

2010

Volume 29, Number 2, ISSN 1649-248X

THE IRISH JOURNAL OF  
**Management**  
incorporating IBAR

This journal was typeset and published by

Blackhall Publishing  
Lonsdale House  
Avoca Avenue  
Blackrock  
Co. Dublin  
Ireland

e-mail: [info@blackhallpublishing.com](mailto:info@blackhallpublishing.com)  
[www.blackhallpublishing.com](http://www.blackhallpublishing.com)

© The individual contributors and Blackhall Publishing, 2010  
ISSN: 1649-248X

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# THE IRISH JOURNAL OF Management

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IRISH BUSINESS AND  
ADMINISTRATIVE RESEARCH

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## IRISH BUSINESS AND ADMINISTRATIVE RESEARCH

The *Irish Journal of Management (Incorporating IBAR – Irish Business and Administrative Research)*, aims to contribute to a wider understanding of the nature, characteristics and performance of both Irish and international organisations through the dissemination of research from a wide variety of management-related areas.

### Notes for Contributors

The *Irish Journal of Management* aims to publish well-written and well-researched articles that contribute to an understanding of management related issues from a national, regional and international perspective. The *Journal* welcomes contributions from a wide range of management viewpoints, including inter-disciplinary and multi-disciplinary perspectives, as well as traditional disciplines and functions. Our list of associate editors reflects the breadth of coverage of the journal.

Contributions should be accompanied by a statement indicating that the paper is a new submission, that all authors have agreed to the submission to the *Irish Journal of Management* and that it is neither under consideration at another outlet nor been published elsewhere (papers published in conference proceedings are acceptable). If the paper draws on a project that has resulted in other publications, the authors should, in their cover letter, indicate how the current submission differs from previous work.

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- Research papers publishing quantitative and qualitative research approaches, literature surveys, conceptual papers and critiques
- Teaching submissions – these can range from case study contributions and critiques to retrospective contributions on pedagogical issues related to teaching issues across discipline areas
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**Tables and Figures** should be clearly labelled and their position in the text should be indicated by 'Insert Table 1 here'. Tables and figures should be provided on separate pages and included at the end of the article. In the case of graphs, diagrams or other illustrative material, the author will be responsible for the preparation of artwork, or for exceptional costs associated with any artwork required.

**Footnotes** should be avoided. Essential notes should be numbered consecutively in the text and grouped together at the end of the paper.

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Argyris, C. (1992) *On Organizational Learning*, Oxford: Blackwell.

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#### *Articles in journals*

Morrison, E. and Phelps, C. (1999) 'Taking Charge at Work: Extrarole Efforts to Initiate Workplace Change', *The Academy of Management Journal*, 42, pp. 403–19. The issue number for journal articles should only be included if the volume is not paginated in a continuous way, i.e. if the page numbers revert to 1 at the beginning of each issue.

*References in the text* should give the author(s), year of publication and page number(s). For example: as Roche (2001: 6) has argued...

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## Submissions

Contributions should be typed double-spaced on A4 paper, with ample left- and right-hand margins. A cover page should contain only the title, author's name(s), position(s) and institutional affiliation(s) and the address (one only) to which proofs should be sent, together with full contact details (email, phone and fax numbers). An abstract of 100–150 words should be included on the second page, together with 3–6 key words. To ensure anonymous review, authors should not identify themselves in the text but should include a separate sheet with a short biography of 50–75 words.

Authors are strongly advised to consult one or more recent issues of the *IJM* before submitting manuscripts for publication.

Contributions should be sent, by email only, to the editorial office at [ijm@nuigalway.ie](mailto:ijm@nuigalway.ie).

If you have a query as to the suitability of a paper for the *Irish Journal of Management*, please contact the relevant associate editor or one of the editors: Dr David Collings at [david.collings@nuigalway.ie](mailto:david.collings@nuigalway.ie) or Dr James Cunningham at [james.cunningham@nuigalway.ie](mailto:james.cunningham@nuigalway.ie).

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The editors invite research and teaching submissions. For research submissions, the editors seek submissions from a range of discipline areas within management: quantitative and qualitative research, literature surveys, conceptual pieces and critiques. For teaching submissions the editors seek submissions ranging from case study contributions, book reviews, research and critiques to retrospective contributions on pedagogical issues across discipline areas.

Notes for the guidance of contributors are detailed separately in this issue. The authors of articles to be published in *IJM/IBAR* will be required to assign the copyrights to the editorial board. The views expressed in articles are the responsibility of individual authors and should not be regarded as being endorsed by the editorial board, the editors or publishers. In accordance with the provisions of the Copyright Act, no article may be reproduced without the permission of the editors.

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Lonsdale House, Avoca Avenue, Blackrock, Co. Dublin.  
E-Mail: [info@blackhallpublishing.com](mailto:info@blackhallpublishing.com)

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# Introduction



DAVID G. COLLINGS  
JAMES CUNNINGHAM

This year marks a new beginning for the *Irish Journal of Management (IJM)* as the new editorial team of David Collings and James Cunningham have been handling submissions since the beginning of the year. Furthermore, the editorial office has moved to the Centre for Innovation and Structural Change, at the J.E. Cairnes School of Business and Economics at National University of Ireland Galway. As incoming editors we are conscious of the significant scholastic tradition of the *Irish Journal of Management* and the contribution the *Journal* has made to the development of academic theory and practice in Ireland. We recognise this rich and significant history and tradition and are convinced of the valuable space the *IJM* occupies in the broad field of management. Additionally, we recognise the key role played by our predecessors in building the *Irish Journal of Management* and would in particular like to acknowledge Professor Teresa Brannick, the founding editor, and the outgoing editor, Professor Kathy Monks. It is our intention to continue to build on this scholastic tradition and in doing so we outline our vision for the *Journal* for the next four-year period as follows.

Our first aim is to increase the quality and quantity of submissions to the *Irish Journal of Management*. As the academic publishing market becomes more competitive, we will aim to differentiate the *IJM* through a high quality and prompt review system and through increasing the distribution of published papers through whatever means possible. In keeping with the theme of broadening the appeal of the *Journal* and reflecting management practice changes in Ireland both from an author and reader perspective, our intention is to expand the types of submissions to include research and teaching

## 2 Introduction

issues. For research submissions, we seek to broaden the *Journal's* appeal to include a range of discipline areas within management by publishing quantitative and qualitative research, literature surveys, conceptual pieces and critiques. Teaching submissions will range from case study contributions, book reviews, research and critiques to retrospective contributions on pedagogical issues across discipline areas.

Linked to the preceding point, a second key objective is to reinforce the general nature of the *Journal* and to increase submissions in areas currently under-represented in the *Journal*. Management information systems and operations management are two illustrative examples. In working toward this second goal we are currently in the process of reconstituting the editorial board and involving members of the Irish Academy of Management working in these areas. Linked with broadening the discipline breadth we also propose to make explicit the scope of the journal by presenting the newly constituted board with associate editors under the discreet areas. For example, we would envisage nine disciplinary areas: people management (to include human resource management/industrial relations (HRM/IR) and organisational behaviour (OB)), strategic marketing, marketing, management, operations management, management information systems, international management, entrepreneurship and strategic management. We are currently in the process of establishing this new board and this will be published in the next issue of the *Journal*.

We are delighted to introduce the contents of the present issue, which includes five excellent papers and two book reviews.

Our first paper, 'Unpacking Information Contractual Relationships: Psychological Contracts Established by Australian Business Academics' by Grant O'Neill, Branka Krivokapic-Skoko and David Dowell, focuses on the content of psychological contracts by using multi-method design within an Australian university. The study findings highlight the importance of ensuring appropriate management approaches with academic employees in ensuring the universities meet their stated objectives.

The second paper, 'A Reputational–Performance Framework in an SME Context: Some Empirical Evidence from Spain' by Vicente López and Susana Iglesias, analyses the role played by reputation as

an intangible resource in small and medium-sized enterprises and its reciprocal relationships with organisational performance in the Spanish context. Drawing on the resource-based view of the firm, it highlights the potential of intangible assets like reputation to explain returns above the average of rival firms.

Our third paper, 'Deprivation, Delivery and Union Mobilisation: The Case of the Congress of South African Trade Unions' by Geoffrey Wood and Pauline Dibben from the University of Sheffield, focuses on union effectiveness in an emerging market context. Using a survey of membership perceptions the authors argue that unions are at the forefront of new challenges to the status quo.

The fourth paper, 'International Small Business Growth: A Process Perspective' by Briga Hynes, University of Limerick, examines the process of internationalisation through a sample of 80 Irish SMEs. The paper highlights the motivations of Irish SMEs to internationalise as well as the challenges that they experience. Moving beyond presenting the research findings the paper concludes with some policy recommendations as well as making some suggestions with respect to future research in the arena.

Our final paper, on 'Spreading Leader Knowledge' by Felicity Kelliher, Denis Harrington and Robert Galavan, addresses optimum dissemination of leader knowledge to undergraduate management students. Based on a literature review the authors propose a participatory leader-knowledge dissemination model, where business leaders can stimulate the academic environment, and leadership skill development can be promoted through practitioners' active involvement in the education process.

The issue concludes with two book reviews. In the first of these, David Coghlan from Trinity College Dublin reviews Kenneth Melchin and Cheryl Picard's *Transforming Conflict through Insight*, while in the second, Will Geoghegan from the National University of Ireland Galway reviews *The Ten Faces of Innovation* by Tom Kelley (with Jonathon Littman).



# Unpacking Informal Contractual Relationships: Psychological Contracts Established by Australian Business Academics



GRANT O'NEILL\*  
BRANKA KRIVOKAPIC-SKOKO\*  
DAVID DOWELL\*

## ABSTRACT

This paper addresses the findings from exploratory research on the content of psychological contracts formed by business academics within an Australian university. The research used a sequential multi-method research design, where focus groups were initially conducted to elicit insights into the content of the academics' psychological contracts. A cross-sectional survey was then administered and exploratory factor analysis of the data collected was undertaken. Cluster analysis was used to further examine perceived employer and employee obligations within a university context, and it proved useful as a means of deepening understanding of academics' psychological contracts, variation among them, and their possible workplace effects. The research identified the existence of quite divergent expectations, interests, motivations and levels of commitment by the academics to the university. It is argued that sensitivity to such variations, and appropriate tailoring of management initiatives and messages, is important if the university is to achieve its goals.

**Key words:** Psychological contract; Academics; Employee commitment; Professionalism

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### INTRODUCTION

The past two decades have seen enormous change in the number, funding and focus of Australian universities. Such changes have profoundly affected the context and conditions of academic work. Australian academics work in universities that have been characterised as increasingly managerialist and market-oriented (Marginson and Considine, 2000), where academic freedom and autonomy have declined and performance expectations have sharply increased (Winter and Sarros, 2002). Government funding now comes with more strings attached and managers within universities commonly apply tighter conditions and controls upon faculties, departments and individual academics as they allocate funds internally. However, despite increased accountability and responsiveness, Australian academics and universities are regularly criticised by politicians and the press for being out of touch with, or unresponsive to, the current and future needs of industry and students.

Across Australia we have seen the practice and language of business increasingly become the practice and language of university leaders and managers (Curtis and Matthewman, 2005). Such changes reflect, and have contributed to, the emergence of the increasingly dominant view of university education as a matter of private investment rather than a public good (Jarvis, 2001). Of course, many of these changes and challenges facing Australian academics and universities have also been experienced by academics and universities in the UK and in some other parts of Europe (Newton, 2002; Jarvis, 2001). As in the UK, Australian academics are working longer hours, experiencing greater stress, and have declining morale. In many universities staff–student ratios have reached new highs, and value conflict between principles and practices associated with commercialisation and those traditionally associated with a commitment to teaching, learning and scholarship has become a well-recognised problem (Winter and Sarros, 2002; Marginson and Considine, 2000; Jarvis, 2001).

In this current university context, we believe that the psychological contract is a particularly relevant and powerful construct that can help explain, and inform effective management of, contemporary academic work performance and workplace relations. The psychological contract can provide insight into contemporary employment relationships; indeed, it has been argued that perceived obligations

within the psychological contract are often more important to job-related attitudes and behaviour than are the formal and explicit elements of contractual agreements (Thompson and Bunderson, 2003). By focusing on aspects of the employment relationship that go beyond the terms set in formal employment contracts, a number of authors analysed important employees' attitudes and behaviour as well as their alignment with the organisation's values (Conway and Briner, 2005; Robinson, 1996; Robinson and Rousseau, 1994; Nelson et al., 2006; Bordin and Bartram, 2007). They argued that organisational effectiveness can be achieved by developing a working environment where employees identify with their organisation's goals, values and objectives and develop a positive attitude towards their jobs, supervisors and management structures.

This paper is divided into two main sections: the first briefly addresses some key features of the psychological contract and discusses past empirical research conducted within academia; and the second presents results from our empirical research on the psychological contracts, which is based on focus group discussions and a survey of academics employed by the Faculty of Business, Charles Sturt University, Australia. Charles Sturt University is one of the largest non-metropolitan universities in Australia and the Faculty of Business operates across multiple campuses and employs more than 200 permanent and casual academics teaching and researching in the fields of management, economics, finance, marketing, accounting, computing and information technology.

#### PSYCHOLOGICAL CONTRACTS WITHIN ACADEMIA

The employment relationship can usefully be conceived of as having two components: the legal contract of service, which covers the legal relations between the employer and the employee, and the psychological contract, which refers to the behavioural relations between the employer and employee that are not made explicit in formal legal employment agreements. There are two main conceptualisations of the psychological contract that are discussed in literature. The first addresses the perception that there are two parties in the employment relationship who have mutual obligations to each other: the organisation and the employee (Herriot et al., 1997). These mutual obligations may have been explicitly communicated through formal

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contracts or they may be implied through the expectations of organisations and employees. The second conceptualisation focuses upon the psychological contract as formulated only in the mind of the employee. This approach focuses upon ‘individual beliefs, shaped by the organisation, regarding the terms of an exchange between individuals and their organisation’ (Rousseau, 1995: 9–10).

Since the 1990s most researchers of psychological contracts have adopted the second conceptualisation, thereby emphasising the importance of the individual employee’s sense of obligations (Turnley and Feldman, 1999; Robinson, 1996). Our study also aligns with this second conceptualisation, and more specifically Rousseau’s individual-based definition that focuses on what each individual (in our case an academic) expects from the organisation and what they hold to be the organisation’s expectations of them.

While empirical research on psychological contracts has developed significantly during the past decade (Coyle-Shapiro and Conway, 2005; Freese and Schalk, 1996; Cavanaugh and Noe, 1999; Turnley and Feldman, 1999; DelCampo, 2007; Nadin and Cassell, 2007), empirical research on psychological contracts within academia has been very limited. It is represented by the studies of Dabos and Rousseau (2004), Newton (2002) and the work at a New Zealand university initiated in the mid-1990s (Tipples and Krivokapic-Skoko, 1997; Tipples and Jones, 1998). Research on the psychological contracts established by scientists and knowledge workers (O’Donohue et al., 2007) can be also discussed within a relatively broadly defined subject area of academia.

Dabos and Rousseau’s (2004) survey-based research among academics employed by a research-focused school of bioscience in Latin America identified how mutuality and reciprocity between employees and employers can develop and result in very beneficial outcomes for both sides of the employment relationship. In a study that explored issues of trust, collegiality and accountability in a UK college, Newton (2002) identified limited management recognition of psychological contracts as a factor associated with employees’ perceptions of a lack of perceived reward and recognition and the poor morale and commitment that resulted.

Similarly, the empirical research undertaken at Lincoln University, New Zealand by Tipples and Krivokapic-Skoko (1997) indicated that

the academics' psychological contracts were in a very poor state. Their empirical research pointed to the 'work environment' as the major component of the psychological contract established by the academics. The academics also identified 'job satisfaction', 'career development', 'payment', 'long-term job security' and 'promotion' as issues perceived as promised obligations by the university. The follow-up research involving the same empirical site (Tipples and Jones, 1998) indicated that the academics' obligations to the university centred on the issues of 'hours' (to work the hours contracted), 'work' (to do a good job in terms of quality and quantity) and 'loyalty' (staying with the university, putting the interests of the university first). Obligations of the university centred around 'fairness', 'consulting', 'recognition', 'environment' and 'job security'.

O'Donohue et al. (2007) examined whether or not psychological contracts adequately reflect the knowledge worker's contracts. Their findings indicated that scientists and knowledge workers were concerned more about ideological and societal issues (scientific contributions and knowledge accumulation within the organisation) associated with their work than the transactional or relational psychological contracts established with their organisation.

While referring to the general literature on the psychological contracts Conway and Briner (2005) argued that there were relatively few studies specifically designed to assess the contents of the psychological contract. This research attempts to address this gap by exploring the contents of the psychological contracts established by academics. It is our objective to unpack the contents of the 'deal' between academics and their university within the empirical setting of an Australian university.

## RESEARCH DESIGN

Empirical research on the psychological contract is dominated by one type of study, the cross-sectional questionnaire survey (Conway and Briner, 2005). Taylor and Teklab (2004: 279) have argued that because of the dominance of the survey approach 'psychological contract research has fallen into a methodological rut'. As a result, some experts on the psychological contract have recently argued that there is a strong need to use a variety of research techniques (Conway and Briner, 2005), take a more a holistic approach (Pate, 2006) and

pursue triangulation of research methods in order to provide more convincing and reliable results from empirical research (Tipples and Verry, 2006).

Taking up the call for triangulation of research methods, this study used a sequential mixed method research design (Morse, 2003) in which a preliminary qualitative study (in this case focus groups) provided the basis for developing the content of a questionnaire. The focus groups that were conducted provided valuable insights into how to address the content of the psychological contracts within the particular context of academia. They also helped identify the issues and themes that can subsequently be drawn upon to assist with the development of relevant survey questions. The focus group questions encouraged the academics to discuss what they feel they bring to their work that is not explicitly stated in their employment contract and what they believe the university owes them in return. Contractual elements presented in earlier studies (Thomas and Anderson, 1998; Kickul and Lester, 2001; Guest and Conway, 2002; Thompson and Bunderson, 2003) were exceeded by the elements named by the academics.

Twenty-six academics employed by the Faculty of Business, Charles Sturt University, New South Wales participated in the three focus group discussions. The focus group provided a number of insights that were used to develop items for the survey which was administered in the second phase of this research. Apart from the focus group analysis, some items were adopted from Janssens et al. (2003) and de Vos et al. (2003) but were altered to reflect the university context of the research. In total, thirty-one items were included to measure perceived university obligations (summarised in Table 1), while thirteen were included to measure the obligations of the individual academic to the university (summarised in Table 2). In accordance with previous research (Kickul and Liao-Troth, 2003; Janssens et al., 2003; Rousseau, 1990) five-point Likert scales were used. This allowed the respondents to agree or disagree to varying levels with statements about themselves or the university. In line with the approach taken by Westwood et al. (2001), this study first assessed the promises and commitments employees (academics) perceived their organisation (the university) has made to them, followed by an assessment of the obligations which employees

(academics) perceive they themselves have to the organisation (the university).

## EMPIRICAL RESULTS

### **Focus Groups**

Building upon perceived promises of mutual exchange the academics spoke at length regarding what they were expecting of the university in return for what they bring to their job. A common theme that emerged from the statements is that academics want to be recognised and treated as professionals. Much of the discussion centred on the expectations of good leadership and management, fairness and transparency in promotion and recognition of one's personal commitment to the profession, the university and the students. Most of the academics spoke to a powerful work ethic and there was considerable discussion of willingness to work outside 'normal' working hours and flexibility in accepting various roles. For example, one focus group participant cited 'willingness to work beyond the stated hours and a willingness to take on faculty and university roles that are not sustained in one's duty statement and that aren't remunerated'.

Issues relating to trust, clear and honest communication, transparency, student advocacy, individual consideration and respect were prominent throughout the conversations. Generally, there was a realistic acceptance of the constraints within which management must make decisions and that such constraints can lead to broken promises and failures to meet expectations from staff. What was not accepted, and this raised considerable emotion, was a failure to address such situations in an honest manner and communicate outcomes effectively.

Commitment to teaching and the desire to contribute to society emerged as powerful motivators for academic staff, and the need for academic freedom and job discretion were linked to these motivations. Staff expressed a strong expectation of autonomy, job discretion and inclusion in decision making, and, similar to the findings by O'Donohue et al. (2007), this was related to the professional identity of academics. As one participant noted, '[t]here's an expectation that our professionalism will be respected, that we're not going to be treated as if we've got nothing to add and that we're just automatons in the machine'. Being treated fairly was an expectation consistently expressed by the academics, which included equitable

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pay, impartiality, fairness in promotion, consistency in applying rules, acceptance of union involvement, reciprocity and an expectation that family and outside commitments should not cause disadvantage. The academics perceive their role as involving teaching, research and administration and they expect to be recognised and rewarded for each, though it was frequently commented that research wins out in terms of recognition and promotion. That noted, the expectation of recognition for effort and achievement goes beyond the desire for a fair promotion and remuneration system, and addresses a basic need to be affirmed, appreciated and acknowledged by others.

The academics also felt that the breadth of knowledge they bring to their work is an important contribution to the university. It was consistently stated that disciplinary knowledge, teaching and industry knowledge and experience, and industry contacts and networks are highly valuable but are not equally recognised by management. Conscience, personal ethics, integrity and a desire to make society a better place were strong motivators for staff and represented commonly discussed aspects of personal qualities that staff felt they were bringing to their academic work. Motivation and enthusiasm were frequently discussed in terms of ‘making a difference’, ‘making society a better place’, and generally expressing a desire to advance social justice and ethics.

Key areas where the university was considered to have fulfilled or exceeded its implicit obligations included support for research, outside activities, training and development, and support and care with regard to personal and emotional issues. Although many examples of where the university had fulfilled or exceeded expectations were reported, the university was also deemed to have failed in meeting perceived obligations. Within each focus group, the phrase ‘changing the goalposts’ was used in reference to promotion and the increasing expectations that have seen many fail to meet criteria. The unpredictability of career advancement within the university has caused much disappointment and anger amongst academics. A theme across the groups was that while quality teaching is espoused as the cornerstone of the university’s strategy and core values, it is perceived that it is only the quantity and type of research that is recognised and rewarded. This creates a double standard within the institution, which in turn encourages dishonest communication. The

lack of openness in such situations was made worse when a rule or policy was invoked to justify a decision that had obviously been made for other reasons. This perceived lack of honest communication had turned disappointing situations into experiences of extreme betrayal. The highly emotive issues of promotions and redundancies were closely tied to the issue of honesty and transparency in communication as these issues so frequently provided the focal point of grievance.

Thus, the focus group discussions made it very clear to us that it would be problematic to attempt to understand the formation and effects of the psychological contract solely in terms of what the academic feels they owe the university. The commitment, passion and concerns of the academics were often associated more strongly with students and society than with the university as their employer. Their commitment and concerns are often directed more toward the students and society, with the institution providing a means of serving those higher goals. If they are frustrated with unmet expectations and promises, it is likely that these frustrations will occur in areas that impinge upon their ability to fulfil their personal mission of attaining these higher goals. The academics remain strongly committed to social ideals associated with traditional notions of the university as a key social institution within civil society, an institution oriented to the 'social good'. Further, it seemed that the frustrations that existed regarding unmet expectations and promises were strongly felt and articulated when they negatively affected one's ability to fulfil personal commitments to these social ideals. That is not to say that promotion and remuneration are unimportant, just that these other factors remain very strong and were often perceived to be under increased pressure and threat from bureaucratic and commercial forces.

### **Survey**

Using a variation of the Total Design Method (Dillman, 1978), a total of 117 questionnaires were mailed out to full-time permanent academic staff, and of these 60 questionnaires were completed and returned (a 51 per cent response rate). Once the data was collected, factor analysis was used to determine key variables of (1) academics' obligations to the university and (2) academics' perception of the uni-

versity's obligations to them. Principle components analysis was utilised due to its ability to identify a parsimonious set of factors (Hair et al., 2006) and its suitability for exploratory research (Malhotra et al., 2002). A Varimax rotation was used to ensure the factors were easy to interpret through the simplest structure (Hair et al., 2006).

The analysis revealed eight factors that related to the academics' perceptions of the university's obligations to them, and three factors for the academics' obligations to the university based on eigenvalues and cumulative percentage explained. Factor reliability scores and mean scores are outlined in Tables 1–3 of the Appendix.

Based on the analysis of the data and the items included, the eight factors related to the university's obligations as perceived by the academics were identified (Table 1).

These eight factors all present face validity and give an impression of what obligations are important to academics. The first factor, 'fair treatment in promotion', incorporates items that are associated with treatment by management in relation to promotion. In many respects an extension of this first factor is the second factor, 'staff development and support'. Here the key themes are support for staff in terms of promotion and career development as well as the creation of an environment conducive to employee development. The third factor, 'good management and leadership', is concerned with effective leadership and management, including the reduction of bureaucratic 'red tape'. The fourth factor, 'academic life', contains many of the elements synonymous with working in an academic environment. The items within 'fairness and equity' relate to the expectation that university management will act ethically and will be fair with regard to managing change. The sixth factor, 'appropriate remuneration', is about salary and expectations of some comparability between public and private sector remuneration. The seventh factor, 'rewarding performance', relates to recognition of performance in diverse ways, while the eighth factor, 'good workplace relations', includes items surrounding workplace flexibility and even union membership.

With regard to the academics' obligations to the university, three factors were identified (Table 2). The first factor, 'meet academic expectations', relates to academics meeting typical expectations with regard to teaching, research and associated administration. The

Table 1: The University's Obligations Factor Scores

Item	Loading							
	Factor 1: Fair treatment in promotion	Factor 2: Staff development and support	Factor 3: Good management and leadership	Factor 4: Academic life	Factor 5: Fairness and equity	Factor 6: Appropriate remuneration	Factor 7: Rewarding performance	Factor 8: Good workplace relations
Provide clear and consistent requirements for promotion	0.85							
Treat you fairly and equitably with regards to promotion	0.82							
Be fair and equitable in its treatment of academics	0.74							
Provide opportunities for career development		0.76						
Support ongoing professional development		0.73						
Provide opportunities for promotion		0.69						
Provide remuneration that is comparable to other universities		0.61						
Provide a safe and comfortable work environment	0.52	0.60						
Ensure that staff act collegially		0.51						
Provide good management			0.76					

(Continued)

Table 1: (Continued)

Item	Loading							
	Factor 1: Fair treatment in promotion	Factor 2: Staff development and support	Factor 3: Good management and leadership	Factor 4: Academic life	Factor 5: Fairness and equity	Factor 6: Appropriate remuneration	Factor 7: Rewarding performance	Factor 8: Good workplace relations
Provide good leadership			0.75					
Minimise the impact of red tape			0.72					
Provide security of ongoing employment				0.68				
Allow you autonomy to act as a professional academic				0.66				
Maintain academic freedom				0.62				
Respect the demands of family/personal relationships				0.62				
Communicate important information to you				0.56				
Acknowledge the long hours you devote to work					0.83			
Act ethically					0.79			
Manage the pace of change so that it does not adversely affect you					0.57			

(Continued)



**Table 2: Academics’ Obligations Factor Scores**

Item	Loading		
	Factor 1: Meets academic expectations	Factor 2: Commitment	Factor 3: Above and beyond
Comply with university rules and regulations	0.74		
Act ethically at work	0.65	0.40	
Advance your discipline	0.62	0.58	
Publish scholarly research	0.58		
Work effectively and efficiently	0.57	0.45	
Stay employed by the university for the next two years		0.77	
Travel for work		0.73	
Act collegially		0.61	
Work long hours to complete tasks		0.52	0.51
Complete tasks that are not strictly part of your job			0.78
Complete tasks that are asked of you			0.66
Provide teaching quality	0.52		0.61
Enhance student development	0.58		0.59

Note: Only loadings above 0.40 are shown

second factor, ‘commitment’, relates to the commitments academics make to the university, including, for example, a commitment to stay employed by the university for several years, a commitment to travel for work and a commitment to collegial practice. The third factor, ‘above and beyond’, is not concerned with completing ‘normal’ assigned tasks but the completion of tasks beyond the typical job description, including commitment to quality teaching and student development in the face of competing demands on time.

The factors identified for both the university’s and the academics’ obligations were then utilised for the cluster procedure. As the research was primarily exploratory, only one cluster method was used. Ward’s method was adopted as it is well suited to this type of exploratory analysis and also minimises the number of clusters identified (Hair et al., 2006). The Squared Euclidian Distance was used in the two cluster procedures that were run as it is normally used in conjunction with Ward’s method (Malhotra et al., 2002) and because

similarity was sought (Hair et al., 2006). A number of techniques were used to establish validity. Multinomial logit models, ANOVA (analysis of variance) and further clustering methods were all used to establish that clusters were significantly different. In the case of ANOVA and multinomial logit modelling, the sample size inhibits any real insight from this analysis. These were still performed with some positive results. When ANOVA was used with the categorical variables utilised to profile the cluster solutions, the findings indicated that some (not all) of the demographic variables were different across clusters in both procedures. The logit modelling was more successful, as it was found that several of the demographic variables were significantly different from cluster to cluster. K-means clustering was also used to confirm the hierarchical clustering results. Again, limited support was found, indicating that a four-cluster solution for both procedures is a reasonable conclusion. Finally, a two-step cluster procedure was used to confirm the hierarchical findings, and this indicated a similar clustering solution, thereby deeming that the findings were appropriate. None of the validity findings are certain; however, this is an exploratory study. That noted, the combination of methods used to examine validity provide enough evidence to suggest the findings are worth reporting.

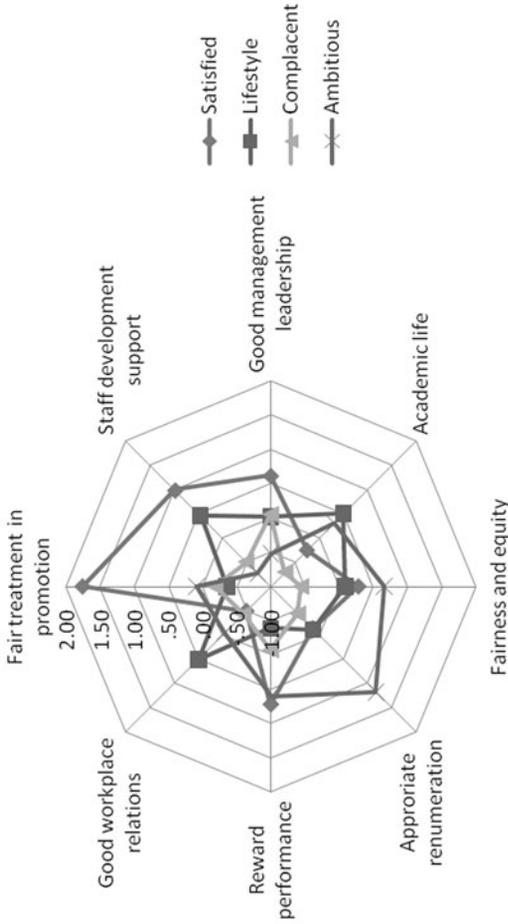
### **Cluster Procedure 1: University's Obligations**

The first cluster procedure was conducted on the factors related to academics' perceptions of the university's obligations to them, and Figure 1 outlines four clusters with their factor scores.

#### *Cluster 1: Satisfied*

The respondents in this cluster scored highest on fair treatment in promotion, staff development support, rewards for performance and workplace relations. This was however, the smallest group, representing only 10 per cent of the sample. They were strongly concerned with teaching and research, indicating a traditional university employment situation. Also, they have, on average, been employed at their current institution for longer than any of the other clusters. The group was also predominantly male, to a much greater extent than any of the other clusters, and they were employed in more senior positions. Interestingly, members of this group were less frequently

**Figure 1: The University's Obligations Clusters with Factor Scores**



union members. In summary, this cohort exhibited a high level of faith in the university's systems and indicated belief that the university will fulfil its obligations.

### *Cluster 2: Lifestyle*

The respondents in this cluster were most concerned with academic lifestyle, placing greater emphasis on this issue than any of the other groups. While the group did exhibit interest in fair remuneration, they displayed the lowest interest in reward for performance and performance-based promotion. The largest cluster, with 38 per cent of the sample, they also appeared somewhat disinterested in the quality of management and leadership provided. In contrast, they highly valued, more than any of the other groups, workplace relations. In terms of demographics, this group had the second longest length of service at their current institution (11.6 years); however, they had spent less time at other universities than any other group. They more often originated from the public sector and more often migrated from another faculty within their current university than those in the other clusters. Furthermore, this group was less concerned with the traditional teaching and research role and more concerned with management, administration and professional development. They have been, on average, at their current academic staff level for around six years. They were also the oldest group, had the highest number of females, and the lowest level of completed doctorates.

### *Cluster 3: Complacent*

Those in the 'complacent' cluster had the lowest interest in all of the areas that the clusters were assessed on. This is the second oldest and second largest group (32 per cent of the sample). The group expressed the least interest in academic life, workplace equity and concern for appropriate remuneration. Limited interest was indicated in relation to reward for performance, good management/leadership, staff development and fair treatment in promotion. This group is characterised by having the lowest level of academic positions and having spent the most amount of time at their position or level. Their primary role at the university more frequently includes administration or management than the other groups. On average, they have spent around ten years at their current university and over six years

at their previous university. While expressing very little interest in workplace conditions and promotions, this group had the largest number of union members. Finally, this was the most ethnically diverse group.

*Cluster 4: Ambitious*

The academics in this cluster are very eager to receive appropriate remuneration and rewards for performance. They also expressed high concern for equity but place relatively little importance on leadership and management or good workplace relations. They place a moderate amount of value on academic life and promotion fairness. The youngest of all four cohorts, members of this cluster had the shortest length of service with their current institution, as well as the shortest amount of time at their current position. Interestingly, they had the longest service with previous universities. Those in this cluster were also more likely to be students before they joined their current institution. In general, they are a younger, more career-minded cohort than any of the others. They also saw themselves as having greater career mobility.

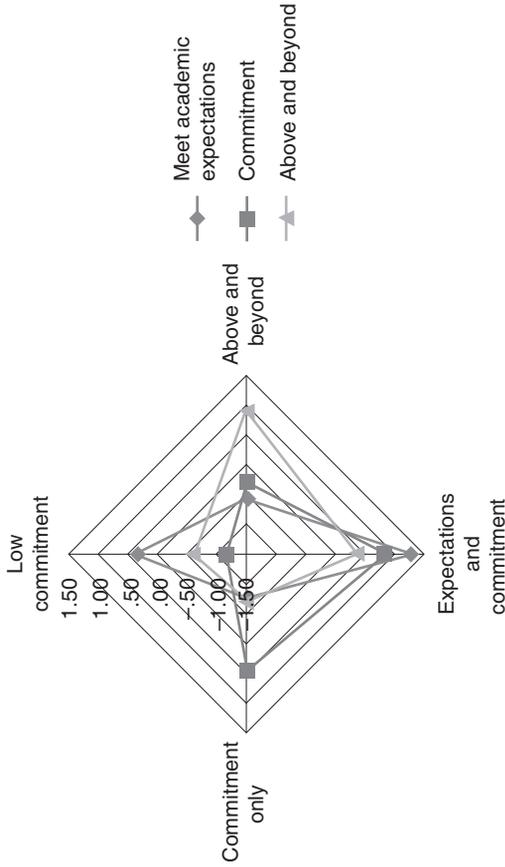
**Cluster Procedure 2: Academics' Obligations**

The second cluster procedure was conducted using the factors relating to the academics' perceptions of their obligations to the university and also generated four clusters as shown in Figure 2.

*Cluster 1: Low Commitment*

As a cohort, this was the smallest group, accounting for 20 per cent of the sample. This group expressed the least commitment to their work and the university. While they have the second highest interest in meeting university expectations, they expressed very little interest in going above and beyond university expectations. In terms of demographics, the group had by far the largest union membership, were the oldest, had the highest proportion of males, had spent the most time at other universities and had been at their current academic level for the longest period. Primarily, this group is interested in teaching and research.

**Figure 2: Academics' Obligations Clusters with Factor Scores**



### *Cluster 2: Above and Beyond*

This cluster was the second largest group, containing 25 per cent of the sample. This group expressed the highest level of interest in working ‘above and beyond’, yet they registered relatively little commitment or desire to meeting ‘academic expectations’. This group was the youngest of the four clusters, had the lowest level of union membership, and the least number of years of service with their current university and other universities. Given their limited employment duration, it is not surprising that they have the shortest period at their current level. As the youngest cluster, generational differences associated with lower concern regarding security of tenure, increased career movement and lower commitment to employers seem to be in play.

### *Cluster 3: Expectations and Commitment*

Cluster three, the second smallest cluster, accounted for 22 per cent of the overall sample. This group had the highest level of interest in meeting ‘academic expectations’ and expressed the highest level of ‘commitment’. They also indicated a strong interest in going ‘above and beyond’ expectations. On average, this group held the highest academic positions and had been employed by the university for one year more than the other groups. They also possessed the highest education levels and lowest number of incomplete postgraduate degrees.

### *Cluster 4: Commitment*

The final cluster in this procedure is the largest with 27 per cent the sample and the only factor that had a positive weighting was ‘commitment’. The group had the lowest level of interest in working ‘above and beyond’ and in meeting ‘academic expectations’. The demographics of this group differed to each of the other clusters, having the highest percentage of females and the highest level of incomplete postgraduate degrees. On average, they were second highest in terms of academic positions, had been employed by the university second longest and had the second longest period of employment with their previous institution.

## DISCUSSION AND CONCLUDING COMMENTS

Building upon the empirical evidence gathered from the focus group and the survey, this paper has revealed the content and key elements of the psychological contracts formed by academics within an Australian university business faculty. The focus group analysis conducted for this research identified that the academics' commitments to society and the social good, student learning and development, their disciplines and the institution of the university play a prominent part in the development and moderation of the effects of their psychological contracts. The exploratory factor analysis was used sequentially to unpack different types of the academics' perception of the psychological contracts. In terms of expectations of the university, the analysis identified the following as key elements of the academics' psychological contract: 'fair treatment in promotion', 'staff development and support', 'good management and leadership', 'academic life', 'fairness and equity', 'appropriate remuneration', 'rewarding performance' and 'good workplace relations'. The three underlying elements of the contract factors explaining academics' obligations to the university were (1) meets 'academic expectations', (2) 'commitment' and (3) going 'above and beyond'.

These reinforced the findings of some earlier empirical research on psychological contracts within academia (Tipples and Krivokapic-Skoko, 1997; Tipples and Jones, 1998) that identified the importance of leadership and management, fairness and equity (particularly when comes to promotion), and the provision of opportunities for career development. In addition to re-enforcing the importance of quite 'generalised' expectations already identified in the literature on psychological contracts, including the provision of good management, an appropriate work environment and opportunities for career development (Rousseau, 1990), this research pointed to the perceived importance of maintaining academic freedom and allowing academics to act as professionals. This research pointed to the academics' strong personal commitments to quality teaching and enhancing student development, both of which are seen as being part of their obligation to the university. These latter insights demonstrate that it would be limiting to attempt to understand the content of the psychological contract in narrow work performance terms.

This empirical study also used cluster analysis to further examine the factor scores of perceived employer and employee obligations within a university context. Four clusters were identified in relation to what academics perceive that the university is obliged to provide to them. These were the ‘satisfied’ academics, the academics most concerned with maintenance of the academic ‘lifestyle’, the ‘complacent’ academics and the ‘ambitious’ academics. Knowing what different academics perceive to be their obligations to the university, and the university’s obligations to them, means that managers can carefully select and motivate academics most likely to support particular initiatives around research, teaching or administration. For example, the ‘satisfied’ cluster might quickly become dissatisfied if they perceive poor management and leadership, and/or few professional development opportunities and poor treatment in relation to promotion. Similarly, academics within the ‘complacent’ cluster might lose their complacency, becoming more motivated and focused through effective management and leadership, or even angry and oppositional if they find their efforts in management and administration are somehow thwarted. Those in the cluster who value the traditional academic ‘lifestyle’, placing a premium upon autonomy, academic freedom, collegiality and workplace flexibility, will respond negatively to many of the changes commonly associated with the creeping managerialism that is evident across the university sector. Clearly, this poses a real management challenge, as academics in this ‘lifestyle’ cluster place limited value on transactional performance rewards. Obviously, management can quickly alienate those in the ‘ambitious’ cluster by blocking career opportunities or not recognising and rewarding their efforts.

The cluster analysis also produced four clusters in relation to what the academics perceived to be their obligations to the university. These were labelled ‘low commitment’, ‘above and beyond’, ‘expectations and commitment’ and ‘commitment only’. Those in the ‘low commitment’ pose a considerable challenge to managers wanting to achieve more or realise considerable change. Being the most highly unionised academics, and those in their current positions for the longest period, they demand carefully tailored management if they are to move beyond meeting standard workplace expectations. The ‘above and beyond cluster’ are willing to do more in the workplace

and might usefully be mobilised by managers as champions for particular goals, initiatives and change. Given the relative strength of their commitment to the university and meeting performance targets, the academics in third cluster, 'expectations and commitment', can be called upon to do more with the least risk of resistance, loss of motivation and commitment. The 'commitment only' cluster are an especially challenging group to manage as their expressed commitment to the university seems outweighed by low levels of interest in working 'above and beyond' or even meeting 'academic expectations'. This cluster demands further analysis as they constitute the largest group of academics and seem to treat their work as 'just a job'.

The findings of the cluster analysis signposted the complexities associated with managing and leading academics. Both prior research and the findings from this study indicate that university managers can and should act to maintain positive academic psychological contracts. We argued that universities will benefit where managers are able to deliver on academics' varied expectations. Furthermore, we believe that the insights that analysis of psychological contracts provide can allow managers to better manage and harness staff motivation, commitments and personal interests to deliver on desired university outcomes. By knowing the content of psychological contracts and knowing academics' perceived expectations and obligations, university managers can better understand, predict and manage how academics will respond to various work pressures, demands, incentives and change.

The survey was based on respondents from a single organisation and used self-reporting questionnaires to assess variables that were framed in terms of promises and obligations. As the data was collected at a single point in time the research was not able to provide insights into the development of the contracts over time. Sample size limited some of the analysis and, therefore, caution must be used in generalising the results of this study and comparing across different empirical settings. Other limitations of this study result from the conceptual framework used to evaluate the psychological contract. As Cullinane and Dundon (2006: 116) pointed out, under Rousseau's approach, 'organisations are deemed to be something of an anthropomorphic identity for employees, with employers holding no

psychological contract of their own’. Since this research followed Rousseau’s conceptualisation of the psychological contracts it included only academics’ subjective interpretations and evaluation of their ‘employment deal’ with the university. Further research could usefully include the perspective of the employer – the university – in order to provide further insight into mutual and reciprocal obligations. However, bringing the employer’s perspective into the psychological contract would be challenging, not least because of the difficulty of identifying and articulating the university perspective.

APPENDIX

The number of factors was decided by including eigenvalues of above 1. In the university’s obligations to the academics eight eigenvalues were above 1 and in the academics’ obligations to the university three eigenvalues were above 1. The variance explained was also acceptable (74 per cent and 58 per cent), further indicating that the factor solutions are 8 and 3. As can be seen in the tables, there are some instances of cross-loading, however, all factors are reliable. Each factor has a Cronbach’s alpha of 0.60 or above, which is acceptable for exploratory research of this nature (Hair et al., 2006). Further supporting the factor solutions, each factor had a KMO (Kaiser-Meyer-Olkin) above 0.60 and each factor had a

**Table 1: Factor Reliability Scores**

<b>Factor</b>	<b>Cronbach Alpha</b>
<i>University Obligations</i>	
Fair treatment in promotion	0.89
Staff development and support	0.83
Good management and leadership	0.74
Academic life	0.66
Fairness and equity	0.80
Appropriate remuneration	0.72
Rewarding performance	0.75
Good workplace relations	0.68
<i>Individual Obligations</i>	
Meet academic expectations	0.74
Commitment	0.60
Above and beyond	0.69

significant Bartlett's Test of Sphericity, and there were correlations of above 0.3 for each item included, thus exceeding Hair et al.'s (2006) levels of acceptability.

**Table 2: Mean Scores for the University's Obligations Factors**

	Ward Method			
	1	2	3	4
	Mean	Mean	Mean	Mean
Fair treatment in promotion	1.77	-0.35	-0.18	0.09
Staff development and support	0.99	0.46	-0.49	-0.73
Good management and leadership	0.62	0.02	0.06	-0.52
Academic life	-0.25	0.51	-0.70	0.31
Fairness and equity	0.29	0.10	-0.55	0.66
Appropriate remuneration	-0.13	-0.12	-0.44	1.17
Rewarding performance	0.73	-0.39	-0.07	0.61
Good workplace relations	-0.49	0.50	-0.43	-0.05

**Table 3: Mean Scores for Academics' Obligations Factors**

	Ward Method			
	1	2	3	4
	Mean	Mean	Mean	Mean
Meet academic expectations	0.34	-0.58	1.28	-0.75
Commitment	-1.15	-0.29	0.85	0.44
Above and beyond	-0.62	0.93	0.36	-0.70

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# A Reputational–Performance Framework in an SME Context: Some Empirical Evidence from Spain<sup>†</sup>



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## ABSTRACT

This study attempts to analyse the role played by reputation as an intangible resource in Spanish SMEs and its reciprocal relationship with organisational performance. The analysis is made from a resource-based view of the firm, which highlights the potentiality of intangible assets like reputation to explain returns above the average of the rivals. A literature review is carried out in order to explore if reputation can be considered a source of competitive advantage in SMEs. A model based on management perceptions is proposed and tested using structural equation analysis on a sample of Spanish SMEs. The results thus obtained, in line with research performed on large firms, seem to confirm in small and medium-sized enterprises the influence of past performance on the present managerial perception of reputation and of this perception on future performance.

**Key Words:** Reputation; Performance; Resource-based view; Competitive advantage; Structural equation model

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## INTRODUCTION

There is a growing body of research focused on the identification of different sources of competitive advantages in small and medium-sized enterprises (SMEs). From the resource-based view (RBV) of the firm, there are many who consider that intangible resources are the main drivers of sustainable competitive advantages (Leitner and Warden, 2004; Villalonga, 2004). Among these intangibles, reputation is one of the most influential strategic resources when it comes to a firm's performance (Carmeli and Tishler, 2004a). This is borne out by the energy and effort that often goes into creating, developing and sustaining a reputation (Hall, 1992; Barney, 1986). It should come as no surprise, therefore, that the study of reputation has come to the fore in recent years (Weigelt and Camerer, 1988; Fombrun and Shanley, 1990; Sz wajkowski and Figlewicz, 1999; Fombrun et al., 2000; Shamsie, 2003; De La Fuente and De Quevedo, 2003a, 2003b; Carmeli and Tishler, 2004b; Martín et al., 2004; Rindova et al., 2005).

This paper attempts to contribute to the existing literature about SMEs, analysing the role played by intangible resources as sources of competitive advantage. Since there is a limited number of empirical studies about intangibles in small firms, the purpose of this paper is to enlarge that body of knowledge by investigating the adequacy of the resource-based view of the firm as a theoretical framework useful to identifying and analysing how some resources contribute to SMEs' organisational performance, and the extent to which some intangible resources, like reputation, help to explain firms' superior performance.

This work begins by reviewing different sources of competitive advantages in SMEs. Then, a revision of the reputation literature is carried out, from a resource-based perspective, including also other terms close to reputation, such as organisational identity and image. After this, the conceptual framework suggested by Weigelt and Camerer (1988) is adopted to analyse some of the different approaches used for evaluating reputation in various empirical studies. A model of the mutual relationships between performance and reputation is then formulated and tested using structural equation analysis. The variables used in the model – apart from those measuring the organisational performance – attempt to capture the different

dimensions of reputation, as conceived by Weigelt and Camerer (1988); an approach that, as far as we know, nobody has followed before in an empirical study of organisational reputation. This study differs from others in that these dimensions are gleaned only from management perceptions,<sup>1</sup> which refer to the judgement that the stakeholders have about the reputation of the organisation. This process is particularly interesting because, although these perceptions do not necessarily correspond to any objective criteria, they do indeed reflect the influence of these perceptions, often unconsciously, on the decision-making process (Whetten and Mackey, 2002). The study concludes by presenting the most relevant conclusions, limitations and lines of future research.

#### REPUTATION AS A SOURCE OF COMPETITIVE ADVANTAGE IN SMES: THEORETICAL BASIS

##### **Competitive Advantage in Firms**

One topic of important debate in the field of strategic management is the nature of competitive advantage in firms. For example, Porter (1985) states that a competitive advantage comes from the value that a firm creates for their customers, which is greater than the cost of producing it. Meanwhile, Barney (1991) argues that a firm has a *competitive advantage* when it is able to implement a strategy that creates value and the existing and/or potential rivals cannot implement it at the same time, and it has a *sustained competitive advantage* when those organisations cannot replicate the profits of its strategy. This is an example of the academic debate between two perspectives: industrial economy and the resource-based view.

The research linked to competitive advantage is not only applicable to large firms, but to small ones too. One research issue of growing interest about SMEs is trying to identify and understand the resources that allow an enterprise to create and maintain a sustainable competitive advantage and to improve organisational performance (Bamberger, 1989; Chaston and Mangles, 1997; Wickham, 2001). Nowadays, the resource-based view of the firm (Wernerfelt, 1984; Barney, 1991) has become increasing influential on the research on SMEs (Jones and Tilley, 2003). Evidence of this includes Feigenbaum and Karnani (1991) exploring organisation change and structure, Bacon et al. (1996) studying human resource management,

Gadenne (1998) analysing how different sources of competitive advantage interact to improve performance in Australian firms, Rangone (1999) using this approach for a strategic analysis of small enterprises, Cobbenhagen (2000) adopting the RBV for identifying sources of competitive advantage in a sample of SMEs in the Netherlands, and Aragón-Sánchez and Sánchez-Marín (2005) exploring the relationships among strategic orientation, management characteristics and performance in a sample of Spanish SMEs.

### **Reputation as a Resource**

Although SMEs do not brand themselves or their images in the same way or do not employ the same marketing concepts as large firms (Nedungadi, 1990), the intangible resource of reputation seems critically important for an organisation of any size (Rindova et al., 2005) and can be considered as well a strategic organisational resource capable of generating a sustainable competitive advantage (Peteraf, 1993) for SMEs. Further, reputation is generally believed to be an intangible resource that has firm roots within organisational history (Wernerfelt, 1984), is difficult for competitors to imitate due to the complex nature of the way it develops and is accumulated over time (Dierickx and Cool, 1989), is highly specific to the firm where it is nurtured, is available to use over the long term (Hall, 1993) and, in organised markets, its acquisition has obvious difficulties (Salas, 1996). All of these characteristics, according to Barney (1991), are prerequisites for being able to label a resource ‘strategic’ (it must be valuable, scarce, difficult to imitate and non-substitutable) and Sham-sie (2003) shows that reputation fulfils this criterion.

At this point – although, obviously, developing a theory about reputation is not the purpose of this paper – some theoretical distinctions should be made considering the lack of conceptual consensus in the reputation literature (Smidts et al., 2001; Bromley, 2000; Carmeli and Tishler, 2005). Three frequently quoted terms generate debate: organisational identity, image and reputation. There are divergent views of organisational identity (Van Riel and Balmer, 1997); for example, some scholars distinguish between identity in organisations (a social aggregate view) and identity of organisations (a social actor view). The first one considers organisational identity ‘as shared perceptions among members’ and the second one ‘as institutional claims

available to members' (Whetten and Mackey, 2002: 395). Organisational image could be defined as 'what organizational agents want their external stakeholders to understand is most central, enduring, and distinctive about their organization' (Whetten and Mackey, 2002: 401).

### **Definition and Types of Reputation**

In relation to reputation, there are several perspectives to define it. For example, Raub and Weesie (1990) state that reputation is an attribute that is ascribed to an actor on the basis of past behaviour. Other authors, such as Fombrun and Shanley (1990), claim that reputation is the outcome of the information accumulation process that takes place as stakeholders capture different signals from the firm. These indicators may be: market signals, such as market performance and dividends policy; balance sheet or accounting signals, such as annual results or risk; institutional signals such as institutional ownership, social responsibility, coverage by the media and size of the firm; and, finally, strategic signals, which might include differentiation and diversification. According to Weigelt and Camerer (1988) reputation should be understood as the knowledge available as to the valuable characteristics of the firm and the emotions of stakeholders towards this firm, whilst Carmeli and Tishler (2004a: 1260) define perceived organisational reputation as the 'top management's view of the outsiders' beliefs about the organization'.<sup>2</sup>

Scholars consider that there are different types of reputation. These include reputation linked to an aggressive competitor (Caves and Porter, 1977), an attractive organisational climate (Gatewood et al., 1993), product quality (Brown and Perry, 1994) and the social responsibility of the firm (Szwajkowski and Figlewicz, 1999). In the work of Weigelt and Camerer (1988), three kinds of reputation are identified, these are the reputation of the business, the reputation of the product or service and the reputation linked to the corporate culture. The first of these is a consequence of information that refers to the firm. This information includes plant capacity, geographical location, managerial capabilities, strategy, financial strength and social responsibility (Fombrun and Shanley, 1990). The reputation of the product or service is intimately connected to the public perception of quality (Rao, 1994). Finally, the third type of reputation, that of

corporate culture, is closely linked to the work environment, the firm's system of values or ethics, and the symbols and beliefs that go to make this up (O'Reilly et al., 1991; Sheridan, 1992).

#### RELATIONSHIP BETWEEN REPUTATION AND PERFORMANCE

Reputation affects performance and is, at the same time, a result of that performance. A manager or a firm may possess an excellent reputation and the publicity surrounding this process may feed the initial value of the strategic resource since it is perceived by the community of stakeholders. Thus, in the literature it is possible to find empirical studies that assume reputation to be either a dependent or an independent variable (De La Fuente and De Quevedo, 2003a).

In order to review the growing and heterogeneous body of literature concerning reputation and its relationship with performance, the papers were separated in two groups. The first group includes those studies that consider reputation as a unique construct, although composed of different indicators depending on the perspective adopted in each study.<sup>3</sup> The second group of papers refers to research focused on the relationships between performance and certain dimensions of reputation (e. g. reputation associated with organisational culture).

Some important studies can be considered to be within the first group. First of all, Fombrun and Shanley (1990) find a positive relationship between past performance and reputation and between past accounting profit and reputation. McGuire et al. (1990) find also positive relationships between past return and reputation and between reputation and future return. Brown and Perry (1994) use *Fortune's* database and obtain a direct relationship between past return and reputation. Ferguson et al. (2000) show that strategic groups with higher reputations have superior performance. Deephouse (2000) concludes that a positive evaluation of a firm presented in the media (media reputation) increases the performance of commercial banks. Roberts and Dowling (2002) find a positive relationship between reputation and sustainable performance. De La Fuente and De Quevedo (2003b) state that a circular relationship between reputation and value creation exists in the Spanish banking sector. Shamsie (2003) shows that the ability to develop and exploit reputation drives dominance in industry. Rindova et al. (2005) argue that the organisational reputation of

business schools has a positive impact on performance (measured as salaries of recent MBA graduates). For Carmeli and Tishler (2005), reputation is not associated with certain performance indicators (market share, profitability, financial strength) in a sample of Israeli companies. Finally, Brammer and Pavelin (2006) find that reputation is determined by a firm's social performance, financial performance, market risk, the extent of long-term institutional ownership and the nature of its business activities.

As for the second group, the work of Weigelt and Camerer (1988) is used as a theoretical framework with which to review the salient empirical literature that focuses on the relationship between performance and certain dimensions of reputation. As mentioned above, Weigelt and Camerer separate reputation into three basic components: reputation linked to business, reputation of the product or service, and reputation associated with organisational culture.

### **Reputation Linked to Business**

In the work of Rao (1994), the North American automobile industry at the beginning of the twentieth century is analysed. This particular industry was chosen in order to test the role played by legitimisation in the survival of the firms. In his conclusions, the author affirms that the greater the stock of recognition and prizes accumulated by an organisation, the greater the reputation of that firm will be, and, as a consequence, the less likely the firm will be to abandon the industry. The work of Fombrun and Shanley (1990) models reputation under conditions of asymmetrical information by using the following relationships: one which is positive and consists of the relationship between the financial profits of preceding years and reputation, a second which is negative and consists of the relationship between the profitability of the present dividend and reputation, and a third which is positive and reflects the link between current financial results and reputation. Furthermore, reputation allows firms to establish prices that are higher than those of their competitors, to attract and maintain personnel with greater and more diverse skills, to facilitate access to capital markets and different sources of finance, and to capture investors (Fombrun and Shanley, 1990: 233). Dollinger et al. (1997) investigate the effect of reputation on the decision to establish strategic alliances with potential partners. The results of the

study indicate that reputation is really a multidimensional construct that, in certain scenarios, cannot be used in an integrated way, rather it must be split up into its various components and individual relationships established. They conclude that the reputation of the product and the reputation of the management team are key factors in taking any decision to establish a strategic alliance.

### **Reputation of the Product or Service**

The positive relationship between the product reputation and its quality has been highlighted in various works (Jacobson and Aaker, 1987; Weigelt and Camerer, 1988; Hall, 1992, 1993; Powell, 1995). Using information obtained from the PIMS (Profit Impact of Market Strategies) database, Buzzel et al. (1975) find positive relationships between product quality and market share, and also between profitability (both return on investment and operating profit margin) and the quality of the product or service. Via a factor analysis of the dimensions of *Fortune's* database, Fryxell and Wang (1994) distinguish between two different factors involved in reputation: the reputation linked to the business and the reputation of the product or service. The study carried out by Kroll et al. (1999) identifies positive relationships between the reputation of product quality and performance, and between the reputation of the product and the firm's market share.

### **Reputation Associated with Organisational Culture**

There are authors who argue in favour of a positive link between reputation and organisational culture: for example, Cremer (1986), Weigelt and Camerer (1988) and Camerer and Vepsäläinen (1988) emphasise the point that executives must maintain a good reputation for applying organisational culture successfully if they expect internal stakeholders (like employees) to trust them and, in consequence of this, to perform efficiently; O'Reilly et al. (1991) find that the reputation of the organisational culture can improve the fit of the employees to their organisations, by which we mean the fit or match of individual skills to job requirements; Sheridan (1992) shows that certain organisational cultures give to the firm a better reputation to get the employees to stay within the organisation for a long time; and Gatewood et al. (1993) explore how the reputation of the organisational climate and recruitment image affect initial job choice decisions.

In addition to the literature mentioned before, there is an extensive line of research focused on the relationship between organisational culture and performance. This relationship has generally been examined through the lens of the 'strong culture' hypothesis. According to Arogyaswamy and Byles (1987), strength identifies a certain degree of shared responsibility among the members of a firm with respect to its value systems and beliefs. These authors reason that, the higher the level of agreement, the stronger and more binding the internal culture, which is in turn potentially capable of influencing performance. For example, Deal and Kennedy (1982) encounter a positive relationship between strong organisational cultures and a firm's success. Denison (1984) finds that a participative organisational culture, in conjunction with a pleasant labour environment, helps firms to achieve an organisational performance that outstrips that of competitors. According to the results obtained by Hall (1992, 1993), organisational culture is one of the intangible resources with the greatest power to generate sustainable competitive advantages, while Hitt et al. (1995) identify a positive relationship between organisational culture and the firm's performance. The work of Leal (1997), on the other hand, who analyses a sample of Spanish firms, reveals that the nature of the quality culture adopted by the firm conditions performance. The concept of a 'strong organisational culture', however, is not always an indispensable condition of high profitability. Kotter and Heskett (1992), for example, find that, on investigating the relationship between culture and performance, a strong organisational culture is no guarantee of excellent performance, but rather constitutes an indicator of the extent to which the members of the organisation are supportive of their firm.

## RELATIONSHIPS BETWEEN REPUTATION AND PERFORMANCE: EMPIRICAL ANALYSIS

### **Aims and Hypotheses**

Within the RBV framework, this study begins with the analysis of the components that go to make up the intangible resource of reputation, seen from the perspective of Weigelt and Camerer (1988); that is, reputation is linked to the business, to the product or service offered and to organisational culture.

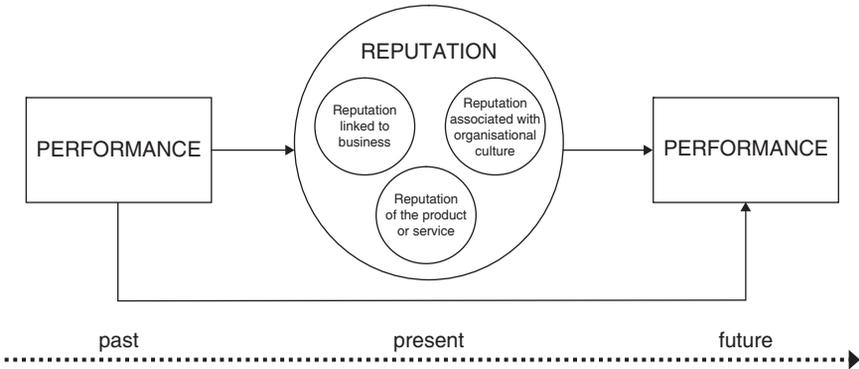
The main objective of the study focuses on the mutual relationships between performance and reputation in SMEs. At this point it should be stressed that there are potentially two relationships that come into play, since, as stated above, reputation may be considered as acting simultaneously as a cause and an effect, that is, it is both an independent and a dependent variable. This feature of reputation is central to this analysis, since its objective consists of verifying the non-contemporaneous two-way relationship between performance and reputation. This idea may be reformulated as follows: a firm’s past performance conditions its present reputation (hypothesis 1), and this, in turn, directly influences future performance (hypothesis 2).

*H1:* The better a firm’s performance in the past, the more positive the managers’ evaluation of the firm’s reputation in the present will be.

*H2:* The better the managers’ evaluation of their firm’s reputation in the present, the better the firm’s performance will be in the future.

Thus the model, while contemplating reputation as a multidimensional variable, expounds a hypothesis of successive causality that goes from performance to reputation and then from reputation back to performance. Figure 1 provides a schematic view of these hypotheses.

**Figure 1: Performance–Reputation–Performance Causal Model**



### **Data and Variables**

The sample used for the analysis was made up of 166 SMEs<sup>4</sup> registered in Spain. All of the firms possessed ISO 9000:1994 certificates<sup>5</sup> and their data were provided by the ARDAN database.<sup>6</sup> One top-level manager in each of the companies completed our questionnaire.<sup>7</sup> The field work was carried out between February and May 1999 and definitive replies were received from 72 firms.

It must be highlighted that in order to select the sample, the definition of small and medium-sized enterprises adopted by the European Commission<sup>8</sup> was applied: SMEs are defined as enterprises that have fewer than 250 and more than 10 (or exactly 10) employees, and have either an annual turnover not exceeding 40 million ECU (European Currency Units) or an annual balance sheet total not exceeding 27 million ECU. All the sample firms conform to these three criteria. Specifically, the sample's average number of employees in 1999 was 75 (standard deviation 72.6), the average annual turnover was about €16.7 million (standard deviation 29.1), and the average annual balance sheet total was €13.8 million (standard deviation 22.7) that year.

Fifty-two per cent of the sample firms are small and 48 per cent are medium-sized. All of them belong to the following standard industrial classification (SIC) industries: construction (21.5 per cent), manufacturing (50.8 per cent), transport and communication (12.3 per cent), wholesale and retail trade (12.3 per cent), and real estate (3.1 per cent).

Basically, the study uses two variables: performance, and reputation envisaged as a resource. Performance was measured by referring to return on investment (Venkatraman and Ramanujan, 1986). Past performance was estimated by averaging the firm's return on investment over the years 1996, 1997 and 1998, and future performance was proxied by using the average of that return over the years 2000, 2001 and 2002. This measure of future performance using data of three years, apart from making it consistent with past performance, tries to capture the strategic decision-making component<sup>9</sup> that relates to reputation and performance. All of these data were obtained from the ARDAN database.

There is no agreement among the scholars about the dimensions of the reputation resource.<sup>10</sup> In this study this was conceived of as a latent variable made up of the three components laid out by Weigelt

and Camerer (1988), which in themselves are constructs. As far as we know, nobody has developed this theoretical reputation framework in an empirical study. This was the reason why we decided to select this approach. The scales<sup>11</sup> and items used in this study were obtained and adapted from a literature review (Barney, 1986; Weigelt and Camerer, 1988; Fombrun and Shanley, 1990; Hall, 1993; Brown and Perry, 1994; Doppler and Lauterburg, 1998; Fombrun, 1998). These were set up in the following way:

1. *Reputation linked to organisational culture* was based on the criteria laid down by Hall (1993); that is, ‘innovation’, ‘orientation towards the customer’, ‘team work’, ‘emphasis on quality’, ‘strategic attitude’ (‘change management’ in Hall, 1993) and ‘participative managerial style’. The first three were measured by using one indicator (observable variable) in each case while the remaining three were created using a set of indicators. All of these indicators were obtained from the answers to the questionnaire.
2. The definition of *reputation linked to business* was based on the dimensions set out in *Fortune*; that is, ‘quality of the management team’, ‘social responsibility’, ‘financial position’, ‘innovation’, ‘attracting and maintaining qualified or skilled personnel’, ‘use of assets’ and ‘value of long-term investment’. The final two dimensions in this list, however, were discarded because, as Fryxell and Wang (1994) state, they are basically indicators of performance. It should be remembered that performance is both a dependent and independent variable in this work, hence the inclusion of these dimensions would only serve to cloud the analysis. Of the five remaining dimensions only ‘quality of the management team’ was created as a construct. All of the indicators of the five dimensions were observable and obtained from the questionnaire.
3. The *reputation of the product or service* was measured by assessing the evaluations undertaken by the managers of the potential impact of possessing a high-quality product. In contrast to the other components of reputation, which were more complex, this was defined by referring to a single observable variable.<sup>12</sup>

In relation to the items of the questionnaire<sup>13</sup> it is important to stress that on its first page we gave some instructions about what the

executive should assess. Among them, ‘all of the 25 items that are presented to you in this questionnaire refer to your opinion about the judgement that the stakeholders of your organisation (customers, employees, suppliers, competitors, society, banks, stockholders, public administrations and other actors) have about the reputation of your firm’. These items, chosen as possible indicators of the different components of reputation, are given in Table 1. All of them were measured on a seven-point Likert scale. This table also provides descriptive statistics for all the variables. The correlation matrix, with

**Table 1: Variables, Means and Standard Deviations**

This table contains the survey variables that were chosen as possible indicators of the different components of the ‘reputation’ construct, and the performance variables. The values of the former were obtained from the answers given to a questionnaire; the latter were measured by referring to return on investment, and obtained from secondary data sources. Means and standard deviations are reported for all of them.		
Variable	Mean	Standard Deviation
REPUTATION <sup>a</sup>		
<b>Reputation associated with organisational culture</b>		
<i>Innovation:</i>		
V1: Product and process innovation	4.71	1.43
<i>Orientation towards the customer:</i>		
V2: Identification of customer needs	4.81	1.40
<i>Teamwork:</i>		
V3: Teamwork	4.58	1.27
<i>Emphasis on quality:</i>		
V4: Product development	4.47	1.30
V5: Quality control	5.27	1.77
V6: Quality analysis	4.70	0.95
V7: Quality correction	4.31	1.02
V8: Quality improvement	5.34	0.93
<i>Strategic attitude:</i>		
V9: Future scenarios	4.13	1.23
V10: Strategy development	3.98	1.00
V11: Strategy implementation	4.34	1.24
V12: Predisposition to change	3.77	1.24
V13: Flexibility	4.83	1.56
V14: Culture development	3.66	1.27

(Continued)

**Table 1: (Continued)**

<b>Variable</b>	<b>Mean</b>	<b>Standard Deviation</b>
<i>Participative managerial style:</i>		
V15: Managerial confidence in subordinates	3.00	1.25
V16: Effective ascendant–vertical communication	4.75	1.55
V17: Subordinate–management interaction	4.81	1.83
<b>Reputation linked to business</b>		
<i>Quality of the management team:</i>		
V18: Decision-making effectiveness	5.53	1.44
V19: Monitoring of established objectives	3.47	1.56
V20: Teamwork management	3.06	1.60
V21: Teamwork decision making	3.05	1.39
<i>Social responsibility:</i>		
V22: Firm’s social compromise	4.78	1.36
<i>Financial position:</i>		
V23: Financial strength	3.47	1.58
<i>Innovation:</i>		
V1: Product and process innovation	4.71	1.43
<i>Attracting and maintaining skilled personnel:</i>		
V24: Attracting and maintaining skilled personnel	3.63	1.44
<b>Reputation of the product or service</b>		
V25: Presence of quality products	4.41	1.47
<b>PAST PERFORMANCE</b>	<b>0.10</b>	<b>0.07</b>
<b>FUTURE PERFORMANCE</b>	<b>0.10</b>	<b>0.07</b>

<sup>a</sup> Measurement of items: seven-point Likert-type scale

intercorrelations for the three reputation dimensions, past performance and future performance, is shown in Table 2.

At this point it is important to notice that control variables were also taken into consideration. Previous literature has proved that industry type and firm size can impact on firm performance (Wilcox and Zeithaml, 2001; Carmeli and Tishler, 2004a). In our study, to control for the effects of industry type (Vicente-Lorente, 2001), a categorical variable was created with the different industries; and, in order to control for firm size effects, the number of employees was used (Spanos and Lioukas, 2001). Additionally, to control for whether the firm offers a product or a service (Delaney and Huselid, 1996), another categorical variable was developed (product/service).

**Table 2: Correlation Matrix**

	Reputation	Organisational Culture Reputation	Reputation Linked to Business	Reputation of the Product or Service	Past Performance	Future Performance
Reputation	1					
Organisational Culture Reputation	0.903	1				
Reputation Linked to Business	0.850	0.711	1			
Reputation of the Product or Service	0.768	0.555	0.392	1		
Past Performance	0.707	0.708	0.592	0.465	1	
Future Performance	0.470	0.499	0.373	0.375	0.584	1

*All correlations are significant at the 0.01 level (bilateral)*

Despite this, they are not explicitly in the model because in the analysis they did not give any statistically significant results.<sup>14</sup>

## Methodology

This study uses both observable and latent variables in combination within a set of simultaneous linear relations, and there is the possibility that measurement errors in the designed latent variables might exist. Therefore, the use of covariance structural analysis or a structural equation model would seem to be most appropriate (Lévy and Varela, 2003: 23). The model is run using the AMOS 5 program.

The choice of the method for estimating the parameters is conditioned by the characteristics of the sample used. Firstly, the size of the sample is small since there are only 72 observations available, but this number is above the minimum required for estimating covariance matrices (Jöreskog and Sörbom, 1996). Given the size of the sample it was decided not to eliminate any of the observations with missing values. This would have reduced the size of the sample to only 43.

The method of maximum likelihood was chosen since it allows the use of missing data and, although it is normally used on sample sizes of between 100 and 200 cases, it has been demonstrated that it provides valid results for samples of 50 observations (Hair et al., 1999: 632) and in the presence of moderate departures from normality (Raykov et al., 1991: 501).

## **Results**

Structural equation models (SEM) are made up of two systems of equations: the measurement model and the structural model. The first of these specifies which indicators define each construct or latent variable, while the second expresses the relationships of causality among the latent variables or between the latent and observable variables. Thus, the measurement model is used to define the reputation construct and the structural model to test the hypotheses.

SEM was applied in order to evaluate whether or not the definition of the reputation concept is adaptable to the specifications proposed above. The results of the test showed that the factor loadings of certain variables were not significant at the 0.05 level and it was deemed appropriate to eliminate these<sup>15</sup> from the analysis in order to re-specify the model. Without them an adjusted measurement model was obtained in which all of the factor loadings are significant at the 0.05 level (see Table 3).

Table 3 also shows the values of some measures of suitability of fit for the re-specified measurement model. The chi-square test gives a p-value of 17.5 per cent, a value that is a long way above the 5 per cent that is normally taken as a benchmark for an acceptable level of fit. And the parsimony measured by the normed chi-square test gives a value that is very close to 1; a result that is indicative of a good fit. The comparative fit index (CFI) echoes these results with a value of over 0.9, as does the root mean squared error of approximation (RMSEA) with a value below 0.05.

The fit assessment for the measurement model should be completed by checking the composite reliability of the constructs and this should give some idea of the internal consistency of the indicators that go to make them up. As can be seen from the first panel in Table 4, all of the constructs, with the exception of *strategic attitude* and *quality of the management team*, are reliable since they either

**Table 3: Standardised Factor Loadings and Fit Measures of the Adjusted Measurement Model**

Construct	Indicator/Construct <sup>a</sup>	Loading	t-value <sup>b</sup>
Emphasis on quality	V4	0.660	5.079
	V5	0.736	—
	V6	0.320	2.430
	V8	0.621	4.773
Strategic attitude	V10	0.338	2.345
	V11	0.529	—
	V12	0.354	2.437
	V13	0.368	2.518
Participative managerial style	V16	0.688	5.882
	V17	0.829	—
Management team quality	V18	0.515	—
	V19	0.769	2.781
Organisational culture reputation	Emphasis on quality	1	6.406
	Strategic attitude	1	4.288
	Participative managerial style	1	—
Reputation linked to business	Management team quality	0.711	—
	V22	0.835	2.718
	V23	0.653	2.588
Reputation	Organisational culture reputation	0.965	2.472
	Reputation linked to business	0.876	—
	Reputation of the product	0.608	2.457

<sup>a</sup> Constructs of higher level are mainly composed of constructs of lower level

<sup>b</sup> Critical t for  $\alpha=5\%$  is 1.96 and for  $\alpha=1\%$  is 2.576 (two-tailed tests)

Without value when the unstandardised factor loading was fixed to 1

**Model fit:** chi-square (df) = 99.203 (87), p-value = 0.175, normed chi-square = 1.140, CFI = 0.952, RMSEA = 0.047

approach or exceed the recommended threshold of 0.7. In our opinion, this result is favourable and, consequently, we can accept that the measurement model fits reasonably well with the data, given that 0.7 is not an absolute standard (Hair et al., 1999: 638), that the values obtained by the above constructs are not too low, and that the main construct being modelled, *reputation*, is highly reliable.

The *structural model* contemplates the causal relationships between past performance and present reputation (hypothesis 1) and present reputation and future performance (hypothesis 2) in SMEs. On juxtaposing the adjusted measurement model and the structural

**Table 4: Composite Reliability of the Constructs**

	Emphasis on Quality	Strategic Attitude	Participative Managerial Style	Organisational Culture Reputation	Management Team Quality	Reputation Linked to Business	Reputation
In the adjusted measurement model	0.683	0.430	0.733	1	0.590	0.779	0.865
In the proposed theoretical model	0.695	0.416	0.720	1	0.582	0.783	0.816

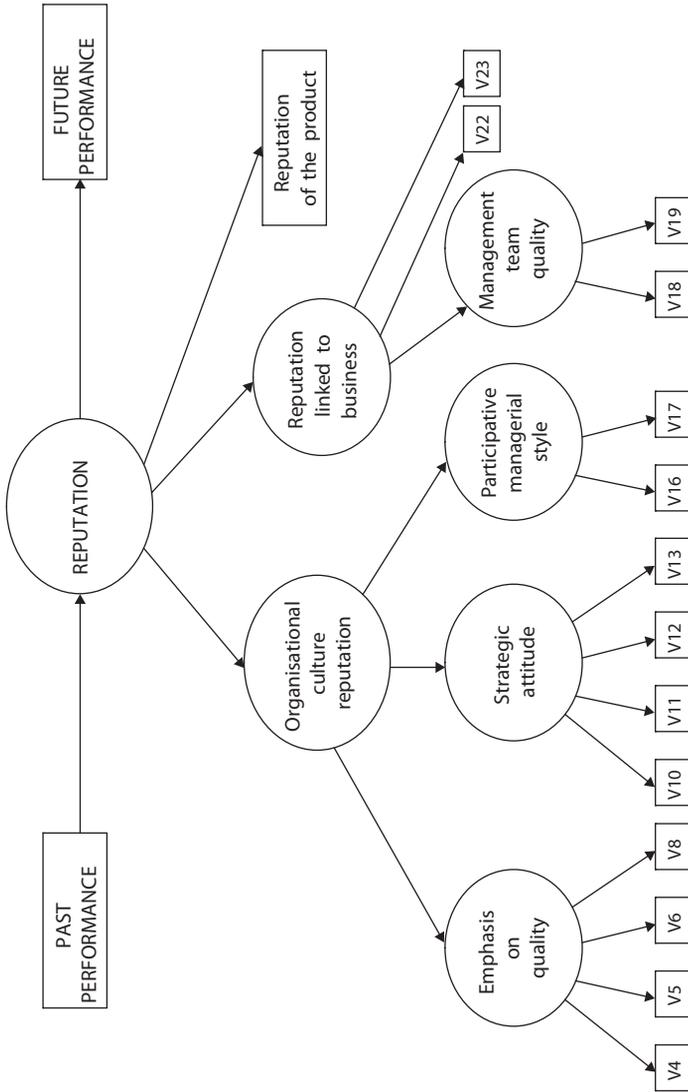
model the proposed theoretical model is obtained, as can be seen in Figure 2.

Since the model fits adequately it does not need to be re-specified. This is what the values of the indices of fit indicate (see Table 5); values that either exceed the recommended reference limits (5 per cent for the chi-square probability and 0.9 for the CFI), or are to be found within the interval of acceptance (between 1 and 2 for the normed chi-square test and between 0.05 and 0.08 for the RMSEA). These results suggest the absence of serious specification errors and impede the rejection of the hypothesis that the theoretical model fits reasonably well with the data.

From the second panel of Table 4 it can be seen that the constructs are no less reliable in their composition in the theoretical model. Furthermore, all of the factor loadings and t-values of the relationships that go to make them up hardly vary at all with respect to those obtained in the adjusted measurement model and shown in Table 3, and remain significant at the 0.05 level.

As far as hypotheses 1 and 2 are concerned, both appear to have been confirmed by the data. This is indicated by the positive sign of the regression weights for the relationships *past performance* → *present reputation* and *present reputation* → *future performance* and the high corresponding t-values that appear in Table 5. These results, obtained with our sample of Spanish SMEs, are in line with those of previous studies relative to large firms. For example, Fombrun and Shanley (1990) and Brown and Perry (1994) find that there is a

Figure 2: Proposed Theoretical Model



**Table 5: Standardised Regression Weights and Summary of Fit Measures of the Structural Model**

	Standardised Parameter Estimates	t-value <sup>a</sup>
<b>Hypothesis 1:</b> Past Performance → Reputation	0.792	4.569
<b>Hypothesis 2:</b> Reputation → Future Performance	0.619	3.836

<sup>a</sup> Critical *t* for  $\alpha=5\%$  is 1.96 and for  $\alpha=1\%$  is 2.576 (two-tailed tests)

**Model fit:** chi-square (df) = 133.97 (116), p-value = 0.122, normed chi-square = 1.155, CFI = 0.942, RMSEA = 0.050

positive relationship between past profitability and present reputation while McGuire et al. (1990) find a positive relationship between present reputation and future profitability.

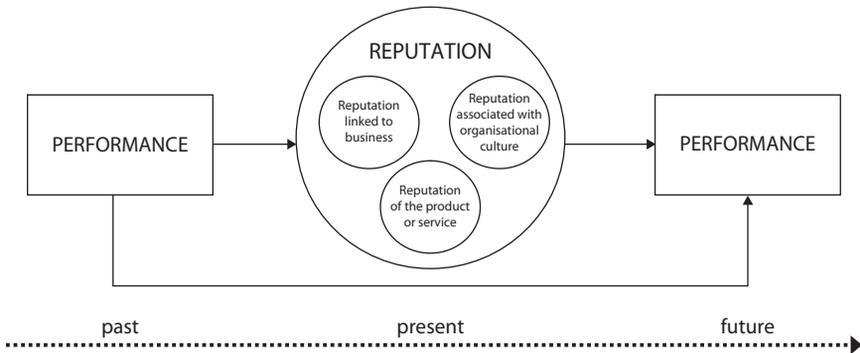
**Rival Models**

Frequently, obtaining an acceptable level of fit for the measurement and the structural models does not imply having found the best possible model. That is why comparison with other rival models is highly recommended (Hair et al., 1999: 619). In this sense we have tested two alternative models, which will be briefly described.

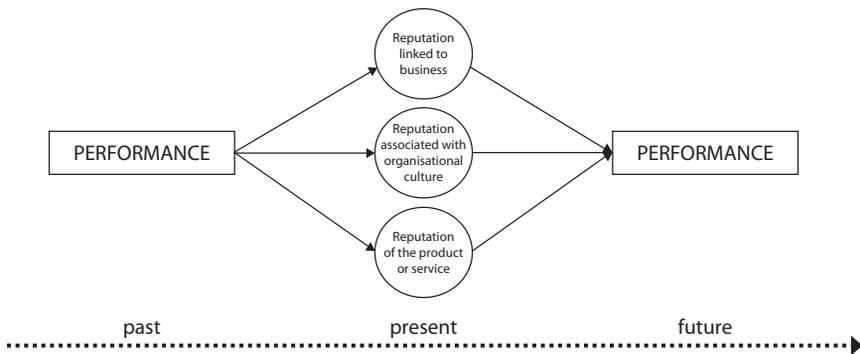
It is reasonable to suppose that a certain correlation between the two performance measures used in the analysis exists. In fact, the Pearson correlation between them, 0.58, is high and significant at the 0.01 level. So, if we hypothesise that past performance directly conditions future performance, we can expect that, in the presence of this direct relationship, that relationship induced by reputation will have no effect. Thus, a model with both relationships is proposed, as shown in Figure 3. As expected, because of the high correlation between past and future performance, their relationship is significant, but the one mediated by reputation is significant too. This model shows an acceptable fit,<sup>16</sup> as good as the original model does. And in our opinion these results support the validity and the robustness of our proposed theoretical model.

In the second rival model – see Figure 4 – construct reputation has been eliminated. We analyse here possible relationships between each one of the three identified reputation components and corporate

**Figure 3: First Rival Model**



**Figure 4: Second Rival Model**



performance, resulting in an unacceptable fit<sup>17</sup> by this model and its consequent rejection.

**CONCLUSIONS, LIMITATIONS AND FUTURE RESEARCH**

This study analyses reputation as an intangible resource in SMEs from a resource-based approach, going deep into the reciprocal relationships between reputation, as a strategic resource, and organisational performance.

Despite the fact that empirical studies considering large firms are highly frequent in the reputation literature, the study of reputation in SMEs has not yet been developed. This is one of the reasons why this paper focuses on researching reputation in small and medium-sized firms.

The hypotheses and relationships contained in the theoretical model laid out in Figure 2 have been partially considered in a number of key studies in large firms in the literature, but not in SMEs. Moreover, the model has been compared to alternative rival models in order to discard other possible relationships among the variables that could have been considered.

The results of the empirical study support the adequacy of the resource-based view as a theoretical approach to investigating reputation in the context of small firms. In addition, the following relevant conclusions have been obtained from the test:

- Reputation is a complex, heterogeneous resource that is closely linked to organisational factors that are also multi-faceted and diverse. Some of the most important components of reputation seem to be past performance, the quality of the firm's product or service, the reputation *stricto sensu* generated from the information that the firm projects within the financial and social environment in which it carries out its activities, and its organisational culture. Organisational culture would appear to be built around particularly relevant factors such as the presence of a participative managerial style, the emphasis that the management places on the planning, control and monitoring of quality, or the presence of strategic attitude within the firm.
- The fundamental effect of reputation resides in the significant positive relationship it has with the future profitability of the firm. It should be stressed that there is a time lag between present reputation and its effects in the future on organisational performance. Without a doubt, this relationship will have important consequences on the long-term focus of the company: if the flow of information from the firm to the external environment is improved and there is a firmer emphasis on the quality of products and/or services and on a variety of cultural factors, profitability will be positively influenced.
- Further, the confirmation of the two hypotheses linking past and future performance with present reputation suggests that there is positive feedback generated by reputation: past performance acts as a precursor of present reputation which, in turn, feeds

subsequent performance. In short, performance and reputation would seem to mutually reinforce each other.

To summarise, the positive relationship observed between reputation and performance in previous studies carried out in the context of large firms seems to operate in the same way with SMEs. These results constitute a starting point for the spread of some findings of reputation research in large firms to the SME field.

However, several limitations suggest that our assessments must be viewed cautiously. Firstly, the answers of SMEs' managers may be more biased than those of large firms' managers. Furthermore, when surveying only one executive a frequent RBV limitation arises: sometimes there is no agreement among the different managers of the firm about which are the strategic resources that drive organisational performance. Secondly, despite the fact that some control variables have been examined although not included in the model, there are others which could have been used, but for whom the questionnaire did not provide information; for example, perceived environmental uncertainty, management characteristics and ownership (family versus other groups). Thirdly, the reputation of the product/service is single-item scale and, thus, should be interpreted carefully. Moreover, in an SME scenario it is difficult to separate the reputation of the product from that of the organisation because of firm size. Fourthly, the research design may generate response bias towards overestimating the reputation of the firms due to the fact that each manager gave his opinion about the judgement that the stakeholders of his organisation have about the reputation of his firm. Actually, the opinion of the stakeholders has not been considered. Additionally, managers are a crucial part of the firm's reputation in the context of SMEs.

As for future research, some possible lines to pursue are the following ones: a deeper analysis of the deferred effects of the reputation resource on alternative indicators of organisational performance, including new time periods; identifying and testing the effects of human resource practices on reputation and performance; and testing the scale used in this study with other samples (of large firms and SMEs), applying it both to managers and to stakeholders, for the sake of the possible generalisation of the results of this study.

† The authors are grateful to the anonymous reviewers for their helpful comments and suggestions. The usual disclaimer applies. Financial support of the Galicia Government (Spain) is acknowledged (Project PGIDT05PXIA10001PR).

<sup>1</sup> Despite the fact that in most of the reputation literature corporate reputation is built on heterogeneous constituents' perceptions about organisations (Fombrun and Shanley, 1990; Fombrun, 1998; Brown and Perry, 1994; Roberts and Dowling, 2002), there is a growing body of recent works (Carmeli and Tishler, 2004a, 2004b, 2005) that use only the management view of reputation in their models. For example, Carmeli and Tishler (2004a: 1260) clarify this argument, making a distinction between the 'organizations' reputation' and the 'perceived external prestige': '[A]ssuming that the CEO (or general manager), as the representative of the management team, has the ability to correctly assess the organization's reputation, we use the term perceived organizational reputation to mean top management's view of the outsider's beliefs about the organization.' This perspective is highly operative for our research because we work with a multiple industries sample of SMEs. A stakeholder approach to reputation in this study could have serious obstacles in order to implement it (see, for example, Nedungadi, 1990).

<sup>2</sup> This is the most suitable definition for the reputation approach adopted in the empirical section of this paper.

<sup>3</sup> The sources of information used by a large proportion of them are, in origin, adaptations of sources used by *Fortune* (Fombrun, 1998).

<sup>4</sup> SMEs comprise 99.8 per cent of all the businesses in Spain (García, 2002).

<sup>5</sup> Spanish SMEs holding ISO 9000:1994 certificates were selected because this study is part of a research project that analyses the strategies of SMEs with a quality certificate.

<sup>6</sup> The ARDAN database is one of the most complete and best known Spanish databases providing identification and economic data (financial, accountancy, competitive position, internationalisation, etc.) on more than 80,000 Spanish firms.

<sup>7</sup> Without doubt questioning several managers would have provided us with a more reliable measure of, for instance, the 'organisational culture' construct. However, it is not infrequent in the literature to ask only one executive to complete the survey; see De La Fuente and De Quevedo (2003b), Carmeli and Tishler (2004a, 2004b, 2005), Saxton and Dollinger (2004), and Aragón-Sánchez and Sánchez-Marín (2005).

- <sup>8</sup> Although the purpose of this paper is not to establish the differences between SMEs and large firms, in order to select a criterion of definition of an SME, we follow the Commission Recommendation of 3 April 1996 (96/280/EC) concerning the definition of small and medium-sized enterprises (text with EEA relevance); at present it has been replaced by 2003/361/EC Commission Recommendation of 6 May 2003. However, the adoption of a criterion to select SMEs is a highly controversial topic due to the lack of agreement in the literature. See, for example, Osteryoung and Newman (1993), who develop a chronological view of variables, criteria and definitions most often used to differentiate SMEs and large firms.
- <sup>9</sup> Scholars like Weigelt and Camerer (1988), Dierickx and Cool (1989), and Hall (1992) argue that the building of a reputation is a complex social process that needs time. Moreover, Barney (2001) emphasises the necessity of testing the role played by the different types of resources on the firm's future performance.
- <sup>10</sup> Some examples of reputation dimensions: business, product and culture (Weigelt and Camerer, 1988); *Fortune's* dimensions – business reputation and product reputation (Fryxell and Wang, 1994); management, financial and product service quality (Dollinger et al., 1997); financial strength and claims-paying ability (Ferguson et al., 2000); emotional appeal, products and services, vision and leadership, workplace environment, social and environmental responsibility, and financial performance (Fombrun et al., 2000); media reputation ratings – favourable, neutral and unfavourable (Deephouse, 2000); *Fortune* dimensions (Roberts and Dowling, 2002); strategy and management, clients, employees and society (De La Fuente and De Quevedo, 2003b); management, financial, and product-service quality (Saxton and Dollinger, 2004); *Fortune* dimensions (Carmeli and Tishler, 2005); and perceived quality and prominence (Rindova et al., 2005).
- <sup>11</sup> Most of the scholars adapt the items of the 'basic' questionnaire carried out by the American magazine *Fortune*, see, for example, Fryxell and Wang (1994).
- <sup>12</sup> The reputation of the product or service is captured by a single item, 'product/service quality', following Brown and Perry (1994: 1354), Dollinger et al. (1997: 140), and Carmeli and Tishler (2005: 30, item 10). Despite the fact that this is a limitation of the study, an alternative approach could be using some of the scales adopted in the brand equity literature by marketing researchers (Aaker, 1996). This option was rejected because it increases substantially the number of items of the questionnaire and, considering the population size, we could find some statistical problems estimating the proposed causal model.

- <sup>13</sup> The complete questionnaire is available upon request from the authors, please contact us at vicente.lopez.lopez@usc.es.
- <sup>14</sup> First, three ANOVA analyses with future performance as dependent variables were carried out: the factor employed was the industry type in the first one, the level of employees in the second one, and the ‘product/service’ variable in the third one. No significant differences in means and variances of performance among the firms were shown in any of the three cases.
- Yet, we modified the model proposed in this paper to include the control variables industry type and size. In both cases the relationships affected by these variables were not statistically significant. That is why these control variables will be not present in the model.
- <sup>15</sup> The following variables were eliminated: in *organisational culture reputation*, V1, V2, V7, V9, V14 and V15; and in *reputation linked to business*, V20, V21 and V24. See the description of these indicators in Table 1.
- <sup>16</sup> Chi-square (df) = 129.54 (115), p-value = 0.167, normed chi-square = 1.126, CFI = 0.953, RMSEA = 0.045
- <sup>17</sup> Chi-square (df) = 158.72 (115), p-value = 0.004, normed chi-square = 1.380, CFI = 0.859, RMSEA = 0.078

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# Deprivation, Delivery and Union Mobilisation: The Case of the Congress of South African Trade Unions



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## ABSTRACT

This article is a study of union effectiveness in an emerging market context. Mobilisation theory suggests that trade union power is based on rank-and-file notions of relative deprivation. Based on a survey of membership perceptions, we found that many of the concerns of COSATU's rank and file mirror those of the unemployed and the otherwise socially excluded. At the same time, those members who feel such concerns are also those who more frequently engage in strike action. In turn, this implies that unions are likely to be at the forefront of any new round of challenges to the status quo. However, the apparent durability of the present dominant partyism means that such challenges are likely to again take the form of struggles within the ANC Alliance, rather than through the development of an alternative political movement.

## INTRODUCTION

The unseating of Thabo Mbeki as ANC (African National Congress) leader in December 2007 underscored the nature of tensions within South Africa's ruling ANC Alliance (a political alliance that unites the ANC political party, the Congress of South African Trade Unions

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and the South African Communist Party) and the uneven nature of South Africa's economic performance since the democratic transition (Gumede, 2008). More specifically, it highlighted the continued clout of the Congress of South African Trade Unions (COSATU), who were instrumental in his downfall. Whilst the economy has enjoyed solid growth throughout the 2000s, this has been at the expense of jobs (Barchiesi and Kenny, 2002; von Holdt, 2005); moreover, the principal beneficiaries of the boom have been a relatively small elite, with little material improvement in the quality of life of large numbers of the poor (Southall, 2007). The succession struggle has also revealed the extent to which tensions surrounding persistent poverty and worsening social inequality have been played out within the ruling Alliance, rather than through the emergence of new political alternatives; whilst independent grassroots community organisations critical of the government's performance proliferated in the early 2000s, in more recent years they have battled to make much headway and many are fragmented and divided (Buhlungu and Atkinson, 2007).

Central to the opposition to Mbeki's continued tenure as ANC leader has been the Congress of South African Trade Unions. Yet, how effective are the unions? Mobilisation theory views union effectiveness as a product of rank-and-file notions of relative deprivation and the extent to which they blame the status quo for their condition (Kelly, 1998). Relative deprivation can be simply defined as the gap between an individual's – or group's – present position and what they feel is their due and is attainable (Davies, 1978). This article explores COSATU members' perceptions regarding the ANC's performance, how these concerns centre on particular aspects of service delivery, and whether this is related to ongoing high levels of participation and mobilisation in the labour movement. Such linkages may affect both COSATU's effectiveness and its future strategy.

#### THE ANC, NEO-LIBERALISM AND DELIVERY

In order to understand the nature and extent of relative deprivation, it is necessary to provide an overview of the nature of the South African context, and how this has made for a persistent aspirations gap. In a 1980s study, Saul and Gelb pointed to a double crisis of capital accumulation: persistent recession and the thwarted lives

(both in terms of a lack of social mobility and general impoverishment) of the masses, challenging political stability (Saul and Gelb, 1981; see also Freund, 2007). The gradual relaxation of racial divisions of labour at the workplace opened the prospects for change, but continued racism at the wider societal level and a general economic decline prevented social progression for many. Whilst democratisation in 1994 led to a resumption of economic growth, with the latter reaching some 6 per cent by the close of 2006, social inequality has worsened (Freund, 2007). As Kingdon and Knight (2007) note, the government has tended to follow a neo-liberal agenda; owing to the nature of South Africa's transition and external economic pressures it has had little political and economic room for manoeuvre. Whilst the growth outcomes have been generally successful, the labour market outcomes have not been so (Kingdon and Knight, 2007). Microservice delivery in terms of social expenditure has similarly been disappointing (Ajam and Aron, 2007). There has been a dearth of management capacity for delivery, and mediocre improvement in the quality and scope of delivery, against a backdrop of persistent poverty and inequality. Whilst the number of households in absolute poverty fell from 4.1 million (out of a total 11.2 million) to 3.6 million between 1990 and 2003, it is worth noting that according to the United Nations Development Programme (UNDP) Human Development Index, South Africa's global ranking fell from 85 (out of 174 countries) to 120 (out of 177 countries) in the same time period (Southall, 2007).

As Freund (2007) notes, state policies have not followed the role of a developmental state; rather, the state has done much to create a class of closely aligned black capitalists. On the one hand, the radical and grassroots tradition of the liberation movement makes mass poverty difficult to ignore (Freund, 2007). On the other hand, the government has shown a continued preference towards promoting shareholder value rather than broader social inclusion.

Although the government has implemented a broad policy for Black Economic Empowerment (BEE), critics have charged that this has helped to legitimise the neo-liberal order: job creation remains low and up-skilling has reduced the number of unskilled jobs (Ponte et al., 2007). Hence, in 2004, 39 per cent of South Africans, but 74 per cent of blacks, earned less than R2,500 per month (UK£140; €154)

(Ponte et al., 2007). The development of 'Broad-Based Black Economic Empowerment' (involving firms working towards affirmative action targets and the involvement of small enterprises) has done little to challenge this (Freund, 2007). Whilst such policy interventions and the general climate of economic growth may have opened the prospect for progress, general improvements in material conditions have been very uneven.

The early 2000s saw a proliferation of new social and community movements of the poor, putting pressure on the ANC to deliver (Naidoo, 2007). Poor communities mounted protests around issues such as the payment of market-driven prices for social services, drawing on the culture of payments boycotts under apartheid (Naidoo, 2007). These movements, acting independently of the COSATU unions or the ANC Alliance generally, aimed at putting pressure on the latter to serve its base better (Naidoo, 2007; Desai, 2002). On the one hand, the COSATU federation was particularly vulnerable to pressure to more openly challenge the status quo (Naidoo, 2007). On the other hand, the new independent grassroots movements failed to make much headway, with the ANC continuing to dominate electoral politics (Southall, 2007). However, revolts by ANC branches in support of preferred local candidates in the 2006 local government elections revealed divisions in the ANC between the centre and the rank and file. A plethora of breakaway splinter unions revealed the growing rank-and-file dissatisfaction with leadership that appeared closer to the political elite than the rank-and-file concerns of workers. The new leader of the ANC, Jacob Zuma, has appealed to African values and has positioned himself 'as the candidate who would return the ANC to the people' (Southall, 2007: 15). COSATU used its March 2005 conference to provide a platform for Zuma to launch his fight-back campaign against President Mbeki.

Zuma was adopted as COSATU's preferred candidate for the December 2007 ANC leadership elections, both on account of his not being directly associated with neo-liberal policies and given Mbeki's antagonism toward him (Buhlungu and Atkinson, 2007). Zuma unseated Mbeki at the ANC's 2007 conference, becoming ANC leader and being named as the ANC's presidential candidate in the 2009 elections, which the ANC won despite realignments among opposition parties. Thus issues of deprivation have been influential in

determining the election of political leaders. In order to mobilise members effectively, and to recruit additional members, the unions must, of necessity, centre on issues of deprivation. This article evaluates the specific nature of rank-and-file demands, and the relationship between these and union power. Based on a survey of members of South Africa's largest federation, the Congress of South African Trade Unions, we explore workers' perceptions of improvements in material conditions in the post-apartheid era, and test the relationship between dissatisfaction with material and social conditions and participation in union affairs.

#### SOUTH AFRICAN TRADE UNIONS: MOBILISATION AND SOCIAL JUSTICE

Up until the 1970s, attempts made to organise black workers, from the Industrial and Commercial Workers Union of the 1920s, to the South African Congress of Trade Unions in the 1950s, were all defeated due to internal weaknesses and hard-line action by government and employers. A new era of unionisation began in the early 1970s as a result of the activities of a small number of former union activists, academics and students (Friedman, 1987; Maree, 1987). Central to these efforts was the placing of a strong emphasis on building shopfloor organisations (Maree, 1986). This, and a desire to avoid state repression, resulted in most of the new 'independent' unions initially shunning political alliances, or being involved in community struggles (Maree, 1986; Maree, 1987). In response, explicitly political unions, most notably the South African Allied Workers Union, emerged and made rapid gains; however, a higher political profile and fewer resources being devoted to building factory-level organisation made it vulnerable to state action (Roux, 1984). As the mass insurrection of the 1980s gained momentum, all of the independent unions were forced to take a more explicitly political stance (Friedman, 1987). In 1985, most of the independent unions banded together under the umbrella of the Congress of South African Trade Unions (COSATU, 1985). This was followed by a process of mergers under its 'one union one industry' policy. A final burst of state repression forced COSATU into the role of the principal internal opponent of the apartheid regime in the late 1980s. Wider social injustice, increasingly desperate state repression and the complicity

of owners and managers in the shoring up of apartheid ensured the persistence of workplace militancy; in the closing years of apartheid the union movement played a central role in forcing political change through both workplace and community struggles (Baskin, 1991).

South Africa's first-ever democratic elections were held in 1994, with the previously outlawed African National Congress (ANC) winning a clear majority. In the run-up to the elections, COSATU had entered into a formal alliance with the ANC and the South African Communist Party, giving the federation an unprecedented level of political influence. On the one hand, the Alliance has failed to prevent the ANC's conversion to neo-liberal macroeconomic policies; unions have instead been weakened by large-scale job losses (Barchiesi and Kenny, 2002; Makgetla and Seidman, 2005). Between 1999 and 2009, union membership had fallen from around 45 per cent to 25 per cent of total employment, with total membership figures for COSATU falling to around 1.9 million (Cohen, 2009). On the other hand, the promulgation and gradual expansion of a highly progressive body of labour legislation has guaranteed a range of key organisational rights. Moreover, the ANC has deferred many of its most ambitious privatisation plans, at least partially in response to pressure by its Alliance partners, but also in response to union activity (von Holdt, 2005). Democratisation greatly facilitated union organisational drives in the public sector, more than offsetting membership losses as a result of large-scale redundancies in some areas of the private sector.

Nevertheless, it remains the case that many injustices have continued. The majority of South Africans remain impoverished. In 2009 the unemployment level for the white population group was 4.6 per cent, compared to 27.9 per cent for black Africans (Statistics South Africa, 2009); and although there has been additional spending on health and education, services are often inferior in rural areas (Seekings, 2007). Moreover, the economy remains dominated by the capital-intensive and predominantly white-owned mining and manufacturing sectors. Hence, whilst the injustices of statutory racial segregation have ended, South Africa remains an unequal society. These persistent injustices could form a durable basis for mobilisation, either through continued active participation in union structures, providing for a virtuous circle of participation, or through

mobilisation and struggle, and the driving of progressive alternatives (Wood and Psoulis, 2001).

#### MOBILISATION THEORY: INJUSTICE AND SOLIDARITY

Mobilisation theory holds that injustice represents the core organising principle, ensuring that unions attract and retain committed and active members (Johnson and Jarley, 2004; Kelly, 1998). Whilst the causes of injustice may lie beyond the workplace, workers should place at least part of the blame for their misfortunes on the shoulders of management for the organisational momentum to be channelled into the labour movement (Kelly, 1998). Injustices should be morally indefensible (Johnson and Jarley, 2004) and change should seem possible. Hence, the participation of members in union affairs might be the result of perceived workplace injustices and rely on the assumption that unions have the potential to redress such unfairness (Johnson and Jarley, 2004). In post-transition South Africa, a key question is the extent to which union members constitute an 'aristocracy of labour' with concerns far removed from the genuinely poor, or whether they still identify with the interests of those working in the informal sector and the unemployed. Will unions increasingly seek to mobilise their members around issues such as job security and low wages or instead turn their attention to overall economic growth that may ignore the concerns of the oppressed?

In this paper, we test whether perceptions of a lack of improvement in workplace concerns such as wages coincides with a perceived lack of progress in the provision of social services at community level since the ending of apartheid. We then test whether those who are dissatisfied are more likely to be active in union affairs, through regular attendance at union meetings, removal of shop stewards, or engaging in strike action. Having sought to determine potential groupings/factors of response, we then compare these groupings with a range of independent demographic variables; of particular importance is whether there is any cleavage between the 'struggle' and post-apartheid generations, and whether historically marginalised groupings such as women are more or less likely to be discontented. Finally, we assess the propensity of categories of workers who are particularly dissatisfied to participate in union affairs and engage in collective action.

## METHOD

This paper draws on a nationwide survey of members of COSATU – South Africa’s largest and most effective union federation – in 2004. Previous rounds of this survey were conducted in 1994 (see Ginsburg et al., 1995) and 1998 (see Wood and Psoulis, 2001). More details on the history and methods used in these surveys can be found in Buhlungu (2006). Support for the survey was obtained from the COSATU federation at national level.

All three surveys drew respondents from across the country and in 2004, 655 COSATU members were interviewed. Sectors included the public sector (35 per cent of the sample), mining (7.8 per cent), manufacturing (16.5 per cent), catering and retail (8.3 per cent), transport and communication (2.2 per cent), chemicals (1.7 per cent), clothing and textiles (13.3 per cent), food (4.4 per cent) and banking (0.5 per cent). Interviews were conducted at workplace level and area sampling was used. Five geographical regions were selected based on high levels of population and industry, and then individual unionised workplaces were randomly selected within these areas (see Wood and Psoulis, 2001; Buhlungu, 2006). The list of organisations, categorised according to sector, was compiled from directory information supplied by Telkom, the South African parastatal telecommunications utility. Organisations were randomly selected within each sector and contacted in order to check that their union was affiliated with COSATU. If not, then another randomly selected organisation was chosen. After this, access was achieved through employers and then workers were sampled proportional to workplace size, with almost all of those approached consenting to take part in the survey. The sampling strategy was thus multi-layered, as this was the most feasible option under the circumstances. The research study can also be described as a trend study (Babbie, 1995). A panel study was not possible due to the massive restructuring and job losses that have taken place in South Africa over recent years.

In order to analyse the data we used factor analysis, a basic technique for synthesising large amounts of data; if respondents respond in a similar way to a particular set of questions, this would suggest that the emerging factor taps a specific dimension of respondent attitudes (Bailey, 1987). It is unlikely that all items in a questionnaire will constitute a single unidimensional scale as respondents are likely

to have similar attitudes regarding a particular set of issues and concerns, and others in other areas. It should be noted that factor analysis is an explanatory and descriptive technique, not an inferential one, and as such simply summarises what respondents felt in a particular area (Bailey, 1987). However, it was arguably the best method for understanding if and how members' opinions could be grouped together. The next stage involved regression analysis, in order to assess whether the groupings could be predicted by independent variables such as gender, language, educational level, job tenure and age.

### FINDINGS

The first question that we addressed is union members' level of satisfaction with service delivery. Using a simple yes/no response, members were asked whether a range of services had improved since the 1998 elections. The results are shown in Table 1; more than one response was possible.

As can be seen, more than 80 per cent of respondents considered that services had improved in areas such as access to clean water, electricity and a telephone. These are basic social services where there has been concerted government attention, and where visible progress proved relatively easy in core urban areas. However, the figures are much lower in the area of wages and access to land, nutritional food, better health care, jobs and the provision of HIV/AIDS treatment, education and support. The phasing back of protective tariffs and direct industrial development incentives has meant that many firms have faced an acute crisis of competitiveness; this has precluded wage rises in many areas and, indeed, has resulted in large-scale job cutbacks. Whilst the performance of the South African economy has been robust in recent years – growth in 2005 reached an estimated 6 per cent – this has been without significant new job creation. Education and health care consume a relatively large proportion of the South African budget, but constrained by the agenda of international financial organisations such as the IMF, the government has little room for manoeuvre in these areas, short of mounting a full-on challenge to the global neo-liberal agenda, with far-reaching political and economic knock-on effects.

Factor analysis was next employed in order to examine whether there are groupings of factors, this time including other questions

from the survey relating to internal democracy and industrial action. From Table 1, it appears that there are six principal component factors to emerge from the questions regarding delivery in the 2004 survey. The variables that correlate closest with the respective factors are highlighted in bold; a 0.5 (when rounded off) cut-off point was deployed, a commonly used standard (Morris et al., 2001).

Table 1 highlights six factors (or groupings of concerns). Factor 1 includes important issues such as health care, health and safety, a

**Table 1: Rotated Component Matrix**

Improvements have taken place in the following areas since 1999	% of Respondents	Component					
		1	2	3	4	5	6
Better housing	61	0.263	0.332	0.232	0.158	0.311	-0.259
Higher wages	37	0.272	0.116	0.423	0.196	0.366	-0.181
Access to land	58	0.320	0.252	0.178	0.143	0.377	-0.179
Access to clean water	87	0.124	<b>0.783</b>	0.066	0.039	0.086	-0.058
Access to electricity	87	0.140	<b>0.828</b>	0.065	0.020	0.080	-0.026
Access to a telephone	82	0.230	<b>0.726</b>	0.038	-0.071	-0.060	0.094
Better public transport	62	0.464	0.304	0.022	-0.012	-0.262	0.053
Enough nutritional food	54	<b>0.693</b>	0.067	0.157	-0.062	-0.134	-0.013
Access to better health care	58	<b>0.678</b>	0.147	0.131	0.011	0.015	-0.011
Access to education and training	68	<b>0.682</b>	0.154	0.128	0.003	0.185	0.002
A clean and healthy living and working environment	63	<b>0.639</b>	0.117	0.091	-0.007	0.172	-0.050
Jobs	17	0.225	-0.019	<b>0.724</b>	0.066	-0.027	-0.079
HIV/AIDS treatment, education and support	49	0.193	0.190	<b>0.620</b>	-0.184	0.042	0.161
Attendance at union meetings – once a month; less than once a month	82	-0.066	0.070	0.057	<b>0.753</b>	-0.020	0.078
Industrial action in the last five years	47	-0.180	0.036	0.356	0.052	-0.035	<b>0.679</b>
Shop stewards in the workplace?	98	0.021	-0.061	-0.071	<b>0.752</b>	-0.005	0.039
Shop steward removed by workers?	29	0.154	-0.022	-0.270	0.140	0.159	<b>0.680</b>
Election of shop stewards, by ballot/show of hands	50	0.061	0.004	0.053	0.130	<b>-0.807</b>	-0.210

balanced diet, and education and training, while Factor 2 includes clean water, electricity and a telephone – all basic social services where the government has placed a strong emphasis on delivery since 1999. However, there have also been episodic pressures to marketise these services. Factor 3 concerns jobs and HIV/AIDS, both pertaining to employment contracts. Factor 4 concerns participation in union affairs: having workplace representatives in place and proclivity to attend union meetings. The latter would not be possible, of course, without representatives in the first place, whilst having a functional system of shopfloor representation would make participation in union affairs more attractive. Factor 5 relates to the election of shop stewards, while Factor 6 highlights the correlation between participation in industrial action and having ejected shop stewards from office (generally owing to being seen as too close to management) (Wood and Psoulis, 2001). Employment equity pressures have prompted many employers to advance shop stewards into positions in management; this has understandably created pressures regarding possible conflicts of interest; these issues are likely to come to the forefront in cases of industrial action, especially in the cases of wildcat unofficial strikes that have become more prominent in recent years (see also Wood and Dibben, 2008; Wood and Psoulis, 2001).

Table 1 reveals that satisfaction with the ANC government's performance in a range of areas – and a lack of improvement in job provision and HIV/AIDS treatment and education – does not seem to be correlated with a greater or lesser tendency to participate in union affairs or engage in industrial action. On the one hand, this suggests that the unions do not constitute a coalition of the new South Africa's discontents. This would reflect both a degree of satisfaction with the ANC's progress in delivering a range of social services in urban areas and, possibly, the extent to which there has been a reduction in perceived injustice at the workplace and community level. Whilst most black South Africans remain poor, there have been unprecedented opportunities for upward mobility in the workplace, albeit that this is mitigated by a far greater tendency by employers to make use of redundancies. However, the findings could also reflect perceptions that unions are ineffective in voicing and dealing with material concerns in a range of areas.

At the same time, there does not seem to be evidence that union members are necessarily contented: most remained unhappy with wages and job provision, and a sizable minority was dissatisfied with the government’s ability to deliver a number of important social services. However, this discontent does not seem to have translated into a greater willingness to actively participate in union life or collective action at the workplace. This could reflect the availability of a range of forums – community and civic groupings, and ad hoc service crisis committees – for alternative action at community level, and/or a pragmatic realisation as to what is immediately attainable.

The next stage of the analysis was to examine whether particular worker characteristics were predictors of (dis)satisfaction with service delivery or of engagement in trade unions through democratic means or industrial action. To do this, Table 2 shows the independent variables that were used.

**Table 2: Independent Variables Used in Regression Analysis**

Variable Name	Description
Gender	1 if male; 0 otherwise
Language	1 if Indo-European; 0 if indigenous (African)
Education	1 if basic education; 0 if not
Job tenure	1 if permanent; 0 if temporary
Age	1 if over 35 years old; 0 if otherwise

For many years, the persistence of patriarchal values amongst male workers and the tendency for men to dominate leadership positions has been an issue of concern to COSATU activists, while women tend to have participated less in union activities (Brookes et al., 2004; Wood and Dibben, 2008). As noted earlier, there persist great imbalances in income and access to employment along racial lines: blacks remain disproportionately poor and jobless. Hence, we look at the effects of a proxy, variable language (almost all Africans speak an indigenous language, whilst the white, coloured – mixed racial origin – and Indian communities almost all speak Indo-European languages), given that this was an item included within the questionnaire, rather than one that specifically asked for racial origin – a sensitive question given the forced classifications under apartheid.

Given that the mode of COSATU members are now relatively well educated, it is further possible that the federation increasingly represents an 'aristocracy' of workers; hence, the question emerges as to whether less educated workers have different concerns and a more limited propensity to participate in union affairs. Again, workers in insecure contracts may have different interests to those in more secure jobs. Finally, age allows us to explore any cleavages between those who have spent a significant proportion of their working life under apartheid and those who have not.

Using regression analysis we firstly sought to assess the importance of each of the independent variables in predicting Factor 1, which included health care, health and safety, a balanced diet, and education and training. Using the enter method, we found that a significant model did not emerge ( $F_{5, 42} = 1.186, p > 0.05$ , adjusted R square = 0.002): gender, age, job tenure, language and educational levels were not found to be significant predictors of the Factor 1 category. Similar results occurred for Factor 2, which included access to clean water, electricity and a telephone ( $F_{5, 473} = 0.790, p > 0.05$ , adjusted R square = -0.002) and for Factor 3, which included jobs and HIV/AIDS treatment and education ( $F_{5, 473} = 0.901, p > 0.05$ , adjusted R square = -0.001).

The lack of statistically significant differences between groupings might seem to reflect the progress made by South Africa's first democratic government in ensuring the provision of basic social services amongst disadvantaged communities (particularly in urban areas, where there are fewer logistical constraints). However, unemployment remains very much higher amongst the African majority; the unions have proved powerless in stopping the wholesale job shedding by firms in pursuit of international competitiveness. Moreover, median wages are also very much lower amongst Africans and access to land more of a concern. Whilst the government has delivered increasing numbers of low-cost houses in urban areas, the rate of delivery has not been fast enough to meet pent-up demand. Thus, the lack of statistical difference according to the characteristics of workers is somewhat surprising. Nevertheless, the lack of difference here should not prevent an understanding of the overall picture, which still reveals a large majority of workers who are dissatisfied with fundamental aspects such as wages and jobs.

Is discontent associated with a demobilisation of union members? Or have unfulfilled expectations contributed to a continuation of high levels of mobilisation in mainstream union structures? Have temporary accommodations with state and capital been at the expense of traditional union collectivism? The factor analysis indicated that there is neither a positive nor a negative correlation between the propensity to actively participate in unions and relative satisfaction regarding delivery – in short, the discontented are neither more nor less likely to participate. This would either suggest a residual loyalty to the labour movement, as a result of the historic role the latter played in the run-up to democratisation, *or* that individual workers see unions as only partially effective, with participation only being worthwhile in pursuit of certain issues. The latter could reflect a sophisticated understanding of the limits and possibilities of collective action in an environment of wholesale job shedding and where industries have battled to attain international competitiveness. In other words, mobilisation under the auspices of unions is the pursuit of the possible, with alternative community groupings providing a forum for the pursuit of a more radical agenda.

As explained above, Factor 4 was based around attendance at union meetings and the existence of shop stewards within the workplace – signifiers of internal democracy. When evaluating the influence of potential predictors of this factor, a significant model emerged ( $F_{5, 473} = 9.513, p < 0.005$ , adjusted R square = 0.082). The significant variables are shown in Table 3.

**Table 3: Significant Variables for Factor 4**

Predictor Variable	Beta	$\rho$
Gender	0.196	0.000
Language	-0.203	0.000

Being male and having an African home language were significant predictors of the grouping of responses around attendance at union meetings and having shop stewards in the workplace. More specifically, although overall levels of participation remain extremely high, women and those whose home language was Indo-European were

somewhat less likely to be involved in union affairs or be employed in workplaces where there was functional union democracy. This could reflect the extent to which certain categories of labour tend to be concentrated in occupations that are more difficult to unionise. However, it could also reflect continuing tendencies, such as the persistence of male dominance within many unions (see Baskin, 1991). Turning to Factor 5, concerning the election of shop stewards, again a significant model appeared ( $F_{5, 473} = 4.530$ ,  $p < 0.005$ , adjusted R square = 0.036). Significant variables are shown in Table 4.

**Table 4: Significant Variables for Factor 5**

Predictor Variable	Beta	$p$
Language	-0.144	0.002
Age	0.150	0.002

Speaking a home language of African origin and also being over 35 years of age and in the workplace during the apartheid era appear to be significant predictors of the use of secret ballots for the election of shop stewards. This finding may potentially be due to the exposure of such workers to discriminatory practices during the apartheid period and a resultant adherence to the principles of democracy. Finally, for Factor 6, which consisted of the variables relating to removal of shop stewards and taking industrial action, a significant model also emerged ( $F_{5, 473} = 2.646$ ,  $p < 0.05$ , adjusted R square = 0.017). In this case, significant variables are shown in Table 5.

**Table 5: Significant Variables for Factor 6**

Predictor Variable	Beta	$p$
Gender	0.131	0.005
Job tenure	0.090	0.048

This final stage of the analysis revealed that women and those with insecure job tenure were less likely to participate in the removal of shop stewards or to strike than those who might be arguably more

secure within the workplace. Although they may have more grievances than other workers, this does not appear to have translated into the taking of action. This finding might have implications for how these groups of workers are organised in the future.

### CONCLUSION

The survey revealed that discontent with delivery and related material conditions was not associated with a greater or lesser willingness to become involved in union affairs. Most respondents felt that the democratic government has made visible progress in improving the quality of life in a range of areas at community level. This would at least partially explain COSATU's continued commitment to its formal alliance with the ANC, in contrast to the increasing restiveness of highly marginalised communities in informal settlements and on the rural periphery; a mixed strategy of accommodation and traditional collectivism has yielded some material benefits. At the same time, the overwhelming majority of respondents were unhappy with progress regarding job creation and improvements in wage levels, cutting across gender, age, educational level, language and job tenure. Given abiding rank-and-file discontent regarding certain aspects of delivery, particularly in areas falling directly under the employment contract, these tensions may result in incremental demobilisation, a possible rupture between accommodationist and more radical elements within the labour movement or in a renewed concentration on militant collectivism. The fact that many of the concerns of COSATU's rank and file mirror those of the marginalised means that the unions are likely to be at the forefront of progressive challenges to the status quo. The significance of language as a predictor of participation in union affairs reflects the persistence of racial divisions over fifteen years since apartheid's demise.

The lack of association between discontent with the present condition and willingness to engage in union affairs and, in turn, to engage in collective action, appears contrary to the predictions of mobilisation theory. In part, this may reflect the limited nature of political alternatives in South Africa. However, this would not suggest that the basis of mobilisation has completely eroded. The unions retain a mass following owing to both effectiveness at the collective

bargaining table and a residual historical loyalty, dating back to the struggle against apartheid (Brookes et al., 2004; Buhlungu and Atkinson, 2007). On the other hand, although COSATU has articulated a policy agenda around the need to protect jobs and promote job creation, it has struggled to be effective within a climate of wholesale job shedding, with many employers struggling to compete on world markets (Donnelly and Dunn, 2006). It also reflects the compromises necessitated by the ANC Alliance, an alliance which has resulted in gains in many areas, including the development of a highly progressive body of labour legislation governing collective bargaining and other rights.

The apparent durability of the present dominant partyism means, however, that such challenges are likely to take the form of ongoing struggles within the ANC Alliance, rather than through the development of an alternative political movement. Since the survey, a split within the ANC led to the formation of a new breakaway party, the Congress of the People (COPE). However, the latter only made limited headway in the 2009 elections, whilst the bulk of union leadership remained firmly within the ANC camp. Nevertheless, it would be wise for the leadership within the ANC to take the concerns of union members seriously; the unions remain a powerful pressure group both within the ANC Alliance and on the streets. Whilst mobilisation theory clearly has limited predictive power, its underlying fundamental assumptions regarding the relationship between social inequality and the possibilities for progress and union mobilisation remain relevant.

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# International Small Business Growth: A Process Perspective



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## ABSTRACT

Internationalisation is a route for business growth where businesses seek to expand their activities beyond domestic markets. The objective of this research is to examine the process of internationalisation in a sample of Irish SMEs. In particular, topics such as the reasons why owner-managers export, their choice of international market, the market entry strategies adopted and the challenges encountered in internationalisation are the subject of this study.

The survey involved in-depth interviews with a sample of 80 SMEs. The data show that the majority of respondents exported due to a lack of alternative market opportunities in the Irish market, chose the UK market as their first location and adopted a phased approach to internationalisation. The primary challenges experienced by owner-managers related to the establishment of strategic alliances and partnerships to facilitate international firm growth, insufficient market research, lack of customer familiarity and difficulties in balancing the dual management of firm activities in the domestic market and new international markets.

The findings emphasise the need to examine SME internationalisation as a series of interrelated activities that should be embedded as part of the overall growth strategy of the firm as opposed to a separate strategy. Suggestions are put forward for government policy to develop more SME-targeted financial and non-financial supports to develop the export capabilities and competencies of owner-managers and to assist them establish strategic

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alliances and partnerships necessary to facilitate international firm growth. To conclude, a number of areas are recommended for further research to progress an under-researched topic in Ireland.

**Keywords:** SME growth; Internationalisation; Strategy development

## INTRODUCTION

Small and medium enterprises (SMEs) constitute 97 per cent of firms in Ireland and account for 54 per cent of private sector employment (Small Business Forum, 2006). SMEs are comprised of three categories of firm: the micro firm (less than 10 employees), the small firm (less than 50 employees) and the medium firm (less than 250 employees). Despite their significance there is a dearth of information describing the pattern of export activity in Irish SMEs (DKM, 2006; Lawless, 2007). This may be attributable to the fact that the majority of international activity is located within foreign direct investment (FDI) firms that, in many instances, use Ireland as an export base (Small Business Forum, 2006; CSO, 2007; Forfás, 2006). Therefore, in order to achieve the focus of government policy (Enterprise Strategy Group, 2004; Forfás, 2006), which recommends that Irish firms become more international, it is necessary to develop the information deficit on how Irish SMEs internationalise. Understanding the pattern of SME export activity and the challenges they encounter in the process is a fundamental foundation on which to develop appropriate policy and for the design of suitable management support and training initiatives for owner-managers who wish to achieve export growth. Thus, a number of issues merit investigation to advance this topic in the Irish context. For instance, why owner-managers embark on international firm growth, the choice of international market, the market entry strategy adopted and the difficulties encountered in achieving successful international firm growth are issues worthy of investigation.

This paper addresses these aforementioned topics by positioning the research in the broader SME growth literature, as internationalisation is a means of achieving SME growth. The research approach incorporated in-depth interviews with 80 owner-managers across four industry sectors in the mid-west region of Ireland.

### SME GROWTH

Growth is a multi-faceted phenomenon that is commonly associated with firm survival, achievement of business goals and success, or scaling up activities (Storey, 1994; Kinsella et al., 1994; Delmar and Wiklund, 2003; Wickham, 2004; Dobbs and Hamilton, 2007). Business growth may take different forms (employment, revenue, market share and product development), albeit not necessarily all at the same time. Furthermore, typically in the small firm growth occurs in a local and national context before the owner-manager considers internationalisation of business activities (Pope, 2002; Cremins, 2006). Owner-managers may be exposed to the same challenges in achieving growth, but given the heterogeneity of small firm growth differences occur in how these are managed by the owner-manager (Kinsella et al., 1994; Barkham et al., 1996; Gibb, 2000; Wickham, 2004; Donohoe and Wyer, 2005). Wickham (2004) proposed that the owner-managers' perception of how it would impact on their personal role in the business determined the strategies adopted to pursue firm growth, where one such strategy is internationalisation.

With regard to the challenges faced by the owner-manager in growing the business, the literature broadly classified them into internal and external (Morrison et al., 2008; Niskanen and Niskanen, 2005; Pasanen, 2006). Internal factors relate to the owners' intention and motivation to grow the business and their access to and effective utilisation of resources (Kinsella et al., 1994; Storey, 1994; Barkham et al., 1996; Morrison et al., 2008; Niskanen and Niskanen, 2005; Pasanen, 2006). The external factors include a range of economic, political, societal/demographic, technological and regulatory aspects that are largely outside the control of the owner-manager. It is important that the owner-manager is aware of how these will impact on business growth strategies. The internal factors are within the control of the owner-manager and will therefore greatly determine the type of strategies adopted to avail of the opportunities in the international marketplace. For this reason the internal factors, in particular the reason why owner-managers chose international firm growth, the strategies adopted and the challenges encountered in the achievement of international growth, are of most interest in this study.

### SME INTERNATIONALISATION

Internationalisation is a phenomenon researched intensively from a variety of viewpoints with a predominately large-firm focus (Gankema et al., 2000; Ibeh and Young, 2001; Bell et al., 2004; Svante, 2004). In relation to the SME, three approaches of firm internationalisation – the stage approach, the network approach and the born global approach – are frequently discussed in the literature (Oviatt et al., 1995; Johanson and Vahlne, 1977; Coviello and McAuley, 1999; Chetty and Campbell-Hunt, 2003; Jakobsen and De Voss, 2003; Oviatt and McDougall, 2005). Central to the stage approach is the assumption that internationalisation occurs in a gradual manner in markets close to the domestic market and that the primary mode of entry is through exports. As owner-managers build a repository of knowledge regarding international business practices and foreign cultures, languages and political systems, the level of perceived risk is reduced and a greater commitment of resources to internationalisation results (Oviatt and McDougall, 2005). As the firm increases its commitment to internationalisation it extends into markets that are ‘psychically’ more distant and may possess very different cultural, economic and demographic characteristics (Johanson and Vahlne, 1977; Jakobsen and De Voss, 2003). The stage approach offers a number of benefits to the SME as it reduces the initial risk of exporting, allows the owner-manager to retain control of international business activities and requires less initial commitment of resources for international expansion.

The second approach – the network approach – posits that successful internationalisation is dependant on developing networks of business relationships to facilitate the internationalisation process (Johanson and Mattsson, 1993; Havnes, 2003; Lloyd-Reason, 2002). This approach can accommodate the scarce financial and non-financial resources of the SME while facilitating an international market presence. Networks can consist of informal and formal relationships, alliances with other firms at any stage of the value chain of activities (suppliers, customers and intermediaries) and membership of professional organisations. Networks provide benefits in foreign market selection and with marketing activities within international markets, and provide a source of feedback on the suitability of the firm’s chosen export strategy (Bell, 1995; Coviello and McAuley,

1999; Oviatt and McDougall, 2005). While the establishment of networks are important to accommodate the scarce resources in the SME the ongoing management of these relationships is fundamental for sustained effective internationalisation (Bell, 1995; Coviello and McAuley, 1999; Havnes, 2003; Oviatt and McDougall, 2005; Lageth, 2006). The owner-manager needs to be prepared to invest their time, relinquish their total control of activities and decisions, and share recognition with those they network with to develop a sustained international market presence (Dekker and Uslaner, 2001).

The two approaches discussed to date (stage theory and network theory) are based on the assumption that firms become international subsequent to a period of operating in local markets; this is not always the case (Oviatt and McDougall, 1994; Johnson, 2004). These studies suggest that an increasing number of small firms adopt a multicountry or multinational perspective from the company formation stage. The 'born global' or 'global start-up' firm has a global orientation from the onset of its business (Oviatt and McDougall, 1994; Crick and Jones, 2000; Johnson, 2004). A number of authors expanded on the description of the born global and suggested they were part of a broader population of international new ventures, where internationalisation was embedded as part of their overall firm growth strategy (McDougall and Oviatt, 2000; Rasmussen and Servais, 2000; Zahra and George, 2002; Autio et al., 2000; Zucchella, 2002).

The three approaches – the stage, network and born global approaches – provide varying perspectives on how SMEs internationalise their business. The approaches are not mutually exclusive and can occur simultaneously in the SME. Therefore, it is important to examine their potential complementarities to obtain a more integrated perspective of internationalisation in the SME (Bell et al., 1998; Coviello and McAuley, 1999).

While these approaches provide useful perspectives of the general approach to SME internationalisation they lack detail on a number of key decision points the owner-manager encounters in internationalising their business. An essential question relates to why the owner-manager decides to internationalise their business and the subsequent decisions on the location of the international market and the market entry strategy adopted. Combined, these issues form the primary components of the process of SME internationalisation. In

executing these stages the owner-manager encounters a number of challenges that can emerge internally or externally.

#### WHY OWNER-MANAGERS GROW THEIR BUSINESSES INTERNATIONALLY

The factors inducing international firm growth are generally categorised into a dichotomy of positive and negative factors that align with the determinants of general firm growth (Czinkota and Tesar, 1998; Lawless, 2007). Positive reasons are associated with the proactive seeking out of international market opportunities by the owner-manager. Conversely, owner-managers may only consider international market expansion due to a lack of growth opportunities in domestic markets. In this latter instance the owner-manager adopts a passive and risk-averse approach in the choice of market and the type of market entry strategy adopted (Czinkota and Tesar, 1998; Lawless, 2007). Additionally, a variety of micro and macro environmental factors contribute to a firm's decision to export. These include factors associated with the customer and competitive, social, cultural, economic and technological characteristics of the international business environment, and provide positive or negative determinants for SME internationalisation (Bell, 1995; Tybejee, 1994).

Once the decision to export is made the owner-manager needs to evaluate the suitability of their product or service in its current form for acceptance in new international markets. The level of adaptability required and the availability of financial resources to support the modification of the product or service, and in functional areas such as international marketing, selling, production and distribution, will impact on the feasibility of the export activity. Concurrently, the owner-manager must assess their own commitment to international firm growth and the availability of the necessary knowledge and skills to do so.

#### THE CHOICE OF INTERNATIONAL MARKET AND THE MARKET ENTRY STRATEGY ADOPTED

The internationalisation of business activities by Irish owner-managers tends to occur in markets close to the domestic market where the primary mode of market entry is through exports as this allows the owner-manager to maintain control of primary decisions

(O’Gorman, 2001; Pope, 2002; Zahra and George, 2002; Lawless, 2007).

The reason why owner-managers grow their businesses internationally is fundamental in shaping the strategies adopted to enter new markets, according to Hollensen (2001). The choice of international strategy is embedded in the broader strategic orientation or vision of the owner-manager and the attainment of a ‘strategic fit’ between the product/service offering of the firm and the demands of a different cultural, social and economic international business landscape (McGee et al., 2005). The achievement of this ‘strategic fit’ will generally require a degree of structural reconfiguration in the SME. Small firms typically operate with limited resources and have a lower threshold to absorb risks in international markets compared to larger firms. Therefore, the establishment of networks, strategic alliances or partnership arrangements are important means of compensating for a lack of resources in the SME (Fliess and Busquets, 2006; Nummela et al., 2006). This structural change should be supported with the acquisition of knowledge and skills at owner-manager level to effectively manage international relationships and networks. Essentially, the SME is faced with three options: direct exporting, indirect exporting or a combination of the two. Direct exporting involves the owner-manager assuming total control of export activities. This may form the initial strategy for internationalisation but as the number and diversity of locations increase then it becomes more difficult to maintain this level of control by the owner-manager (Hollensen, 2001; Nummela et al., 2006). Indirect exporting involves a third party, typically an agent or a distributor, who will assume responsibility for a number of activities (selling, completion of market research, distribution of the product/service, etc.) and provide support and guidance in legal issues (Pope, 2002; Lawless, 2007). The use of networks, strategic alliances, and franchising and licensing arrangements are additional indirect market entry options for perusal by the owner-manager. To date the brief overview of the approaches to internationalisation were complimented by a discussion on what it is argued are the primary components of the internationalisation process adopted in the SME. Engagement in these stages will result in a number of challenges in achieving international growth. These issues are examined in an exploratory empirical study in addition to

identifying the primary challenges encountered in international SME firm growth.

### RESEARCH METHODOLOGY

In-depth face-to-face interviews were the primary means of data collection. A total of 80 owner-managers were interviewed in the mid-west region of Ireland in 2002. The interviews were held on site in the firm. The sample of respondents was chosen from a database from Enterprise Ireland. This data set included firms in the micro, small and medium categories that were involved in exporting. The sample reflected the key industry sectors in the region and ones that constituted a large proportion of SMEs that export. Firms were drawn from the manufacturing and service sectors and represented high and low growth industry sectors such as electronics, engineering and manufacturing; food, drinks and agribusiness; information communications technology (ICT); and the general services sector. Additionally, firms included in the survey had to be in existence for at least five years before the start of the study period. The inclusion of a minimum age threshold ensured owner-managers were in a position to discuss the issues associated with growing their firm and would have gone beyond the volatility associated with the start-up of a business. Finally, as the focus of the research was on the owner-manager who owned and managed their own firm, only single plant, indigenously owned firms were included.

It is considered that the 80 firms are representative of the 100 firms initially approached. Information was obtained on the profile of the firm, the characteristics of the owner-manager (age and nature of prior work experience), the factors that influenced their decision to export and the international growth strategies adopted. Respondents were encouraged to describe the challenges they encountered in the implementation of strategies for international firm growth. The analysis of the data reflects the key themes that were investigated in the interviews.

### RESPONDENT PROFILE

The surveyed firms represented four industry sectors. The majority (40 per cent) operated in the electronics/engineering industry sector, 27.5 per cent in the food and drinks industry, 20 per cent in the ICT

sector and the remaining 12.5 per cent in the general services sector. Family firms represented 40 per cent of respondents. The average age of the firm was fourteen years. The youngest firm was five years in operation.

The firms represented mainly small and micro firms. The majority (65 per cent) of firms were small firms employing between 10 and 49 persons, and 23 per cent were micro firms employing fewer than 10 persons. The remaining 12 per cent of firms employed between 51 and 100 persons.

### **Factors Influencing the Decision to Export**

Respondents were asked to choose from a range of factors that most influenced their decision to grow via international markets (Table 1).

**Table 1: Factors Impacting on the Decision to Grow through Internationalisation**

<b>Factor</b>	<b>Most Influential Factor</b>
Lack of a viable domestic market	55%
Identification of increased sales opportunities	28%
Excess production capacity	17%
<i>Total</i>	<i>100%</i>

The lack of growth opportunities in the Irish market was the primary determinant cited by 55 per cent of owner-managers. This reason was most prevalent for firms operating in the food and drinks and the electronics and engineering sectors.

The identification of market opportunities was the second most important factor, rated by 28 per cent of respondents. Excess production capacity due to reduced demand arising from increased competition from cheaper imported substitute products ranked as the third most influential factor, recorded by 17 per cent of respondents.

The evidence suggests that two of the three factors consisted of reactive reasons, where the decision to export was forced on the firm due to a lack of business opportunities in the domestic market. These findings concur with the literature (Bell, 1995; Czinkota and Tesar, 1998; Lawless, 2007).

Of the 28 per cent of respondents who adopted a positive orientation towards internationalisation, the majority (64 per cent) worked in the ICT industry sector, 58 per cent were younger firms (in operation for less than 10 years), 64 per cent of the firms employed between 11 and 50 persons, and all were non-family firms. From an owner-manager perspective, those who adopted a positive orientation towards internationalisation were under 40 years of age and the majority (54 per cent) had gained prior work experience at managerial level within large multinational firms in marketing and selling functions. This was a primary differentiating factor between owner-managers who exported for positive as opposed to negative reasons. This international business experience provided exposure to and knowledge of how businesses operated in different countries, which proved very relevant when internationalising their own business activities.

Owner-managers in the ICT sector who adopted a positive approach to international firm growth indicated that an international orientation was necessary from the start of the business to obtain economies of scale and to obtain a return on large-scale investment in research and development (R&D) activities. Thus, international growth was a given in their industry sector and was integrated into their initial business plan. These respondents display characteristics of the new international venture or born globals (Oviatt and McDougall, 1994; McDougall and Oviatt, 2000; Zahra and George, 2002; Johnson, 2004).

In contrast, firms that cited a lack of market opportunity in the domestic market as the primary determinant on international firm growth operated primarily in the electronics sector (68 per cent) and in the services sector (56 per cent). These firms were longer in operation (between eleven and fifteen years) relative to firms that were more proactive towards internationalisation. With regard to the characteristics of the owner-manager, the only difference was that the owner-managers did not have prior experience in conducting business in international markets.

### **The Choice of International Market**

The vast majority of respondents (80 per cent) exported into multiple markets, with the UK the most popular first country of destination

(75 per cent of respondents). The choice of market adhered to the concept of 'psychic distance' (Johanson and Vahlne, 1977; Jakobsen and De Voss, 2003; Oviatt and McDougall, 2005): the choice of a market that was close to and similar to national markets. The popularity of the UK market was due to the similarity of business practices in the Irish market, the use of the English language and a belief that it was easier to gain a competitive advantage in the UK market relative to other European markets. Additionally, respondents suggested that the cost of conducting market research and undertaking country visits was more manageable for the UK market. Essentially, the UK market was viewed a good first market to pilot test for future international firm growth.

These findings, when examined in conjunction with the most important factors influencing the decision to seek international expansion, would suggest a level of caution by respondents in their approach to internationalisation and draw attention to the characteristics of the stage approach of internationalisation.

The USA, Germany, France, China and India were viewed as locations with increased growth potential for Irish SMEs. In particular, China and India were deemed to present opportunities for firms in the ICT and services sectors and ones that required further research. Firms operating in the food and drinks industry sector were more reliant on the UK and the US as destinations for their products.

### **Market Entry Strategies for International Firm Growth**

All respondents used indirect market entry strategies. Owner-managers who exported to the UK and US market relied on development agencies such as Bord Bia and Enterprise Ireland to assist them with sourcing agents and distributors in this market. Additionally, in the US market participation at trade fairs and exhibitions was deemed instrumental in the identification of potential customers and an important contact point for the identification and screening of agents and/or distributors. For China and India, respondents indicated the importance of having established contacts prior to entering this market as they provided an accelerated method of market entry. Comments from owner-managers involved in the Chinese and Indian markets strongly emphasised the necessity of visiting the countries and undertaking practical comprehensive

research to provide a practical and realistic understanding of the diversity of business practices and customer expectations in the various regions of these countries.

The most common market entry strategy for 70 per cent of SMEs was through agents, and secondly through distributors, across all industry sectors. The use of agents was most prominent for firms operating in the ICT sector and secondly in firms in the electronics and engineering sector. Distributors were most popular for firms operating in the food and drinks sector. Six of the food firms were involved in group or cluster arrangements for market development, whereby a range of different but complimentary products were marketed under a collective brand. This was then sold by one distributor to a range of retail outlets. This was viewed as an effective market entry strategy as it resulted in more efficient use of the owner-managers' time and financial resources.

A number of benefits were associated with the use of agents and distributors. These related to learning how business was conducted in the various markets and recommendations for adaptation of packaging, labelling and branding of products for the host markets. The findings suggest strong evidence of the network approach, (Bell, 1995; Coviello and McAuley, 1999; Havnes, 2003; Oviatt and McDougall, 2005; Lageth, 2006). The level and type of networks varied on a continuum. In the simplest form the SME dealt directly with either an agent or a distributor, extending to a more layered relationship where firms sold to a number of agents, who sold to the retail trade. The more integrated business relationships occurred with the development of strategic alliances and licensing arrangements. These arrangements provided greater access to markets and customers and an entry into key distribution networks, and were the source of financial incentives and tax benefits not available if selling directly from Ireland. This was the case in India. The use of networks was common across all industry sectors, across all firm age cohorts and with the smaller firms (those employing up to 49 persons).

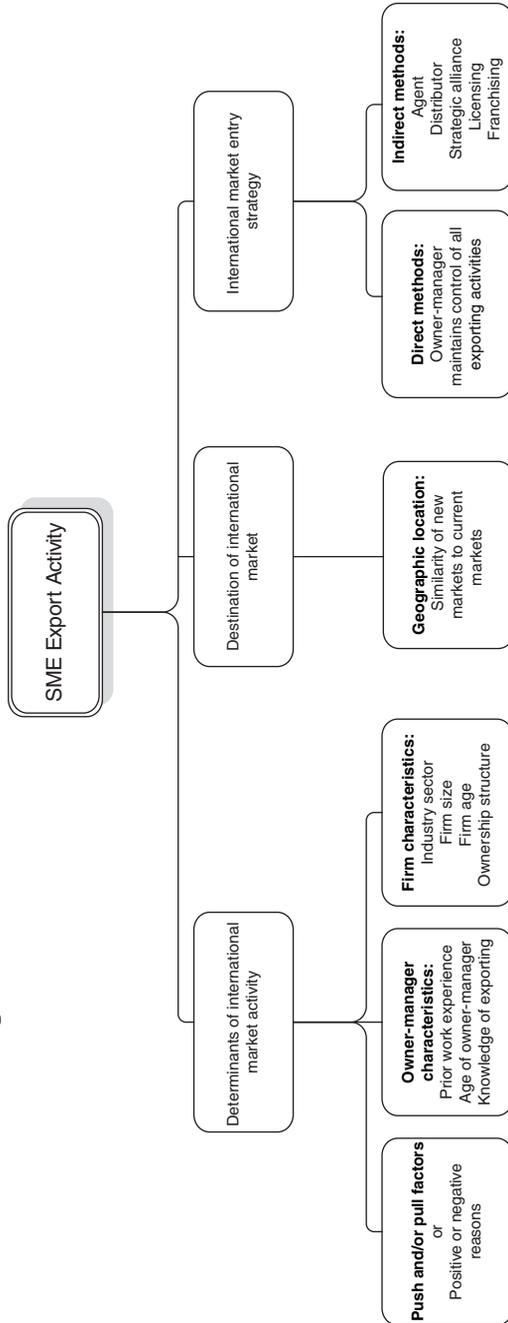
### **Challenges Encountered in Establishing an International Market Presence**

A summary of the most pertinent challenges encountered by owner-managers in internationalising their business are described:

- Adaptation of their product/service to meet new customer expectations – in particular, problems were encountered by firms that were exporting to a few countries that had divergent needs in terms of language, product/service packaging and distribution networks. This was especially the case for China and India.
- Difficulties arose in international strategy implementation – as international market activities increased it required different business practices, which were not accommodated for in their current business strategy.
- Insufficient time and effort allocated to the completion of in-country market research – problems were encountered in promotions and the pricing of products that could have been avoided if market research had been completed.
- Lack of management expertise and experience in securing and negotiating contracts with potential partners and customers in new markets – this was most problematic in China and India. The management of these relationships also caused issues as the owner-manager underestimated the complexities of managing different business practices and legal frameworks.
- Managing time and space differences – problems were experienced by owner-managers in managing and overseeing the extended business activities in international markets while still managing all the business operations in the domestic market.
- Problems in managing the costs of doing business in international markets – specific issues related to currency management, distribution costs and higher than expected marketing and selling expenses.

To sum up, it is contested that an understanding of the reasons why an owner-manager decides to grow their business internationally will have an impact on the subsequent choice of the strategy adopted. The choice of strategy adopted for internationalisation incorporates aspects of the stage, network and born global approaches. The challenges encountered in achieving international firm growth relates to the effective skills and competencies of the owner-manager and how they can establish and manage business relationships in different legal, social and economic contexts. These stages are linked to provide the process perspective of internationalisation as presented in Figure 1.

**Figure 1: Process Framework of Internationalisation in the SME**



This process will be impacted upon by a range of internal and external factors, which should be accounted for at each decision point. The diagram promotes a number of key antecedents (owner-manager, firm and environmental characteristics) that require consideration in an examination of the process of SME internationalisation.

This will align research on the internal determinants of internationalisation with the general SME growth literature. This tentative framework does not contain an exhaustive list or set of factors, nor does it produce cause and effect or the significance of the factors. The next stage of development is to test the interactions or relationships amongst the variables to ascertain if they significantly impact on SME internationalisation. The introduction of performance measures will provide a more robust integrative insight into the impact of these factors on the outcomes or the financial return on the investment in international firm growth.

### CONCLUDING COMMENTS

Building an export-led growth enterprise sector is a policy objective cited in the framework document *Building Ireland's Smart Economy* (Department of the Taoiseach, 2008). This objective needs to be devised with an SME focus separate to the broader population of larger indigenous firms. In order to achieve this, the policy needs to act on two levels. The first is to encourage a greater level of export activity by non-exporting SMEs and to encourage those exporting to expand this activity. In particular, small firms operating in high growth value-added sectors and in the services sector need to be strengthened in this area.

Secondly, the policies also need to create interventions to develop export capabilities and competencies in Irish SMEs. Government supports need to provide owner-managers with assistance in the development of more flexible and adaptable strategies and appropriate sales skills and support structures to deliver export growth. Supports should consider how they can create exposure to and facilitate the building of networks, alliances and business partnerships for SMEs that wish to export.

Participation in international business activities changes the internal context of the firm for the owner-manager. This requires a change in how the business is managed for domestic firm growth, therefore

there is a need for a policy to ensure the knowledge, skills and competences required by the owner-manager and their employees are developed through the provision of relevant and targeted training interventions. The provision of soft supports, such as mentoring, allows for the provision of more targeted assistance to firms that are at different stages of the internationalisation process.

Funding should focus on assistance with areas such as market research, product/service modification and the development of marketing practices, which are all problematic areas for the owner-manager.

While this exploratory study has produced some tentative results that provide an insight into the process of internationalisation in the SME, the findings point to a number of topics that need more comprehensive investigation. It would be worthwhile, for example, to study how certain owner-manager characteristics, such as their age, education and prior work experience, are associated with successful small firm internationalisation. Related to these factors it is recommended that research on how the features of the firm (age of the firm, firm structure and industry sector) are associated with the type and level of internationalisation that should be undertaken. The relationship should include a set of measures to determine if they have a significant impact on small firm growth.

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# Spreading Leader Knowledge: Investigating a Participatory Mode of Knowledge Dissemination among Management Undergraduates



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## ABSTRACT

In this paper we discuss the need for a practitioner–academic partnership in disseminating leader knowledge among undergraduate management students, and find that in order to cultivate actionable skill development, business and academic communities should collaborate to offer a participatory approach to leadership education. The core objective is to discover sources of actionable knowledge and to decipher its optimum dissemination among management students, encompassing technical, conceptual and human skill development, through interaction with both theory and practice, in order to prepare students for active participation, and potential leadership, in the business environment. Based on a comprehensive literature review, we propose a participatory leader knowledge dissemination model, where business leaders can stimulate the academic environment, and leadership skill development can be promoted through practitioners’ active involvement in the education process. The article concludes with a perspective on the evolution of knowledge transfer among management students and the current trend towards dynamic collaboration between academics and corporate leaders.

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**Key Words:** Leadership skill development; Practitioner–academic partnership

## INTRODUCTION

Historically, an important objective of management education was to ‘prepare students for successful and socially useful careers in business’ (Bossard and Dewhurst, 1931: 55), and fulfilling this goal was primarily the domain of business schools. The underlying expectation was for management education to encompass technical, conceptual and human skill development (Katz, 1985), through interaction with both theory and practice (adapted from Mingers, 2001), in order to prepare students for active participation, and potential leadership, in the business environment (Elmuti et al., 2005; Sandwith, 1993). Despite these objectives, existing pedagogical approaches have been criticised for having a rational (technical) emphasis to the detriment of conceptual and human skill development among pre-experience management students (Augier and March, 2007; Cunningham, 1999; Elmuti, 2004; Huff and Huff, 2001; Sadler-Smith and Shefy, 2007; Starkey and Tempest, 2005), particularly in relation to leadership skill development (Atwater et al., 2008; Day et al., 2004; Doh, 2003; Gallos, 1997; Hess, 2007; Mello, 2003). Specifically, a classroom emphasis on task completion and the transfer of explicit knowledge can result in narrow skill development (Cianciolo et al., 2004; Elmuti, 2004; Ewenstein and Whyte, 2007; Kolb and Kolb, 2005). As companies depend, to some extent, on business schools to produce ‘emerging leaders’ who can ultimately step into leadership positions in their organisations (Murphy and Riggio, 2003: 2), undergraduates need to understand both the implicit and the explicit skills of business leadership (Eriksen, 2007). To do so, these students need to develop human leadership orientated capabilities through inter/intrapersonal and practical skill development (Elmuti, 2004; Tranfield et al., 2004; Watson, 1993, among others) as well as developing technical expertise. It is the authors’ contention that the development of all three management skills can be enhanced through participatory leader knowledge dissemination in the classroom. Based on these insights, there is a benefit in exploring current higher educational practices in leadership skill development, and identifying means by which the knowledge gained from experience and that gained from scholarship

can be intertwined in a more participatory mode of leader knowledge dissemination, ultimately reducing the gap between education and practice.

The paper proposes a model of leader knowledge dissemination in higher education that enables actionable leadership skill development among pre-experience management students. Following a critical literature review, the leader knowledge dissemination model proffers a means of enhancing leadership skill development in undergraduate students through participatory modes of knowledge dissemination in the education process. The article concludes with a perspective on the evolution of knowledge transfer among management students and the current trend towards dynamic collaboration between academics and corporate leaders.

#### LITERATURE REVIEW

From a management education perspective, individuals in college are in a learning mode, and therefore have more time and energy to devote to building their capabilities for leadership (Ayman et al., 2003). In context, leadership skill development can be seen as a complex model of self-awareness and adaptability (Day et al., 2004) as well as technical skill enhancement. This depth of learning is somewhat elusive in the pedagogical approach to management education (Fox, 1997; Sadler-Smith and Shefy, 2007), which can restrict the behavioural component of business leadership due to an emphasis on cognition (Ayman et al., 2003; Cunningham, 1999; Doh, 2003; Murphy and Riggio, 2003). Specifically, as self-awareness is an intuitive skill, it is of benefit to students to be exposed to context-specific leadership challenges, which can be best described by business leaders themselves (Burgoyne et al., 2004; Clinebell and Clinebell, 2008; O'Connell et al., 2004). As articulated by Eriksen (2007: 265), 'leadership practice is a personal phenomenon that cannot be meaningfully understood without taking into account the uniqueness of the leader'. This would suggest that when direct business-leader interaction is not facilitated in and around the classroom, a knowledge dissemination gap occurs. This represents a significant challenge to be addressed by educators.

In order to appreciate the leader knowledge dissemination gap in the current approach to management education, it is of value to

**Table 1: Review of Management Education Literature Relating to Leader Knowledge Dissemination**

Academic Knowledge	Limits of Existing Pedagogical Approach	Call for Actionable Skill Development	Call for Participatory Modes of Knowledge Dissemination	Business Leader Knowledge	Sources
Classroom experience	Singular theoretical perspective with an emphasis on explicit knowledge and task completion may result in narrow skill development	<i>Critical reflection:</i> Develop human leadership orientated capabilities through inter/intrapersonal and practical/intuitive skill development	Stakeholder approach to skill development to aid the transfer of experiential knowledge, including complex interdisciplinary problem-based projects, with tradeoffs to engage personal learning levels	Life experience	Cianciolo et al., 2004; Day et al., 2004; Doh, 2003; Elmuri, 2004; Eriksen, 2007; Ewenstein and Whyte, 2007; Hess, 2007; Kolb and Kolb, 2005; Tranfield et al., 2004; Watson, 1993
Rational emphasis on leadership skill development	Cognitive component emphasised: concentrates on 'hard' (analytical) skill development through the transmission of encoded knowledge at the expense of integration and development wisdom	<i>Develop self-knowledge:</i> Rebalance curriculum to incorporate behavioural component in pursuit of emotional connectivity and the development of social awareness	Applied learning: business mentoring, class-based leader interventions, executive professorships, live case studies, company learning partnerships	Intuitive perspective	Ayman et al., 2003; Cunningham, 1999; Doh, 2003; Lorange, 1996; Murphy and Riggio, 2003; O'Connell et al., 2004; Sadler-Smith and Shefy, 2007; Starkey and Tempest, 2005; Taggart and Robey, 1981; Turnbull James and Arroba, 2005
Generalised business view	Generalised view may sacrifice relevance to the esoteric of academic purity	<i>Skill integration:</i> Incorporate contextualised/trans-disciplinary mode 2 production methods to aid both context and content understanding of specific problems	Need for deep practitioner—academic interaction to reflect both leaders' and educators' business view	Contextual business view	Atwater et al., 2008; Augier and March, 2007; Burgoyne et al., 2004; Climebell and Climebell, 2008; Huff and Huff, 2001; O'Connell et al., 2004

establish alternate views in this regard. Table 1 outlines a critical review of contemporary management education literature and how it relates to leader knowledge dissemination in this environment.

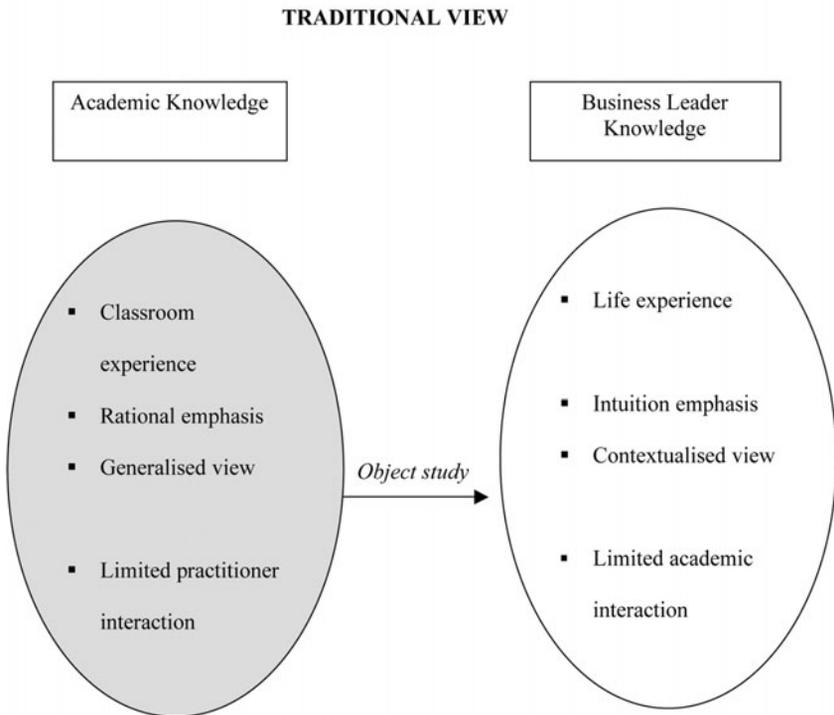
This table highlights the key literary findings relating to articulated experience in the classroom, leadership skill development and the projected business view in the dissemination of leader knowledge. Column 1 outlines academic knowledge dissemination under these criteria, while Column 5 offers criterion labels from a business leader perspective. Column 2 notes identified limits relating to existing pedagogical approaches in this milieu, while Column 3 identifies the need for actionable skill development among undergraduate business students, clustered under key conceptual and human skills (labelled critical reflection, self-knowledge and skill integration). Finally, the call for participatory modes of knowledge dissemination is summarised in Column 4, while Column 6 cites the literary sources which contribute to each of the highlighted concepts in Table 1. It is of benefit to discuss the literary perspectives in greater detail under each of these criteria, as they provide the basis for both leader knowledge gap analysis and the proposed model of participatory leader knowledge dissemination in undergraduate business education environments.

### **Traditional Views on Leader Knowledge Dissemination**

The traditional format for management education takes its cues from the physical sciences, and places an emphasis on the foundational disciplines of economics, behavioural sciences and the quantitative disciplines (Augier and March, 2007). This process is largely a linear one in which new knowledge is generated by academic researchers who codify and store this knowledge in scholarly journals. This linearity continues in the classroom, where academic knowledge is passed on to students either through reading academic papers or by attending lectures (Hitt as quoted in Doh, 2003; Readings, 1996). Essentially, this approach assumes a tension between experiential and academic knowledge (March, 2004, as cited in Augier and March, 2007), wherein the direct dissemination of knowledge gained from experience by skilled business leaders is rarely applied in the academic realm. Figure 1 provides a visual insight into these tensions by highlighting the key literary findings (Table 1) in diagrammatic form.

Figure 1 exemplifies the existing pedagogical approach to leader knowledge dissemination, where such knowledge is primarily transferred to students by academics in the classroom. Rationality is emphasised in this approach, as is a generalised view of business operations. In this model, the collection of business leader knowledge and its dissemination is separated from the student, and the study of such individuals is normally through a process of object study by the academic.

**Figure 1: Leader Knowledge Dissemination**



While this linear approach has practical benefits in the transmission of encoded knowledge, it loses the potential for the transfer of intuitive knowledge (Ewenstein and Whyte, 2007; Tranfield et al., 2004) and, perhaps more seriously, it encourages in students a belief that

this is the primary means of learning and development. The resulting pedagogy is founded on the principles of externally directed learning, with prescribed learning outcomes, compartmentalised into levels and subjects by external bodies. This approach suggests an implicit assumption that leader action follows scholarly development of theory, thus the theory must be taught so that managers can act. In its simplest manifestation this can lead to a frustration for inexperienced students who, when presented with real world experience or even interactive case studies, struggle to understand why managers do not behave as they should (according to the theory) and exhibit a need to identify the *right* answer. At its most basic level this is a failure to recognise that the system of physical science, which provides the foundations for this template, is of a different ontological form to the social science of managerial research. It is different on several dimensions, including:

1. In the physical sciences knowledge is created in a laboratory setting where the influences of the world are screened out and experiments can be conducted in controlled settings. The world of management that researchers seek to explain is an open system, which defies the control and replication of its physical counterparts.
2. In the physical sciences the researcher is generally more intelligent and knowledgeable than the object being studied. In a social science study the 'object' of study may be the expert.
3. In the physical sciences the objective is to gather, codify and transmit new knowledge. In the study of leadership the inability to codify knowledge is of itself one of the most important factors of firm heterogeneity and sustainable competitive advantage. In other words, codifiable knowledge may have limited value in this context.
4. In the physical sciences the researcher is detached from the object of the research, whereas management research outside of the positivist perspective must take account of the researcher's relationship with the subject.

These dimensions highlight key differences between physical and social science research: management science is an open system,

where the study ‘object’ may also be the expert, who in turn may interact with the researcher, and whose own knowledge may not be codifiable. The differences in how we generate managerially oriented knowledge must therefore be reflected in the mechanisms we use for its dissemination (Table 1, Columns 3 and 4). There is little point accepting the open, interactive and intuitive ontological nature of leader knowledge and then going on to disseminate this knowledge through the forced application on students of a linear positivist-oriented epistemology. In other words, if it is incumbent on educators to know how they might access knowledge, then it is equally as important that these educators discover how their students might best access and interact with this rich tapestry of leader knowledge. In essence, as self-awareness is an intuitive skill, it is of benefit to students to be exposed to context-specific leadership challenges, which can be best described by business leaders themselves.

### **Actionable Leadership Skill Development**

There is still considerable debate as to whether leadership can be taught (Allio, 2005; Doh, 2003; Elmuti et al., 2005). Some argue that it cannot be taught; although ‘potential leaders can be educated’ (Allio, 2005: 1073), while others offer insight into the balance between passion and discipline (Gallos, 1997) as elements of being a good teacher, as well as a good leader. What has been established is that understanding leadership as an abstract concept is no longer sufficient to deal with the complexity of today’s organisational life (Eriksen, 2007), requiring ‘a bridge between the more accessible and rational aspects of organization life and the hidden aspects of organizational dynamics’ (Turnbull James and Arroba, 2005: 299). Business schools should be preparing students for both the intellectual and the emotional challenges that working with the deeper unconscious aspects of the organisational system can bring (Table 1, Column 3). Considering these perspectives, a move towards a more andragogical frame (while recognising the limits of inexperienced students) in management education, where the teacher acts as learning facilitator, and knowledge generation and dissemination is more participative (Atwater et al., 2008; Ayman et al., 2003; Cunningham, 1999; Knowles, 1980), may offer a greater opportunity to negotiate the learning needs of the management student (Table 1, Column 4).

### **A Call for Participatory Modes of Leader Knowledge Dissemination**

There is strong evidence that an emphasis on theory in the absence of applied leader knowledge creates a learning void (Augier and March, 2007; Clinebell and Clinebell, 2008; Doh, 2003; Starkey and Tempest, 2005), ultimately limiting actionable leadership skill development on the part of the management student (Table 1, Column 3). As early as 1980, Hayes and Abernathy raised concerns about the ‘preference for ... analytic detachment rather than the insight that comes from “hands on” experience’ (Hayes and Abernathy, 1980: 68), while Starkey and Tempest (2005: 63) lament ‘an overemphasis on analysis at the expense of integration and development wisdom, as well as leadership and interpersonal skills’. As leadership skill development occurs over time in a continuous cycle of theoretical action and practical conceptualisation, management education should ideally incorporate both theory and practice to ensure the student’s learning process is complete (Kolb and Kolb, 2005). As articulated by Cunningham (1999: 688), ‘the challenge is to find a fruitful “praxis” – that fusing of theory and practice which enriches the learning opportunities for our students and enables them to perform in a professional manner’. Therefore, a participatory mode of knowledge dissemination (Table 1, Column 4) has the potential to enhance leadership skill development based on the integration of the knowledge gained from leader experience and that gained from scholarship (Augier and March, 2007; Day and O’Connor, 2003; Starkey and Tempest, 2005; Tranfield et al., 2004). Here, direct business leader interventions in the classroom and company/academic learning partnerships, offer direct interaction with both practice and practitioners promoting the balanced enhancement of core management skills among these students.

#### **PROPOSING AN ALTERNATE ROUTE TO LEADER KNOWLEDGE DISSEMINATION**

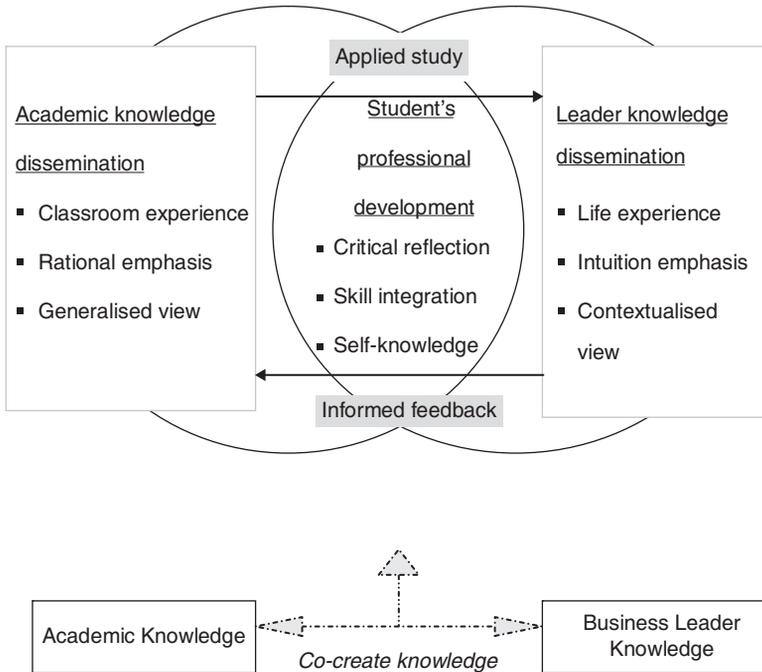
The past decade has seen a move towards more participatory modes of knowledge dissemination both within and outside of the classroom (Ayman et al., 2003; O’Connell et al., 2004) where efforts have been made to promote learners who are active and are stimulated to handle confusion and complexity (Atwater et al., 2008; Mello, 2003; Hess,

2007). In consequence, a variety of different teaching methodologies are now being used in management education and leadership skill development (Burgoyne et al., 2004: 50), including simulations, case studies, experiential learning and outdoor adventure. There have also been attempts to replicate experience through the teaching of interactive cases (O'Connell et al., 2004) and the linking of course work with temporary employment (Starkey and Tempest, 2005). While relatively successful, these tools should not be considered a substitute for direct leader knowledge dissemination, which 'brings a novel stimulus into the classroom and provides the opportunity for new kinds of discussion through face-to-face interaction' (O'Connell et al., 2004: 299–300). Having a business leader come into the classroom to open themselves and their business up to ongoing student interaction and prolonged analysis is a compelling idea in leadership training, wherein the academic acts as co-facilitator, offering theoretical explanations to embed the leader perspective in the educational programme. This kind of exposure to actual experiences rather than simulated ones is gaining credence in the pursuit of undergraduate management capability development, as it offers a bridge between reflective action and critical theorising (Freire, 1973; Starkey and Tempest, 2005). This business leader–academic intersection brings simultaneous experiential and academic knowledge into the classroom, offering the elusive rational/intuitive balance in this environment. This participatory mode of classroom interaction is the focus of the proffered leader knowledge dissemination model (Figure 2).

In this model, the authors propose a participatory approach to leader knowledge dissemination in the classroom, whereby academic and business leader experience is coordinated in order to co-create leader knowledge for dissemination among undergraduate business students, through a continuous cycle of applied study and informed feedback facilitated by the practitioner–academic classroom partnership. Here, both the leader and the academic interact directly with the students, in pursuit of balanced skill development. The student's professional development (that is, the honing of critical reflection, skill integration and self-knowledge), are key criteria identified in Table 1, and central to the proposed model.

**Figure 2: Leader Knowledge Dissemination**

**PARTICIPATORY MODE**



**Business Schools as a Bridge in the Dissemination of Direct Business Leader Knowledge**

Leader knowledge is by its very nature embedded in its context and this context is an open adaptive system. This provides a richness and relevance not accessible from the more detached knowledge dissemination approach detailed in Figure 1 and Table 1 (Column 2). Including business leaders in the educational process therefore facilitates the advancement of mode 2 applications<sup>1</sup> in management education (Huff and Huff, 2001), and fulfils the need for contextualised and trans-disciplinary knowledge production in leadership skill development (Burgoyne and Turnbull James, 2006). Here, the creation of leader knowledge is closely coupled with its dissemination by offering ‘context surrounding the link between knowledge and action’ (Huff and Huff, 2001: 52).

This is not to suggest that business leaders should replace academics in the classroom, or that they provide ‘guest lectures’ without the academic’s involvement. In fact, this approach would create its own difficulties as the emphasis could move over to intuitive skill development to the detriment of rationality in these classes. Introducing business leaders as ‘sole’ educators also presents a risk of orienting the educational system too much towards practical utility rather than pure knowledge (Clinebell and Clinebell, 2008; Starkey and Tempest, 2005), as there may be issues of attribution and confirmatory biases when describing context-specific experiences. Furthermore, there is the attendant risk that ‘findings’ identified by practitioner educators may also be wrong by the rigorous standards of academia (Rosenzweig, 2007). Therefore, the goal is for a knowledge partnership, rather than disparate knowledge dissemination by the involved parties.

Based on the established limits of isolated academic or business leader knowledge, the challenge of developing relevant actionable knowledge that prepares and enthuses management students not just to observe, but to lead and drive business activity, must address the academic–leader interaction represented in Figure 2, wherein business leaders and academics coordinate their efforts in developing undergraduate leadership skills. Here, the limitations of each knowledge provider are addressed through the co-creation and co-delivery of knowledge.

### **Student Professional Development**

Research has identified desirable leadership skills that should be pursued by educators and developed in students throughout their educational journey (Table 1). These capabilities can be categorised as: skill integration (Atwater et al., 2008; Burgoyne et al., 2004; Hess, 2007; Katz, 1985; Taggart and Robey, 1981; Watson, 1993), critical reflection (Augier and March, 2007; Elmuti, 2004; Eriksen, 2007; Ewenstein and Whyte, 2007; Huff and Huff, 2001; Kolb and Kolb, 2005; Starkey and Tempest, 2005; Turnbull James and Arroba, 2005) and self-knowledge (Day et al., 2004; Murphy and Riggio, 2003; Sadler-Smith and Shefy, 2007; Tranfield et al., 2004). Pursuit of these skills is paramount in the leader dissemination model (Figure 2).

### *Skill Integration*

It has been established that management education should encompass a more complete range of styles and strategies in order to compensate for the emphasis on rationality and analysis (for example, Atwater et al., 2008; Augier and March, 2007; Cunningham, 1999; Taggart and Robey, 1981) and prepare students more fully for future leadership roles. Watson (1993) reinforces this perspective by contending that management education should lead to three distinct characteristics: skills of intellectual analysis, interpersonal skills and a body of knowledge about organisations, a view supported by Katz (1985) earlier in this paper. Ayman et al. (2003: 220) go on to state that business schools need to ‘stretch beyond traditional academic subjects to focus on leadership, personal growth and development, and even values’ if they are to ‘play a more pivotal role in the development of a leadership culture in our society’. These scholars argue that the need to infuse the management curricula with multidisciplinary, real world, practical and ethical ideas, questions and analyses reflects the complex and challenging world business leaders face. It is difficult to see how this infusion can take place in an education environment based solely on ‘course-based acquisition knowledge’ (Lorange, 1996: 11), even if interspersed with ‘guest speakers’ from industry or occasional site visits, particularly if these exposures to practice are not completely integrated into the curriculum. Therefore, academia can benefit from business leaders’ active participation in the education process in order to discover what goes on managerially in the firm (a view supported by Augier and March, 2007; Clinebell and Clinebell, 2008; Doh, 2003; O’Connell et al., 2004; Starkey and Tempest, 2005) and to encourage skill integration on the part of the student. This is not to claim that the authors have identified this need as the ultimate answer to the question of what and how to educate future leaders, it is simply a need borne out of our context and time in the same way that Bach (1958) called for a more rigorous and analytical approach half a century ago.

### *Critical Reflection*

There is a recognised need to develop intuitive awareness in management education (Katz, 1985; Sandwith, 1993) and to stimulate

conceptual skill enhancement in business school tuition through the use of reflective techniques (Coutu, 2004). Thus, while experience provides an important basis for education (Tranfield et al., 2004), it is the critical reflection among students who ‘actively challenge our existing models of [business] management’ (Starkey and Tempest, 2005: 75) that builds capability. Moreover, if one is to assume that for leaders to be effective they must be life-long learners (Eriksen, 2007), then reflective practice should be a key component in student skill development. The participatory leader knowledge dissemination model promotes a cycle of theoretical action and practical conceptualisation among students through their interaction with business leaders (applied study) and the interception of key underlying theoretical constructs on the part of the academic (informed feedback) for subsequent reflection on what was heard. Therefore, when the student interacts with the business leader, it is important that they not only listen to that individual’s ‘war stories’, but follow up on the experience by researching the executive, his or her underlying ideas and management philosophies, and/or his or her company through class discussion or class assignment, thereby enacting the critical cycle.

### *Self-Knowledge*

In their interaction with and extended exposure to business leaders students can gain insights into the dynamic process of business management and begin to synthesise and contextualise rather than continually deconstruct their knowledge, making management education a practice focused, theory founded exercise. Thus, engaged scholarship that exploits both practical and academic insight ‘produces knowledge that is more penetrating and insightful than knowledge produced when scholars or practitioners work on a problem alone’ (Van De Ven and Johnson, 2006: 815). This perspective suggests that students learn best through dialogue with and exposure to real world problems and opportunities (Elmuti, 2004; Eriksen, 2007), by honing both explicit and tacit knowledge in the pursuit of deep learning. The challenge is therefore to find methods of engaging those practitioners at the front line of business evolution within the system of academic knowledge dissemination (Clinebell and Clinebell, 2008; O’Connell et al., 2004) without sacrificing the rigor of the academic knowledge creation and dissemination process.

## CONCLUSION AND RECOMMENDATIONS

The principle of the leader knowledge dissemination model is to host collaborative learning and knowledge transfer clusters of linked enterprise leaders and academics through practitioner–academic partnership programmes. Here, the business leader becomes an affiliate member of the faculty for a set tenure, during which time he or she engages with students and interacts with faculty at a depth sufficient to facilitate co-creation and dissemination of leader knowledge among undergraduates. This approach contextualises dynamic collaboration between the business school and corporate leaders, wherein experiential knowledge and academic knowledge are intertwined. The engagement of academics and business leaders where the burden of knowledge creation is shared captures the relative expertise of all parties and offers greater dissemination of leader knowledge in management education. Here, students are able to benefit from synergies, by uniting academic and practitioner insight in the co-creation of knowledge. In this approach knowledge is co-created through the fusion of practice with reflective observation by academics and is evaluated not just on the basis of hierarchical peer review, but in tandem with its utility to its multi-disciplinary audience. In such a world the involvement of practice in the generation of knowledge is essential, wherein business schools learn from and link exemplars, to facilitate ‘in-process development of new understanding’ and the pursuit of ‘sense-making bridges’ between education and practice (Huff and Huff, 2001: 51).

This approach offers an opportunity for the development of new student capability over time, specifically reflective practice, skill–theory integration and self-knowledge – skills which are underutilised and therefore remain underdeveloped in the traditional knowledge dissemination approach (Figure 1). Thus, assuming a student is ‘someone who wants to think’ (Readings, 1996: 46), the leader knowledge dissemination model (Figure 2) offers an environment where ‘thinking’ can happen in relation to leadership skill development. By developing this capacity to reflect, educators not only teach students but also help them to become adult learners with an awareness of the knowledge content and their own role as active participative learners. Thus begins the transformation of educators

from principles of pedagogy to principles of andragogy through application and informed feedback, relevance of content to the applied context and problem- as opposed to content-centred learning.

The authors are currently observing a practitioner–academic partnership scheme built on the ethos of the leader knowledge dissemination model in their own institute, and are recording the impact of this initiative on undergraduate actionable skill development.

#### ENDNOTES

<sup>1</sup> Mode 1 gives academic predominance in knowledge production, while Mode 2 is where knowledge is co-produced with practitioners in a rigorous yet actionable way.

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# Book Review

*Transforming Conflict through Insight*  
by Kenneth R. Melchin and Cheryl A. Picard  
Toronto: Toronto University Press, 2008



DAVID COGHLAN\*

This book adopts an approach that focuses on conflict resolution as learning. As the authors, both based in Ottawa, put it, ‘resolving conflict leaves us as changed in subtle but important ways’ (p. 4). They ground their approach in the work of the Canadian philosopher Bernard Lonergan, whose work on the structure of cognition emphasises the role that insight plays in the process of human knowing. Like Lonergan, who approaches the subject of knowing from the perspective of the person engaging in the recognisable operations of knowing, the authors approach the topic of conflict and mediation from the perspective of the person and the intersubjective engagement in conversation to resolve conflict. The authors take learning as a process of insight, discovery and shifts in feeling, perspectives and relationships that accompany those experiences and so develop a perspective that seeks insight into situations of conflict and mediation.

The structure of human knowing is a three-step process: experience, understanding and judgement. Experience occurs on the empirical level of consciousness and is an interaction of inner and outer events. We can not only see, hear, smell, taste and touch, imagine, remember, feel and think, but we can also experience ourselves as seeing, hearing, thinking, feeling, remembering and imagining. Sensory data are what we experience but do not yet understand, and so we ask questions. What is this? What does this mean? Answers to such ques-

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tions come in the form of insights, which are in Lonergan's view creative acts of understanding, of grasping and formulating patterns, unities, relationships and explanations in response to questions posed to our experience, as instanced in the act of doing crossword puzzles (p. 51). Insights are common and remain as mere insights until they are tested and verified. So, we move to a new level of the cognition process, where we marshal and weigh evidence and assess its sufficiency through judgement.

Chapter 2 reviews the literature on conflict, for example through the lenses of interest theory and human needs theory, and discusses the role and models of mediation, such as game theory, as a response to conflict. Chapter 3 provides a concise and informative introduction to Lonergan's account of human knowing and focuses particularly on the role of insight. For readers who seek a basic introduction to Lonergan's philosophy that is readable and free from the typically obscure and abstract language that often accompanies summaries of philosophers' work, this chapter is excellent.

Chapter 4 is the central chapter of the book and here the authors apply insight theory to mediation in a very practical way that reflects their own work in the Centre for Conflict Education and Research at Carleton University, Ottawa. Their approach has been well-tested in the field and they demonstrate how it focuses on fruitful conversation between protagonists in conflict. They outline a five-step iterative process: attend to process, broaden understanding, deepen insights, explore possibilities and make decisions. They note that this approach reflects responsive intentionality as conflict resolution is about learning about others' experience and understanding. Hence they place such value on engaging in conversation in order to explore how others experience, understand and judge events around which there is conflict.

Chapter 5 provides two extensive case examples and is followed by a short concluding chapter that explores links between conflict, mediation and democratic life. There are extensive notes, a bibliography and an index.

It is not possible to present the richness of this book in such a short review. While it is a readable book that is aimed at both an academic and a practitioner readership, it is also rich philosophically, reflecting an approach to conflict resolution that is grounded in Lonergan

and which builds links to Habermas on deliberative democracy and Mezirow's transformative learning theory. The authors' closing words provide their sense of the broader context of their work and their ambitions for their work:

Conflict presents challenges for our personal relations, our justice institutions and our involvement in democracy. Citizens play a significant role in resolving these conflicts. We offer these explorations in the hope that learning becomes a topic in the field of conflict studies. We believe that Insight Theory can be helpful in furthering conversations in the field and Insight Mediation can advance democracy's work of transforming conflict through insight (p. 130).



# Book Review

*The Ten Faces of Innovation: Strategies for Heightening Creativity*  
by Tom Kelley (with Jonathan Littman)  
Croydon: Profile Books, 2006



WILL GEOGHEGAN\*

It appears increasingly difficult to author a book on innovation that does not contain a litany of clichés. This book is no different! It employs the same tried and tested examples of 3M, Pixar, Medtronic, BMW, Virgin, etc. and people such as da Vinci, Edison, Forde, Dyson, Lucas and Branson. However, the very nature of innovation calls for many examples and this book contains quite a few useful cases that may help give practitioners novel insights into innovation and creativity. This book holds very little academic value and does not empirically test or evaluate the main tenets of the book.

The premise of the book is that innovation and creativity need ten different personas in order to prosper in an organisation. These ten roles are the Anthropologist, the Experimenter, the Cross-Pollinator, the Hurdler, the Collaborator, the Director, the Experience Architect, the Set Designer, the Caregiver and, finally, the Storyteller. The ten personas or talents can then be employed to build a multidisciplinary team as the author tells us that ‘innovation is ultimately a team sport’ (p. 262).

The real value of this book does not lie in the ten personas as outlined by Kelley but in the practical advice and examples that he gives from

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his company, IDEO. IDEO is the highly successful design and innovation consultancy firm to which Kelley belongs. Some of the insightful examples and techniques that he details include the unfocus group, collaboration spaces (virtual rooms, etc.), Knowhow speakers, Kate's seven kid secrets, lunchtime brainstorming sessions (every payday), mid-afternoon naps and mapping customer value. These examples of stimulating organisational innovation can be employed in any organisation and it is in this aspect that the book excels.

Each of the ten personas (the first three relate to learning, the next three relate to organising and the final four relate to building) merit a chapter of the book and as such this review will detail each of the ten roles separately, beginning with the Anthropologist.

#### THE ANTHROPOLOGIST

The first persona detailed by Kelley is that of the Anthropologist. This role, as the name suggests, entails watching and observing people in order to investigate innovative solutions. He cites some of the more famous anthropologists, such as Charles Darwin, Jane Goodall and Margaret Mead, highlighting some of their methods with regard to the immersion in and observation of participants. One of the more interesting techniques highlighted by the book is 'Kate's Seven Kid Secrets', which relies on the ingenuity and unique perspectives that children offer. As children have not been tainted by years of norms, rules and routines they see things in a radically different way to adults. Kate's seven kid secrets involve seven questions to relate to children and gain their trust in order to garner learning from children. As Kelley tells us, 'Why do we watch and learn from kids and teens? They just soak up novel ideas, whereas grown-ups often spend a lot of time pushing back, telling you why it won't work' (p. 38). Many innovation writers have talked about the innovative potential of children (Clegg, 1999; von Hippel, 2005; Von Oech, 1983) but Kelley gives some practical steps on how to reach out and develop a rapport with younger people in a business context.

#### THE EXPERIMENTER

The Experimenter is the second persona and relates to the traditional role of the Innovator. The author begins this chapter by citing the associated failures that Experimenters usually undergo before they

perfect their innovation, using examples from the Wright Brothers, Dyson and WD-40. Prototyping is key to the Experimenter and he or she can be identified as ‘someone who makes ideas tangible – dashing off sketches, cobbling together creations of duct tape and foam core, shooting quick videos to give personality and shape to a new service concept’ (p. 43). Kelley underscores the importance of a physical prototype to sell your idea to prospective interested parties. He also offers ‘video prototyping’ as a unique and easily achievable method to give your idea or service an enhanced credence. Another interesting method to develop creative ideas is that of ‘play’ and harnessing the previously cited example of children, allowing them to play to generate new ideas.

#### THE CROSS-POLLINATOR

The final and third role pertaining to *learning* is that of the Cross-Pollinator. Innovation rarely uses solely one technology or method and to break innovation down and put each functional aspect in a silo can often be detrimental to the innovation process. Kelley details this ‘unexpected juxtaposition’ in some great examples, including typewriters, reinforced concrete, the Frisbee, Wilbur Wright and Crest Whitestrips. The book explores the benefit of having as many ‘T-shaped people’ as possible around for cross fertilisation; a T-shaped person being someone with a broad knowledge in a variety of disciplines and an intense knowledge of one area. It also gives an interesting perspective into reverse mentoring, i.e. older executives being helped to keep technologically apace by having a younger employee assigned to them. This is particularly interesting because many older executives would freely admit that they are not ‘in tune’ with younger generations.

#### THE HURDLER

The Hurdler is the first of the three chapters pertaining to *organising*. According to the book, ‘Hurdlers do more with less. They get a charge out of trying to do something that’s never been done before’ (p. 92). Thus a Hurdler, according to Kelley, is someone who will make the most with little or no resources; someone who likes a challenge and will not be persuaded to desist with a project he or she believes in. One gets the sense from this chapter that the author has

moved on from the idea generation stage of innovation to a more commercial outlook. This is seen in many traits of the Hurdler, which can be synonymous with the typical entrepreneur.

#### THE COLLABORATOR

The Collaborator is the fifth role or face of innovation and consists of a person who facilitates and initiates interaction outside of traditional boundaries. This person helps dismantle silos and bring about a multidisciplinary effort. Kelley shares some interesting insights from IDEO on how to facilitate collaboration, such as ‘unfocus groups’ and ‘collaboration through cohabitation’. He also details how triathlons are the new golf when it comes to a shared experience for collaborating individuals. Kelley often becomes muddled with regard to the process of collaboration and the person, i.e. the difference between the Collaborator and the collaboration. The person is often neglected as many examples detail collaboration between major firms and overlook the people responsible for the collaboration.

#### THE DIRECTOR

The Director, according to Kelley, is the third and final *organising* role. It is very much associated with leadership and management functions. Kelley tells that a Director’s job is to inspire and direct other people and he highlights Steven Spielberg and Steve Jobs as exemplars of Directors from their respective fields. This role seems to lack coherency as set out by Kelley. He begins by detailing the importance of Directors and thereafter neglects to describe them or offer any ideas as to how to cultivate them, instead preferring to write tangentially on the importance of brainstorming and the importance of a mid-afternoon power nap. If one reads between the lines one can see a clear link between what Kelley calls a Director and what traditional leadership theory would call a transformational leader.

#### THE EXPERIENCE ARCHITECT

The Experience Architect is the first of four *building* personas outlined by Kelley. These are people who strive endlessly to make ‘remarkable customer experiences’. These people are differentiators,

helping to create unique environs for both staff and customers. Kelley emphasises that these Experience Architects seek to make the ordinary into the extraordinary and constantly question every customer and employee experience. He tells that the taken for granted, normalised experience can be improved upon by citing examples such as the twist wine opener, the vitaminised water bottle and improvements on the traditional tin paint can.

### THE SET DESIGNER

The Set Designer is the eighth persona and refers to the physical workspace of a company. These are the people who are constantly tweaking the design and layout of their workspaces. As Kelley tells us, 'giving employees more latitude in the shape and character of their workspace helps reinforce a company persona that is fun, welcoming and stimulating' (p. 194). The Set Designer is portrayed as a person but in essence is the environment around which you work. Kelley offers several examples of interesting workspaces and extols the value of open innovative spaces as a conduit to a company performing better. Of course, much has been written (see Amabile et al. (1996) as a good starting point) in academia regarding the importance of work environments as a determinant of innovative activity.

### THE CAREGIVER

The Caregiver is the penultimate of Kelley's roles and represents the dedicated and inspired nurses and doctors of your business. 'Caregivers take extra pains to understand each individual customer' (p. 217), according to Kelley. This Caregiver element is about being customer-centred and focused on aiding the customer experience. The service element is key to this persona and a Caregiver should constantly be striving to fulfil and exceed the expectations of the customer. Kelley offers several example of the length some companies have gone to to help achieve the perception of caregiver, from IDEO's customer remote control for jet aircrafts to a little shoe store in Mill Valley called Archrival. This element resonates with much of the marketing literature and especially the services marketing field in helping to bring superior service to customers as a value-added technique.

### THE STORYTELLER

The final of Kelley's ten personas is the Storyteller. This is one of the more original of the ten faces and Kelley tells us that 'stories persuade in a way that facts, reports, and market trends seldom do, because stories make an emotional connection. The Storyteller brings a team together' (p. 242). He cites the power of a good story to break down barriers in people and argues that 'authentic' stories can be used to express your values as a company and the general ethos your company advocates. The inclusion of this element is questionable as it does not seem to overly contribute to innovation in an organisation but it does seem to be a fun and accessible way to break down inhibitions and barriers.

Kelley emphasises the problems associated with people saying 'let me play devil's advocate for a minute' when someone has a good idea or suggestion. This review will, however, have to play devil's advocate for a minute! To critique this book is relatively easy and the same can be said of many books regarding innovation. They all seem to offer the reader a panacea for creating an innovative organisation. Firstly, the title is misleading (*The Ten Faces of Innovation: Strategies for Heightening Creativity*) as nowhere in the text does Kelley tell you how to build a strategy that will help you create an ideal mixture of the ten personas. Kelley talks a couple of times about 'his friend Tom Peters' and sure enough a Tom Peters quote appears on the cover page detailing that it is 'a thoroughly original and thoroughly tested approach to creating a "culture of innovation"'. I would have to disagree. There is much talk of roles, people and the importance of the human element but in reality it is the same innovation literature repackaged in the guise of ten elements.

The book also lacks any empirical investigation into the central thesis of the ten faces and comes about from the author's experiences in IDEO. The book could have been improved upon greatly by making explicit links between each of the ten faces and their relation to other innovation literature such as the innovation process, sources of innovation (von Hippel, 1988), open innovation (Chesbrough, 2003) and the six thinking hats (De Bono, 1985). Much of what Kelley writes about is repetitive of many of these theories and

even within the context of the book many of the chapters overlap without a clear delineation of the mutuality of some of the faces.

The book is not essential reading material on the topic of innovation but it does, like many other innovation books, offer interesting and insightful examples. The real value of the book for managers and practitioners comes from the detailed examples of how IDEO practices innovation consultancy. This topic is detailed more explicitly in Kelley's previous book, entitled *The Art of Innovation: Lessons in Creativity from IDEO, America's Leading Design Firm* (Kelley and Littman, 2001). Perhaps the author should have remained within this topic area.

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