the social dimension of linkage.

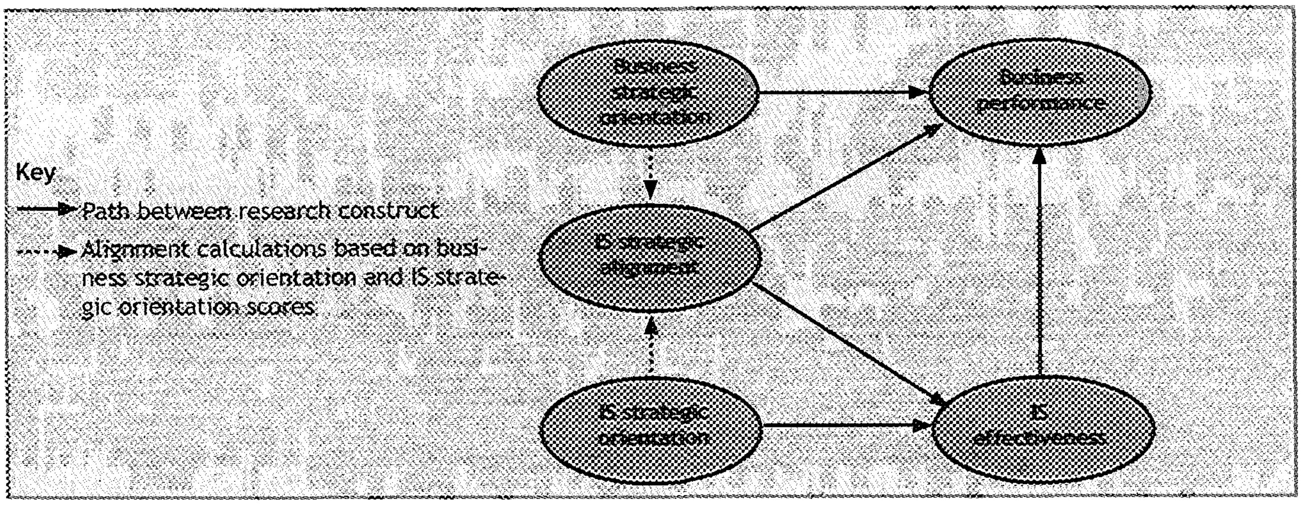
This study provides a scheme to show the different ways of conceptualising and identifying short-term and long-term aspects of the social dimension of linkage. One represents a state in which the goals and strategies for the next one to two years of business and IT activity are understood by all managers. The other represents a state in which all managers share a common vision of how IT will shape the business in the more distant future. The proposed measures provide a means to conduct a linkage 'audit' in order to assess the level and types of linkage within an organisational sub-unit. They develop a sample questionnaire that can be used in conducting the linkage audit.

Based on the findings of their study, their recommended approach to measuring the two aspects of the social dimension of linkage is to interview or survey respondents to collect data about 'understanding of current objectives' and 'shared IT vision'.

Chan & Huff (1992-1997)

Chan & Huff (1992-1997) develop instruments to measure:

- Business strategy
- Information systems
- Information systems effectiveness
- Company performance (see Figure 3).



Source: Chan & Huff (1992)
Figure 3. Chan & Huff model (1992)

Table 2. Eight dimensions used in the strategic orientation of a business enterprise (STROBE)

Dimensions	Example
Company aggressiveness	Push to dominate (to increase market share)
Company analysis	Reliance on detailed, numerically oriented studies prior to action
Company internal defensiveness	Emphasis on cost cutting and efficiency; internally 'lean and mean'
Company external defensiveness	Forming tight market alliances (for example, with customers, suppliers and distributors)
Company futurity	Having a forward-looking, long-term focus
Company proactiveness	First to introduce new products and services; a step ahead of competition
Company risk aversion	Reluctance to embark on risky projects
Company innovativeness	Creativity and experimentation are strengths

Source: Chan & Huff (1997)

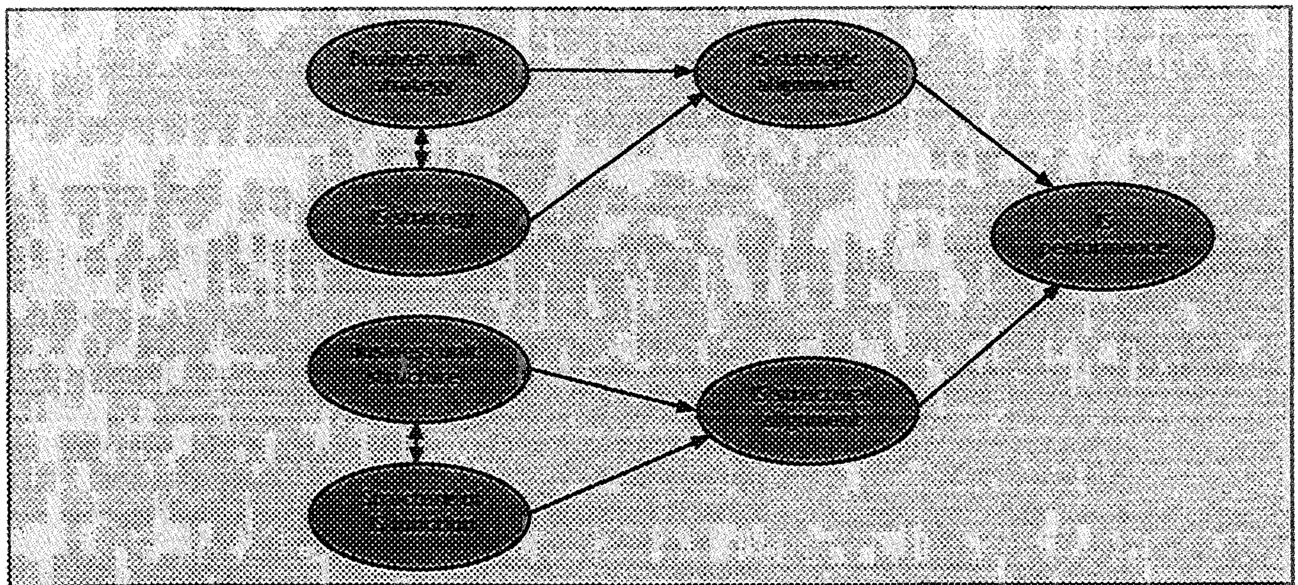
Table 3. Eight parallel dimensions of business strategy used in the strategic orientation of the existing portfolio of IS application (STROEPIS)

Dimensions	Example
IS support for aggressiveness	IS deployments used by the business unit when pursuing aggressive marketplace action
IS support for analysis	IS deployments used by the business unit when conducting analyses of business situations
IS support for internal defensiveness	IS deployments used by the business unit to improve the efficiency of company operations
IS support for external defensiveness	IS deployments used by the business unit to strengthen marketplace links
IS support for futurity	IS deployments used by the business unit for forecasting and anticipation purposes
IS support for proactiveness	IS deployments used by the business unit to expedite the introduction of products/services
IS support for risk aversion	IS deployments used by the business unit to make business risk assessment
IS support for innovativeness	IS deployments used by the business unit to facilitate creativity and exploration

Source: Chan & Huff (1997)

They used Venkatraman's (1989) instrument for measuring the strategic orientation of a business enterprise (STROBE), which attempts to define distinguished strategies along the dimensions of aggressiveness, analysis, defensiveness, futurity, innovativeness, pro-activeness and riskiness. Chan & Huff conducted factor analysis in 1992, and refinement was done in 1997 through pilot testing. Their final instrument had eight factors, each of which was measured on a ranking scale for variables associated with this factor. Eight dimensions (factors) used in the STROBE are indicated in Table 2.

They developed a similar measure for IS strategies called STROIS (Strategic Orientation of Information Systems). Factor analysis was also used for this instru-



Source: Chan (1997)

Figure 4. Chan model (1997)

ment. They refined the instrument in 1997 to call it STROEPIS (Strategic Orientation of the Existing Portfolio of IS Application). Eight parallel dimensions of business strategy were used, as indicated in Table 3.

Using STROBE and STROIS, Chan & Huff were able to measure the degree of IS strategic alignment of a given organisation, and empirically showed that IS strategic alignment has a positive impact on business performance.

In 1997, Chan added structural alignment and indicated that strategic and structural dimensions are both important and of interest to managers. This model is shown in Figure 4.

In this conceptual model, the author uses indicators of strategic alignment and indicators of structural alignment from the previous research, namely:

- Communication and understanding between business and IS executives
- Linked business and IS mission, priorities and strategies
- Interconnected business and IS planning processes, and resulting plans
- Line executive commitment to IS issues and initiatives
- IS skills on the part of line personnel and business skills on the part of IS personnel.

Indicators of IS structural alignment include:

- Formal (de)centralised reporting relationship and committees
- Informal networks and relationships
- Cross-functional linkages and appropriate career paths
- Performance measurement and evaluation
- Incentives and rewards.

Coakley, Fiegener & White (1996)

Coakley, Fiegener & White (1996) propose a measure of strategic IT alignment based on 'strategic consensus', which refers to the shared understanding among executives of the strategic priorities of an organisation, the contribution IT can make to strategic priorities, and the organisational impacts of IS projects and operations. Level of strategic consensus would suggest the strategic IT alignment. They extended the study on the basis of perception-based measures of strategic IT alignment. Cluster analysis was applied, and the study was conducted in the United States of America.

Conclusions

'Strategic alignment', 'linkage' and 'harmony' are the various terms that describe the concept of business and IT strategy alignment. In essence, it is the synergy of business strategy and IT/IS strategy to achieve competitive advantage by organisations. Strategic alignment is critical to realising value from the investments made in IT. Researchers, for example Chan & Huff (1992-1997), Henderson & Venkatraman (1993) and Luftman (2000) have extensively studied the intellectual dimension of strategic alignment, while Reich & Benbasat (1996) have studied its social dimension. Tan (1999) attempted to explore the nature of the social dimension of alignment and its relationship to intellectual dimension. The Strategic Alignment Model (SAM) provides a theoretical framework for aligning business and IT strategy. Empirical studies from Western countries suggest that strategic alignment is related to business performance. These conclusions form the background for studying strategic alignment in the South African context.

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Southern African Business Review 2002 6(1): 45-46

Equal opportunity and liberal equality

Marius Willem van Wyk*

Abstract of thesis submitted in fulfilment of the requirements for the degree of Doctor Philosophiae in Philosophy, Faculties of Arts and Law, Rand Afrikaans University

Promoter: Professor H.P.P. Lötter
Co-Promoter: Professor E.F.J. Malherbe

The purpose of this research was to answer the following question: "Can a feasible liberal model be developed and defended that promotes and integrates egalitarian and 'non-egalitarian' and aggregative values, while at the same time respecting the individual as an autonomous agent, who, as such, may be held accountable for the consequences of his decisions and actions but not for those consequences that may be attributed to his circumstances?" In order to answer the research question, a systematic examination of the leading liberal conceptions of equality is undertaken, with particular attention to an alternative approach in terms of a substantive equality of opportunity model.

The research falls into three distinguishable parts. In the first part, the role of equality in Rawls's theory of justice as fairness was critically analysed. The conclusion reached was that, whereas Rawls's theory provides valuable insights on which to base a liberal theory of equality, his theory fails to provide specific guidelines on which to make the crucial distinction between autonomous choices and choices dictated by the person's circumstances. In the second part, the conceptions of equality found in the work of Nozick, Dworkin, Sen and Walzer were compared with that of Rawls and explored for their potential for grounding a liberal conception of equality based on equality of opportunity. Limited support for the compound equality of opportunity model is found in Nozick's libertarian conception of equality as formal equality of opportunity. Conceptually, Dworkin's conception of equality as equality of resources was found to be a powerful model to distinguish between those circumstances over which the individual has no control and therefore should not be held accountable and those choices over which the individual exercises control and hence should be held accountable. Moving from the equality of resources approaches, as exemplified by Rawls and Dworkin, to the equality of opportunity approaches, Sen's equality of capability is discussed. Of particular importance is Sen's insight that equality of opportunity requires one to take into consideration the individual's capacity to convert the means at his or her disposal into ends and henceforth that these differential conversion capacities should be equalised. The compound equality of opportunity model proposed in this thesis in important part rests on the assumption that equality is a complex value, which derives its value from the context in which it is employed. As such, Walzer's idea of complex equality is valuable in that it recognises the plurality and the contextuality of the ideal of equality. In the third part, the compound equality of opportunity model is introduced by distinguishing between equality of results and equality of opportunity approaches. It is then argued that it is possible, even though imperfectly, to distinguish between circumstances and autonomous choice by means of statistical techniques whereby people may be grouped by identifying independent variables predicative of success in the different spheres of life. It is shown how this approach may enable us to hold people accountable for their autonomous actions and choices but not for their circumstances. It is further argued that efficiency and aggregative considerations may operate as moderating variables in the different spheres of life. It is also argued that this model will promote accountability at the individual as well as the institutional level, and how substantive equality of opportunity should predominate at the early stages of life, while formal equality of opportunity should prevail at the point where positions of some importance are distributed, so that third party interests are protected. This thesis is concluded with the claim that conceptually the model is feasible and capable of implementation. If we take seriously the idea of individual autonomy and accountability, and the notion that equality of opportunity provides the means to isolate the consequences of individual effort and motivation from the consequences of (undeserved) circumstances, then something like the compound equality of opportunity model may provide the means to give expression to our convictions.

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Announcement and call for papers

IRasa 2003 National Conference

IRasa is proud to announce its Annual National Conference, to be held from 4 to 6 March 2003 at Technikon SA, Florida Main Campus, Gauteng, South Africa.

The main theme of the conference will be 'Social Transformation in South Africa: The IR Contribution?'

The history of labour relations in South Africa is a story of long and intense struggle. The transition through the apartheid years to democracy is often described as a miracle. The new Government set about transforming the whole legal framework of labour relations to bring the Constitution to fruition and to align with the international standards set by the ILO. The tripartite forum, NEDLAC, was created to involve the social partners in socio-economic policy making.

Having achieved a successful political transition in South Africa towards a democratic state, the challenge for economic growth, stability and empowerment in a 'new' South Africa has now assumed centre stage. This points directly to a successful intervention by business and unions. Adversarialism was the distinctive feature of mechanisms for interaction prior to 1994. Is the post-1994 situation much different?

IR has the new labour laws at its fingertips, it knows how to 'hire and fire', and it knows how to outsmart its counterparts in negotiations. But does IR know how to facilitate a cooperative relationship between stakeholders? And what has IR been doing since 1994 to help build this 'new' South Africa and bring about a better future for all the people of the country?

Who should attend

The target market of attendees comprises industrial relations directors, industrial relations officers, industrial relations practitioners/specialists, CCMA commissioners, IR/HR consultants, CEOs, members of trade unions, public and SML business sector, government departments, labour lawyers, students, academics and all others responsible for managing employee relations. An attendance of 250 delegates is expected.

Call for papers

Anybody interested in contributing a paper to the Conference is invited to submit abstracts of proposed papers, which should deal with the above-mentioned theme. In this regard, papers can include, but are not limited to, subjects focusing on:

- Economic empowerment associated with social transformation
- Developmental initiatives required for social transformation
- Creating a context (or culture) supportive of social transformation
- Mechanisms to facilitate social transformation
- Management's role and responsibility with regard to social transformation
- Integrating various HR activities to facilitate a congruent social transformation process
- Is collective bargaining adequate to ensure successful social transformation?
- The success of workplace forums in respect of social transformation
- Retention strategies associated with social transformation.

Abstracts should not exceed one written page and should be submitted as an e-mail attachment.

Due date for submission of abstracts: 30 November 2002

The Programme Committee will select papers for the conference according to their topical interest, and the authors of selected abstracts will be notified by 5 December 2002. The complete text of an accepted paper should reach IRasa by 8 January 2003. This text should be on hard disk and can be in any of the following formats:

Macintosh programmes

- Quark Express Version 4
- Freehand Version 8
- Adobe PhotoShop Version 5
- Adobe Acrobat Version 4

PC programmes

- Windows 95
- Corel 8
- Microsoft Package 97 (Word, Excel, PowerPoint)
- Adobe Acrobat Version 3

If possible, papers should be in A5 size. Authors are responsible for securing permission to use the material, as well to publish elsewhere after the conference, provided that reference is made to the fact that it was originally submitted to IRasa. Delegates to the conference will receive a copy of all the papers in book format upon registration for the conference.

Registration

Further details on the conference registration and pre- and post-conference activities will be announced in the Second Announcement Brochure, which will be mailed upon request. Browse our website for regular updates. All enquiries and submission of abstracts to be directed to:

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Second announcement

Anybody interested in receiving the Second Announcement should print or type in capital letters as follows and return to the IRasa Secretariat:

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Sponsorship selection and costs

In order to stage an event such as this, certain expectations need to be met. These include an opening ceremony, which will set the tone for the rest of the conference. An industrial play depicting the theme of the conference, followed by cocktails, is an option currently being considered (sponsorships permitting). Other expenditure items are the distribution of printed material, a targeted public relations campaign to create awareness, delegate kits (branded) and gifts for speakers.

Sponsorship opportunities

The sponsorship opportunities have been structured in such a way as to accommodate various levels of financial investment, from large sponsorship for the major share of exposure, to smaller investments rewarded with the commensurate amount of exposure:

• Opening ceremony (including naming rights)	R100 000
• Catering	R 37 500
• Production of publication	R 35 000
• Production of congress papers	R 25 000
• Delegate kits (branded) and name badges	R 35 000
• Gifts for speakers	R 15 000
• Costs of invited speakers	R 25 000
• Session sponsors	R 5 000
• Mailings	R 20 000
• Advertising	R 40 000

A number of sponsors have expressed interest in some of the above items, and not all options may be available at time of confirmation. However, every effort will be made to secure the selected sponsorship option. The Second Announcement is currently in the design stage, and this publication would be able to carry the identity of sponsors. Two thousand brochures will be distributed nationally and abroad.