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Henriëtte Scholtz Suzanne Kieviet THE RELATIONSHIP BETWEEN THE INFORMATIVENESS OF ANNUAL ACCOUNTING EARNINGS AND BOARD COMPOSITION: EMPIRICAL EVIDENCE FROM SOUTH AFRICA ........................................ 1

Abstract: The purpose of this paper is to provide empirical evidence of the relationship between the informativeness of annual accounting earnings and board composition. The study, that used data from the Top 100 South African (SA) companies listed on the Johannesburg Securities Exchange (JSE) from 2013 to 2017, assesses whether board composition factors affect the informativeness of earnings. Five board composition factors were considered, namely the total number of directors serving on a board, the proportion of non-executive directors, the proportion of independent non-executive directors, the proportion of women and the proportion of ethnic diversity on a board. The study finds that the proportion of women as well as the proportion of non-executive directors on a board significantly and positively affects informativeness of annual accounting earnings. However, ethnic diversity of a board was found to be significantly and negatively related with informativeness of annual accounting earnings, while board size and the proportion independent non-executive directors were found not to be related to earning informativeness. The SA corporate context is uniquely characterised by an urgency to meet affirmative action regulations, such as ethnic and gender empowerment in board appointments, against a backdrop of limited qualified and experienced directors. Results of this study could provide regulators, investors and other users of financial information a better understanding of the effect of board composition on the informativeness of annual accounting earnings. To the best of the authors’ knowledge, this is the first paper that examines the relationship between the informativeness of annual accounting earnings and board composition factors in SA.


Abstract: As part of an iterative series of research, the purpose of this paper is to recalibrate and to update a theoretical corporate hotel B2B sales model previously developed by the authors. Given a paucity of published secondary literature on this subject, the authors have again researched the B2B hotel sales industry to expand understanding and to detail current industry practices. The research questions guiding this study are: (a) What is the state-of-the-art of hotel B2B sales architecture and (b) How can we design a practical and rigorous descriptive model? The authors reviewed the current literature and followed this with a qualitative case study. Data were collected in 2019 by interviewing 10 purposefully selected participants, based on snowball sampling, thus meeting the norm for qualitative studies. These participants had extensive experience with B2B collaborative relational exchange in the hotel ecological community. We focused on the top few hotel corporation market leaders in the hotel
industry as these corporations were perceived to be at the cutting edge of designing the most sophisticated go-to-market B2B selling architectures. Further, we focused on accessible USA based hotel industry leaders. The data were content analysed according to concept and data driven principles. The findings show that the selected top few, globally deployed, and USA based hotel corporations that participated in this study, have in the past and currently are, reinventing their go-to-market models. As hotel industry Leaders, they are exemplars and models of effectiveness and efficiency to industry Challengers, Followers, and Nichers. Their exemplar power is especially important in the new normal catalysed by the Covid-19 pandemic devastating global tourism in the first few quarters of 2020. These Leaders are co-creating and exchanging value with exchange partners by creating networks of allied and partnered firms. In these value networks, they are collaborating in integrated ecosystems versus competing as self-contained entities. These large and generally resource-rich hotel industry market leaders utilize multiple relational exchanges (selling) modes that are specifically customized to various B2B market segments. This permits cost effectiveness as small B2B group meeting business can be addressed with a combination of lower cost salespeople and electronic means versus addressing large B2B group business which may be part of long-term contracted key accounts and requiring well-trained key account teams. Smaller and less resource-rich corporate and individual hotels are at a disadvantage to these market leaders. The result of our study is a recalibrated model which describes the state-of-the-art in today’s evolved corporate hotel B2B sales architecture while providing guidance to resource-poor organizations: market challengers, followers and nichers which compete with the market leaders. Practical implications include that this model is actionable since it is derived from hotel practitioner use. A theoretical implication is that this model is rigorous as it is anchored in theory. Policy implications are related to the hotel industry leaders serving as a model to the rest of the industry actors prescribing how to adapt to short-term/long-term Covid-19 altered and to continuously changing global business environments. The main limitation of this study is that it only reflects views and practices from resource-rich hotel industry market leaders and from USA based hotel corporation leaders. It is recommended that the concept “co-opetition” be further explored in future research.

Berta J. Fernandes Costa  CIRCULAR ECONOMY AND THE TOURISM
Susana Cristina Serrano  INDUSTRY
Fernandes Rodrigues
Pilar Moreno Pacheco

Abstract: The tourism industry has been growing at a remarkable rate and emerging as one of the major social and economic industries, and consequently one that boosts economic development that mostly supports countries’ gross domestic product (GDP). At the same time, it stands out as an industry which activities generate a considerable negative impact on the environment as it is configured according to the linear model of production and consumption, in which products are disposed of after usage, causing massive waste. From this standpoint, circular economy (CE) materializes as a new strategy, as it balances economic progress with the sustainable use of natural resources. In this regard, the purpose of this research document is to outline the conceptual dimension of CE and its principles, and propose a conceptual model which may allow the tourism sector to transform itself into a more sustainable industry and one which may succeed in generating multidisciplinary benefits and in parallel mitigate environmental, social and economic constrains. For this purpose, a literature review was carried out, as a means to highlight the tourism industry as one of the sectors which may contribute significantly and positively to the implementation of the long expected circular economy, where stock value is maintained in economy for the longest period of time.
Olawale Fatoki

ETHICAL LEADERSHIP AND SUSTAINABLE PERFORMANCE OF SMALL AND MEDIUM ENTERPRISES IN SOUTH AFRICA

Abstract: Small and medium enterprises (SMEs) contribute significantly to employment and economic growth of many countries. Many SMEs are involved in unethical practices. The struggle for survival by SMEs as well as the unique risks faced by these entities, influence their leaders' ethical behaviour. An ethical leader takes into consideration the interests of all stakeholders in order to build an effective organisation. The study investigated the impact of ethical leadership on the sustainable (financial, social and environmental) performance of small and medium enterprises (SMEs). Data was collected from one hundred and forty-eight owners/managers of SMEs in the manufacturing sector. The cross-sectional survey method (self-administered questionnaire) was used for data collection. The participants in the study were conveniently sampled. Descriptive statistics, correlation and regression analysis were used for data analysis. The Cronbach’s alpha was used as a measure of reliability. The results indicated that there is a significant positive relationship between ethical leadership and financial and social performance. The relationship between ethical leadership and environmental sustainability is not significant. From a theoretical perspective, the study contributed to knowledge by linking ethical leadership and sustainable performance in the context of SMEs. Empirically, the study contributes to the literature on ethical leadership and sustainable performance from an emerging country perspective. Practically, the study suggested recommendations to improve ethical leadership by SMEs.

Sevim Oztimurlenk

DEMOGRAPHIC FACTORS AFFECTING EMOTIONAL INTELLIGENCE LEVELS: A STUDY ON HUMAN RESOURCES MANAGERS IN TURKEY

Abstract: Emotions and feelings have come to play a crucial role in people's performance and success at work. Success in business life is not based solely on intellectual quotient (IQ) anymore. Human resources (HR) professionals can make a greater impact in the workplace and add value to HR services they provide through emotional intelligence (EI). This study explores the impact of some demographic factors (i.e., gender, age, work experience) on HR managers' emotional intelligence levels. Using a questionnaire survey, pertinent data were gathered from 140 HR managers who are the members of People Management Association of Turkey (PERYÖN). HR managers' EI was measured using Wong and Law's Emotional Intelligence Scale (WLEIS). The data were analyzed using Microsoft Excel and SPSS. Descriptive statistics were presented. T-tests and ANOVA were conducted to estimate the differences in-group means. Means were further compared using Tukey post-hoc tests. The results of the study show that age is a factor affecting EI of HR managers negatively and most HR managers in Turkey are young (under 41 years old) female professionals who have less than 10 years of work experience.

Manuscript Guidelines

JGBAT Subscription Forms
In the first paper by Henriette Scholtz & Suzanne Kieviet, the association between board structure and the informativeness of earnings in South Africa (SA) is examined. The SA corporate context is uniquely characterised by an urgency to meet affirmative action regulations, limited qualified and experienced directors from an ethnic background, concentrated ownership and greater government ownership.

The results of the Scholtz & Kieviet study contribute to the extant literature in various ways. The study found that non-executive directors improve the informativeness of earnings due to increased monitoring of management’s decisions and actions, which in turn improves the quality of financial reporting. Female board members also contribute significantly to the informativeness of earnings, implying that appointing female directors improves the knowledge base, creativity and innovation, as well as organisational value. However, female influence on share returns was found to be significantly negative, which can be attributed to a more conservative accounting practice implemented by female board members. In addition, it was found that boards with less ethnic diversity have a greater informativeness of earnings as the negative relationship can be attributed to the shortage of qualified directors from an ethnic background and these directors often have multiple appointments on various boards and thus likely too busy to have a positive effect on the informativeness of earnings. It was furthermore found that ethnic diversity is not significantly related with share returns in SA, but it is conceded that greater ethnic diversity on boards can boost the impact on company performance. These results do not provide a business case for ethnic diversity. However, it allows for the conclusion that an ethnically diverse board can be viewed as politically and socially correct in the current social climate; as SA has been propagating the dismantling of racial boundaries and a more equitable distribution of economic well-being.

The results indicated that board size of South African companies does not influence the informativeness of annual earnings. Companies in South Africa need to comply with the BEE acts, which could increase the board size and could lead to increased costs and less effective coordination and limit the effect on the informativeness. Interestingly, this study does not find evidence to support the popular notion that more independent non-executive directors should be added to corporate boards to enhance financial reporting quality. While independent non-executive directors seem important at times of crises, their monitoring input seems to be offset by the experience and information that is contributed by non-executive directors.

The Scholtz & Kieviet study results provide further support for agency and resource dependence theories, which suggest that boards with diverse gender and increased non-executive representation, increase executive monitoring and decision making. Agency theory literature suggests that non-executive directors have incentives to prevent aberrant managerial behaviour to protect their public image and secure demand for their monitoring services. Resource dependence may be particularly powerful in explaining this study’s evidence of a positive effect of board diversity on informativeness of annual earnings in SA. This implies that by appointing more female board members, SA companies can win government support and gain access to critical resources, such as government contracts, finance, and tax concessions that can facilitate growth and improve long-term financial performance.

This study has important policy implications for countries with diverse ethnic communities striving to achieve communal accord. Also, this study can provide empirical evidence to regulators, companies and policymakers formulating policies on gender representation on boards specifically in emerging countries where men are often widely regarded to be superior to women.
Sales is changing. Digital disruption and structural sales and marketing transitions in both generic and hotel industries demand serious rethinking. In a changing business world, it appears if networked webs dominate the ecological system. This seems to hold true for hotels. The networked webs seem to dominate the other hotel corporations and independent freestanding hotels. Thus, these networked webs of hotels appear to channel H. G. Wells (1946), “...The bigger aggregations...eliminate the smaller...eliminating species...”.

Given current limited available information, particularly academic literature, the purpose of the second paper by Richard McNeill & Hester Nienaber is to recalibrate and update a theoretical corporate hotel B2B sales model. The research questions guiding this study are: (a) What is the state-of-the-art of B2B hotel sales architecture, and (b) How can we design a practical and rigorous descriptive model?

McNeill & Nienaber reviewed the current literature and followed this with a qualitative case study. Data were collected in 2019 by interviewing 10 purposefully selected participants, based on snowball sampling. The 10 participants meet the norm for qualitative case studies and interviews. Furthermore, these participants had extensive experience with B2B collaborative relational exchange in the USA hotel ecological community. Thus, they were knowledgeable about the topic and could inform the study. McNeill & Nienaber focused on the few corporate market leaders in the hotel industry as these corporations were perceived to be at the cutting edge of designing the most sophisticated go-to-market B2B selling architectures. The data were content analysed according to concept and data driven principles.

The findings show that the USA hotel ecological community who participated in this study are reinventing their go-to-market models. They are co-creating and exchanging value with exchange partners by creating networks of allied and partnered firms. In these value-creating networks, they are collaborating in integrated ecosystems versus competing as self-contained entities. These large and generally resource-rich hotel industry market leaders utilize multiple relational exchanges (selling) modes that are specifically customized to various B2B market segments. These relational exchange modes vary from competitive/transactional, where economic considerations dominate, to collaborative/strategic where psychological value dominate. The different exchange (selling) modes permit cost effectiveness as small B2B group meeting business can be addressed with a combination of lower cost salespeople and electronic means versus addressing large B2B group business which may be part of long-term contracted key accounts and requiring well-trained key account teams. Smaller and less resource-rich corporate and individual hotels are at a disadvantage to these market leaders.

The result of the McNeill and Nienaber study is a recalibrated model which describes the state-of-the-art in today’s evolved corporate hotel B2B sales architecture while providing guidance to resource-poor organizations: market challengers, followers, and nichers which compete with the market leaders. Practical implications include that this model is actionable since it is derived from hotel practitioner use. A theoretical implication is that this model is rigorous as it is anchored in theory. This model is expected to hold true regardless of the COVID-19 devastation on the hospitality/leisure industry. However, it is expected that both the short-term and long-term outlook and operational policies for the hotel industry will need adaptation to counter the COVID-19 effects. Industry leaders are expected to remain in the strongest position to recover fully from the COVID-19 consequences.

The third paper by Berta Jose Fernandes Costa, Susana Cristina Serrano Fernandes Rodrigues, & Pilar Moreno Pacheco provides a comprehensive understanding of the circular economy (CE) concept, its development and principles, the CE R-principles, into the transition to a circular tourism industry. Therefore, a literature review was performed to emphasise the tourism industry as one of the
sectors which may enhance the implementation of a CE approach. This concept has its origins in different schools of thought, scientific theories, and dates, which attests that the principles underlying it have endured for a long time but only recently were brought to discussion. The CE construct draws on the epistemological fields of biology, economy, and ecology, such as ‘circular flow of income’, ‘industrial metabolism’, the ‘spaceman economy’, ‘limits to growth’, ‘cradle-to-cradle’, ‘industrial ecology’, ‘regenerative design’, ‘remanufacturing’, ‘natural capitalism’, biomimicry, ‘eco-effectiveness’ and ‘eco-efficiency’, ‘steady state economy’, and ‘performance economy’. The CE concept was introduced into the academic circles by Pearce and Turner (1990), who considered that natural resources play a key role on economic systems. It is suggested as a means to enhance circularity, allowing the reduction of energy inputs and natural resources consumption, to attain a sustainable, low carbon emission, efficient resource utilization, and competitive economy.

The tourism industry has been prospering as an economic activity mostly determined by environment, culture and heritage. It also evolved to one of the better positioned business with a continuous growth pattern that largely contributes to the countries’ GDP, and transformed into a driving force for development, job creation, and export income. Touristic demand is placing increasing pressure on the environment in a period of resource depletion, climate change, water and resource scarcity, and pollution, linked with price fluctuations and market inconsistency. These challenges evidence that the current economic pattern, the take-make-dispose model, is no longer sustainable. Therefore, CE materializes as an advantageous alternative economic model as it strives to maintain the value of products and materials while mitigating the depletion of natural resources and thus waste emissions. It also facilitates the monitoring of products and goods lifecycle, the concern over raw material accessibility, and the energy consumption, allowing to differentiate a circular economy approach from the existing linear economy.

So, the challenge is to implement the CE principles in the tourism sector through the operationalisation of businesses in accordance with sustainable principles, or drawing upon circular tourism approaches that enhance the sustainable use of resources along with a wise provision of the services within the sector. Regarding the implementation of the CE R-principles on the tourism industry, the Costa, Rodrigues, & Pacheco study concludes that there is not academic literature and case studies to put use to, and that confirmatory approaches and empirical validation are lacking. As a result, there is a gap in the literature to fill and future frame research initiatives are plausible.

The struggle for survival and the unique risks faced by small and medium enterprises (SMEs) influence the ethical behaviour of their owners and managers. Paradoxically, SMEs depend on their ethical reputation to survive but are also faced with the temptation to be unethical to survive especially in business environments with high levels of corruption and fraud. Ethical challenges faced by SMEs in South Africa include bribery, extortion, deception and theft. Such unethical practices negatively impact on customer trust, reputation and performance. Ethical leadership that focuses on integrity, fairness, transparency and accountability rather than self-interest is vital to good governance in SMEs and is an important factor for organisational success. However, there is little exploration of the relationship between ethical leadership and firm-level performance.

The fourth paper by Olawale Fatoki aims to determine the relationship between ethical leadership behaviours of owner/managers and the sustainable (financial, social, environmental) performance of SMEs. Thus, Fatoki’s study used the triple-bottom-line approach to measure sustainable performance. The literature review part of the study analyzed extant international and South African papers on ethical leadership and sustainable performance. The literature review showed that the findings of empirical research on ethical leadership and sustainable performance are inconclusive. In addition, there is a dearth of empirical studies on the relationship between ethical leadership and sustainable performance from the South African perspective. Based on the literature review and the identified
research gap, three hypotheses were developed. [1] there is a significant positive relationship between ethical leadership and the financial performance of SMEs [2] there is a significant positive relationship between ethical leadership and the social performance of SMEs and [3] there is a significant positive relationship between ethical leadership and the environmental performance of SMEs. Data was collected from one hundred and forty eight SMEs through the convenience sampling method. The cross-sectional survey method (self-administered questionnaire) was used for data collection. Descriptive statistics, Pearson correlation and regression analysis were used for data analysis. The results of the regression model showed significant positive relationships between ethical leadership and the financial and social performance of SMEs. The relationship between ethical leadership and environmental performance is positive but insignificant.

Based on these findings, Fatoki’s study recommended that small business owners should develop strategies to improve their sustainable performance by attending training and seminars on ethical leadership. In addition, SMEs should develop ethics policies, codes and programmes to guide their ethical behaviour. The reward system of SMEs should take into consideration ethical practices. Theoretically, Fatoki’s study contributes to knowledge by linking ethical leadership and sustainable performance in the context of SMEs. Empirically, the study contributes to the literature on ethical leadership and sustainable performance from an emerging country perspective. Practically, the study suggests recommendations to improve ethical leadership by SMEs.

As the pressures of new trends such as global competition, demographic changes, the changing nature of work, and Web 2.0 (user-generated content) increase, companies are changing in the way they work. The pressure to compete with emerging and maturing global markets has forced organizations to examine their entire business model and inspired employees to acquire new skills, such as EI, to cope with change.

The concept of emotional intelligence has been one of the most-studied concepts not only in psychology but also in other social sciences. The role of emotional intelligence in the work life have remained as the main focus of many recent studies EI skills may become significantly advantageous and distinctive assets for either/both the candidates or/and the employees in decision-making for processes such as selection, recruitment, training, career planning and staffing of human resources. Human Resources (HR) professionals can make a greater impact in the workplace and add value to HR services they provide through emotional intelligence (EI).

The fifth paper by Sevim Oztimurlenk explores the impact of some demographic factors (i.e., gender, age, work experience) on HR managers’ emotional intelligence levels. Using a questionnaire survey, pertinent data is gathered from 140 HR managers who are the members of People Management Association of Turkey (PERYON). HR managers’ EI is measured using Wong and Low’s Emotional Intelligence Scale (WLEIS). The data was analysed using Microsoft Excel and SPSS. First, descriptive statistics were obtained. Then, t-tests and ANOVA were conducted. Also, the differences obtained through ANOVA among the means are further compared through Turkey Post-hoc Tests. The results of the Oztimurlenk study show that age is a factor affecting EI levels of HR managers negatively and most HR managers in Turkey are young (under 41 years old) female professionals who have less than 10 years’ work experience and possess high levels of EI. This provides organizational leaders with a perspective of age differences regarding EI. The information age has created new knowledge, skills, and ability requirements for HR managers. Ongoing developments in technology are reshaping HR activities done by HR managers in organizations.

According to research findings of the study by Oztimurlenk, the demographic changes have profound impacts on businesses and the aging workforce is consistently the most significant one among others (i.e., education, gender, ethnicity). Organizations need to recognize those changes and the
challenges or opportunities they bring, to manage diversity effectively. While older HR managers can contribute a significant value to organizations in terms of knowledge, expertise, and experience, they might present certain issues for companies such as low degree of EI levels or technology adaptation challenges. Organizational leaders should consider different ways to overcome these problems. For example, EI can be considered as a performance evaluation criterion to identify if there is a training need for older HR managers. If there is a need, more EI seminars, webinars, workshops or online EI courses should be offered to increase their knowledge about EI and boost their understanding of how to apply it.

N. Delener, Ph.D.
Editor-in-Chief
NOTE FROM THE EDITORS

As an interdisciplinary indexed journal, The Journal of Global Business and Technology (JGBAT) serves academicians and practitioners in the fields of global business and technology management and their related areas. JGBAT is also an appropriate outlet for manuscripts designed to be of interest, concern, and applied value to its audience of professionals and scholars.

Readers will note that our attempt to bridge the gap between theory and practice has been successful. We cannot thank our reviewers enough for having been so professional and effective in reiterating to contributors the need to provide managerial applications of their research. As is now obvious, the majority of the articles include a section on managerial implications of research. We wish to reiterate once again our sincere thanks to JGBAT reviewers for having induced contributors to answer the “so what?” question that every Journal of Global Business and Technology article is required to address.

Thank you for your interest in the journal and we are looking forward to receiving your submissions. For submissions guidelines and requirements, please refer to the Manuscript Guidelines at the end of this publication.

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<td>Polytechnic Institute of Leiria, Portugal</td>
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<td>Dr. José Luís Martins</td>
<td>Polytechnic Institute of Leiria, Portugal</td>
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<tr>
<td>Dr. Miguel Martins</td>
<td>University for the Creative Arts, UK</td>
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<td>Dr. Ajay K. Manrai</td>
<td>University of Delaware, USA</td>
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<td>Dr. Samir R. Moussalli</td>
<td>Huntingdon College, USA</td>
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<tr>
<td>Dr. Juergen Muehlbacher</td>
<td>Vienna University of Economics &amp; Business, Austria</td>
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<tr>
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<td>University of Brighton, UK</td>
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<td>Dr. Wilson Ozuem</td>
<td>University of Cumbria, UK</td>
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<td>Dr. Kathleen Park</td>
<td>Boston University, USA</td>
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<tr>
<td>Dr. Nathalie Prime</td>
<td>ESCP Europe-European School of Management, France</td>
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<tr>
<td>Dr. Leonel Cezar Rodrigues</td>
<td>University Nove de Julho, Brazil</td>
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<tr>
<td>Dr. Christina Schwerkert</td>
<td>St. John’s University, USA</td>
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<tr>
<td>Dr. Klaus Solberg Soilen</td>
<td>Blekinge Institute of Technology, Sweden</td>
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<tr>
<td>Dr. Carlos Trevia</td>
<td>Pontifical Catholic University of Rio de Janeiro, Brazil</td>
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<tr>
<td>Dr. Clare Weeden</td>
<td>University of Brighton, UK</td>
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<tr>
<td>Dr. Ondrej Zizlavsky</td>
<td>Brno University of Technology, Czech Republic</td>
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THE RELATIONSHIP BETWEEN THE INFORMATIVENESS OF ANNUAL ACCOUNTING EARNINGS AND BOARD COMPOSITION: EMPIRICAL EVIDENCE FROM SOUTH AFRICA

Henriëtte Scholtz and Suzanne Kieviet

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ABSTRACT

The purpose of this paper is to provide empirical evidence of the relationship between the informativeness of annual accounting earnings and board composition. The study, that used data from the Top 100 South African (SA) companies listed on the Johannesburg Securities Exchange (JSE) from 2013 to 2017, assesses whether board composition factors affect the informativeness of earnings. Five board composition factors were considered, namely the total number of directors serving on a board, the proportion of non-executive directors, the proportion of independent non-executive directors, the proportion of women and the proportion of ethnic diversity on a board. The study finds that the proportion of women as well as the proportion of non-executive directors on a board significantly and positively affects informativeness of annual accounting earnings. However, ethnic diversity of a board was found to be significantly and negatively related with informativeness of annual accounting earnings, while board size and the proportion independent non-executive directors were found not to be related to earning informativeness. The SA corporate context is uniquely characterised by an urgency to meet affirmative action regulations, such as ethnic and gender empowerment in board appointments, against a backdrop of limited qualified and experienced directors. Results of this study could provide regulators, investors and other users of financial information a better understanding of the effect of board composition on the informativeness of annual accounting earnings. To the best of the authors’ knowledge, this is the first paper that examines the relationship between the informativeness of annual accounting earnings and board composition factors in SA.

Keywords: Board composition, informativeness of earnings, board diversity, corporate governance, accounting earnings

INTRODUCTION

Henriëtte Scholtz, MCom, Adv tax cert (UNISA), CA(SA). Henriëtte Scholtz is a Senior Lecturer at the University of Stellenbosch and lectures auditing at undergraduate and postgraduate level. She worked as a general manager in the internal auditing division of a big banking group before joining academia. Henriëtte publishes articles and presents papers at international conferences. Her areas of interests are corporate governance and ethics. She is a member of the SAICA ethics committee. She is currently busy finalising her PhD in accounting.

Suzanne Kieviet, PGD in Auditing (UNISA); M. Com (Tax); CA(SA). Suzanne Kieviet is a Lecturer in management accounting at the University of Stellenbosch. She has a keen interest in cost accounting and corporate governance. After qualifying as a chartered accountant, Suzanne spent a few years in the wine-making industry before she joined academia. She endeavors to publish academic articles and present papers at conferences.
The composition and size of a board of directors has been the focus of corporate governance debates in recent years. Researchers agree that the board of directors plays an important role in the governance and disclosure quality of companies (Dimitropoulos & Asteriou, 2010; Ntim, 2015; Vafeas, 2000). Informativeness of annual accounting earnings in accounting literature is used to describe the usefulness of earnings for investors when information is incorporated into share prices (Abdul-Manaf et al., 2015). Studies conducted since the late 1960’s used informativeness of annual accounting earnings to measure the quality of financial reporting. Ball and Brown (1968) for instance pose that accounting earnings are relevant to investors in pricing equity, while Beaver (1968) infers that the information content of income is significant. The opinions of both Ball and Brown (1968) and Beaver (1968) suggest that earnings are informative as their announcements lead to a change in investors’ probability distribution of future returns, and hence the earnings report has information content and is value relevant. Furthermore, Bushman and Piotroski (2006) find that accounting numbers in emerging markets are less informative about firms’ economic value than the numbers in developed economies.

It has been established in literature that certain company characteristics (i.e. ownership structure and corporate governance structures) can influence the informativeness of earnings (Abdul-Manaf et al., 2015). To establish the optimal composition and size of a board is thus an empirical question of importance for academics, practitioners and industry regulators. The first important question that remains unanswered in the empirical literature is what the ideal board size of a company should be. On the one hand, resource dependence theory argues that a larger board offers more opportunities with increased links to the external environment and hence enhanced access to resources (Pfeffer & Salancik, 1978). On the other hand, Vafeas (2000) theorises that as board size increases, processes become more complex and coalitions develop, and the additional costs of extra board members outweigh the benefit of having input from more directors. In view of these arguments, the impact of board size on the informativeness of annual accounting earnings becomes an important area of research.

The second and third important questions in the empirical finance literature involve the ability of non-executive and independent non-executive directors to represent shareholders’ interests effectively. In the agency theory literature, Fama and Jensen (1983) suggest that monitoring costs such as appointment of non-executive directors will help prevent opportunistic managerial behaviour. It is widely hypothesised that due to their independence from company management, both non-executive and independent non-executive directors should be more effective than executive members in monitoring and controlling management (Chen & Jaggi, 2000). Research on the benefits, if any, associated with the increased participation of non-executive and independent non-executive directors on the informativeness of annual accounting earnings is still limited.

The fourth question regarding board diversity relates to the proportion of female board members. Although Adams and Ferreira (2009) found that female board membership is on the increase, Mukhwanazi and Kele (2019) found that women held relatively few highly visible decision-making positions within companies in South Africa. Dale-Olsen et al. (2013) questions whether legislation should be implemented to increase female participation in senior management. In South Africa (SA), the Women Empowerment and Gender Equity Bill, which calls for at least 50% representation by women in decision-making structures, has been passed, but has not yet been implemented. This study extends earlier research on corporate governance by examining the influence of female board members on the informativeness of annual accounting earnings.

Lastly, the impact of a board’s ethnic diversity on the informativeness of earnings in SA is a particularly interesting emerging market to analyse. Historically, SA has an Anglo-American corporate governance model, which implies that firms were free to select their board members. However, post-Apartheid legislative developments, such as the 1998 Employment Equity Act (EE) and the 2003 Black
Economic Empowerment (BEE) Act, require SA firms to increase the ethnic diversity of boards of directors (Ntim et al., 2015). These provisions generally seek to eliminate all forms of past discriminatory practices, but specifically endeavour to significantly increase the participation of non-whites (especially black persons) in senior management positions, as part of the overall objective of addressing historical socio-economic inequalities between white and non-white South Africans. Erhardt et al. (2003) and Marimuthu (2008) opine that a board’s ethnic diversity is positively associated with company and shareholder value. It is thus not surprising that Fitzsimmons (2012) propose that organisations should focus on ethnic and cultural diversity to take advantage of talents available to diverse boards. Motivated by the need for more empirical research in SA, this study presents evidence on the relation between the informativeness of annual accounting earnings and the ethnic diversity of company boards.

Brennan (2006) points out that corporate governance characteristics are likely to vary across jurisdictions and, from this perspective, cross-country research can provide valuable incremental insights. Previous empirical studies conducted over the last decade, focused on large companies in the developed countries of North America, Europe and Asia and studied accounting earnings against board diversity (e.g. Sajjad & Rashid, 2015; Harris, 2014). The current study focuses on SA, hence companies from the Johannesburg Securities Exchange (JSE) were selected. SA has an upper middle income economy, is well-integrated into the global economy and firmly established in emerging markets (ACGN, 2016). SA also forms part of the BRICS countries (a powerful grouping of emerging countries comprising Brazil, Russia, India, China and SA) and is furthermore the second largest economy in Africa (Steyn & Wakefield, 2016). The World-economic forum’s 2015-2016 Global Competitiveness Index ranked SA first globally (for the sixth consecutive year) in terms of regulation for security exchanges. Consequently, an evaluation of the efficiency of SA boards could provide additional empirical evidence on the relationship between the informativeness of annual accounting earnings and board composition for large listed companies.

The objective of the study is to examine whether board composition has an influence on the informativeness of annual accounting earnings in SA. To achieve the objective, share returns are regressed on various board diversity characteristics.

The remainder of the paper is structured as follows: a review of prior research and the development of hypotheses is presented. These are followed by a discussion of the methodology that includes the sample selection and a presentation of the research model. Next, a discussion of the empirical results with the conclusion and limitations are offered, followed by suggestions for future research.

**HYPOTHESIS DEVELOPMENT AND LITERATURE REVIEW**

A wide range of research articles, working papers and dissertations were studied to determine the board diversity variables which might have an influence on the informativeness of annual accounting earnings. The term ‘informativeness of annual accounting earnings’ describes the usefulness of earnings, hence it becomes useful when it recognises information incorporated in share prices (Abdul-Manaf et al., 2015). A strong association between earnings and share prices indicates that the company reports high quality earnings which investors find useful (called earnings response coefficient (ERC)) (Abdul-Manaf et al., 2015). Share returns (RET) are measured for twelve months (from nine months prior to each company’s year-end to three months after year-end), where-as earnings per share (EPS) is measured as the operational and capital investment activities of a company divided by the total number of issued shares. Investors care about the market price per share of firms and the ratios showing it. Market ratios, such as EPS is a good barometer to gauge a firm’s profitability per unit of shareholder ownership. Previous research studies have used EPS as performance indicator and report positive associations
(Dimitropoulos & Asteriou, 2010; Ahmed et al., 2006; Vafeas, 2000). As such, EPS is a good accounting measure and is generally considered to be the most important factor to determine share price and firm value, and therefore often used for investment decisions and long-term planning. In terms of this study, and following Ahmed et al. (2006), EPS is multiplied with each of the board composition factors to determine the informativeness of earnings.

**Board size and the informativeness of annual earnings**

Empirical evidence regarding the impact of board size on earnings information reporting have been inconsistent. On the one hand, Samaha and Dahawy (2010) for instance argue that large boards can help reduce the opportunistic behaviour by managers in terms of withholding annual earnings information for their own interest and benefit in Egypt. Similarly, Appah and Emeh (2013) report that large boards in Nigeria are likely to involve a more independent group of directors with valuable experience and a greater pool of expertise, hence facilitating better monitoring. The findings of Moumen et al. (2016) suggest that board size enhances the informativeness of risk disclosure as it allows investors to better predict future earnings growth in the Middle East and North Africa regions. However, the extant corporate governance literature suggests that small corporate boards are more efficient monitors than large boards, because they are characterised by a greater level of membership coordination, communication efficiency and a lower incidence of free-rider problems (Ahmed et al., 2006). Deschênes et al., (2013) (Canadian companies), O’Connell and Cramer (2010) (Irish companies) and Jensen (1993) (USA companies) agree that independent directors are less likely to function efficiently when board size goes beyond a certain threshold, since it becomes difficult for them to express their opinions and ideas and so influence the effectiveness of decision-making and control. Additionally, large boards result in increased information costs, less effective coordination, confused decision-making and can be controlled by a dominant Chief Executive Officer who stifles initiative, objective debate and effective decision-making (Vafeas, 2006; Jensen, 1993). Ahmed et al., (2006) found that smaller boards are associated with higher ERC’s in New Zealand.

Our review of the literature leads us to deduce that the impact of board size on the informativeness of annual accounting earnings is largely an empirical question. Increasing directors on a board could reduce the opportunistic behaviour by managers in terms of withholding annual earnings information for their own interest and benefit, thus provide support for resource dependency theory. However, bigger boards can lead to increased information costs, less effective coordination, confused decision-making and can be controlled by a dominant CEO, which provides support for agency theory. This study therefore believes that the literature stream promoting a smaller board size is predominant (e.g. Deschênes et al., 2013; O’Connell & Cramer, 2010; Vafeas, 2006; Ahmed et al., 2006).

It is therefore expected that:

H1: There is a negative relationship between annual informativeness of annual accounting earnings and board size.

**The percentage of non-executive directors on a board and the informativeness of annual earnings**

A board of directors represents the pinnacle of the decision-making hierarchy and control in large companies. One of the important duties of a board of directors is to monitor and evaluate senior management’s activities within a company (using, for example, annual earnings). Whilst the day to day operations of a company are largely the responsibility of the executive directors, the task of monitoring
management thus falls on the non-executive board members, thereby resolving agency problems between managers and shareholders (Fama & Jensen, 1983). Moreover, Rabin (2017) agrees that non-executive directors should act as constraints to earnings manipulation by managers. Studies on the relationship between the informativeness of annual accounting earnings and board composition have yielded mixed results. For instance: Ferreira et al. (2011) find a negative relation between informativeness and the presence of non-executive directors on the board of USA companies, while De Andres et al. (2005) find no evidence of non-executive directors protecting shareholders’ interest in Western Europe and North America. It is however also argued that since non-executive directors compete in the labour market, they have incentives to develop reputations as experts in monitoring management; the value of their human capital depends primarily on their performance as monitors of top management within other companies (Fama & Jensen, 1983). Similarly, empirical research by O’Connell and Cramer (2010) and Choi et al. (2007) found that the proportion of non-executive directors on a board had a significantly positive effect on annual accounting earnings in Ireland and Korea. Vafeas (2000) explains that where corporate boards are dominated by non-executive directors, increased monitoring of the quality of financial information is more likely and this will be reflected in informativeness of earnings, providing support for monitoring to be incurred to resolve agency theory. This is supported by Ibrahim and Jehu (2018) who find that the proportion of non-executive directors has a significantly negative relation with abnormal accruals, resulting in improved quality of financial reporting in Nigeria. Based on the arguments and empirical findings of prior research, it is therefore proposed that non-executive directors on the board will improve the informativeness of annual accounting earnings.

It is therefore expected that:

H2: There is a positive relationship between the informativeness of annual earnings and the proportion of non-executive directors on a board.

The percentage of independent non-executive directors on a board and the informativeness of annual earnings

In the agency theory literature, Fama and Jensen (1983) suggest that independent non-executive directors have incentives to prevent aberrant managerial behaviour. This is because a decline in the market value of a firm resulting from a lack of credible financial reporting could reflect poorly on independent directors’ public image and adversely affect the demand for their monitoring services. Therefore, hiring more independent directors can be a credible means of mitigating agency problems through enhancing the quality of financial reporting. According to Chen and Jaggi (2000) independent directors can bring an objective view to any evaluation of management’s performance, as the inclusion of independent non-executive directors on corporate boards lead to better monitoring of management decisions and activities in Hong Kong. This view is supported by Ibabin et al. (2012) and Dimitropoulos and Asteriou (2010) who studied Nigerian and Greek companies and found that a higher number of independent non-executive directors increase the likelihood that the quality of financial statements will be higher and if not, corrective action will be taken. Also, Ibrahim and Jehu (2018) (for Nigerian companies) and Firth et al. (2007) (for Chinese companies) report that the proportion of the independent non-executive directors have a significantly negative relation with abnormal accruals, which in turn improves the quality of financial reporting. Similarly, Petra (2006) and Anderson et al. (2003) agree that there is a positive association between the proportion of independent non-executive directors serving on a firm’s board and informativeness of annual accounting earnings, resulting in clean audit opinions in the USA. Shareholders’ interests are thus better protected by independently dominated boards, which improves the informativeness of earnings. However, the results of Vafeas (2000) (USA) and Ahmed et al. (2006) (New Zealand) find no evidence to support the popular notion that independent non-executive directors contribute to enhanced financial reporting quality, explaining that the monitoring input offered by
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independent non-executive directors seems to be offset by the experience and information that executive directors contribute.

This study tests the notion that board structures affect the extent to which boards monitor management behaviour, as it relates to financial reporting. It is hypothesised that when the proportion of independent non-executive directors’ increase, management’s ability to manipulate earnings will be constrained, increasing the integrity of financial information. Thus, based on the above argument, it is proposed that the presence of independent non-executive directors will improve the informativeness of annual earnings.

*It is therefore expected that:*

H3: There is a positive relationship between the informativeness of annual earnings and the proportion of independent non-executive directors on a board.

**The proportion of women on a board and the informativeness of annual earnings**

According to the resource dependence theory and human capital theory, board diversity has a significant impact on board performance (Carter et al., 2010). Gul et al. (2013) and Rose (2007) explain that a diverse board positively influences the company through a better understanding of the marketplace, more effective leadership and more creativity and innovation. Having board members from various and diverse backgrounds signals a positive view to the company’s surroundings and stakeholders.

According to Adams and Ferreira (2009), gender diversity of the board is one of the important topics related to corporate governance enhancement efforts. Empirical evidence supports the argument that female directors may have different tasks on the board (Carter et al., 2010), such as board performance due to the fact that they tend to join monitoring committees and that the attendance records of female directors are better than those of their male counterparts in the US. Furthermore, Ali and Azimi (2018) and Hillman et al. (2007) argue that female directors bring different perspectives and experiences into a boardroom, which help improve the quality of board decisions, enhance the legitimacy of company practices and ultimately influence company outcomes. Moreover, research suggests that female board members are more diligent monitors of management and require more audits to be performed than their male counterparts (Adams & Ferreira, 2009). In addition, Levi et al. (2014) found empirical evidence that female executives are more cautious than their male counterparts when important corporate decisions are made, while Gul et al. (2013) note that the appointment of women to boards, improves organisational value by providing new visions and perspectives. Moreover, Lakhal et al. (2015) report that women are effective in their monitoring role and are then considered as a crucial corporate governance mechanism in French firms, suggesting that by increasing the number of females on a board through regulation and legislation, it is likely that the effectiveness of a board to better detect earnings management, will be enhanced.

Besides differences in the leading styles between men and women, female directors also ensure that: first, accounting returns are better (Post & Byron, 2015) (36 different developing and emerging countries); second, more conservative accounting practices are implemented (Ho et al., 2015) (USA); third, a less volatile share price and higher company performance is ensured (Campbell & Minguez-Vera, 2008; Liu et al., 2014) (USA); fourth, have a low association with the restatement of financial information (Abbott et al., 2012) (USA); and fifth, contribute to the reduction of asymmetric information (Gul et al., 2013) (USA). In summary, based on the studies discussed above, it is proposed that the informativeness of annual earnings will increase when the proportion of women on a board is increased.
It is therefore expected that:

H4: There is a positive relationship between the informativeness of annual earnings and the proportion of women on a board.

The proportion of ethnic diversity on a board and the informativeness of annual earnings

Agency theory suggests that board diversity leads to a more balanced board with less chance of having one member dominating the decision making (Fauzi & Locke, 2012). On the one hand, Field et al. (2013) (New Zealand companies) and Gyapong et al. (2016) (SA companies) explain that a negative relationship between the informativeness of earnings and ethnic diversity can be attributed to the shortage of qualified directors from ethnic groups, since these directors are likely to be too busy (due to multiple appointments on various boards) to have a positive effect on the informativeness of earnings. On the other hand, Ammer and Ahmad-Zaluki (2014) contend that an ethnic diverse board of directors in Malaysia may be in a position to avoid practices of earnings smoothing, which will ensure that shareholders are presented with more reliable figures which will increase the informativeness of earnings. Additionally, Van der Zahn et al. (2008) posits that greater ethnic diversity can boost impact on Singaporean company performance and strategies, which may result in overseeing earnings disclosure. This is supported by the results of Carter et al. (2003), who found that diversity increases board independence as board members from a different ethnic or cultural background might ask questions that would not come from directors with more traditional backgrounds. Bart and McQueen (2013) opine that ethnic diversity is a key determinant of a board of directors’ operational and functional effectiveness and efficiency. Rose (2007) studied Danish firms and conclude that having board members from various and diverse backgrounds, signals a positive view to the company’s stakeholders.

Other empirical studies furthermore reveal that ethnic diversity of the board firstly leads to better firm performance (Hillman, et al., 2007 (USA); Marimuthu, 2008 (Malaysia)); secondly ensures that more conservative accounting practices are implemented (Yunos et al., 2012) (Malaysia); thirdly leads to increased disclosure (Hamzah et al., 2012) (Malaysia); fourthly affects the choice of auditor (Nazri et al., 2012) (Malaysia); fifthly influences auditor fees (Yatim et al., 2006) (Malaysia); and lastly increases company value (Carter et al., 2010) (USA). For these reasons, this study hypothesizes that ethnic diversity on a board is likely to be positively related to the informativeness of annual earnings.

It is therefore expected that:

H5: There is a positive relationship between the informativeness of annual earnings and the proportion of ethnic diversity on a board.

**METHODOLOGY**

Sample and data

Based on market capitalisation as at 31 December 2013, a sample of 80 companies was selected from the Top 100 companies listed on the JSE for the 2013 to 2017 reporting period. Table 1 indicates how the sample was selected. These companies are the most actively traded and largest on the JSE. They are also amongst the most visible organisations in the country and have a competitive edge when recruiting and retaining board members. The sample comprises companies whose primary listing is in SA,
as companies with a primary listing elsewhere are only required to comply with the listing requirements (including board composition requirements) of the exchange where the primary listing is located.

Table 1: Summary of sample selection process

<table>
<thead>
<tr>
<th>Description</th>
<th>Number</th>
</tr>
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<tbody>
<tr>
<td>Top 100 companies listed on the JSE on 31 September 2013</td>
<td>100</td>
</tr>
<tr>
<td>Less: companies primarily listed on other exchanges (non-SA companies)</td>
<td>14</td>
</tr>
<tr>
<td>companies where information not available for sample period</td>
<td>6</td>
</tr>
<tr>
<td>Final sample</td>
<td>80</td>
</tr>
</tbody>
</table>

Data collection

Board composition data was collected manually from the annual reports of companies for 2013 to 2017 as listed on the library function of the IRESS database. Data relating to return on assets (ROA), headline earnings per share (HEPS), leverage and return on equity (ROE) was collected from the financial ratio function on the IRESS database, while data relating to the sales and total assets was collected from the financial statement function on the IRESS database. Furthermore, data relating to the share price was collected from the market data function on the IRESS database, while the JSE industry classifications were obtained from the JSE.

Research design

The objective of this study, as discussed earlier, is to examine whether board composition has an influence on the informativeness of annual accounting earnings of large listed SA companies. The dependent, independent and control variables used in this study are listed in Table 2. The study examines the relationship between earnings per share (EPS) and share returns (RET) as a function of total number of directors serving on a board (BOARD), the proportion of non-executive directors on a board (NEXD), the proportion of independent non-executive directors (INEXD) on a board, the proportion of women on a board (WOMAN) and the level of ethnic diversity on a board (ETHNIC), which was measured in accordance with the EE and BEE acts mentioned in the introduction as the non-white directors included on the board. RET is share returns measured for twelve months (from nine months prior to each company’s year-end to three months after year-end). EPS is measured as the earnings before extraordinary items divided by the total number of issued shares. The relationship is examined by estimating pooled ordinary least square (OLS) multivariate regression models for the sample. Following Dimitropoulos and Asteriou (2010) and Ahmed et al. (2006), share returns (RET) is the dependent variable. The independent variables are Earnings per share (EPS) (Dimitropoulos & Asteriou, 2010; Ahmed et al., 2006), board size (BOARD) (Firth et al., 2007; Ahmed et al., 2006; Vafeas, 2000) non-executive directors on the board (NEXD) (Dimitropoulos & Asteriou, 2010; Ahmed et al., 2006), independent non-executive directors (INEXD) (Dimitropoulos & Asteriou, 2010; Ahmed et al., 2006; Vafeas, 2000), female directors (WOMAN) (Post & Byron, 2015; Gul et al., 2013) and ethnic diversity (ETHNIC) (Bart & McQueen, 2013; Cheong & Sinnakkannu, 2014). Differential informativeness of earnings is subsequently tested (as reflected by the regression coefficient on earnings) conditional on board composition and other control variables. The control variables are included to rule out alternative explanations of casual effects. These variables include proportion of shares held by executive directors (DSHARE) (as used by Ahmed et al., 2006), the percentage shares held by institutions (INSOWN) (as used by Ahmed et al., 2006), company size (SIZE) measured as the log of total assets at the end of the financial year (the informativeness of bigger companies could be higher - Dimitropoulos & Asteriou, 2010; Ahmed et al., 2006), leverage (DEBT) (leverage may affect the company’s ability to perform well -
Dimitropoulos & Asteriou, 2010; Vafeas, 2000) and a company’s growth opportunities (GROWTH) measured as Tobin’s Q (the informativeness of earnings could be higher for growth companies - Cheong & Sinnakannu, 2014; Carter et al., 2010). To control for the effect of the different industries, dummy variables were included, whereby one was awarded to a company operating in this industry and zero if not. The JSE industry classifications were used to classify the companies into industries. To avoid the dummy trap the telecommunications industry was excluded from the regression.

Table 2: Variables used for board diversity and informativeness of earnings

<table>
<thead>
<tr>
<th>Variable</th>
<th>Definition</th>
<th>Nature</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Dependent variable:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>RET</td>
<td>Share returns are measured for the twelve months extending from nine months prior to the fiscal year through three months after the fiscal year-end</td>
<td>Dependent variable</td>
</tr>
<tr>
<td><strong>Independent continuous variables EPS and board composition:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>EPS</td>
<td>Earnings before extraordinary items divided by the number of shares issued</td>
<td>Independent variable</td>
</tr>
<tr>
<td>BOARDS</td>
<td>Total number of directors for a company</td>
<td>Independent variable</td>
</tr>
<tr>
<td>NEXD</td>
<td>Proportion of non-executive directors on a board (ratio of the number of non-executive directors to the total number of directors)</td>
<td>Independent variable</td>
</tr>
<tr>
<td>INEXD</td>
<td>Proportion of independent non-executive directors on a board (ratio of the independent non-executive directors to the total number of directors)</td>
<td>Independent variable</td>
</tr>
<tr>
<td>WOMAN</td>
<td>Proportion of female directors on a board (ratio of the female directors to the total number of directors)</td>
<td>Independent variable</td>
</tr>
<tr>
<td>ETHNIC</td>
<td>Proportion of ‘non-white’ directors on a board (ratio of the ‘non-white’ directors to the total number of directors)</td>
<td>Independent variable</td>
</tr>
<tr>
<td><strong>Independent continuous control variables</strong></td>
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<tr>
<td>DSHARE</td>
<td>Proportion of shares held by the executive directors of a company</td>
<td>Independent variable</td>
</tr>
<tr>
<td>INSOWN</td>
<td>Proportion of shares held by institutions such as pension funds, insurance companies and investment companies</td>
<td>Independent variable</td>
</tr>
<tr>
<td>SIZE</td>
<td>Log of the total assets for a company at the end of the financial year</td>
<td>Control variable</td>
</tr>
<tr>
<td>DEBT</td>
<td>Ratio of total debt to total assets</td>
<td>Control variable</td>
</tr>
<tr>
<td>GROWTH</td>
<td>The ratio of a company’s market value to the replacement cost of its assets (Tobin’s Q)</td>
<td>Control variable</td>
</tr>
<tr>
<td><strong>Independent categorical control variables</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>FINAN</td>
<td>Dummy variable of 1 assigned to indicate financial services industry membership</td>
<td>Control variable</td>
</tr>
<tr>
<td>HEALTH</td>
<td>Dummy variable of 1 assigned to indicate health industry membership</td>
<td>Control variable</td>
</tr>
<tr>
<td>BMAT</td>
<td>Dummy variable of 1 assigned to indicate basic materials industry membership</td>
<td>Control variable</td>
</tr>
<tr>
<td>IND</td>
<td>Dummy variable of 1 assigned to indicate industrials industry</td>
<td>Control variable</td>
</tr>
</tbody>
</table>
Research model

The proposed regression models tested in this research study follows the models used by Ahmed et al. (2006) which also tested the effects of board composition on the informativeness of earnings. Model 1 is specified to test the effect of board composition on the share returns and is shown below:

$$\text{RET} = \beta_0 + \beta_1 \text{EPS}_j + \beta_2 \text{BOARDS}_j + \beta_3 \text{NEXD}_j + \beta_4 \text{INEXD}_j + \beta_5 \text{WOMAN}_j + \beta_6 \text{ETHNIC}_j + \beta_7 \text{DSHARE}_j + \beta_8 \text{INSOWN}+\beta_9 \text{SIZE}_j + \beta_{10} \text{DEBT}_j + \beta_{11} \text{GROWTH}_j + \beta_{12} \text{FINAN} + \beta_{13} \text{HEALTH}_j + \beta_{14} \text{BMAT} + \beta_{15} \text{IND} + \beta_{16} \text{CGOODS} + \beta_{17} \text{CSERV} + \varepsilon$$

Model 2 is specified to test the intervening effect of earnings and board composition on the share returns and is shown below:

$$\text{RET} = \beta_0 + \beta_1 \text{EPS}_j + \beta_2 \text{EPS*BOARDS}_j + \beta_3 \text{EPS*NEXD}_j + \beta_4 \text{EPS*INEXD}_j + \beta_5 \text{EPS*WOMAN}_j + \beta_6 \text{EPS*ETHNIC}_j + \beta_7 \text{EPS*DSHARE}_j + \beta_8 \text{EPS*INSOWN}_j + \beta_9 \text{EPS*SIZE}_j + \beta_{10} \text{EPS*DEBT}_j + \beta_{11} \text{EPS*GROWTH}_j + \beta_{12} \text{FINAN} + \beta_{13} \text{HEALTH} + \beta_{14} \text{BMAT} + \beta_{15} \text{IND} + \beta_{16} \text{CGOODS} + \beta_{17} \text{CSERV} + \varepsilon$$

Model 1 tests the regression results without the informativeness of earnings, while Model 2 includes the informativeness of earnings factors. The informative factors and the orbital data could not be used in the same model due to high Variance Inflation Factors (VIF) being reported, which indicates that multicollinearity is present.

EMPIRICAL RESULTS

Descriptive statistics

Descriptive statistics regarding the companies’ dependent, independent and control variables were considered before estimating the regressions. Table 3 presents these descriptive statistics for the raw data over the period 2013 to 2017. Statistics for the dependent variables, independent and control variables and categorical variables are shown in Panel A, B and C respectively. (Note that the variables are indicated prior to the natural logarithmic transformations (as used in the multivariate regression analysis).

Table 3: Descriptive statistics (400 observations)
As can be seen in Table 3, 400 company year observations were studied. The mean for share returns was 3.08%, indicating an average return of over 3.08 for the 2013 to 2017 period tested. The average earnings per share was 775.50 c (ZAR). The average board size for the companies tested was 12.68 directors. There is, however, a large variation in board size with the smallest board consisting of only 6 members respectively and the largest board consisting of 25 members. The results show that, on average, non-executive directors accounted for 73.84% of the board and independent directors on average constituted 57.90% of boards in SA. The average percentage of female members on a board constitutes 21.38%, while the average proportion of ethnic diversity among boards was 42.47%. The average director’s shareholding of the sample companies was 5.39%, while institutional shareholding constitutes on average 42.26% of the company’s shareholding. The average leverage ratio was 47.96 indicating high debt levels for the companies tested. Restrained fundraising, lower earnings and acquisition activities could be blamed for the increase in debt levels. The average growth as measured by Tobin’s Q was 1.76,
indicating that market value was still larger than book value of assets. The minimum value of Tobin’s Q was 0.10, indicating that the market value of assets was just bigger than the book value of the assets.

Correlations

Multiple regression models require the absence of multicollinearity between the earnings per share (EPS) and the board structure of the companies tested. A serious multicollinearity problem is predicted by Arceneaux and Huber (2007) when the coefficient is greater than or equal to 0.7. The Spearman’s correlation (as reported in Table 4) was used to examine relationships between the data elements and all coefficients were lower than 0.7. This correlation is useful as it allows observing a variation in the earnings-returns relationship across the range more finely than would be practical in regression equations. The highest correlation is the correlation between female directors and ethnic directors at 0.455, which is much lower than the 0.7 correlation.

<table>
<thead>
<tr>
<th></th>
<th>EPS</th>
<th>BOARD S</th>
<th>NEXD</th>
<th>INEXD</th>
<th>WOMAN</th>
<th>ETHNIC</th>
<th>DSHARES</th>
<th>INS OWN</th>
<th>SIZE</th>
<th>DEBT</th>
<th>GROWTH</th>
</tr>
</thead>
<tbody>
<tr>
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<td>1</td>
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<td>-0.05</td>
<td>-0.05</td>
<td>-0.04</td>
<td>0.050</td>
<td>0.061</td>
<td>0.038</td>
<td>0.218**</td>
<td>-0.0081</td>
<td>0.065</td>
</tr>
<tr>
<td>BOARDS</td>
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<td>-0.148*</td>
<td>0.157**</td>
<td>-0.099</td>
<td>0.079</td>
<td>0.407**</td>
<td>-0.216**</td>
<td>-0.118*</td>
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</tr>
<tr>
<td>NEXD</td>
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<td>0.215**</td>
<td>0.082</td>
<td>0.199**</td>
<td>-0.235**</td>
<td>0.131**</td>
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<td>-0.193**</td>
<td>0.043</td>
<td></td>
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<tr>
<td>INEXD</td>
<td>1</td>
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<td>0.206*</td>
<td>-0.214**</td>
<td>0.026</td>
<td>-0.141**</td>
<td>-0.0048</td>
<td>-0.021</td>
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<td></td>
</tr>
<tr>
<td>WOMAN</td>
<td>1</td>
<td>0.455**</td>
<td>-0.181*</td>
<td>-0.0029</td>
<td>-0.068</td>
<td>0.040</td>
<td>-0.085</td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>ETHNIC</td>
<td>1</td>
<td>-0.306**</td>
<td>0.013</td>
<td>0.152**</td>
<td>-0.140**</td>
<td>-0.165*</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>DSHARES</td>
<td>1</td>
<td>-0.206*</td>
<td>-0.146*</td>
<td>-0.0106*</td>
<td>-0.035</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>INS OWN</td>
<td>1</td>
<td>0.085</td>
<td></td>
<td></td>
<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>SIZE</td>
<td>1</td>
<td>-0.183**</td>
<td>-0.359**</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>DEBT</td>
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<td>0.079</td>
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<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>GROWTH</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>1</td>
</tr>
</tbody>
</table>

Notes *** Significant at the 0.01 level** Significant at the 0.05 level * Significant at the 0.10 level

Diagnostic tests

Diagnostic tests were performed on the pooled OLS regression data to test that the data meets the satisfactory levels of normality, homoscedasticity and multicollinearity. The data was winsorised at the 1% and 99% levels as the normal probability plot suggested slight abnormality in the data set. Also, the Breusch-Pagan test (non–significant at 0.488) indicated that there was no heteroscedasticity, thus the data meets the homoscedasticity requirements. The underlying assumptions were also tested; the findings were checked for multicollinearity by calculating a variance inflation factor (VIF) for each variable, with the tolerance factors being all well above 0.1 and below 10, suggesting that multicollinearity poses no problem when interpreting the regression results. The model specification test indicated that the explanatory variables were correctly specified. Thus, the Wald test, statistically significant (0.000) indicates that the model is fit.

Regression results
Table 5 reports the results of the regressions which were conducted to determine whether share returns can be explained by the independent and control variables for the companies considered. The main interest in Table 5 is the sign and the significance of the independent and control variables tested. The regressions performed are significant at the 1%, 5% and 10% significance levels. Some 21.0% (Model 1) and 19% (Model 2) of the variation in returns was explained by the independent and control variables. Earnings per share on its own is positive and significant at the 1% level, in both Models 1 and 2. When testing returns against the individual board diversity factors only, non-executive directors are positively and significantly related and female representation on the board is negatively and significantly related. However, when these factors were tested against the informativeness (board diversity factor times EPS) more statistically significant relationships were uncovered. Model 2 test the informativeness of earnings and are therefore the main model used in this study.

As indicated in Table 5, the first variable tested in this study was board size. The informativeness of board size was not statistically significant, indicating that board size did not have an influence on returns or on the informativeness of earnings. Hypothesis 1 is therefore rejected. This finding is in line with the findings of Deschenes et al. (2013) (Canadian markets) and O’Connell and Cramer (2010) (Irish companies), who agree that independent directors are less likely to function efficiently when board size goes beyond a certain threshold, since it becomes difficult for them to express their opinions and ideas and so influence the effectiveness of decision-making and control. The finding is however contrary to Moumen et al. (2016) who opines that board size enhances the informativeness of risk disclosure in the Middle East and North Africa regions. The findings indicate that the size of the board does not have an influence on the informativeness of annual earnings. The descriptive statistics reported in Table 3 indicated that the average board size for companies included in the sample was 12, which is quite large. Companies in South Africa need to comply with the requirements of the BEE act, which could lead to an increase in board size. As discussed under hypothesis 1, large board size could increase information costs and lead to less effective coordination which could limit the effect on the informativeness.

The coefficient of non-executive directors and EPS is statistically significantly (10% level) and stronger than Model 1, indicating that more non-executive directors are associated with increased informativeness of annual accounting earnings. Hypothesis 2 is thus accepted, indicating that non-executive directors improved informativeness of annual accounting earnings and is important for the resolution of the agency problems. The results support the findings of O’Connell and Cramer (2010) (Irish companies), Choi et al. (2007) (Korean companies) and Vafeas (2000) (USA companies) but oppose the results of De Andres et al. (2005) (who tested 450 companies from 10 developed countries in Western Europe and North America using 1996 data) and Ferreira et al. (2011) (USA companies). The results could indicate that non-executive directors fulfil their monitoring role in South Africa and improve the informativeness of annual earnings.

The results indicate that informativeness of earnings for companies with a proportion of independent non-executive directors do not have an influence on the informativeness of earnings. Hypothesis 3 is therefore rejected. These results support the findings of Ahmed et al. (2006) (who used a sample of 615 firm-year observations in New Zealand) and Vafeas (2000) (who tested 307 USA companies during 1992). Therefore independent non-executive directors do not play a role to improve the informativeness of annual earnings in South Africa and could be attributed to the fact that the monitoring input offered by independent non-executive directors seems to be offset by the experience and information that non-executive directors contribute.

The results of the regression suggest that informativeness of annual accounting earnings varies with the proportion of female directors; this relationship is statistically significant at 5% level, and the coefficient changed from being negatively significant without informativeness (Model 1) to being positively significant with the informativeness (Model 2). The results of Model 1 indicate that female
representation on the board has a negative influence on share returns, but positively influences the informativeness of earnings. The negative influence on share returns is explained by Ho et al. (2015) who found that female board members ensure that more conservative accounting practices are implemented. Female board members’ positive influence on informativeness of earnings supports the findings of Adams and Ferreira (2009), who found that female board members are more diligent monitors of management and require more audits to be performed than their male counterparts, which could explain an increase in the informativeness of earnings. Hypothesis 4 is therefore accepted, thereby indicating that a positive relationship exists between the proportion of female directors on a board and the informativeness of earnings in SA. This provides support for the resource dependency theory. Hillman et al. (2007) (USA companies) reported that female representation on a board can improve a firm’s competitive advantage, give rise to a greater knowledge base and increased creativity. Additionally, Levi et al. (2014) (USA companies) opined that it appears as if women also tend to be more cautious when important decisions are made and thus not only increase returns, but also provide companies with a competitive advantage in terms of risk reduction. The study thus find that female directors increase the informativeness of annual accounting earnings for South African companies.

Table 5: Regression results

<table>
<thead>
<tr>
<th>Variable</th>
<th>MODEL 1</th>
<th>MODEL 2</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Prediction</td>
<td>Coefficient s</td>
</tr>
<tr>
<td>Intercept</td>
<td></td>
<td>-41.79</td>
</tr>
<tr>
<td>EPS</td>
<td></td>
<td>14.61</td>
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<tr>
<td>BOARDS</td>
<td></td>
<td>-2.22</td>
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<tr>
<td>EPS*BOARDS</td>
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<td></td>
</tr>
<tr>
<td>NEXD</td>
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<td>2.26</td>
</tr>
<tr>
<td>EPS*NEXD</td>
<td>+</td>
<td></td>
</tr>
<tr>
<td>INEXD</td>
<td>+</td>
<td>-6.89</td>
</tr>
<tr>
<td>EPS*INEXD</td>
<td>+</td>
<td></td>
</tr>
<tr>
<td>WOMAN</td>
<td>+</td>
<td>-2.03</td>
</tr>
<tr>
<td>EPS*WOMAN</td>
<td>+</td>
<td></td>
</tr>
<tr>
<td>ETHNIC</td>
<td>+</td>
<td>1.83</td>
</tr>
<tr>
<td>EPS*ETHNIC</td>
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<td></td>
</tr>
<tr>
<td>DSHARE</td>
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<td>-23.28</td>
</tr>
<tr>
<td>EPS*DSHARE</td>
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<td></td>
</tr>
<tr>
<td>INSOWN</td>
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<td>-18.19</td>
</tr>
<tr>
<td>EPS*INSOWN</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>SIZE</td>
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<td>-3.31</td>
</tr>
<tr>
<td>EPS*SIZE</td>
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<td></td>
</tr>
<tr>
<td>DEBT(sqrt)</td>
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</tr>
<tr>
<td>EPS*DEBT</td>
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<td></td>
</tr>
<tr>
<td>GROWTH</td>
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<td>-1.72</td>
</tr>
<tr>
<td>EPS*GROWTH</td>
<td>+</td>
<td></td>
</tr>
</tbody>
</table>
Lastly, the informativeness of annual accounting earnings among companies with ethnically diverse boards is not statistically significant related with share returns in Model 1, but is statistically negative and significant (10% level), indicating that ethnic diversity on the board reduces the informativeness of accounting earnings.

Van der Zahn et al. (2008) explains that greater ethnic diversity can boost the impact on company performance in Singapore, supporting the finding that ethnic diverse boards are not significantly related with share returns.

Both Field et al. (2013) (New Zealand companies) and Gyapong et al. (2016) (SA companies) reported that the negative relationship with the informativeness of accounting earnings, can be attributed to the shortage of qualified directors from ethnic groups. These directors are likely to be too busy due to multiple appointments on various boards to have a positive effect on the informativeness of earnings. The results imply that the ethnic diversity of board members negatively affects the informativeness of earnings in SA. Hypothesis 5 is therefore not accepted adding to the literature by documenting a negative effect of ethnic board diversity on the informativeness of earnings in SA, which provide support for the agency theory view of a more balanced board without one board member dominating the decision-making process. This study accepts that ethnic diversity can however add to a company’s competitive advantage, reputation, innovation activities and superior company capital value (as reported earlier), but not to the informativeness of earnings.

### Additional analysis performed

A stepwise regression was first performed to find the best combination of explanatory variables and provides support that non-executive directors, and female directors have a significant positive effect and that ethnical diverse boards effect informativeness of annual accounting earnings negatively. This is in line with the results reported in Table 5. Following Bona-Sánchez et al. (2018), endogeneity is estimated using the General Method of Moments (GMM) estimator by using instruments. Following Wintoki et al. (2012) board size and earnings per share lagged twice were used as instruments. We then compared the results obtained from the OLS pooled regression and the stepwise regression. The results were in line with the OLS regression performed and were not reported.

### SUMMARY AND CONCLUSION
In this paper, we have examined the association between board structure and the informativeness of earnings in SA. The SA corporate context is uniquely characterised by an urgency to meet affirmative action regulations (such as black empowerment in board appointments), limited qualified and experienced black directors, concentrated ownership, and greater government ownership.

The results of this study contribute to the extant literature in various ways. The study found that non-executive directors improve the informativeness of earnings due to increased monitoring of management’s decisions and actions and thus resolve any agency problems, which in turn improves the quality of financial reporting. Female board members also contribute significantly to the informativeness of earnings, implying that appointing female directors improves the knowledge base, creativity and innovation as well as organisational value. However, when using Model 1, female influence on share returns was found to be significantly negative, which can be attributed to a more conservative accounting practice implemented by female board members. In addition, it was found that boards with less ethnic diversity have a greater informativeness of earnings as the negative relationship can be attributed to the shortage of qualified directors of an ethnic background and these directors often have multiple appointments on various boards and are likely too busy to have a positive effect on the informativeness of earnings. It was furthermore found that ethnic diversity is not significantly related with share returns in SA, but it is conceded that greater ethnic diversity on boards can boost the impact on company performance. These results do not provide a business case for ethnic diversity. However, it allows for the conclusion that an ethnically diverse board can be viewed as politically and socially correct in the current social climate; as SA has been propagating the dismantling of racial boundaries and a more equitable distribution of economic well-being. The results indicated that board size of South African companies do not influence the informative of annual earnings. This could be attributed to the fact that the board size of the companies included in the sample was quite large (12). Companies in South Africa need to comply with the BEE acts, which could increase the board size and could lead to increased costs and less effective coordination and limit the effect on the informativeness. Interestingly, this study does not find evidence to support the popular notion that more independent non-executive directors should be added to corporate boards in order to enhance financial reporting quality. While independent non-executive directors seem important at times of crises, their monitoring input seems to be offset by the experience and information that is contributed by non-executive directors.

This study’s results provide further support for agency and resource dependence theories, which suggest that boards with diverse gender and increased non-executive representation, increase executive monitoring and decision making. Agency theory literature suggests that non-executive directors have incentives to prevent aberrant managerial behaviour to protect their public image and secure demand for their monitoring services. Resource dependence may be particularly powerful in explaining this study’s evidence of a positive effect of board diversity on informativeness of annual earnings in SA. This implies that by appointing more female board members, SA companies can win government support and gain access to critical resources, such as government contracts, finance, and tax concessions that can facilitate growth and improve long-term financial performance (Ntim, 2015).

This study has important policy implications for countries with diverse ethnic communities striving to achieve communal accord. Also, this study can provide empirical evidence to regulators, companies and policymakers formulating policies on gender representation on boards specifically in emerging countries where men are often widely regarded to be superior to women. Hence, the SA government could consider implementing the Women Empowerment and Gender Equity Bill.

In the study the following limitations were accepted: the assessment is limited to the annual reports 80 of the Top 100 companies listed on the JSE for 2013 to 2017 which were sourced from the IRESS data base. Based on prior research, specific market- and accounting-based performance measures are used in the current study. It is accepted that the usage of other performance measures could possibly have led to different results.
Future research may compare the informativeness of annual accounting earnings between countries. It is also suggested that further research could include other mechanisms of corporate governance such as ownership structure in order to examine the overall influence of corporate governance on the informativeness of annual accounting earnings. This study was limited by the fact that it studied board composition at a point in time. Future research could consider the longitudinal study which would comprise longer periods in order to obtain more generalised results. Another interesting angle would be to test the extent of changes in board composition and to compare this to the market value of these companies.

Acknowledgements: The comments of the Editor-in-Chief and two anonymous reviewers are greatly appreciated.

REFERENCES


CO-OPETITION: THE MORPHOLOGY OF EVOLVING USA CORPORATE HOTEL B2B SALES

Richard McNeill and Hester Nienaber

Received May 1st, 2019; First Revision April 14th, 2020; Second Revision June 10th, 2020; Accepted June 15th, 2020

ABSTRACT

As part of an iterative series of research, the purpose of this paper is to recalibrate and update a theoretical corporate hotel B2B sales model previously developed by the authors. Given the paucity of published secondary literature on the subject, the authors have again researched the B2B hotel sales industry to expand their understanding and detail current industry practices. The research questions guiding this study are: (a) What is the state-of-the-art of hotel B2B sales architecture and (b) How can we design a practical and rigorous descriptive model? The authors reviewed the current literature and followed this up with a qualitative case study. Data were collected in 2019 by interviewing 10 purposefully selected participants, based on snowball sampling, which is the norm for qualitative studies. These participants had extensive experience with B2B collaborative relational exchange in the hotel ecological community. We focused on the top few hotel corporation market leaders in the hotel industry as these corporations were perceived to be at the cutting edge of designing the most sophisticated go-to-market B2B selling architectures. Further, we focused on accessible USA based hotel industry leaders. The data were content analysed according to concept and data driven principles. The findings show that the selected top few, globally deployed, and USA based hotel corporations that participated in this study, have in the past and currently are, reinventing their go-to-market models. As hotel industry “Leaders,” they are exemplars and models of effectiveness and efficiency to industry Challengers, Followers, and Nichers. Their exemplar power is especially important in the new normal catalyzed by the Covid-19 pandemic that has been devastating global tourism in the first few quarters of 2020. These Leaders are co-creating and exchanging value with exchange partners by creating networks of allied and partnered firms. In these value networks, they are collaborating in integrated ecosystems instead of competing as self-contained entities. These large and generally resource-rich hotel industry market leaders utilize multiple relational exchanges (selling) modes that are specifically customized to various B2B market segments. This permits cost effectiveness as the acquisition of small B2B group meeting business can be

Richard McNeill is a Professor at Northern Arizona University (NAU), The W.A. Franke College of Business, School of Hotel and Restaurant Management. He began his industry career in sales and marketing in 1970, serving as personal producer, key/strategic account manager, and marketing executive in financial firms and finally in the hotel industry. In 1989, he joined NAU where he teaches and conducts research in hospitality sales and marketing. McNeill consults and maintains contacts within the hospitality industry where he continuously gleans practical currency, preferring praxis over theory. His publication record almost always reflects applied research.

Hester Nienaber is Professor at the Department of Operations Management at the College of Economic and Management Sciences at the University of South Africa (Unisa). She is also a Visiting Research Professor at Northern Arizona University, School of Hotel and Restaurant Management, Flagstaff, Arizona. Her research theme is ‘shaping competitive advantage by unlocking human competence’. Currently, she is an NRF-rated researcher. Responsibilities include supervising master’s and doctoral students. Hester has a number of publications in peer-reviewed journals, sole and co-authored with colleagues around the globe, participates in peer-reviewed conferences, and reviews articles and papers for journals and conferences.
addressed with a combination of lower cost salespeople and electronic means as opposed to addressing large B2B group business which may be part of long-term contracted key accounts and which requires well-trained key account teams. Smaller and less resource-rich corporate and individual hotels are at a disadvantage compared to industry market leaders. Our study results in a recalibrated model which describes the state-of-the-art of today’s evolved corporate hotel B2B sales architecture while providing guidance to resource-poor organizations, namely market challengers, followers and nichers which compete with the market leaders. Practical implications include that this model is actionable since it is derived from hotel practitioner use. A theoretical implication is that this model is rigorous as it is anchored in theory. Policy implications relate the hotel industry leaders that serve as a model to the rest of the industry actors and prescribe how to adapt to short-term/long-term Covid-19 alterations and continuously changing global business environments. The main limitation of this study is that it reflects views and practices from resource-rich hotel industry market leaders and USA based hotel corporation leaders only. It is recommended that the concept “co-opetition” be further explored in future research.

**Keywords:** B2B hotel sales model, hotel ecological community, co-opetition, intra- and inter-organizational exchange; USA.

**INTRODUCTION**

H. G. Wells, a lifelong optimistic observer of progressing technological developments, in his 1946 final publication, *Mind at the End of its Tether,* expressed his end-of-life pessimistic view of organic evolution as follows:

… as an urge to exist so powerful that every form it takes tends to increase in size and numbers and outgrow its supply of food. … The bigger aggregations or individuals eliminate the smaller and consume more and more. … eliminating species and genera …

(The Literary Executors, 1996, p. 48)

This study draws an analogy among interacting, “co-opetitive,” ecological communities found in nature and business ecological communities. A business ecological community is a bounded interacting value-creating/sharing network of member actors consisting of suppliers, customers, complementors, and competitors (cf. Aarikka-Stenroos & Ritala, 2017; Brandenburger & Nalebuff, 1996). The term, co-opetition, is a neologism, combining the words “cooperation” with “competition” (cf. Brandenburger & Nalebuff, 1996). On a continuum, co-opetition varies in the way that it is expressed between interacting ecological communities and their members. It ranges between “cooperation-dominant” co-opetitive interactions to “competitive-dominant” co-opetitive interactions. In nature, species “co-opete.” They simultaneously cooperate and compete both intra- and inter-species. They compete for resources in the food chain and in the contest of reproduction and often cooperate to ensure mutual survivability. Similarly, businesses compete and cooperate in the value chain and in the contest for market share. Nature exhibits varying symbiotic interactions between and within species inside their ecological communities. These range from parasitism to mutualism arrangements which influences their sustaining survival strategies. Businesses exhibit varying cooperative and competitive (co-opetitive) positions within their business ecological communities. It appears that both the natural order and business organizations seek analogous strategies. The natural order seeks to survive, flourish, and replicate genes while the business entity seeks to survive, grow, and achieve profitability.

Today, the morphology or architecture of the hotel industry is rapidly evolving. This development is prompted by a changing environment and response to evolving and varying customer needs (Buhalis & Sinzat, 2019; Cheverton, 2015; Della Corte & Aria, 2016; Kumar, Sharma, & Salo, 2019; Zimmerman, 2018). We see significantly growing mergers/acquisitions/partnerships and resulting marketplace
domination by a few large hotel corporations which are considered in Gilligan and Wilson (2009) terminology as market leaders. The world’s four top hotel corporations measured by room count (Weinstein, 2018) - Marriott, Hilton, IHG, and Wyndham – dominate the hotel industry and have recently expanded the number of brands in their portfolio, global countries served, market share, and complexities of their value chain networks. Concurrent with this expansion, they are reinventing their go-to-market (sales) architectures. These top hotel corporations have created networks and an ecological community of allied and partnered firms co-operating as integrated entities instead of competing as self-contained firms. This development is consistent with the trend in other generic sales organizations (Kumar et al., 2019; McNeill, 2017; Storbacka, Ryals, Davies, & Nenonen, 2009; Wang & Brennan, 2014; Zimmerman, 2018). These new go-to-market architectures are essential for nurturing profitable, long-term, repeat business, as opposed to discreet, singular transactions (Cheverton, 2015; Storbacka et al., 2009; Wang & Brennan, 2014; Zimmerman, 2018). As these networked webs dominate the other hotel corporations and independent freestanding hotels, they do appear to channel H. G. Wells (1946) who talked about “…The bigger aggregations…eliminate the smaller…eliminating species…”

PURPOSE OF THE PRESENT STUDY

This paper examines the evolving B2B sales morphology/architecture in the USA hotel industry as currently developed in top-tiered hotel corporations. Building upon a research model (McNeill & Nienaber, 2018b), this paper has answered the research challenge to further refine this model as illustrated in Figure 1.

The research questions guiding this study are: (a) What is the state-of-the-art of B2B hotel sales architecture and (b) How can we design a practical and rigorous descriptive model?

The limitations of this study include that this evolving architecture by top USA hotel corporations require adequate resources to execute such a model. Smaller and resource deficient hotel entities may find it difficult to duplicate such an architecture and, while they may aspire to do so, they tend to regress to familiar and traditional practices.

LITERATURE REVIEW

Organizations use strategy to deliver value. Strategy is multileveled in terms of corporate, strategic business unit (SBU), operational, and tactical levels. To ensure success, the different leveled strategies should be aligned (Pettigrew, 1987). Corporate level strategy answers questions about where the organization should compete, sets direction, guides action, and demarcates the scope of business (Aaker & Moorman, 2019; Porter, 1980, 1985). As such, the corporate level strategy identifies the business ecosystem community (including all ecosystem participants) within which the organization operates (Bouncken, Gast, Kraus, & Bogers, 2015; Fernandez, Chiambaretto, Le Roy, & Czakon, 2019). Generally, corporate level strategies manifest in different forms including strategic alliances, partnerships, and franchising (Aaker & Moorman, 2019; Pettigrew, 1987). These strategies are considered relational exchange strategies where business ecological community members pursue both mutual and individual goals in co-creating and exchanging value in varying degrees of co-opetition (Czernek & Czakon, 2016; Kumar et al., 2019; Le Roy & Czakon, 2016; McNeill & Nienaber, 2019). At the cooperation-dominant

3 Subsequently, in 2019, Shanghai based and Chinese state-owned hotel corporation, Jin Jiang, moved to second place – displacing Hilton - after massive hotel corporation acquisitions including acquisition of the Radisson Hotel Group and its 180,000 rooms and 1,100 plus hotels. http://library.hotelmag.com/publication/?m=18556&i=602570&p=22&ver=html5
form of co-opetition, these corporate level strategies are often practiced as *key/strategic account management* (K/SAM), or similar terms (Kumar et al., 2019; McNeill & Nienaber, 2018a). However, these strategies often result in high failure rates (Kumar et al., 2019) due to an ever-present tendency for competition to encroach upon the mutual value created by cooperation through occasional participant opportunism. Co-opetition, observes Bradenburger and Nalebuff (1996), involves a duality and balance of value creation and capture. Creating value is basically a cooperative process between interacting entities. Capturing value is basically a competitive process. Often, the value-pie created through cooperation in the co-operative partnerships can result in an opportunistic contest among the creating partners as they competitively divide and capture the created value (Bradenburger & Nalebuff, 1996). Co-opetition, with upfront relational understandings, attempts to mitigate the effect of inappropriate competition and opportunism.

Competitive (SBU level) strategies answer questions about how organizations should compete to ensure winning market positions (Porter, 1980, 1985). *Market positions* are commonly classified as market leader, follower, challenger, and nicher (Gilligan & Wilson, 2009). Porter famously classified *competitive strategies* as differentiation, cost leadership, and focus (nicher) (Porter, 1980, 1985). To be effective, these strategies should be based on *competitive advantage*, meaning that the organization performs the *value chain activities* (implementing actions, both intra- and inter-organizational) differently or better than rival members in the business ecological community in their bid to attract customers (Porter, 1985; Gilligan & Wilson, 2009). However, today there are many misunderstandings about the role of competitive strategies deployed in seeking competitive advantage (Magretta, 2012).

Magretta (2012) points out that (a) competition is about being unique – not the best, (b) competition is a contest over profits – not a battle between rivals, (c) competition is about choosing to make some customers unhappy – not being all things to all customers, (d) competitive success can be explained by one core competence – that *one* thing which a company does really well, and (e) good strategies depend on the connections among many things, such as activities and processes (implementing actions), and on making interdependent choices. It stands to reason that these interdependent choices include input from both inter-organization and intra-organizational role players in the business ecosystem.

This study examines the morphology or “architecture” of intra-specific and inter-specific relationships between activities and processes. This morphology concerns a human-created species (specifically, a hotel corporation) struggling for fitness and survival in a business ecological community. We focus on the morphology of an evolving corporate hotel B2B sales model (Figure 1). We believe that all organisms, from the simplest in nature to the most complex, and including biological humans augmented by their technology and organizational artifacts, follow similar rules found in nature. Thus, we observe nature’s ecological definitions of intra- and inter- species interactions to guide the refined model of corporate hotel B2B sales organizations presented in Figure 1.

Below, we first lay the foundation for an evolving corporate hotel B2B sales model by a discussion of relational interactions in the ecological community of biological organisms (Wootton & Emmerson, 2005). Second, we draw direct parallels between a biological and business ecological community where we observe similar behaviors and architectures, albeit translated to a business vocabulary.

**TWO SELECTED TYPES OF BIOLOGICAL SPECIES RELATIONAL INTERACTIONS**
While there are several major types of biological species relational interactions, in this study, we focus on two major and analogous types which are especially useful for describing an ecological community: (a) in nature, symbiosis and its sub-variants - mutualism through parasitism and (b) in business, co-opetition – competition and cooperation. These relationships are dynamic and change over time as they move from one status to another (cf. Czernek & Czakon, 2016).

**Nature’s Ecological Community**

Organisms, including humans, live within an ecological community. An ecological community can be defined as an assemblage of populations of at least two different species that interact directly and indirectly within a defined interactive, and usually geographic, area. Human organisms, along with their technological artifacts (for example, human created corporate organizational forms), uniquely possess the capability to virtually interact across space and time. These interactions form the basis for many ecosystem properties and processes underlying species survival. Species simultaneously compete and cooperate: (a) intra-specific – between individuals of the same species or (b) inter-specific – between two or more aggregates of individual species (Lang & Benbow, 2013).

Competition, in nature, is a general state of interaction among individuals and/or aggregates of individuals contending for a limited supply of a commonly required resource. This rivalry between individuals or groups to obtain commonly desired object(s) usually results in a winner and a loser but does not necessarily involve the destruction of the loser (Dictionary.com, 2019). On the contrary, under competitive exclusion, they can co-exist in the same space with or without mutual interaction (Lang & Benbow, 2013).

Symbiosis, in nature, while encompassing general competition, is an umbrella term for a range of interactions among species – both inter- and intra-specific – that more granularly describes the interspecies interactions which are outlined below. The umbrella term, symbiosis, refers to situations where two or more species live in purposeful and direct contact with each other. There are three major forms of symbiosis, namely mutualism, commensalism, and parasitism. Symbiosis is often mistakenly used as a synonym for one of its sub-variants, mutualism (Begon, Harper, & Townsend, 1996).

Mutualism is a sub-variant form of symbiosis. It manifests as reciprocal altruism, which is a behavior whereby one (sacrificing) organism acts in a manner that temporarily reduces its own fitness while increasing another (beneficiary) organism's fitness. This behavior is based on the expectation that the beneficiary organism will act in a similar manner; namely that it will later reciprocate (Begon et al., 1996). For example, in laboratories it is observed that young rats play simply for the sake of play. A big rat can physically dominate a small rat. But, if the big rat wins all the time, the small rat stops playing. So, with play being intrinsically important, the big rat temporarily reciprocates and allows the small rat to dominate. Thus, sustainable play is preserved.

Commensalism is a sub-variant symbiotic relationship where one organism or species beneficially affects a second organism or species, but the second has no effect (good or bad) on the first (Begon et al., 1996). An example of commensalism is a tropical orchid plant (epiphytes) growing on a tree branch which needs the tree for support only and not for nourishment. The orchid obtains nutrients from air, light, rainfall, and accumulating composted debris. The tree can live without the orchid. One organism, the orchid, benefits and the other organism, the tree, is not significantly harmed or helped.

Parasitism is a sub-variant symbiotic relationship where one organism, the parasite, benefits while the other organism, the host, is harmed. A familiar and intentionally vivid example is a tapeworm (parasite) living in the bowels of another creature (host) and eating the host’s digesting food.
Business Ecological Community

Research on organizational networks and ecosystems are familiar topics, however they have developed in isolation. Network research preceded business ecosystems research. Recently, however, scholars expanded network research and examined business ecosystems and their connection with (value) networks (cf. Aarikka-Stenroos & Ritala, 2017; Shipilov & Gawer, 2020). Generally, networks are formal and ongoing intra- and inter-organizational relationships that focus on linkage structures. Research has focused on the “what” of these linkages. Ecosystem research focuses on a set of actors within a network connected by organically arising complementary linkages which may or may not be formally hierarchically controlled. This latter research stream asks the “how” and “why” of the linkages. Essentially, business ecosystems focus on examining system actors and their activities as part of a broad and interdependent environmental system. In B2B relationships the ecosystem is deemed to be a new umbrella layer superimposed upon the (value) network. In addition, the business ecosystem can take several forms. One of these forms focuses on value co-creation and appropriation in the business ecosystem (Aarikka-Stenroos & Ritala, 2017; Shipilov & Gawer, 2020) which applies to our study. Regardless of the recent developments in business ecosystems, Easton et al.’s (1993) taxonomy of relational interactions remains relevant.

The business ecological community is reflected by Easton et al.’s (1993) taxonomy of different forms of relational interactions among business entities, namely Contention, Competition, Co-existence, Cooperation, and Collusion. From pole to pole along this continuum, contention (wrangling, arguing, and gain-striving) is almost a stale-mated contest of frozen negotiating positions. The opposite pole, collusion, is a form of highly coordinated and generally illegal relational interaction in the USA. A collisional mindset, which involves striving for oligopoly or even monopoly, may be an unconscious, albeit unacted-upon, business entity goal. This may occur when managers shallowly reflect on Porter’s work (1980, 1985) suggesting that all business strategy aims for the single measurable goal of excess profits. Porter defines competitive advantage as that which makes an entity’s goods or services superior to all of a customer’s other choices.

We modify Easton et al.’s (1993) taxonomy of relational exchanges to read: Co-existence, Competition/Transactionnal, Consultation, Collaboration/Strategic and Collusion. The polar extremes of this taxonomy are not applicable to this study. Co-existence is a quasi-neutral relational interaction space where two or more entities exist together and may or may not have any mutual interactions. And, as mentioned earlier, collusion is illegal. Thus, for purposes of this study, we focus on two of our modified forms of relational interactions, namely Competitive/Transactionnal and Collaboration/Strategic (See X-axis, Figure 1). This is consistent with the binary categories of transactional and strategic, for value-exchange methods/strategies (buying/selling strategies) as defined by the Strategic Account Management Association (SAMA) (Zimmerman, 2018).

Clarifying Terms

Let us pause for a moment. It might be instructive to get on the same page. We need to clarify some of the recently used terms to avoid confusion. Referring to Figure 1, the Y-axis ranges low to high – parasitism to mutualism. This indicates a relational exchange analogy between nature and business. These terms are nouns or states of being. The situation either exists or does not exist. On the X-axis is a continuum reflecting the three forms of relational exchange modes (methods/strategies). These range from a competitive/transactionnal mode to a collaborative/strategic mode. These modes are also nouns and describe methods/strategies (again, a state of being) recommended for practitioners. When we speak of co-opetition, reflected on the 45° lower left to upper right line of Figure 1, we are referring to a verb. This
is an action. It is an activity. Co-opetition is composed to two action concepts: Competition and Cooperation. When practitioners deploy a method/strategy, for example a consultative relational exchange mode (Middle X-axis), beginning with the middle X-axis, one upwardly extends a vertical line to the 45° line. The intersection point indicates that there is an approximate 50%/50% mix of competitive actions and cooperative actions (verbs) involved with this consultative mode (method/strategy) (noun). The 45° line in Figure 1 represents the full range co-opetition actions. The lower-left of this line represents competition-dominant actions and the upper-right represents cooperation-dominant actions.

The following sections elaborate on the above-mentioned relational exchange modes (nouns) (methods/strategies) recommended for practitioners and that are pertinent to this study, which are competition/transactional in business and collaboration/strategic in business.

**Competition/Transactional in Business**

Competition/Transactional is akin to parasitism in biology ecosystems. The etymology of the term compete (The Online Etymology Dictionary, 2019), provides definitions which may indicate a deeper understanding and help examine today’s evolved and, perhaps more limited, meaning. In classical and Late Latin, from *com* (“with, together”) plus *petere* (“to strive, seek, fall upon, rush at, attack”) combines into *competere*, “strive in common, strive after something in company with or together.” According to the Oxford English Dictionary (2019), the term *competere* was rare in the 17th century and revived as of the late 18th century. The term is sensed to mean, “to strive (alongside another) for the attainment of something.”

Recall that co-opetition is a neologism of the terms, cooperation and competition. The word *competition* denotes an effort to capture a share of a value-pie that was cooperatively co-created by the interactions of co-opetitive businesses (Brandenburger & Nalebuff, 1996; Czernek & Czakon, 2016; Le Roy & Czakon, 2016). Businesses simultaneously compete and cooperate. Rarely do businesses purely compete or purely cooperate. When enacting any strategy, they can be placed on a polar continuum as acting in competition-dominant co-opetition, cooperative-dominant co-opetition, or a co-opetive mix somewhere between these poles. The following discussion focuses on one method/strategy (noun) on Figure 1, X-axis: Competition/Transactional strategy which is implemented in highly competition-dominant co-opetive (verb).

**Competition from a Macro-View.** Translating Wells’ observations (The Literary Executors, 1996, p. 48) from the organic realm to the world of business, Porter stated in Competitive Advantage (1985), that all business strategy strives for a single measurable goal: Excess profits. He defines competitive advantage as that which makes an entity’s goods or services superior to any of a customer’s other choices. Classic economic theory idealizes “perfect competition” as eliminating market entry barriers. Porter, restating research from his 1980 book, Competitive Strategy, describes five-forces of market barriers where a company could create “imperfect competition” and erect market barriers to create a sustainable competitive advantage and, thus, achieve excess profits (Stewart, 2015). Thus, in both of his books, Competitive Strategy and Competitive Advantage, Porter could be read as advocating a firm’s ideal ambition to work toward a monopoly or, at a minimum, acquire membership in an oligopoly while avoiding the threat of prohibiting government restrictions.

In both his 1980 and 1985 works, Porter describes three generic strategies for achieving competitive advantage: (a) Cost Leadership, (b) Differentiation, and (c) Focus (or Niche). In his 1985 Competitive Advantage, he gives special attention to the differentiation strategy and introduces a way to bridge the gap between strategy and implementation, a way to put generic strategy into practice. This gap
is closed, states Porter, by the term, *activities*, which is synonymous with the term, *processes*, in reengineering literature. These activities are both intra- and inter-organizational activities.

Porter introduces the now common concept of value chain and defines this chain as a disaggregation of buyers, suppliers, and the firm itself, which are discreet but interrelated activities, from which value is derived. He states:

*The value chain provides a rigorous way to understand the sources of buyer value that will command a premium price [thus, is differentiated] and why one product or service substitutes for another. A strategy is an internally consistent configuration of activities that distinguishes a firm from its rivals.* (Porter, 1985, p.xv.)

Porter’s (1985) view is an activity-based theory of the firm. To compete in any industry, businesses must perform a wide array of activities such as processing orders, contacting customers, assembling products, and training employees. **Activities** are narrower than functions such as marketing or R&D and they are what creates value for buyers. According to Porter, they represent the basic units of competitive advantage. As we will see, **activities** are also the basic units of **collaborative advantage** as implemented in both inter-and intra-organizational networks of relationships and processes (cf. Dyer, 2000).

Above, Porter addresses competitive strategies in the business marketplace. But what are these businesses attempting to do? They are jockeying for market positions, or the business’ position (leader, challenger, follower, nicher) within the marketplace or industry where they interact with other species in the business ecosystem or actors that some have called *competitors*. Gilligan and Wilson (2009) restate these well-researched categories of market positions. **Market Leaders** are that one firm in a business industry that is recognized to be the leader. Its recognized dominance usually provides a benchmark for other companies in the industry. A distinction of leadership can be drawn between the mere size of the leader and its thought leadership. It is based on variables such as innovation and different patterns of thinking. **Market Challengers** and **Market Followers** are usually smaller firms, in market share terms. Challengers may choose an aggressive approach, and attack other industry firms, including the leader. Followers may adopt a less aggressive stance and preserve the status quo – it is sometimes wise to remain a profitable number two in the industry. **Market Nichers** are firms that choose to specialize in areas of the industry and marketplace that are too limited in size to be of significant interest or attention by the larger firms. They can concentrate their efforts and build-up knowledge and avoid expensive head-on fights with larger companies.

Thus, from a macro-view, competition is about businesses knowing the industry and marketplace (their ecological community) in which they compete and rationally deciding on their industry/marketplace position. Then, they must decide which competitive strategies they will deploy to capture value within the marketplace.

**Competition from a Micro-View.** Here we address the word, **transactional**, contained in the method/strategy (*noun*), Competition/Transactional (Figure 1, X-axis). Value-exchange in a transactional strategy involves highly competition-dominant co-opetition (*verb*). It reflects Porter’s definition in *Competitive Advantage* (1985), that all business strategy strives for a single measurable goal: Excess profits. In effect, the competition/transactional relational exchange mode in Figure 1 is a recommendation for practitioners to strive for win/lose value-exchanges or at least not to expend needless resources on relationship building activities, through competition-dominant co-opetition (*verb*). Economic value overrides the psychological value of relationships as the latter is often viewed as a wasteful resource expenditure.
Collaboration/Strategic in Business

Collaboration/strategic is analogous to mutualism in nature’s ecosystems. Again, recall that co-opetition is a neologism of the terms, cooperation and competition. The word cooperation denotes co-creation of a value-pie by the interactions between independent businesses. Afterwards and through competition among the co-creating businesses, the value initially co-created will be divided and shared (Brandenburger & Nalebuff, 1996; Czernek & Czakon, 2016; Le Roy & Czakon, 2016). First, these independent businesses cooperated and second, they competed: they co-opetition. Remember that cooperation and competition are both action verbs comprising the action verb, co-opetition. The following discusses the method/strategy of Collaboration/Strategic (noun) as a relational exchange mode recommended to practitioners enacting the verb, cooperation-dominant co-opetition (See, Figure 1, X-axis).

Collaboration/Strategic. The collaboration/strategic relational exchange mode is the most complex mode of relational exchange modes on Figure 1’s X-axis. Collaboration encompasses two concepts, cooperation and coordination, and both are highly dominant in this relational exchange mode. As collaboration strengthens, both cooperation and coordination also strengthen. Collaboration strength depends on the strength of both cooperation and coordination. Collaboration suggests that relational partners collectively work on co-creating and exchanging value to achieve a common goal. This common goal is something new and all relational exchange partners gain to varying degrees. The gain, however, is not limited and singular to the common goal. The gain, to some degree, also permeates and enhances participating partners’ individual goal achievement agendas. However, the collective gain may not be equally distributed among individual interacting entities. This is where conflicts may arise.

Cooperation, one of the elements of collaboration, denotes is when the ecological community members working collectively in support of each other’s individual goals. Coordination, the second element of collaboration, denotes the implementation of value exchanges, that are guided by rules or norms, in pursuit of both mutual and individual goals, which may require the adaptation of at least one actor/partner to facilitate the exchange.

The terms collaboration, cooperation, and coordination, discussed above, are related, but distinct, in terms of etymology, business content, and practice. They are often conflated and, thus, lead some to eschew exact definitions. Some researchers use these terms loosely as synonyms and cause confusion (cf. McNeill & Nienaber, 2019). In addition to confusion through loose synonym usage, it is equally as easy to confuse the use of the word, cooperation, within its use in the neologistic word, co-opetition (verb). Subtlety nuanced and somewhat confusing, the word, cooperation, could be misused in the collaboration/strategic (noun) relational exchange mode in Figure 1. The take-away here is that these terms need to be more rigorously denoted as described above.

Strategic, in the relational exchange mode term, collaboration/strategic, reflects the tight relationship bonds necessary to hold this mode together. The bonds most often found in this mode are arrangements such as long-term contracts, integrated logistic networks, and highly developed inter-organizational relationships supported by top-corporate officers. Again, this definition of strategic is consistent with one of the polar categories defined by the Strategic Account Management Association (SAMA), (Zimmerman, 2018): transactional and strategic.
The Hotel Business

Hotel Industry Context

What is a hotel? According to Business Dictionary (2019), a hotel is, “a commercial establishment providing lodging, meals, and other guest services. In general, to be called a hotel, an establishment must have a minimum of six [rentable] letting bedrooms, at least three of which must have attached [in-room] private bathroom facilities.” The statistics below should be considered close approximations as often they vary from other sources due to different definitions of measurement units. For example, (a) Sometimes hotel revenue is measured only from rooms or sometimes inclusive of food & beverage and other services, (b) Different statistic gathering sources provide differing standards: STR Global (2019) defines a hotel as 15 rooms plus in the USA and as 10 plus outside the USA, and (c) Sometimes measurements of the largest hotel corporations in the world may be based on numbers of rooms or total revenue.

Measured by total revenue, the worldwide hotel industry is huge. The global hotel industry falls under the umbrella of the global hospitality industry which, in turn, falls under the umbrella of global travel and tourism industry. The entire travel and tourism industry obtains its revenue from both leisure (business-to-consumer markets) markets and business corporate markets (business-to-business - corporate transient travelers and group business). The hospitality industry specializes in accommodation including lodging, food & drink, and wellness. The global travel and tourism industry contributed 7.61 trillion U.S. dollars to the global economy in 2016. Global hotel retail value in 2017 was 570.18 billion USD and USA hotel revenue was 208 billion USD (Statistica, 2019).

How many hotels are there in the world? Again, statistical metrics vary, and most observers do not know. There are many small lodging accommodations not reported and many forms not formally defined as hotels and may appear or disappear daily. But as an approximation, STR Global (2019) estimated that there were 190,000 hotels globally comprising 17.5 million rooms. The average hotel size was 85.5 rooms. These hotels fall into the Gilligan and Wilson (2009) classifications as Market Leader, Market Challenger, Market Follower, and Market Nicher. Our study focuses on the state-of-the-art developments by market leaders. The study focuses on the few top, globally deployed hotel corporations, specifically the top USA based hotel corporations.

Today’s large (market leader) hotel business organizational structures are unique and not that commonly perceived. Large and familiar hotel corporations, such as Marriott International (MAR stock symbol) and Hilton Worldwide (HLT stock symbol) are asset-light C-corporations, that is, they do not own hotels (the brick & mortar) (Seeking Alpha, 2018). Today, large hotels earn corporate revenue primarily through management contract fees (largest revenue source), and franchise fees (smaller), and an even smaller revenue from very few corporate owned hotels (cf. Giannoukou, 2016). They can be legally divided into: (a) an asset-light C-corporation and (b) an asset heavy Real Estate Investment Trust (REIT). The C-corporation is a hotel operator (primarily a management company) and on the growth side of the business with higher margins and lower leverage. They flexibly seek new management contracts. The REITs operate by owning assets, collecting the revenue, and paying a set percentage to the management company. REITs tend to be less nimble and have slower growth rates than the C-corporations (Seeking Alpha, 2018). Trends over the last 20 years record an acceleration in hotel industry consolidation and a rethinking of organizational structures and strategies. These trends appear to be led by Marriott International (Whitmore, 2018), which is generally considered to be the hotel industry/market leader (Gilligan & Wilson, 2009).
The Pareto Principle in Hotel Industry/Marketplace Positioning

It appears that the Pareto Principle – the 20%/80% rule – applies to the hotel industry. A few hotel giants dominate the hotel industry and may jointly be considered to be market leaders. Comprising the remainder of Gilligan and Wilson (2009) industry classifications, challengers, followers, and nichers, an increasingly fewer number of hotel corporations seem to have a competitive strategy to capture a full array of both B2B and B2C market segments. The top hotel recognizable names in the world (and arguably the hotel industry market leaders) ranked by number of rooms are, in order (Weinstein, 2018, July/August): Marriott International, Inc. (USA-based), Hilton Worldwide (USA-based), IHG, International Hotel Group, (UK-based), and Wyndham Hotel Group (USA-based). Ranked by number of hotels, the ranking shifts: Marriott #4, Hilton #6, IHG #5, and Wyndham #1. Note that in 2018, the hotel industry’s premier market leader, is the USA based and globally deployed, Marriott International, which accounted for approximately 10.7% or $22.3 billion of total hotel revenue attributed to USA hotels and hotel corporations (Statistica, 2019).

Hotel B2B Sales

Based on the foregoing, corporate hotel B2B sales (relational exchange) architecture (See Figure 1) can be summarized as: (a) a progressive evolving and economically focused collaborative process where, (b) several interacting partners, with both common and individual interests, willingly and purposefully interact with each other across organizational boundaries according to their varying relationship strengths and degrees of integration, (c) inter-organizational combining of resources with a view to co-create and exchange value over their relationship lifecycle to achieve a competitive advantage (McNeill & Nienaber, 2019). As such, it falls in the scope of the above-mentioned definition of relational exchange and is, thus, consistent with a corporate strategy of collaboration. In the collaboration/strategy (See Figure 1), a key account manager (KAM) or a strategic account manager (SAM) (terms are synonymous) is charged with the successful/profitable key account or strategic account management. Key or strategic account management entails all activities related to the identification, selection, and deselection of relational exchange partners as well as the implementation of a successful key/strategic account program (Storbacka et al., 2019; Cheverton, 2015; Zimmerman, 2018). Key/Strategic account management seeks the few 20% of fit B2B hotel relational exchange customers which generally contribute 80% of top-line revenue (McNeill & Nienaber, 2018b). Consequently, like any other strategy, hotel B2B relational exchange is not suitable for all situations. Ideally, it lends itself to complex situations, products and/or services. Moreover, like all strategies and as mentioned before, hotel B2B relational exchange has a high failure rate. This may have devastating consequences for hotels as B2B relational exchange represent a sizeable portion of top-line revenue (McNeill & Nienaber, 2018a). Hotel B2B relational exchange failures, like generic counterparts, are commonly ascribed to (a) lack of support from leadership, (b) incoherence between corporate strategy and the KAM/SAM teams; (c) inadequate leadership support for customer alignment/integration, (d) incompatible partners or (e) vulnerabilities caused by unsuitable/inappropriate team members (Zimmerman, 2018). Consequently, hotel organizations must choose their relational exchange partners and intra-organizational team members wisely and manage these complex relationships properly (Le Roy & Czakon, 2016).

The hotel B2B relational exchange failure can be reduced by choosing an appropriate approach. This can be done by using an integrative model, which is anchored in theory, yet remains actionable for practitioners to bridge the theory-practice divide (McNeill & Nienaber, 2019). Such a model is illustrated in Figure 1.
A Guiding Corporate Hotel B2B Sales Model

A literature search returned only one such model (McNeill & Nienaber, 2018b). We used this initial model as a contextual, reference point - an interview guide - for our interviews with B2B relational exchange practitioners in the hotel industry. Our goal was to update this initial model with current industry practices. This initial model is updated and displayed in Figure 1. We further examined the updated model (Figure 1), comparing it with our current research in this paper. It appears to be congruent with both academic B2B relational exchange and practitioner literature.

In summary, Figure 1 consists of two main components, namely relationship strength based on quantitative and qualitative exchanged value (Y-axis) and relational exchange modes (methods/strategies suggested to practitioners) of inter-organization interaction (X-axis). The Y-axis relative relationship strength of exchanged values between buyer/seller vary on a continuum from low to high. Relative relationship strength is based on value exchanged, as mutually agreed upon between collaboration partners (buyer/s and seller/s). Value can be one of, or a combination of: (a) economic (focusing on cost/price), (b) functional (focusing on the solution to problems/needs), (c) psychological (reducing risk, mitigating uncertainty, and lowering dependence), and (d) meta (accessibility, responsiveness, keeping promises, understanding critical customer issues, communication, ease of doing business with, and competence, which foster commitment and trust among relational exchange partners).

Interaction (X-axis) can be categorized corresponding to different relational exchange modes (methods/strategies suggested to practitioners) on a continuum. These modes are competitive/transactional, consultative, and collaborative/strategic. Economic value exchanged is central in the competitive/transactional mode and thus, the relationship revolves around price. Value exchanged in the consultative mode may still be mainly economic in nature, but also includes functional value. Finally, in the collaborative/strategic mode, value exchanged is amplified to encompass functional, psychological and meta value, with a focus of reducing risk, uncertainty, and dependence. Only entities that exhibit a “strategic fit” (willing, resource-endowed, capable, and committed to the rules and norms governing the exchange relationship) should be considered as a candidate for a collaborative/strategic relational exchange partner. Most importantly, strategic fit should aim at realizing differentiation in the market based on, inter alia, business growth opportunities and potential to generate revenue, which are impacted by the judgement of the key/strategic account manager (McNeill & Nienaber, 2018 a, b).

METHODOLOGY

As mentioned, the authors first conducted a literature review. The data bases Ebsco and Proquest were searched because they cover relevant sources, widely, as they collectively feature peer reviewed business journals, covering all disciplines, as well as industry journals. The search terms used were B2B (hotel) relational exchange, and/or collaboration, and/or coopetition. The search yielded a few articles related to tourism. Fewer were related to hotels and none of them looked at hotel B2B sales. This pattern of paucity is consistent with previous research by other researchers (Della Corte & Aria, 2016; McNeill & Nienaber, 2018a, b, 2019; Yin, Goh, & Law, 2019). The authors examined the references of the documents that were returned by the search to identify further sources and to ensure a comprehensive literature review. The documents retrieved were used in the literature review presented in the previous section.

With the literature review complete, we tested the practical usefulness of the USA corporate hotel B2B sales model as the unit of analysis (cf. Ashnai, Smirnova, Henneberg, & Naude, 2019; Le Roy &
Czakon, 2016; Czernek & Czakon, 2016; McNeill & Nienaber, 2019). A qualitative case study was clearly the most appropriate research design, given the limited information on the topic (Denzin & Lincoln, 2017; Gnyawali & Song, 2016). We interviewed relevant role players in USA corporate hotel B2B ecological communities, who (a) had extensive experience with corporate hotel B2B sales (relational exchange) and (b) had relevant information on the topic especially information regarding the current corporate hotel B2B sales architectures of the hotel industry market leaders. The interviewees were identified using purposively snowball sampling. They were approached in person to participate in the study (Denzin & Lincoln, 2017; Gnyawali & Song, 2016). We selected the USA because it is the world leader in the hotel industry where B2B sales significantly contribute to corporate hotel top-line revenue.

The purpose of the study, as well as the aims and objectives were shared with the potential study participants. In addition, they were notified that their participation is voluntary and on an anonymous and confidential basis. Furthermore, they were informed that they could withdraw at any moment without negative consequences. Thus, the study complied with ethical research principles (cf. Denzin & Lincoln, 2017). The study was also executed in a manner ensuring trustworthiness (that is: credibility, dependability, transferability) as discussed by Denzin and Lincoln (2017). Trustworthiness ensures that conclusions drawn are valid, and thus, contribute to knowledge creation.

Data were collected by interviewing 10 participants at a time and location convenient to them. The location was generally their place of work. Interviews lasted between 30 and 60 minutes, which allowed for sufficient clarification questions to arrive at a shared understanding. The number of participants complies with generally accepted norms for qualitative case studies (cf. Denzin & Lincoln, 2017; Guest, Bunce, & Johnson, 2006; Onwuegbuzie & Collins, 2007). Moreover, saturation, the point when no new information is revealed (Denzin & Lincoln, 2017), occurred at interview six. This is consistent with principles guiding sample size for qualitative case studies and interviews (Guest, Bunce, & Johnson, 2006; Onwuegbuzie & Collins, 2007). The participants represented functional areas like general management, sales director, revenue manager, group strategic management, sales account representatives. Participants’ experience varied between 20 and five years in the hotel ecosystem.

The data were thematically analysed according to the themes of relational exchange strength and modes of interaction provided for, inter alia, in the literature. Data analysis was both concept and data driven. Concept driven analysis derived from theory while data driven analysis provided for new ideas not found in the literature, via open coding (Gibbs, 2018).

In sum, the study meets rigor criteria as discussed by Gnyawali and Song (2016): (a) the conceptual framework is clear and precise, while core concepts are properly defined; (b) the research design and execution are sound – the context, sample and operationalization of key constructs/concepts are clearly stated, as well as how the data were obtained, while the research design and method are appropriate to the phenomenon studied; and (c) the methodological choices were informed and appropriate. Consequently, the study should be replicable. Furthermore, the data analysis and reporting are rigorous and demonstrate that the findings are credible.

**FINDINGS**

The findings show that the USA hotel corporations focused upon in this study are statistically among the largest in terms of revenue, rooms, portfolio of brands, and the most globally dispersed. The studied USA hotel corporations are among the largest as ranked by the annual *Hotels Magazine*’s top 325 hotels of the world survey (Weinstein, 2018). These hotel industry leaders are among the few corporate hotel businesses that have both the scale and resources capable to implement the highly networked B2B sales architectures described in this study’s model:
At the leading USA hotel corporations, sustained competitive advantage (Porter, 1985) is being implemented by sustained collaborative advantage (Dyer, 2000). In this configuration, individual hotel corporations no longer compete, in a traditional sense, with other individual hotel corporations. Instead, they compete with their systems.

Within a business ecological system, the leading hotel corporations form into value-creating networks and co-opete with other value-creating networks. Each of these value-creating networks combine intra- and inter-organizational activities, jointly linking their value chains (Porter, 1985) of customers, employees, suppliers, and complimentary non-competitive product class vendors. Porter (1985) states that activities and actions within the value chain close the gap between strategy and implementation. Activities are the focus.

The less well-resourced hotel corporations are relegated to more traditional forms of B2B sales architectures and struggle, generally through competition/transactional exchange modes (methods/strategies). This struggle usually concerns economic value expressed as price and occasionally concerns differentiated niche strategies. This follows the Pareto principle where these commodity-like properties, composing approximately 80% of hotel businesses, generate approximately 20% of total USA based hotel organizational B2B revenue.

The findings show that the more highly evolved corporate hotel B2B selling organizations are deploying a generic differentiation strategy as guided by the general business principle of striving to dominate their market space (Porter, 1985). In addition to differentiation through a wide array of branded hotel groups, they differentiate through their B2B selling architectures and ecosystem approach. Thus, they significantly offer B2B target markets (customers) and other members of their value-creating networks within their ecosystems, a long-overdue solution to relational exchange challenges traditionally experienced within the hotel industry.

These highly evolved corporate hotel B2B selling organizations change the relationship between B2B customer demand and hotel supply. This is a relational change from customer loyalty to a hotel salesperson to customer loyalty to the hotel integrated systems (cf. Kumar et al., 2019; McNeill, 2017; Storbaca et al., 2009). In this new B2B selling architecture, customers have relationships with stable and dependable hotel corporation systems versus multiple and sometimes transient hotel salespeople. Relationships are increasingly with the hotel corporate system itself versus traditional relationships with individual salespeople.

This evolved selling architecture provides reliable and consistent exchange processes in a primarily service industry where the unique characteristics of intangibility and variability of hotel products/services generate uncertainty. It should be stressed that overcoming uncertainty is a key success factor for this new selling architecture as psychological value is created. This is extremely important in higher priced hotels and subsequently higher priced hotel B2B group business.

The evolved architecture overcomes the problem of individual hotel property salesforces contacting the same potential B2B customer. The traditional cacophony of multi-salespeople within the same hotel corporation contacting the same prospective customer bludgeons and drives the customer to question the organizational capabilities of the hotel firm in question and leads not only to irritation but to uncertainty.

The findings also show that more highly evolved hotel B2B selling organizations simultaneously practice relational exchange methodologies ranging along a relational exchange continuum (See Figure 1) from competitive/transactional to collaborative/strategic. These highly evolved corporate hotel B2B selling organizations are, thus, capable of addressing the entire range of hotel customers segments and rationally and selectively adapt cost effective strategies to each of the segments’ varying value needs.

The findings further show that to practice the above relational exchange methodologies effectively and efficiently, the more highly evolved hotel B2B selling organizations disaggregate the
selling organization into sub-segmented and specialized sales and sales support teams. Highly defined and enforced corporate policy, as part of relational exchange norms, guides these teams:

- Appropriate selling teams are deployed to appropriate segmented target customer markets. For example, using the general Pareto principle, the top 20% of customers generating 80% of total B2B revenue have the most experienced sales teams deployed.

- Costs incurred by salespeople in costly relationship investment for each target market engagement are reduced. For example, again using the Pareto principle, the bottom 80% of customers who generate only 20% of total B2B revenue have the least costly sales teams deployed. These teams, augmented by electronic tools, need to spend less personal costly communication time with each target market.

- The blurring and, often, confusing traditional role of a salesperson as both hunter (actively seeking new business) and farmer (servicing the customer after purchase) is clarified. This clarifies the question, “Are property-level salespeople really in sales or service function?” For example, in the evolved selling architecture, some of the sales teams (at hotel property-level) are primarily farmers who receive prospective new business opportunities from dedicated hunters (sales teams, “above the property” level) whose job is only to hunt and, then to direct opportunities to the hotel property farmer teams. The above findings are reflected in Figure 1.

**Figure 1. Corporate Hotel B2B Sales Model**
Source: The Authors
DISCUSSION

The following briefly explains Figure 1.

**Layout: X Axis – Three Scales**

The X-axis comprises of three scales: (a) percent of company target customer base, (b) relational exchange modes (methods/strategies executed by practitioners), and (c) degree of buyer-seller inter-organizational integration. In the “Red Ocean” (cf. Kim & Mauborgne, 2017), the hotel uses a competitive/transactional relational exchange mode, to address the approximately 40% of targeted customers, through primarily competitive strategies, since economic value with price is generally the main concern for customers. Within this relational exchange mode, very little, if any, inter-organizational integration exists.

The “Purple Ocean” is the transitioning zone where about 40% (falling in the 40-80% range) of total targeted customers are pursued by the selling business. A consultative relational exchange mode is applied here. Low degrees of inter-organizational value chain integration exist. Often these customers demonstrate sufficient strategic fit with the selling business to be considered candidates for “graduation” to blue ocean status.

The “Blue Ocean” (80% to 100% range) is where 20% of total targeted customers are pursued. Here, a business utilizes a collaborative/strategic relational exchange mode (cf. Kim & Mauborgne, 2017). This 20% of the total market predominantly seeks psychological value in combination with functional and economic value. These values are generally delivered by the selling business through a comprehensive and differentiated selling architecture, entailing very high levels of both intra- and inter-organizationally integrated value-network of relationships.

Interviewees recognized that their business surfaced in all three oceans.

**Layout: Y Axis – Two Scales**

The Y-axis in Figure 1 comprises two scales: (a) symbiosis or relationship strength level and (b) a numerical scale. The symbiosis/relationship strength level refers to how strong relationships must be between selling business and target markets and ranges from low to high. Mutualism, at the high end of the scale, denotes that symbiosis is high and is analogous to the relational exchange attributes necessary for executing a collaborative/strategic mode (method/strategies by practitioners). Parasitism denotes a low level of symbiosis and is almost devoid of any relationship strength, other than destructive competition. The numerical scale, 0 to 10, refers to both quantitative (for example, adequate resources) and qualitative relationship attributes (for example, trust). The Y-axis will be examined in more detail in future research.

**The Left to Right Sloping 45° Arrow**

Beginning in the lower left bottom, the path moves from short-term, and often transient, buyers to long-term buyers. These buyers are usually contracted buyers.

**The Cross-Hatched and Patterned Triangles Enveloping the 45° Sloping Arrow**

The upward 45° sloping arrow (indicating central direction), enveloped by two elongated triangles, indicates a varying mixture of co-opetition and a simultaneous and fluctuating mixture of
competition and cooperation. The upper enveloping triangle represents co-operation and the lower enveloping triangle represents competition. This indicates that even as the upward sloping target market moves from the relational exchange mode (See Figure 1, X-axis), competitive/transactional, and toward the collaborative/strategic mode, co-opetition is always present. The exact proportions of the competition/cooperation mix are variable. For example, the wide bottom of the lower enveloping triangle at the lower left of the sloping 45° arrow corresponds to the competitive/transactional relational exchange mode on the X-axis and the triangle’s width indicates that the co-petition mix is competition-dominant. Conversely, the wide top part of the upper enveloping triangle at the upper right of the sloping 45° arrow corresponds to the collaborative/strategic relational exchange mode (X-axis), and the triangle’s width indicates that the co-opetition mix is cooperation-dominant.

Figure 1’s Five Operating Sales Forces

Property-Level Sales Forces

This sales force is traditionally housed on-property (inside individual hotels). In Figure 1, the corporate hotel B2B sales model assumes that only larger properties, generally 300 rooms or larger and capable of hosting organizational B2B group and conference meetings, retain an on-property sales force. Additionally, this sales force has minimized its traditional role of hunting new business and is now primarily tasked with writing short-term meeting contracts for group business identified by other sales forces within Figure 1’s B2B sales architecture. Thus, the property-level sales force in this evolved model could be seen as farmers and not hunters.

Also, the property-level sales force serves as a visual anchor-point in Figure 1’s model. Any sales force existing near the beginning (lower left) of the upward sloping 45° arrow to the arrow’s mid-point (where the property-level sales force is located) are termed, below the property sales forces. Similarly, any sales forces existing higher on the sloping 45° arrow and higher than the property-level sales force is termed, above the property sales force. Figure 1 illustrates five sales forces deployed across the model. Each has specialized tasks and are guided by a specialized relational exchange mode (methods/strategies) for engaging their different target markets.

Below the Property Sales Forces

There is one sales force below the property, which is termed, a Regional-Level Group Inbound Sales Center. In the Figure 1 model, there are about 12 centers. The number is an average based on information provided by this study’s interviewees. These regional centers are located throughout the United States and equipped to handle both US domestic and international B2B inquiries. These centers are a gateway and switching portal.

All digital inquires seeking B2B related business - group business and other hotel services such as business travel or long-term relocation stays with the hotel corporation - are most often first obtained through the corporate hotel web site and are second, routed to the regional centers where they are flagged (identified) as “deployed” or “undeployed” which ascertains their status. Deployed denotes that the inquiring prospective customer already has a prior affiliation (under long-term contracts, a key/strategic account, or other) with the corporate hotel B2B sales architecture/system. Undeployed indicates that the inquiry has some prior affiliation with the corporate hotel B2B sales architecture/system. Then, at the regional centers: (a) If undeployed and/or if they are small group meeting business (requiring under approximately 150 room nights – 50 rooms for three nights) these inquiries are engaged in a selling process by inbound salespeople, (b) if undeployed or are medium to large group meetings (over approximately 150 room nights) they are routed to the property-level sales forces to be engaged in the
sales process, and (c) if the inquiry is a deployed account and regardless of the meeting size, the
key/strategic account team managing these deployed accounts are notified, and (d) if the inquiring
prospective customer is a deployed account and a small meeting, inbound salespeople engage it in the
sales process but, if it is a medium to large meeting, the prospect is routed to the property-level sales
force.

Notes:

1. Here it is important to note that this single gateway solves a major problem experienced by other hotel
corporation chains without the sophistication of Figure 1’s sales architecture. The hotel corporation
speaks to the target market with one voice. For example, in the past, a chain of 15 group and meeting
hotels would have property-level sales forces each of which might be contacting the same target market.
The Figure 1 model has primarily eliminated this problem.

2. Also, it is important to note that today there are meeting planner/hotel vendor matching Internet
platforms – similar to an online dating service. Meeting planners submit RFPs (requests for proposals) to
reach out to potential hotel vendors. The largest in the world is Cvent – a type of online dating service
between meeting planners and meeting venues such as hotels (analogous to the human dating service,
Match.com). These platforms and have become a go-to utility for meeting planners. Surprisingly, most
online B2B inquiries go through a Cvent or similar platform while B2C (business to consumer and
usually limit individual travellers) use either online travel agencies (OTA) such as Expedia or book directly
through the hotel corporation’s direct website or 800 number.

3. It should also be noted that the large hotel corporations represented in Figure 1 as an illustrative
“composite” have contractual arrangements with Cvent and other similar platforms which automatically
directly route appropriate prospective customer inquiries into each of each of the large hotel corporations’
proprietary systems.

Above the Property Sales Forces

Figure 1 describes three distinct above the property sales forces:

Area Sales Force. A Metropolitan Statistical Area (MSA) is a US Government unit to designate
population and economic clusters in the United States. There are about 383 MSAs in the US. The largest
four are, in order of rank: New York, Los Angeles, Chicago, and Dallas. Within these MSAs, the large
corporate hotel companies have many hotels – usually carrying several brand flags (Marriott
International has 30 separate brands) and structured in multiple categories and tiers ranging from lower
level (Select category) to top level (Luxury category). Essentially, the Area Sales Forces are the hunters.
They are outbound salespeople who look for potential business within their MSAs. This sales force is
responsible for obtaining B2B customers from within their MSAs and generally limit their hunting to
B2B customers with $0 to $5 million forecast spend (group business and other ancillary business). This
sales force is virtual and mobile and might only temporarily share office space in one of the major hotels
located within the MSA cluster. As with Regional Group Sales Centers, potential business obtained by
Area Sales Force is actually serviced (short-term meeting contracts prepared) by the Property-Level Sales
Force either in the Area MSA or referred to another MSA Area Sales Force depending on customer needs
and specifications. It is important to note that the Area Sales Force – responsible for locating and
deploying customer business in the $0 to $5 million range – is a first step in the development of these
smaller target market accounts. The goal is to develop, evolve and advance them into larger strategic
accounts handled by the next two sales forces.
**Country-Level Account Managers.** This is not a “sales force” in the traditional sense of the term although most have graduated from the sales ranks. Working in teams, they manage and incrementally enhance development (revenue and other value-added) of established (usually with long-term contracts) customer accounts. These are account dedicated teams that manage key customer accounts at a national or limited multi-national level. They are generally limited to customer accounts with approximately, $5 million to $15 million total spend as defined by the hotel corporate internal control system. Once customers enter into this affiliated or deployed status with the corporate hotel system, any unit or division from this customer desiring hotel services can either work with their account managers or simply send requests through Cvent or other similar platforms. Again, all such requests, generally flow back to the switching Regional Group Sales offices where they are identified and redistributed to appropriate (defined by the customer specifications) Property-Level Sales Forces.

**Global-Level Account Managers (GAM).** These are similar to Country-Level Account Managers but differ in their responsibility for total B2B spend. Here, they are responsible for customer spend of $15 million and above. Also, they are global (located in most major countries) versus being national or limited multi-national in geographic scope. For example, if Hilton Worldwide had a large global account such as Siemens Corporation, Hilton would have globally dispersed teams to serve globally dispersed Siemens divisions and units. Again, all business inquiries from this account would first flow through the Regional Group Sales offices and be redirected to the appropriate Property-Level Sales Force in whatever geographic area requested by the customer. Again, the single contact between buyer and seller is preserved.

There are two primary purposes of the integrated corporate hotel B2B sales force system (Figure 1): First, to address all B2B markets in a cost-effective way by selectively applying appropriate relational exchange modes (methods/strategies) to appropriate B2B target markets. The Pareto Principle’s 80% of target markets that drive only 20% of the corporate hotel’s B2B revenue is engaged (sold to) by lower cost competitive/transactional modes and consultative modes. Second, Figure 1’s systematized approach instills confidence, reliability, and certainty within the minds of B2B buyers. The market leader hotel corporations address 100% of a range of segmented B2B buyers with one voice (versus multiple salespeople voices). Thus, buyers get consistent messaging from the perceived unified hotel corporation’s systemized sales organization. Consistency and certainty – especially in the variable and intangible service hotel industry – are key for acquiring and keeping B2B buyers.

**CONCLUSION**

As part of the authors’ iterative research series, the purpose of this paper is to recalibrate and update a theoretical corporate hotel B2B sales model previously developed by the authors. Given the paucity of published secondary literature on this subject, the authors again researched the B2B hotel sales industry to expand their understanding and detail current industry practices. This paper attempted to answer the research questions: (a) What is the state-of-the-art of B2B hotel sales architecture and (b) How can we design a practical and rigorous descriptive model? A literature review was followed by a qualitative case study, collecting data by interviewing purposefully selected participants with extensive experience with corporate hotel B2B sales (relational exchange). Interviewees were selected from the top few, globally deployed, and USA based, hotel corporations which, have in the past and currently are, reinventing their go-to-market models. As hotel industry Leaders, they are exemplars and models of effectiveness and efficiency to industry Challengers, Followers, and Nichers. The findings indicate that the studied USA hotel corporation industry leaders: (a) Globally rank among the top in the world (Weinstein, 2018) and are among the largest and resource-endowed hotel corporations that globally
compete in all relational exchange modes as illustrated in Figure 1, (b) are integral actors and components of complex business ecosystem value networks, and (c) are highly sophisticated and developed which allows these corporations (market leaders) to dominate other less resourced hotel corporations and independent freestanding hotels, namely market challengers, followers, and nichers (cf. Gilligan & Wilson, 2009). Thus, these largest hotel corporations appear to channel H. G. Wells (1946) when he said “….The bigger aggregations…eliminate the smaller…eliminating species…” Conceptually, the findings show that the B2B sales architecture designed by these largest hotel corporations are more comprehensive than what can be found in the literature. This study answered the research questions.

**Managerial and Policy Implications**

**Managerial Implications.** In a world of uncertainty and change, sustainable organizations must generally choose between: (1) Systemic innovation, where the firm proactively and dynamically reorganizes both its internal and networked capabilities and activities, and (2) Autonomous market innovation, where capability and activity standards arise and mesh and are statically available for all market players. Management innovates and buffers uncertainty in the first case above, in an attempt to control and limit the effect of change on its internal and external structure of specialized competitive assets.

Today, in the hotel business, change is severe and disruptive. The major USA based hotel corporations are proactively responding, and pioneering go-to-market systems as illustrated by Figure 1 and discussed above. The rapid development of these top-tiered, resource and capability rich companies are, frankly, relegating the remainder of the hotel company players to second or third place, and worse, irrelevance.

Managerial implications for top-tiered companies include the need to continue to embrace change, plan to take strategic risk aimed at innovation and, then, through combined structural and cultural means, execute these innovation plans. Managerial implications for the remaining hotel firms include recognizing the reality of marketplace competitive positions and sub-positions labeled market leaders, followers, challengers and nichers, locating their respective places within each sub-position, and learning from the boldness of market leaders to advance their position within each sub-position. Perhaps some of these non-market leaders will one-day supplant the top-tier firms. However, in the short run the competitive positioning order seems to be in the process of freezing.

**Policy Implications.** The unexpected arrival of COVID-19 in the first months of 2020 and the associated devastation of the hospitality/leisure industry has affected both the short-term and long-term outlook and operational policies of the hotel industry.

Short-term policy implications for the hotel industry include:

- Many B2B group events were cancelled or rescheduled. It is also unclear if even these rescheduled events will materialize as planned.
- B2C individual travelers are non-existent.
- Many hospitality firms including hotels are bankrupt and out of business.
- Many hotels, having no guests, have simply closed their doors and hope for a return to the “next normal.”
- Industry *Leader* hotel corporations, while having stressed resources, are in survival mode and hope to buy out other failed hotels.
- The current short-term use of virtual meeting technology may also have a long-term negative impact on group business as organizations may switch to technology instead of face-to-face meetings.
- This devastating Covid-19 crisis has caused massive unemployment in the hospitality and leisure industries, especially layoffs or furloughs of hotel B2B group business salespeople. Many of these laid-off salespeople had a relatively easy selling job in the high demand and “sellers-market” environments pre-Covid-19. Many of these people may never return and the post-Covid-19 period will require a new generation of more highly skilled salespeople. Top and highly efficient hotel corporations are in the best position to address this imminent need.

Long-term policy implications are speculative and depend on the short-term situational crisis recovery timeline. The individual (B2C) leisure hotel guests are expected to be the first to travel and occupy hotels post-Covid-19 crisis. Large domestic B2B groups events are expected to begin returning to hotels by the end of 2020. It is unknown when international travelers (B2C and B2B) are expected to return to pre-Covid-19 travel patterns.

In the current Covid-19 uncertain environment and probably continuing into the future, the leading hotel corporations have several advantages vis-à-vis smaller and less dominant hotel corporations: (1) With safety a primary concern to attract returning hotel guests during the current Covid-19 situation, leading hotel corporations have a reputation for efficiency and effectiveness in addressing this issue; (2) Larger and leading hotel corporations may have a physical space (numbers of meeting and guest rooms) advantage to ensure safe social distancing, but with forecast revenue (per room/event/ancillary services) adversely affected as limited numbers of guests are permitted to simultaneously occupy a given hotel; (3) The leading hotels deploying the Corporate Hotel B2B Sales Model currently have strong relationships with longer-term key accounts that, although temporarily inert, are loyal to these leading hotel corporations; (4) The leading hotel corporations generally have the resources (both financial and relational) to communicate their differentiated advantages as well as survive and opportunistically buy up hotels that failed in the short-term Covid-19 crisis; and (5) The leading hotel corporations have some of the best sales training and “go-to-market” systems to attract and retain new salespeople who will replace many of the laid-off cohort of salespeople in the post-Covid-19 recovery of the hospitality and leisure industry.

In the long-term, both large and small hotels across the globe can pursue the Corporate Hotel B2B Sales Model (Figure 1) example of the leading hotel corporations. However, it is likely that the model’s replication will be difficult as hotel corporate leaders have a first-in-practice (Figure 1 model) advantage and, most certainly, will be rapidly adapting to a new or “next” normal.

So, what are the short-term, leading to long-term, policy implications? First, the hotel industry Leaders, leading hotel corporations, should maximize their competitive advantages as outlined above. Second, the other industry players must simply survive in the short-term. The industry Challengers might attempt to replicate the leaders, but in this Covid-19 crisis, resources are thin, and it might be a bit late. Perhaps, at least in the short-term, they should redefine themselves as followers and await signs of long-term recovery. The Followers must simply scramble and survive and hope for a return to normalcy. The industry Nichers might, in normal situations, have a unique physical differentiation advantage, but as safety and security certainty is a predominant concern under Covid-19 conditions, small and unique may not outweigh safety. Generally, the hotel industry should attempt to learn from the industry leaders. Can the smaller industry players adopt some of the strategies (See Figure 1) deployed by the resource-rich leaders? Can they modify their traditional sales practices to a post-Covid-19 world, even within the bounds of having fewer resources?

Smaller B2B group meetings will probably revive in the foreseeable future. Smaller and independent hotels could therefore alter policies and attempt to negotiate better contract terms and/or try that old traditional method of discounting, to attract group business. But they would continue to swim in the highly competitive and bloody red ocean of the Figure 1 model. In this competitive environment, in
addition to competing with the plethora of smaller hotel corporations, they would also compete with the leading hotel corporations which have strong operations even in the red ocean. In the post-Covid-19 world, the “next normal” will reveal itself until another inevitable event alters the hospitality and leisure industry. The hotel industry leaders’ “go-to-market” selling systems (Figure 1), as currently designed and most certainly to be redesigned, offer a viable model for the rest of the industry.

In the end, people are social beings who need to interact personally, and at some point, the threat of COVID-19 will dissipate. Either Covid-19 will become less threatening, or people will acclimate to living with the threat and adjust accordingly. During past crises, such as the rise of virtual meeting technology in the 1990s, the aftermath of 9/11, and the financial crisis of 2008, group business was predicted to be on its death bed. But the naysayers were wrong. Group business (B2B) is expected to resume post-Covid-19 but is likely to be addressed by hotel corporations in a new way. The new way of doing things will likely involve the continuously evolving Leaders - the Corporate Hotel B2B Sales Model (Figure 1).

**CONTRIBUTION AND RECOMMENDATIONS FOR FUTURE RESEARCH**

The study adds to (extends) our knowledge and understanding of state-of-the-art of corporate hotel B2B sales/marketing practices, while offering a descriptive model, that is theoretically sound and practically actionable based on empirical research. It contributes to theory by addressing the four essential elements of theory: (1) The what (i.e. relationship strength and exchange mode/strategy); (2) The how (relationship strength and exchange modes are related); (3) The why (the underlying dynamics); (4) The who (major US hotel corporations, specifically key account managers); (5) The where (leading hotels headquartered in the USA with a global presence and serving a range of market segments from competitive to strategic); and (6) The when (timing of implementation/execution), but, in the present Covid-19 depression of worldwide hospitality industry, previous full-blown implementation is being stalled until an unknown time in the future. For future research, however, the concept, co-opetition, requires further exploration.

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CIRCULAR ECONOMY AND THE TOURISM INDUSTRY

Berta José Fernandes Costa, Susana Cristina Serrano Fernandes Rodrigues, and Pilar Moreno Pacheco

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ABSTRACT

The tourism industry has been growing at a remarkable rate and emerging as one of the major social and economic industries, and consequently one that boosts economic development that mostly supports countries’ gross domestic product (GDP). At the same time, it stands out as an industry which activities generate a considerable negative impact on the environment as it is configured according to the linear model of production and consumption, in which products are disposed of after usage, causing massive waste. From this standpoint, circular economy (CE) materializes as a new strategy, as it balances economic progress with the sustainable use of natural resources. In this regard, the purpose of this research document is to outline the conceptual dimension of CE and its principles, and propose a conceptual model which may allow the tourism sector to transform itself into a more sustainable industry and one which may succeed in generating multidisciplinary benefits and in parallel mitigate environmental, social and economic constrains. For this purpose, a literature review was carried out, as a means to highlight the tourism industry as one of the sectors which may contribute significantly and positively to the implementation of the long expected circular economy, where stock value is maintained in economy for the longest period of time.

Keywords: Circular economy concept, evolution, R-principles, tourism industry, tourism industry and circular economy.

Berta Costa is currently attending a PhD in Tourism, in the Faculty of Tourism and Finance - University of Seville, Spain. She has a M.A. in Portuguese and English, and she graduated in Languages and Modern Literatures – Portuguese and English Studies, at the Faculty of Arts and Humanities of the University of Coimbra, Portugal, in 1997. She is an Assistant Lecturer at School of Tourism and Maritime Technology - Polytechnic Institute of Leiria – Portugal, in the areas of Tourism, Tourism and Recreation, and Catering and Restaurant Management. She is a researcher at CITUR (Centre for Tourism Research, Development and Innovation) since 2018. Her research comprises a wide range of topics within circular economy, sustainability, and tourism.

Susana Serrano Rodrigues has a PhD degree in strategic management, from the University of Wolverhampton in the United Kingdom. She has been a Lecturer at the Polytechnic Institute of Leiria, Portugal mainly in the areas of Strategic Management, Advanced Strategic Management, Marketing of New Products and Innovation and Entrepreneurship. She has been involved in several entrepreneurship activities: as member of jury of entrepreneurship committees, as a mentor, consultant, or in product ideas development. She is a member of Centre of Applied Research in Management and Economics. Her research interests are within the field of Business Strategy, Business Failure, Entrepreneurship and Innovation, and Circular Economy.

Pilar Moreno Pacheco, PhD in Economics, Associate Professor at University of Seville and Vice-Dean of Faculty of Tourism and Finance. She is a Visiting researcher at Mid Sweden University and Universidad Nacional Autónoma de México, and a member of the research group “SMEs and economic development”. Her academic interests within the field of tourism and hospitality are market segmentation, innovation, SMEs and information and communication technologies.
INTRODUCTION

The Tourism Industry

Over recent decades, the tourism industry has been successfully thriving as an economic activity, in which environment, culture and heritage play an important role, as destinations represent far beyond products and services. It has highly developed to one of the better positioned industries with a regular growth pattern that predominantly contributes to the countries’ GDP. Leisure travellers’ arrivals have increased from 25 million globally in 1950, 674 million in 2000, and 1,235 million in 2006, and the United Nations World Tourism Organization (UNWTO, 2019) calculated that international tourist arrivals would increase 6% in 2018, reaching 1.4 billion. However, due to significant growth in arrivals since 2010, that figure was met years before, which attests that travel is booming more than ever.

Likewise, international tourism revenues in countries of destination have grown from US$ 2 billion in 1950 to US$ 104 billion in 1980, US$ 495 billion in 2000, US$ 1,220 billion in 2016, and overlapped US$ 1.45 trillion in 2018. The tourism industry also brought forth US$ 216 billion in outputs as a consequence of global passenger services, enhancing the rate of tourism outputs to US$ 1.4 trillion, or US$ 4 billion a day approximately in 2017 (UNWTO, 2017), comparatively, in 2018, there was an extra US$ 121 billion in export revenue from international tourism (UNWTO, 2018). This means that export income from international tourism represents a significant source of foreign revenues in numerous countries of destination. The tourism sector also represents an important element considering exports in developing and developed countries, with the potential to minimise trade deficits and to reimburse for limited export revenues from other sectors (UNWTO, 2019).

Tourism generates US$ 5 billion per day in exports: US$ 1.5 trillion in receipts in destination countries and US$ 256 billion in passenger transportation, which constitutes US$ 1.7 trillion in exports for international tourism in 2018. Analysing these figures, it is possible to conclude that the tourism sector represents 7% of global exports and 29% of world’s service exports (UNWTO, 2019). It is ranked number three after the chemicals industry and before vehicle production and food industries (UNWTO, 2017, 2019). 2018 saw an extra USD 121 billion in export revenues from international tourism (travel and passenger transport) compared to 2017. Driven by a relatively strong global economy, a growing middle class in emerging economies, technological advances, new business models, affordable travel costs and visa facilitation, international tourist arrivals grew 5% in 2018 to reach the 1.4 billion mark. This figure was reached two years ahead of UNWTO forecast. At the same time; export earnings generated by tourism have grown to USD 1.7 trillion. This makes the sector a true global force for economic growth and development, driving the creation of more and better jobs and serving as catalyst for innovation and entrepreneurship. In short, tourism is helping build better lives for millions of individuals and transforming whole communities. Driven by a relatively strong global economy, a growing middle class in emerging economies, technological advances, new business models, affordable travel costs and visa facilitation, international tourist arrivals grew 5% in 2018 to reach the 1.4 billion mark. This figure was reached two years ahead of UNWTO forecast.

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grown to USD 1.7 trillion. This makes the sector a true global force for economic growth and development, driving the creation of more and better jobs and serving as catalyst for innovation and entrepreneurship. In short, tourism is helping build better lives for millions of individuals and transforming whole communities.

Considering the Organisation for Economic Co-operation and Development (OECD) tourism trends and policies (2018), there is evidence that the tourism industry impacts positively in the economy of the destination just as on smaller scale businesses. It has become the leading force for development, job creation, export income at an average rate of 4.2% of the GDP, 6.9% of employment, and 21.7% of service outputs in OECD countries’, which represent the fundamental drivers of sustainable development (Girard and Nocca, 2017).

A vibrant economy, global consumer growing income, and the digital revolution and innovation have been boosting an unprecedented growth within the tourism sector. According to the UNWTO (2017, 2019), the tourism sector stands for as one of the biggest and most determinant drivers of employment and of economic revenue. Nonetheless, it is also putting increasingly pressure on the environment in a period of resource depletion, significantly related to price volatility and market inconsistency. These economic and environmental challenges reflect the limit of the prevailing linear ‘take-make-dispose’ (Ness, 2008) economic model, wherein goods are used for a limited period of time and then thrown away, causing large-scale waste.

The development of the referred sector will rely on its potential to adjust to new development and economic philosophies, new strategies and policies, governmental structures, and its expertise to adapt to and adopt new economic, social, political, environmental, and technological trends (Angelkova et al., 2012; OECD, 2018).

**LITERATURE REVIEW**

1.1. **Circular Economy: the concept and its origins**

The concept of CE dates back to distinct lines of thought, scientific theories, and dates, which implies that its keys principles have persisted for centuries but just in recent decades has been brought to discussion (Ghisellini et al., 2016; Andersen, 2007; Lieder and Rashid, 2016; Geissdoerfer et al., 2017). This construct derives from epistemological fields as biology, economy, and ecology, which cater for “umbrella constructs” (Hirsch and Levin, 1999:199) such as ‘circular flow of income’ (Quesnay, 1758), ‘industrial metabolism’ (Simmonds, 1862), the ‘spaceman economy’ (Boulding, 1966), ‘limits to growth’ (Meadows, Randers, Meadows, and Behrens, 1972), ‘cradle-to-cradle’ (Stahel and Ready-Mulvey, 1981; McDonough and Braungart, 2002), ‘industrial ecology’ (Frosh and Gallopoulos, 1989; Graedel and Allenby, 1995), ‘regenerative design’ (Lyle, 1996), ‘remanufacturing’ (Steinhilper, 1998), ‘natural capitalism’ (Hawken, Lovins and Lovins, 1999), biomimicry (Benyus, 2002), ‘eco-effectiveness’ and ‘eco-efficiency’, (McDonough and Braungart, 2002; EMF, 2012), ‘steady state economy’ (Daly, 2005), and ‘performance economy’ (Stahel, 2010).

Murray (2015) considers that the first approach to the CE concept was introduced by François Quesnay around 1758, with the concept of circular flow of income, encouraged by William Harvey (1628) and Marcello Malpighi’s (1661) work on blood circulation, i.e. the process of the circular flow of blood around the human body pictured a relevant metaphor for the inputs and outputs of capital in an economy. Complementary, Hofman (1848), stated that in a perfect and flawless chemical industry, waste
is not to be found, only goods, in the sense that a real factory utilizes all its waste, and the closer it gets to this premise, the bigger is the profit.

Furthermore, Simmonds (1862), coined the concept of industrial metabolism, which also refers to the same approach of nature behaviour regarding a waste-free approach, as he realised that in nature nothing is wasted, every single material is transformed and reutilised. Key principles in a circular economy model.

In the early decades of the 20th century, and particularly after World War II, worldwide economy accelerates, and the dominant economic model based on the resource extraction, large-scale production and sale, and disposal after usage, i.e., the take-make-dispose (Ness, 2008) model, drives to major waste production. Apprehension concerning environmental pollution, waste management, resource depletion, and limits to growth escalates, driving world governments to launch waste reduction and recycling programmes. Taking into consideration the industrialization of everyday life as well as with the modernization of steam engines and railways, and of electrical equipment, a more modern and different form of recycling sprouted: remanufacturing, as this process allows the recovery of value from used products by exchanging components or recycling used parts of those components bringing them to an almost new condition (Steinhilper, 1998).

Simultaneously, the concepts of industrial symbiosis (IS) (Parkins, 1930; Fischer-Kowalski and Haberl, 1998), and of industrial metabolism (IM) (Simmonds,1862) arise in the literature and become the focus of researchers and scholars, and decades later are regarded as the basis of the modern sustainable economic movement coined as industrial ecology (IE). IE was primarily articulated and turned into a field of science by Frosch and Gallopoulos (1989), who along with the environmental economists Pearce and Turner (1989) conceived the concept of circular economy system, modelling earlier research conducted by the ecological economist Kenneth Boulding (1966), displaying it as a closed system which establishes synergies between economy and environment. Boulding’s research exhibits the economic system as the open cowboy economy (1966), contrary to the engaging spaceship economy (1966) (Andersen, 2007, Ghisellini et al., 2016; Lieder and Rashid, 2016). This approach was later developed by Stahel and Ready-Mulvey (1976) stressing the concept of closed-loop economy (Murray et al., 2017) and its implications on job creation, economic competitiveness, resource conservation and waste prevention.

During the 1970s environmental movements and consciousness regarding the environmental burden of the economic progress, along with the pursuit of a cleaner and safer environment to enhance the quality of life, carried momentum. Countries and governments conceive policies and regulate to deal with the defying growth in industrial operations, solid waste production and disposal, and the emergence of landfills and incineration, as well handling waste abroad or sending it to less wealthy countries represent waste management strategies (Moyers, 1991). It’s in such a context that the 3R imperative of ‘reduce, reuse and recycle’ acquired higher visibility. CE emerges a broad concept that confines the various activities correlated to these processes, and it also considers their allocation.

In such a scenario of socioeconomic development, with a growing world population, mainly the middle-class, the struggle for natural resources increased rapidly. And, as Meadows et al., (1972) explained, natural resources are not abounding, which implies that this increasingly economic growth, natural resources and energy, and mankind’s lifestyle is unsustainable and constitute an environmental and economic challenge. In this context and considering the limitations of the predominant economic model, the linear economy, the early stages of the what will be designated as circular economy, are configured.

The concept of circular economy was primarily drawn and introduced to the scientific community by Pearce and Turner (1990) as claimed by Su et al., (2013); Ghisellini et al., (2016) and Geissdoerfer et
al., (2017). It was acknowledged by these authors that natural resources play a crucial role on economic systems and that the implications of the linear economy, in which it is taken for granted that natural resources are abundant and that planet Earth has an unrestricted capacity as a waste sink (Cooper, 1990), is no longer sustainable. In this regard, a CE model is suggested as an approach to promote circularity, by minimising the energy inputs and raw materials consumption, which are imperative for future sustainable resource conservation (Hilsop and Hill, 2011).

Feng et al. (2007), Greg and Doberstein (2008), Yang and Feng (2008), Hu et al., (2010) point out CE as an economic development paradigm which mimics the natural circulation of raw materials, a ‘closed materials cycle or resources circulated economy’ (Yang and Feng, 2008:814), considers the natural laws and the proper use of natural resources to achieve economic development, resource efficiency, equipment optimization or recovery, and management enhancement. It is also associated with an economic paradigm which considers the implementation of a preventive and regenerative eco-industrial development, together with ‘green’ technologies, alternative design solutions, and synergies within different manufacturing processes. As a result, material would be regenerated and consequently, energy recovered. By doing so, CE would enable awareness and the implementation of new practices and policies to achieve the long-desired sustainability.

Taking into account the adoption of a ‘cradle-to-cradle’ (Braungart et al., 2002) model, so as to avoid waste of valuable elements along the production and consumption chains. The implementation of this approach would allow the reduction of the production costs for the businesses and simultaneously it would also seek more holistic waste management strategies (Mirabella et al., 2013; Geng et al., 2010), it would also reduce environmental externalities as pollution, and create new employment opportunities (Ellen MacArthur Foundation (EMF), 2012; Club of Rome, 2015). To achieve this goal stakeholders (environmentalists, industrialists, and designers) should align strategies and re-think the ‘eco-friendly’ conception and its significance in manufacture and production processes. Braungart et al., (2002) and EMF (2012) believe that the implementation of circular economy projects should consider a new scientific and design oriented strategy known as ‘eco-effectiveness’, approach used to minimize and dematerialize the material flow system, which would enable a steady exchange between environment and economy and deviate from the prevailing production and manufacturing methods of ‘eco-efficiency’.

Furthermore, the dependence on natural resources and raw materials for production purposes (closed system) subsisting on non-renewables places major constrains on economy since it is vulnerable to the adverse impacts of raw materials price and volatility (EMF, 2012; Preston, 2 013; Lett, 2014). Circular economy seeks to integrate economy, environment, technology and social approaches (Feng and Yang, 2007; Greg and Doberstein, 2008; Ness, 2008; Mathews and Tan, 2011; Lett, 2014, Lacy and Rutqvist, 2015, Ren et al., 2013), in order to attain future generations’ wellbeing with respect to resource access.

Gregson et al. (2015) state that CE concept is still in an exploratory phase and emerges with a political goal in a context of natural resources depletion and price volatility and climate change. Its implementation targets the discontinuance of the traditional economic known as ‘take-make-dispose’ (Ness, 2008) paradigm. Furthermore, Haas et al. (2015), consider that CE emerges as a strategy to decouple economic growth from natural resources exploitation and to reduce waste emissions by shutting down economic and ecological loops of the resources available.

Despite the CE theoretical origin, it has been proposed that the modern formulation of the concept of circular economy and its implementation has been mainly improved by business and policy-makers (Korhonen et al., 2018). Even though, in the absence of a comprehensive conceptualisation in the literature, this construct is globally understood as a model that is restorative and regenerative by design and intends to value products, materials and their components, and also keep their highest utility (EMF,
2013, 2015, 2017; Stahel, 2016) and compelled by four principles: 1- waste equals food, considering restorative loops as the main strategy to focus on; 2- improve sustainability; 3- produce energy from renewable resources; 4- system thinking. Additionally, this economic approach is commonly associated with the preservation and enhancing of natural capital, the optimisation of resource outputs and minimisation of system risks, i.e. CE targets the optimization of loop closing so that natural resources are extracted at a minimum level, minimising waste, prolonging product life, keeping goods at their highest level, maximising the R-imperative ‘reuse’ and utilising renewable energy, as a strategy to close material loops (Webster, 2015; Stahel, 2016).

Considering the implementation of CE, and that initiatives have been developing and increasing amongst businesses, it has been mostly enhanced by the European Union (EU), who made a substantial investment in order to transition to a circular economy with its Waste Directive (2008), and also The Framework Programme FP7, Horizon, 2020, which consisted on a regulation package (efficiency, effectiveness, coherence, relevance and EU added value). China, which was the first country to notably adopt a law for the CE, The Circular Economy Promotion Law (2008) (EMF, 2013; European Commission, 2014, 2015, Stahel, 2019), setting new circular goals every year; Germany that also passed a law which promoted closed cycle waste management (Guide et al., 2000) in 1996, and in 2002, Japan conveyed towards a circular industrial system which targeted recycling.

According to Masi et al., (2019), this implementation has been made essentially at three different levels: at a micro level considering businesses specific activities (Geng and Doberstein, 2008) in accordance with the 3 R-imperatives – reduce, reuse, and recycle (Ying and Li-Jun, 2012); at a meso-level, as it involves the organization of eco-industrial parks and networks, multisectoral and interdisciplinary partnerships (EMF, 2013) so as to boost a more efficient natural resource exploitation; and at a macro-level, it concerns measures and policies carried out by governments and policy makers.

Bocken et al. (2016) also consider that CE is an advantageous solution for the following reasons: it will allow to mitigate depletion of natural resources and consequently waste emissions; it will allow businesses to monitor products and goods through their life cycle, challenges concerning raw material accessibility (Bocken et al., 2016) will be solved if a circular supply chain is implemented, and the consumption of energy is minimised (Wuebbke and Haroth, 2014).

Stahel (2019) also considers circular economy is a better alternative because its exploits natural resources efficiently, keeping the value and utility of supplies for longer time intervals, fact that distinguishes CE from the current linear economic model. By broadening the life span of goods and materials, CE slows down resources availability through economy which directly affects the production outputs and waste emissions characteristic of the linear economy. Increasing the life span of products in developed countries, it is possible to reduce by half the production and waste amounts (Stahel, 2019). For this reason, it is an imperative to enhance the circular economy R-principles, which were considered in Fig. 1 along with CE roots and its evolution and explored separately.

**Fig. 1- CE concepts, evolution, R-Principles and author’s inputs.**

<table>
<thead>
<tr>
<th>CE Concept and its Evolution</th>
<th>Author’s Inputs</th>
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<td>Industrial Metabolism</td>
<td>Simmonds, (1862)</td>
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<td>Spaceman Economy</td>
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<td>Limits to Growth</td>
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<td>Regenerative Resign</td>
<td>Lyle, (1996)</td>
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<td>Eco-effectiveness and Eco-efficiency</td>
<td>McDonough and Braungart, (2002); EMF, (2012)</td>
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<td><strong>CE 13-R Principles: repurpose, recover,</strong></td>
<td>Li, (2011); Stahel, (2010); Yan and Feng, (2014)</td>
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The Circular Economy’s R Principles

© Journal of Global Business and Technology, Volume 16, Number 1, Spring 2020 51
Reducing, Reusing, Recycling, Redistributing

Circular economy encloses the overall activities within the scope of the reducing, reusing and recycling materials processes, as well as the distribution and consumption of these materials. It is recognised that raw materials have to be processed in cycles, by means of biogeochemical processes or by human interference (one of the premises of CE), otherwise environment will continue to deteriorate at a surprising pace (Karl-Henrik Robèrt, 1991). Cooper (1994) also states that countries and governments introduced recycling goals for urban waste but failed to realistic and functional measures to encourage manufacturing and production processes which would allow longer lasting products. In order words, awareness concerning practices that encircle reducing, reusing and recycling were developing, however, the need to also focus on consumer durables and packaging were and still are also urgent.

Moreover, CE practices cannot sustain recycling, as to some extent it turns out to be too difficult and demanding, because the amount of waste produced is not equivalent to the degree of resources depleted: characteristic of an economic open-ended system (Andersen, 2007). In a closed system energy and matter expenditures are levelled, as the volume of waste produced is equivalent to the quantity of resources used, and the waste generated would be converted into raw material and re-enter the manufacturing line once more. As a result, economy becomes circular, and stands out as a distinct approach from the ‘take-make-waste’ economic model and decouple the economic activity from the exhaustion of natural resources and drive towards renewable energy sources. Industrial products and materials can be reused repeatedly and redistributed in their original shape or with minor improvement or modifications to new customers (EMF, 2019).

In a restorative by intention and design industrial system, the focus should be placed on use and reuse of products rather than on discarding them before their value is fully exploited (Wijkman and Skånberg, 2015; Waste Resource Action Programme, 2016).

Rethink, Refurbishment, Remanufacturing, Repair

It is a fact that the prevailing linear economic model based on the ‘take-make-dispose’ paradigm is driving to resource depletion and is no longer viable. To tackle this situation and the growing need to rethink, redesign and head towards a promising future, the Ellen MacArthur Foundation (2010), whose mission is to enhance the transition to a circular economic model, has been working with businesses, governments preparing society and developing a framework for the implementation of CE.

CE is restorative and regenerative by design (Lacy and Rutqvist, 2015) and targets to maintain the highest utility and value of products as long as possible, differentiating the various technical and biological cycles, that is implement an economic system in wherein long-lasting design, reuse, refurbishment, remanufacturing, and recycling of goods is contemplated. Effectively, CE cannot ensure 100% recycling opportunities (Andersen, 2007), due to the entropy law (Daly, 1977). It is reaffirmed that an economic industrial system based on the ‘reuse’ R-principle of products, enhancing remanufacturing, will improve the natural potential of the environmental to restore itself (EMF, 2013; Bastein et al., 2013).

The EMF (2015) also demonstrates that the implementation of a CE approach should take into account system thinking, as decision making of the stakeholders (entrepreneurs, companies, and governments) engaged in the manufacturing processes, has a huge influence in the value chain. It is further acknowledged that decoupling the economic approach from natural resource consumption as to be one of the principles of a circular economy. The emphasis has to be put on value retention and on stock optimization and on product life extension (Stahel, 2013, 2019).
Reike et al. (2018) highlight ‘refurbish’ emphasising that it corresponds to the process that products undergo when upgraded, i.e. parts and components of a bigger framework have to be replaced so that the life cycle of the product is extended (Brito & Dekker, 2003; Fernández and KeKale, 2005). ‘Remanufacturing’ is also explored as the process of repairing a product, starting by setting up an inspection, followed by the product disassembly, cleaning, and repairing, through industrial processes in monitored atmospheres (shop, factory) (Gehin et al., 2008; Liede Rand Rashid, 2015).

In regard to ‘repair’, it is referred that it corresponds to the life extension of the products (King et al., 2006), by repairing parts and components (Stahel, 2010), or making modifications (Thierry et al., 1995). This life extension procedures can be executed by different parties (owners, technicians, and repair businesses) without experiencing ownership transfer (Hultman and Corvellec, 2012).

**Redesign, Rethink - Cradle-To-Cradle - Long Lasting Products**

Circular economy is generally connected with the ‘recycling’ R-principle, nonetheless, this represents the less sustainable response to tackle with environment sustainability questions, if compared to the remaining R- principles when dealing with resource efficiency and profitability (Stahel, 2013, 2014, 2019). Some industrial waste is only recycled to a certain extent and other materials are not recyclable at all. As an example, fibers are recyclable 4-6 times, whilst some metals cannot be recycled at all and are found to be “unlimited manifold recycling” (Reh, 2013); other articles like plastic cannot simply go through recycling processes as in their components there are impurities, as ink or metals (Prendiville et. al, 2014). Therefore, different solutions considering the nature and the components of what is discarded are required. CE is unable to guarantee that products or their component parts are 100% recyclable, as economic systems are not totally circular when it comes to waste, debris and energy, as a result of the entropy law (Daly, 1977; Andersen, 2007).

So as to attain equilibrium environmentalists, industrialists and designers ought to harmonize strategies and policies and put into practice the ‘eco-friendly’ concept when tackling manufacturing and production processes. McDonough and Braungart (2002) and the EMF (2012) also believe that CE ought to pursue a new and design-oriented technique known as ‘eco-effectiveness’, so as to minimize and dematerialize the material flow system. This procedure would enable a harmonious exchange between environment and economy and abandon or at least reduce the modern manufacturing practice coined as ‘eco-efficiency’.

Furthermore, McDonough and Braungart, (2002) consider that a ‘cradle-to-cradle’ design concept, rather than a ‘cradle-to-grave’ life cycle should be implemented, since the life cycle of products does not necessarily end in a ‘grave’, the equivalent to a landfill. Seeking a ‘cradle-to-cradle’ economic model products are designed and fabricated with a new purpose and with ‘long-lasting’ design (Geissdoerfer et al., 2017), through waste-free industrial processes. In this context, CE does not only stand for a preventive model (McDonough, 2002) with the purpose of reducing natural resource depletion and waste emissions, but also emerges as an approach which considers the correlation between environment and industry (Cooper, 1999; Nakajima 2000). It far exceeds the concept of sustainability, as it stresses that pursuing efficiency through design and service supply presupposes a reduction in inputs, enhancing resource usage and economic development from natural resource utilization. For this purpose, policies and practices should concentrate on pursuing three main approaches: ‘low consumption’, ‘low emission of pollutants’, and ‘high efficiency’ (UNEP Paris Report on CE, 2006). Additionally, Stahel (2010) reckons that economic stakeholders ought to commit themselves to strategies that would allow to diminish resource consumption at the expenses of waste emissions and consequential environmental threats, and therefore, attain head towards sustainable development.
Mathews and Tan (2011) also consider that eco-industrial approaches, which contemplate industrial circular strategies which enable the transformation of waste, in a particular manufacture phase, into a beneficial chain input at a different stage, have been emerging concerning sustainability of industrial business.

Refuse

Additionally, Reike et al. (2018) presented the imperative ‘refuse’ as a concept relying on two distinct perspectives, the producer and the consumer’s perspectives. Considering the producer’s process, the Concept and Design Life Cycle of products ought to be considered, as designers have the opportunity to refuse to accept or approve certain production processes, which may involve waste outputs and the use of hazardous materials or substances (Bilitewski, 2012). Considering the consumer’s approach, there is the possibility to choose to purchase limited quantities of products or reduce its use (Miller and Spoolman, 2002; Black and Cherrier, 2010; Alwood et al., 2011). ‘Refusing’ also relate to the refusal to approve packaging, bags, or containers whenever they constitute waste (Clapp and Swanston, 2009; Kasidoni et al., 2015).

Repurpose, Recover

‘Repurpose’ or ‘rethink’, as it is also commonly referred to (Li, 2011), refers to the strategy of utilizing discontinued or obsolete parts or components and providing them with a new purpose or another function, enabling these discarded equipments to re-enter a new life cycle (Reike et al., 2018; Yan and Feng, 2014). Additionally, Stahel (2010) points out that ‘repurpose’ may also relate to the removal of parts or components of products that are unsuitable for use.

‘Recover’ or ‘Re‐mine’ are R‐imperatives frequently disregarded in addressing the CE principles. As underlined by Reike et al. (2018), this concept refers to the “retrieval of materials after landfilling phase (Yan and Feng, 2014).

A comprehensive and systematic address at highlighting the R‐imperatives and their use is a relevant strategy for a thriving CE implementation, considering that some of these imperatives are an inherent result of the laws of physics, even though others ought to be linked to the existing economic model of developing countries.

Remine, Return

The ‘remine’ R – principle is not generally used when operationalizing circular economy strategies or is often disregarded, along with ‘refurbish’ and ‘repurpose’. It relates to the recovery of materials immediately before the disposal phase, i. e., valuable parts form discarded goods are selected and retrieved and used in the production or remanufacture of products or components (García-Rodríguez et al., 2013; Reike et al., 2018).

The ‘return’ concept refers to the throw back of products or components but in an environmentally innocuous way, which may include appropriate treatment and handling or even containment.

CE stands out as an advantageous concept to attain sustainable development. However, thorough analysis and critical examination and debate on its principles and implementation is necessary to
guarantee that it will be disseminated, adopted, and put into practice, not only by businesses but also by policy makers.

Adopting eco-friendly behaviours, being environmentally aware, and sustainability have become trendy topics over the past decades and continue to gain momentum. The tourism industry is a significant business sector, which means that it can play a fundamental role in modifying the current environmental practices that have been leading to natural resources depletion, and respond to the needs of the present generations without endangering the future of the generations to come (Rio, 1992). So, the challenge is to transition from a linear to a circular economic model, considering the design and the development of new products and services, regarding waste as a valuable resource and rethink logistics networking, and the engagement of stakeholders and policy makers in providing and developing a support structure.

Tourism stakeholders are demanding for approaches and resources to become more sustainable and the moment is to create responsible businesses, implementing practices and policies that consider the triple bottom line (Elkington, 1994, 1997) so as to commit people, community and environment. According to Chiliny and Groenewald (2017), decision making on sustainable development has to engage different stakeholders (various levels of authorities, the private sector, NGOs, and communities) and no longer be of the exclusive competence of the governments. The more sustainability challenges are considered at the planning and implementation levels and the more actors are involved in the decision making process, higher is the potential of being successful and attain sustainability goals.

The CE principles can be implemented in the tourism sector through the operationalisation of business models based on sustainable principles, and the transition to a CE model. Drafting a circular tourism approach could enhance the sustainable use of resources as well as an intelligent and viable supply of all the services related to this sector. One of the industries in the scope of the tourism industry, the hospitality sector (hotels and the various accommodation facilities) has to commit to sustainable initiatives, as the UNWTO (2019) estimates it accounts for 1% of the global carbon dioxide emissions, a number expected to increase as this sector is expected to continue to experience growth and demand. It is also demonstrated that 75% of the environmental impact of this industry directly relates to resource waste, and to resources utilization (energy, water, consumables). The Hotel Global Decarbonisation Report (2017) indicates that the accommodation sector will have to reduce gas emissions per room, 66% from 2010 levels, and 90% by 2050 in order to line up with the Paris Climate Agreement, a settlement that targets to maintain global warming below the 2ºC boundary.

In this context, the challenges are to keep pace with the tourism industry growth, increasing number of people travelling, accommodating more and more travellers and building more infrastructure, and at the same time reduce the carbon footprint of the sector. The transition to a CE model, the implementation of circular economy principles, or drafting a circular tourism approach could enhance the sustainable use of resources as well as an intelligent and viable supply of accommodation, food, wellness services, energy and water flows, and all the services that allow the travelling experience (Manniche et al., 2018).

Taking into account the implementation of the CE R-principles on the tourism industry, there is not significant academic literature to build upon, neither case studies or confirmatory approaches or empirical validation. Therefore, there is a gap in the literature to fill.

**CONCLUSION**
The concept of Circular Economy has evolved and has become a trending topic, with expanding relevance, concerning management policies as well as at an academic level. Stakeholders and consumers are, more than ever, vigilant with respect to environment sustainability and view CE as an approach to promote clean growth and ameliorate environmental conditions. Far beyond the prevailing economic model of production and consumption, CE sustains the effective use of natural resources to attain the transition from open-ended cycles of materials and energy to a system of closed cycles, to achieve less wasteful industrial processes. CE is also considered a preventive and regenerative approach as it minimizes the loss of valuable materials, considers waste emissions as potential resources for production inputs, and controls energy outflows by narrowing material and energy loops. It discards the concept of waste emissions, stating that the life-cycle of products ought to be planned in the design phase to avoid residues. In this perspective design and eco-design play a major key role in the CE implementation, as it represents an approach to reduce environmental impacts throughout the life-cycle of products.

Circular economy stands out as emerging and transformational economic model which intends to redesign global production and consumption models as well as to minimise the inconsistency between economic growth and environmental sustainability. It is an approach that will allow an enormous change in the role performed by resources within the economy, i.e. waste emissions would become valuable inputs in other processes, products would be repaired or upgraded instead of being discarded. In today’s economy, where high and volatile resource prices are consistent, CE offers considerable business opportunities, but to do so, stakeholders have to concentrate on collecting and sharing date, exchange good and preventive practices, invest in innovation and research, and above all promote collaboration among the different actors (governments, businesses, companies, etc.). Stakeholders play a key role in accelerating the transition to a Circular Economy model, in a period of time compatible with the response to global challenges as climate change, water and resource scarcity, pollution, and take responsible decisions that may contribute to achieving sustainable development within a reasonable timescale.

This document provides an in-depth understanding of the CE concept, its evolution, its principles, and the CE R-principles. It is useful for research into circular economy and its connectivity with the tourism industry. Therefore, it constitutes a contribution to identify the main trends in circular economy research and tourism and, thereafter frame future research initiatives are conceivable.

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ETHICAL LEADERSHIP AND SUSTAINABLE PERFORMANCE OF SMALL AND MEDIUM ENTERPRISES IN SOUTH AFRICA

Olawale Fatoki

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ABSTRACT

Small and medium enterprises (SMEs) contribute significantly to employment and economic growth of many countries. Many SMEs are involved in unethical practices. The struggle for survival by SMEs as well as the unique risks faced by these entities, influence their leaders’ ethical behaviour. An ethical leader takes into consideration the interests of all stakeholders in order to build an effective organisation. The study investigated the impact of ethical leadership on the sustainable (financial, social and environmental) performance of SMEs. Data was collected from one hundred and forty eight owners/managers of SMEs in the manufacturing sector. The cross-sectional survey method (self-administered questionnaire) was used for data collection. The participants in the study were conveniently sampled. Descriptive statistics, correlation and regression analysis were used for data analysis. The Cronbach’s alpha was used as a measure of reliability. The results indicated that there is a significant positive relationship between ethical leadership and financial and social performance. The relationship between ethical leadership and environmental sustainability is not significant. From a theoretical perspective, the study contributed to knowledge by linking ethical leadership and sustainable performance in the context of SMEs. Empirically, the study contributes to the literature on ethical leadership and sustainable performance from an emerging country perspective. Practically, the study suggested recommendations to improve ethical leadership by SMEs.

Keywords: Ethical leadership; small and medium enterprises; sustainability, performance; South Africa

INTRODUCTION

The Organisation for Economic Cooperation and Development (2017) remarks that in many countries, governments face the challenges of low economic growth, high unemployment rates and rising income inequality and poverty. Small and medium enterprises (SMEs) play a significant role in the economies of countries around the world. SMEs contribute to innovation, generate employment and are key to the achievement of inclusive growth and long-term sustainability of economies (Ayyagari et al., 2007; Rankhumise and Letsoalo, 2018; Chinomona, 2019). In developed countries such as the United States of America (USA) and Japan, more than 99% of their businesses are SMEs. The contribution of the SME sector is one of the reasons for the low rates of unemployment and high rates of economic growth in many developed countries (Pandya, 2012). Formal SMEs contribute about 40% of the gross domestic

Olawale Fatoki received his Ph.D. in Business Management from the University of the Free State, South Africa. He is currently a researcher in the Department of Business Management, University of Limpopo, South Africa. He is a member of the Entrepreneurship and Sustainability Research Group. His research interests include sustainable entrepreneurship, leadership and financing of small and medium enterprises.
product (GDP) and 60% of total employment in developing economies (World Bank, 2018). In South Africa, SMEs account for about 34% of GDP and 60% of all employment (Abor and Quartey, 2010). There is positive correlation between the size of the SME sector and a country’s economic growth (Ayyagari et al., 2007).

The SME sector in both developed and developing countries face many challenges leading to high failure rates. Some of the challenges include low productivity, lack of finance and a highly competitive business environment. In USA, half of SMEs fail within the first three years. In South Africa, about 75% of SMEs do not survive the first five years after formation (Small Enterprise Development Agency, 2015; USA Small Business Administration, 2016; Maome, 2018). One of the factors that can affect the survival of SMEs is unethical practice. Many SMEs are involved in unethical practices such as the sale of substandard goods, misleading of customers and avoidance of quality assurance certification. Ethical challenges faced by small businesses in South Africa include bribery, extortion, deception and theft. Such unethical practices negatively impact on customer trust, reputation and performance (Botha, 2012; Mayanja and Perks, 2017; SME Survey, 2017; Turyakira, 2018). According to Robinson and Joncker (2017), the struggle for survival by SMEs in South Africa, as well as the unique risks faced by these entities, influence their leaders’ ethical behaviour. There is a paradoxical relationship between ethics and profitability as SMEs depend on their ethical reputation to survive but are also faced with the temptation to be unethical to survive. In addition, there is a high level of fraud and corruption in the business environment in South Africa as depicted by repeated scandals involving public and business sector leaders. Rampant corruption in South Africa has been one of the biggest challenges in the country’s corporate governance landscape (The Open Democracy Advice Centre, 2013; Makka, 2018). Transparency International (TI) ranks South Africa 73rd out of 180 countries that participated in its survey. The TI index uses a scale of zero to hundred where zero is highly corrupt and 100 very clean. South Africa’s score is 43 and the country is amongst the group of countries that scored below 50 (Transparency International, 2018).

Ethical leadership that is demonstrated by integrity, fairness, transparency and accountability rather than self-interest is vital to good governance in SMEs and is an important factor for organisational success (Ihua, 2009; Arham et al., 2013; Cheteni and Shindika, 2017; Madanchian et al., 2018). Ethical leaders engage in acts and behaviours that are beneficial and do not cause harm to others. Ethical leaders encourage ethical conduct by practicing ethics and holding everyone accountable to it. Ethical standards, integrity and fair treatment of others are some of the cornerstones of ethical leadership (Kanugo. 2001; Brown, et al., 2005; Downe et al., 2016)). Ethical leadership influences followers’ self-concept and beliefs and this affects the motivation, attitudes and behaviours of employees. Ethical leadership leads to positive organisational outcomes by improving employee prosocial behaviours, job satisfaction and performance and top-management effectiveness (Conrad, 2013, Hassan et al., 2014; Engelbrecht et al., 2014).

An ethical leader takes into consideration the interest of all stakeholders in order to build a sustainable organisation that not only takes into consideration profit but also people and the environment. SMEs are the largest business sector in most economies, and this implies that their activities will have a significant impact on many external stakeholders. Businesses are expected to follow environmental protection, economic performance and social inclusion when designing their performance strategies (Revell et al., 2010; Cassells and Lewis, 2011). The engagement of SMEs with social and environmental issues can be driven by the personal values of their managers or owners (Szczepańska-Woszczyena and Pysz, 2016; Schaefer et al., 2018). This suggests that ethical leadership by the owner/managers can influence the sustainable performance of SMEs.

Previous research on ethical leadership has mainly focused on the influence of leaders on followers. This kind of research helps to explain how the ethical conduct of leaders affects follower
attitudes, behaviours and performance. There is little exploration of the relationship between managers’ ethical leadership and firm-level performance. However, leadership is about the achievement of organisational goals (Wang et al., 2016). In addition, most studies on ethical behaviour have focused on its effect on either financial or social performance (Manduku, 2017; Tourigny et al., 2017). The aim of this study is to examine the relationship between ethical leadership behaviours of owner/managers and the sustainable (financial, social, environmental) performance of SMEs. This study will make an empirical contribution to the literature on ethical leadership and sustainable performance from the perspective of SMEs in an emerging economy. First, this study focuses on SMEs in a developing country where empirical studies on ethical leadership and sustainable performance are relatively few. Second, the findings of empirical research on ethical leadership and firm performance are inconclusive. The findings of this study can help SMEs in understanding how ethical leadership can be used as a strategic tool to improve sustainable performance. The study is organised as follows: The literature on ethical leadership and sustainable performance will be reviewed in the next section. Then, the research methodology, results, discussion and conclusion will be presented.

LITERATURE REVIEW

Small and Medium Enterprises in South Africa

Table 1. Quantitative definition of the small businesses in the manufacturing sector in South Africa.

<table>
<thead>
<tr>
<th>Enterprise size</th>
<th>Number of employees</th>
<th>Turnover Rand (Million)</th>
<th>Gross assets excluding fixed property Rand (Million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Micro</td>
<td>5</td>
<td>0.20</td>
<td>0.10</td>
</tr>
<tr>
<td>Very small</td>
<td>20</td>
<td>5</td>
<td>2</td>
</tr>
<tr>
<td>Small</td>
<td>50</td>
<td>13</td>
<td>5</td>
</tr>
<tr>
<td>Medium</td>
<td>200</td>
<td>51</td>
<td>19</td>
</tr>
</tbody>
</table>

Adapted from Government Gazette (2003).

Table 1 shows the definition of small businesses in the manufacturing sector in South Africa. Although, the small business space in South Africa includes micro, very small, small and medium enterprises. The term small and medium enterprises (SMEs) is generally used (Government Gazette, 2003). This study used the number of employees as the method of enterprises size classification. A micro enterprise has between one and five employees, a very small enterprise has between six and twenty employees, a small enterprise has between twenty one and fifty employees and a medium enterprise between fifty one and two hundred employees. As mentioned earlier, despite the contribution of SMEs to economic growth and employment in South Africa, these enterprises are at times involved in unethical practices that negatively impact on customer trust, reputation and performance (Botha, 2012; Mayanja and Perks, 2017; SME Survey, 2017; Turyakira, 2018).
Ethical leadership

Okafor (2011) describes ethics as the principle of morality that includes the science of the good and the nature of the right. Ethics involves doing the right thing in a right manner. Ethics determines good from bad, moral from immoral and fair from unfair actions and behaviour. Integrity, transparency, fairness, responsibility and accountability form the basis for ethics. Ethics is a set of principles, values, morals and rules that guide the conduct of individuals, groups, societies and business organisations. Ethical decision making helps individuals to make difficult choices when faced with an ethical dilemma (Turyakira, 2018). Business ethics is the application of ethical values to business behaviour. Business ethics applies to all aspects of business conduct (Institute of Business Ethics, 2018).

Leadership can be described as a process of influencing and guiding people to achieve organisational goals. Leadership is the art of persuading followers to want to do the activities a leader sets as goals that need to be achieved (Arham et al., 2013). Good leadership is about humility, concern for others, controlled discipline, and focus on the well-being of followers and the purpose of the organisation. Good leadership takes into consideration the interest of both internal and external stakeholders (Winston and Patterson, 2006). Repeated scandals involving leaders in government and business organisations have shifted attention towards the moral, social and ethical responsibilities of leaders. Ethical scandals in business or public organisations have raised important questions about the role of leadership in ethical conduct. This has formed the basis for ethical leadership (Hassan et al., 2014).

The term ethical leadership is yet to be precisely defined (Kim and Thapa, 2018). Although, the definition of ethical leadership has proven elusive, the most widely utilised definition is by Brown et al. (2005) Ethical leadership can be described as appropriate conduct by a leader through personal action and interpersonal relationship. The conduct of the leader must be promoted to followers through a twoway communication (Brown et al., 2005). Jordan et al. (2013) point out that ethical leaders exhibit ethical behaviors in the workplace. Ethical leaders personally display normatively appropriate behaviors and encourage their followers to perform these same actions through active communication. Ethical leaders take into consideration the ethical aspects of the outcomes that their decisions are likely to be produce before the decisions are made and follow ethical principles in decision-making. Ethical leadership encourages ethical conduct by practicing ethics and holding everyone accountable for it. Ethical leadership leads to positive organisational outcomes by improving employee prosocial behaviours, job satisfaction and performance and top-management effectiveness (Kanungo, 2001; Hassan et al., 2014; Engelbrecht et al., 2014).

Sustainable performance

Sustainability is a concept that has its origin in the Brundtland Report of 1987. The report focuses on the reconciliation of two concerns: development and the environment. This can be construed as needs versus resources, or the short-term versus the long-term (Kuhlman and Farrington, 2010). Sustainability has three dimensions: economic, environmental and social. Sustainable development is about economic development, social development and environmental protection. Sustainability is the way that an organisation creates value for its owners and society by maximising the positive and minimising the negative effects of social, environmental and economic issues (Little, 2014). There is no single universally definition or measurement of performance. Performance can be described as a firm’s ability to create acceptable outcomes and actions. The measure of performance can be financial or non-financial. Financial indicators include profitability, sales and market share. Non-financial measures focus on customer satisfaction, quality, innovation, employee satisfaction and reputation (Chong, 2008). One of the approaches for evaluating firm performance is the Triple Bottom Line (TBL). The TBL adds both
environmental and social dimensions to the traditional economic (financial) results to measure performance from a sustainable perspective (Hourneaux et al., 2017; Qorri et al., 2018).

Theoretical link between ethical leadership and sustainability

The theoretical foundation of ethical leadership and sustainability can be linked to the the social learning theory, the social exchange theory and the stakeholder theory. The Social Learning theory (Bandura, 1977, 1986) maintains that for leaders to be seen as ethical by their followers, they must be attractive and credible role models. Furthermore, social learning theory explains how ethical leaders influence their followers. Individuals learn by emulating the values, behaviours and attitude of credible role models. Ethical leaders provide guidance because of their credibility and attractiveness as role models. This suggests that an ethical leader can influence the sustainable performance of a firm through values, behaviour, guidance and attitude. The Social Exchange Theory by Blau (1964) argues that employees tend to develop high quality relationships based their interaction and experiences. This suggests that the followers of an ethical leader are more likely to see themselves as being in a social exchange relationship. This can be attributed to the ethical treatment that they receive and because of the trust that they feel. Therefore, when employees perceive that their leaders are ethical, they are likely to reciprocate by improving task performance. This can lead to the achievement of organisational sustainability goals (Trevino & Brown, 2006). The Stakeholder Theory by Freeman (1984) holds that a firm should take into consideration the interest of different stakeholders in its activities. According to Carroll and Buchalitz (2003), stakeholders can be categorised into primary and secondary. Primary stakeholders include shareholders (owners), employees, customers, communities, and natural environment. Secondary stakeholders consist of local, state, and federal governments, regulatory bodies, trade and industry groups, the media and competitors. An ethical leader takes into consideration all the stakeholders that can influence or are affected by a firm’s operation and activities. This suggests that an ethical leader can influence not only financial performance but also also social and environmental performance.

Ethical leadership and sustainable performance

This study uses the triple-bottom-line approach to measure sustainable performance. The study focuses on financial (economic), social and environmental sustainability.

- **Ethical leadership and financial performance**

Wang et al. (2016) point out that despite the importance of ethical leadership, its impact on different aspects of firm-level performance is unclear. Manduku (2017) investigates the relationship between ethical leadership and financial performance of firms listed on the stock exchange in Kenya. Ethical leadership was measured by four variables: ethical human resource practice, ethical advertising, ethical consumer relations and ethical investor relations. Performance was measured by return on assets. The findings of the study indicate a significant positive relationship between the four measures of ethical leadership and financial performance. Wang et al. (2016) examine the relationship between ethical leadership and financial performance of 264 large, medium, and small Chinese firms. Ethical leadership was measured by leader humane orientation, leader responsibility and sustainability orientation. Financial performance was measured by the aggregate of sales growth, profit growth, return on assets, return on investment, market share growth, overall efficiency of operations and return on sales. The findings reveal that leader humane orientation, leader responsibility and sustainability orientation have positive effects on financial performance. Shin, Sung, Choi and Kim (2015) in a study of 147 Korean small, medium and large firms from various industries find that top management ethical leadership positively affects ethical climate and this results in procedural justice climate that mediates the effects of top management ethical
leadership on firm financial performance. Agbim (2018) investigates the effect of ethical leadership on the performance of selected money deposit banks in Nigeria. The results based on 258 respondents show a significant positive relationship between ethical leadership and firm financial performance. Kim and Thapa in a study of 196 food service franchise firms in South Korea find a significant positive relationship between ethical leadership and economic and commercial performances.

The findings of empirical literature about the impact of ethical leadership on firm performance are not conclusive. Amisano and Anthony (2017) explored the relationship between ethical leadership and sustainability of small businesses in the United States of America. The study used financial, social and environmental indicators to measure sustainability. The results validated on eighty respondents show a positive but insignificant relationship between ethical leadership and financial performance as measured by net revenue and net profit margin.

In South Africa, Nkosi (2014) finds that ethical leadership can positively affect the economic sustainability of gold mines. Cheteni and Shindika (2017) examine the extent of ethical leadership practices in public institutions in South Africa and Botswana. The study finds that South African leaders are perceived as relatively weaker moral managers compared to those in Botswana. Engelbrecht et al. (2017) investigate the effect of ethical leadership and climate on effectiveness. The results indicate positive relationships between ethical leadership, ethical climate, and leader effectiveness. A thorough review of the literature revealed that no South African study has investigated the impact of ethical leadership on the financial performance of SMEs in South Africa. Wang et al. (2017) point out that top management ethical leadership positively affect firm financial performance by boosting the commitment, engagement, and motivation of employees. In addition, top management ethical leadership facilitate a positive emotional climate and is positively associated with firm financial performance. Ethical practices by the managers of an organisation contribute to performance through the promotion of collective organisational commitment and organisation citizenship behaviour among employees. Ethical leaders are unlikely to be involved in the manipulation of financial reporting which can negatively impact on firm performance (Amisano and Anthony, 2017). Consequently, it is hypothesised (H1) that there is a significant positive relationship between ethical leadership and the financial performance of SMEs.

- Ethical leadership and social performance

Wang et al. (2017) examine the relationship between ethical leadership and social performance of 264 large, medium and small Chinese firms. The researchers argue that ethical leadership creates a supporting and caring workplace environment through the recognition of rights and genuine concern about the wellbeing of employees and the creation of supporting and caring workplace environment by leaders. This nurtures a positive psychological condition among employees and enhances their engagement and commitment at work. Ethical leaders also treat customers as valuable and unique and are sensitive in attending to customer needs. This helps to promote customer satisfaction and loyalty. The study finds a significant positive relationship between ethical leadership and social performance.

The study by Agbim (2018) finds that a significant positive relationship exists between ethical leadership and corporate social responsibility (CSR) of deposit banks in Nigeria. CSR was measured by environmental protection, customer care, employee care and community care. Kim and Thapa (2018) in a South Korean study find that ethical leadership has a significant influence on CSR. Ethical leadership helps senior management to establish clear and relevant societal responsibilities and also encourages employees to initiate them. The enrichment of senior management’s ethical leadership can lead to CSR activities that will meet increased consumer and societal demands. Tourigny et al. (2017) in a Chinese study find that the ethical stance of supervisors affects the perception of CSR by subordinates. This in turn, positively impacts on subordinates’ trust in the organisation and the action taken on organisational citizenship and personal social responsibility behaviour. Amisano and Anthony (2017) examine the
association between ethical leadership and the social performance of small businesses in USA. The study found a significant positive correlation between ethical leadership and social sustainability. A thorough review of the literature revealed that no South African study has investigated the impact of ethical leadership on social performance of SMEs. Wang et al. (2017) argues that ethical leadership creates a supporting and caring workplace environment and nurtures a positive psychological condition among employees. Ethical leaders treat customers as valuable and unique and take into consideration the society in their decisions. Consequently, it is hypothesized (H2) that there is a significant positive relationship between ethical leadership and the social performance of SMEs.

➢ Ethical leadership and environmental performance

The leadership styles of managers positively influence the adoption of sustainability programs. Leadership helps in motivating a change in human behaviour toward sustainable practices. Corporate greening is often determined by the commitment and leadership of top managers who are able to implement policies and practices that can improve environmental performance (Metcalf & Benn, 2013). Boiral et al. (2014) argue that corporate greening is dependent to a large extent on the commitment and leadership of managers who are in a position to implement policies and practices that can improve environmental performance. For SMEs, environmental leadership is becoming more essential given that their size and limited resources often make it difficult to implement well-organised initiatives that effectively address sustainability issue. Environmental leadership is related to ethical leadership as it takes into consideration not just the firm but also external stakeholders especially the environment. The study by Boiral et al. (2014) which was a case study of 63 interviews carried out in 15 industrial SMEs in Canada find that SMEs that show the most environmental management practices are mostly run by managers who are at a post-conventional stage of consciousness development.

Robertson and Carleton (2017) in a study that focused on both leaders and their subordinates in the USA and Canada find that the creation and implementation of pro-environmental initiatives at the firm level depend on employees’ voluntary pro-environmental behaviour. Leaders directly affect employees’ pro-environmental climate perceptions and pro-environmental behaviour through social and normative learning processes. Anisano and Anthony (2017) in a study done in the USA find a significant association between ethical leadership and environmental responsibility of small businesses. A thorough literature review showed that no study has empirically investigated the effect of ethical leadership on the environmental performance of SMEs in South Africa. This paper argues that unethical behaviour by businesses negatively affects the environment through the massive production of material goods, carbon emission and pollution. Based on this argument, it is hypothesised (H3) that there is a significant relationship between ethical leadership behaviour and the environmental performance of SMEs. Table 2 provides the tabular literature review on ethical leadership and sustainable performance.

<table>
<thead>
<tr>
<th>Title</th>
<th>Author(s)</th>
<th>country</th>
<th>Findings</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Influence of Ethical Leadership on the Financial Performance of Listed Firms in Kenya</td>
<td>DO Manduku (2017).</td>
<td>Kenya</td>
<td>Regression analysis showed a strong relationship between ethical leadership and performance as measured by the return on assets</td>
</tr>
<tr>
<td>Study Title</td>
<td>Authors</td>
<td>Country</td>
<td>Summary</td>
</tr>
<tr>
<td>---------------------------------------------------------------------------</td>
<td>-------------------------------------------------------------------------</td>
<td>------------------</td>
<td>--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Linking Ethical Leadership with Firm Performance: A Multidimensional Perspective</td>
<td>Wang, Feng and Bullet, (2017).</td>
<td>China</td>
<td>The findings revealed that leader humane orientation, leader responsibility and sustainability orientation have positive effects on financial and social performance.</td>
</tr>
<tr>
<td>Top Management Ethical Leadership and Firm Performance: Mediating Role of Ethical and Procedural Justice Climate</td>
<td>Shin, Sung, Choi and Kim (2015).</td>
<td>Korea</td>
<td>Ethical leadership positively affects ethical climate and this results in procedural justice climate that mediates the effects of top management ethical leadership on firm financial performance.</td>
</tr>
<tr>
<td>Ethical Leadership in South Africa and Botswana</td>
<td>Cheteni and Shindika (2017).</td>
<td>South Africa</td>
<td>Results indicated significant differences between the perceptions of managers' moral conduct. South African leaders were perceived as relatively weaker moral managers as compared to those in Botswana.</td>
</tr>
<tr>
<td>Effect of ethical leadership and climate on effectiveness</td>
<td>Engelbrecht, Wolmarans and Mahembe (2017).</td>
<td>South Africa</td>
<td>The results indicated positive relationships between ethical leadership, ethical climate and leader effectiveness.</td>
</tr>
<tr>
<td>Ethical leadership and its association with sustainable economic performance in the gold mining industry</td>
<td>Nkosi (2014).</td>
<td>South Africa</td>
<td>Ethical leadership has a positive effect on economic sustainability.</td>
</tr>
<tr>
<td>Ethical leadership and sustainability in small business</td>
<td>Amisano and Anthony (2017).</td>
<td>United States of America</td>
<td>The results showed a positive but insignificant relationship between ethical leadership and financial, social and environmental performance of small businesses.</td>
</tr>
<tr>
<td>Ethical Leadership and Corporate Social Responsibility</td>
<td>Tourigny, Han, Baba and Pan (2017).</td>
<td>China</td>
<td>Ethical stance of supervisors affects the perception of CSR by subordinates.</td>
</tr>
<tr>
<td>Relationship of Ethical Leadership, Corporate Social Responsibility and Organizational Performance</td>
<td>Kim and Thapa (2018).</td>
<td>South Korea</td>
<td>The results indicated ethical leadership significantly influenced commercial, perational and social performance.</td>
</tr>
</tbody>
</table>
Leadership for sustainability: An evolution of leadership ability.  
Metcalf and Benn. (2013).  

Environmental leadership and consciousness development: A case study among Canadian SMEs’.
Boiral, Baron and Gunnlaugson (2014).  

Greening organizations through leaders’ influence on employees’ pro-environmental behaviors
Robertson and Carleton (2017).  

<table>
<thead>
<tr>
<th>Leadership for sustainability: An evolution of leadership ability.</th>
<th>Metcalf and Benn. (2013).</th>
<th>Literature review of many countries</th>
<th>Meta-analysis of literature on leadership and ethics</th>
</tr>
</thead>
<tbody>
<tr>
<td>Environmental leadership and consciousness development: A case study among Canadian SMEs’.</td>
<td>Boiral, Baron and Gunnlaugson (2014).</td>
<td>Canada</td>
<td>SMEs that displayed significant environmental management practices are mostly run by managers at the post-conventional stage of consciousness development.</td>
</tr>
<tr>
<td>Greening organizations through leaders’ influence on employees’ pro-environmental behaviors</td>
<td>Robertson and Carleton (2017).</td>
<td>Canada and USA</td>
<td>Findings showed that leaders’ environmental descriptive norms and the pro-environmental behaviors that they enact play an important role in the greening of organizations.</td>
</tr>
</tbody>
</table>

RESEARCH METHODOLOGY

The study adopted the quantitative research approach and used the descriptive and causal research design. Data was collected through the use of self-administered questionnaire in a survey using the cross-sectional approach. The survey was conducted in the Gauteng and Limpopo Provinces of South Africa. Because of the difficulty in obtaining the population of SMEs in the study area, convenience and the snowball sampling methods were used to identify the survey participants. All the respondents in this study were in the manufacturing sector and were owners or managers. Examining respondents from similar line of business helped to control the effect of industry on sustainability practices and performance. In addition, owners or managers were chosen because of their expected familiarity with performance indicators and sustainability practices. A pilot study was conducted on the survey instrument used in this research with 30 SME owners/managers in order to improve face and content validity. The questionnaire was divided into three parts: (1) biographical information; (2) ethical leadership and (3) sustainable performance. Descriptive statistics, correlation and regression analysis were used for data analysis. The Cronbach’s alpha was used as a measure of reliability. For ethical consideration, the participants were informed about the aim of the study, participation was voluntary, and confidentiality and anonymity were assured. The variables in the study were measured as follows:

**Ethical leadership:** The study used the Ethical Leadership Scale (ELS) developed by Brown et al. (2005) to measure ethical leadership. The ELS is anchored on five-point Likert scale with “1 strongly disagree and 5 strongly agree” The ELS consists of ten items and shows an excellent internal consistency with a Cronbach’s alpha of 0.92. The ten items form a coherent structure (unidimensional) with higher scores indicating greater ethical leadership behaviour. The ELS has been used to measure ethical leadership in various studies in different countries with high degrees of validity and reliability (Kalshoven & Boon, 2012; Strobel et al., 2010; Conrad, 2013). The Cronbach’s alpha of the ELS for this study is 0.74 which indicates a good internal consistency.

**Sustainable performance:** This study used financial, social, and environmental performance to measure sustainable performance (Hourneaux et al., 2017; Qorri et al., 2018). Perceptive measures for the last three years were used to measure sustainable performance. This period is broad enough to take into consideration seasonal and cyclical fluctuations in business practices and performance (Urban and George, 2018). Three question items were used to measure financial performance (increase in sales,
increase in market share and increase in profit during the last three years). The Cronbach’s alpha for finance performance is 0.73. Social performance was measured by seven question items (increased customer satisfaction with products, reduced rate of product return and recall, reduced staff turnover, increased employee satisfaction, reduced injury and work related fatalities, increased health and safety performance and increased contribution for social issues during the last three years). The Cronbach’s alpha for social performance is 0.82. Environmental performance was measured by three items (improved efficiency of raw materials, reduced resource consumption (energy, electricity, water) and increased recycling of materials during the last 3 years. The measures for which factors were summed up to get the average score. The Cronbach’s alpha for environmental performance is 0.73 which indicates a good internal consistency. All the question items to measure sustainable performance were anchored on five-point Likert scale with “1 strongly disagree and 5 strongly agree”. Table 3 depicts the full questionnaire used for the study.

<table>
<thead>
<tr>
<th>Table 3: Questionnaire</th>
</tr>
</thead>
<tbody>
<tr>
<td>Biographical details and constructs</td>
</tr>
<tr>
<td>Biographical questions</td>
</tr>
<tr>
<td>Level of education of the respondent</td>
</tr>
<tr>
<td>Gender of the respondent</td>
</tr>
<tr>
<td>Number of years in operation of the small and medium enterprises</td>
</tr>
<tr>
<td>Number of employees of the small and medium enterprises</td>
</tr>
<tr>
<td>Constructs</td>
</tr>
<tr>
<td>1. Conduct his/her personal life in an ethical manner.</td>
</tr>
<tr>
<td>2. Define success not just by results but also by the way that they are obtained.</td>
</tr>
<tr>
<td>3. Listen to what employees have to say.</td>
</tr>
<tr>
<td>4. Discipline employees who violate ethical standards.</td>
</tr>
<tr>
<td>5. Make fair and balanced decisions.</td>
</tr>
<tr>
<td>6. Can be trusted.</td>
</tr>
<tr>
<td>7. Discuss business ethics or values with employees.</td>
</tr>
<tr>
<td>8. Set an example of how to do things the right way in terms of ethics.</td>
</tr>
<tr>
<td>9. Has the best interest of employees in mind.</td>
</tr>
<tr>
<td>10. When making decisions, asks “what is the right thing to do?”</td>
</tr>
</tbody>
</table>
Ethical leadership and sustainable performance

Financial performance
1. Increase in sales during the last three years
2. Increase in market share during the last three years
3. Increase in profit during the last three years

Social performance
1. Increased customer satisfaction with products,
2. Reduced rate of product return and recall,
3. Reduced staff turnover,
4. Increased employee satisfaction,
5. Reduced injury and work related fatalities,
6. Increased health and safety performance
7. Increased contribution for social issues during the last three years

Environmental performance
1. Improved efficiency of raw materials, during the last 3 years.
2. Reduced resource consumption (energy, electricity, water during the last 3 years.
3. Increased recycling of materials during the last 3 years.

I strongly disagree, 2 disagree, 3 neutral, 4 agree, 5 strongly agree

Results

Response rate and biographical information

A total of 450 questionnaires were distributed to owners/managers of SMEs and 148 questionnaires were returned. The response rate was 33%.

<table>
<thead>
<tr>
<th>Biographical Characteristics</th>
<th>Frequency (N = 148)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Educational qualification of respondents</td>
<td></td>
</tr>
<tr>
<td>Below Matric</td>
<td>28</td>
</tr>
<tr>
<td>Matric</td>
<td>62</td>
</tr>
<tr>
<td>Post–Matric qualifications</td>
<td>58</td>
</tr>
<tr>
<td>Gender of the respondents</td>
<td></td>
</tr>
<tr>
<td>Female</td>
<td>53</td>
</tr>
<tr>
<td>Male</td>
<td>95</td>
</tr>
</tbody>
</table>
The results as depicted by Table 4 show that the majority of the respondents are male with Matric qualification, six to ten years of operation and can be classified as small businesses with between 21 and 50 employees.

### Descriptive statistics and correlational analysis

**Table 5: Descriptive statistics and Pearson correlation**

<table>
<thead>
<tr>
<th>Factor</th>
<th>Mean</th>
<th>SD</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ethical leadership</td>
<td>3.82</td>
<td>.96</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Financial performance</td>
<td>4.10</td>
<td>.99</td>
<td>.747*</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Social performance</td>
<td>3.85</td>
<td>.92</td>
<td>.695*</td>
<td>.726**</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Environmental performance</td>
<td>3.55</td>
<td>.97</td>
<td>.458</td>
<td>.498</td>
<td>.404</td>
<td></td>
</tr>
</tbody>
</table>

Correlation is significant *P<.001, **P<0.05 (2-tailed); SD=standard deviation

Table 5 depicts the descriptive statistics using the scale means and the Pearson correlation coefficient for each factor. The mean score for ethical leadership is 3.82 with a standard deviation of 0.96. Three indicators are used to measure sustainable performance. Financial performance has the highest score (mean, 4.10; SD 0.99). This is followed by social performance (mean 3.85, SD. 92) and social performance (mean 3.55, SD. 97). On a five-point Likert scale, a mean value below three is considered as low, three to four moderate and above four high (Neneh and van Zyl, 2017). The results indicate a moderate level of ethical leadership and social and environmental performance but a high level of financial performance. The results of the correlation show that ethical leadership is significantly associated with financial (r= 0.747; p<.001) and social performance (r= 0.726, p<.005). The association between ethical leadership and environmental performance (r=.404, p>0.05) is not significant.
Regression analysis

Table 6: Summary of the regression results for ethical leadership and sustainable performance

<table>
<thead>
<tr>
<th>Variables</th>
<th>Model</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial</td>
<td>0.625*</td>
</tr>
<tr>
<td>Social</td>
<td>0.618**</td>
</tr>
<tr>
<td>Environmental</td>
<td>0.421</td>
</tr>
<tr>
<td>R²</td>
<td>0.466</td>
</tr>
</tbody>
</table>

*P<.001, **P<0.05,

The assumptions of correlation and regression include normality, homoscedasticity and absence of multicollinearity. Normality was assessed by examining the normal probability–probability plot. The data forms a straight line along the diagonal; thus, normality can be assumed. To assess homoscedasticity, the researcher created a scatterplot of standardised residuals verses and standardized predicted values. The plot shows random scatter; thus, assumption is met. Multicollinearity was assessed by calculated variance inflation factors (VIFs). VIF value is 5.2. This indicates that multicollinearity can be assumed. The results of the regression model show that financial performance (Beta 0.625, p<0.01) and social performance (Beta 0.618, p<0.05) have significant positive relationships with ethical leadership. Thus, hypotheses one and two which state that there are significant relationships between ethical leadership and financial and social performance of SMEs are accepted. The relationship between environmental performance and ethical leadership (Beta 0.421, p>0.05) is positive but insignificant. Thus, hypothesis three which states that there is a significant positive relationship between ethical leadership and the environmental performance of SMEs is rejected.

Discussion

The SME sector creates employment and is a driver of inclusive growth in South Africa. The ethical challenges faced by small businesses in South Africa include bribery, extortion, deception and theft. Such unethical practices negatively impact on customer trust, reputation and performance. In addition, the activities by SMEs have an impact on the ecosphere and an ethical leader should take into consideration not only the firm but also other stakeholders such as the community and the environment. The study investigated the effect of ethical leadership on the financial, social and environmental performance of SMEs in South Africa. The results of this study which is validated by a data set of one hundred and forty-eight owner/managers of SMEs show a significant positive relationship between ethical leadership and the financial performance of SMEs. H1 of the study is accepted. The findings are consistent with previous empirical studies on the relationship between ethical leadership and financial performance. Manduku (2017) find a significant positive relationship between ethical leadership and financial performance of firms listed on the stock exchange in Kenya. Wang et al. (2017) in a study that focused on large, medium and small Chinese firms find a significant positive relationship between ethical leadership as measured by humane orientation, leader responsibility and sustainability orientation and financial performance. Shin et al. (2015) in a study of 147 Korean small, medium and large firms also find that top management ethical leadership positively affects ethical climate. This results in procedural justice climate that mediates the effects of top management ethical leadership on firm financial performance. The results of Agbim (2018) show a significant positive relationship between ethical leadership and the financial performance of banks in Nigeria. In South Africa, Nkosi (2014) finds that
ethical leadership can positively affect the economic sustainability of gold mines. However, the findings of the study are inconsistent with Amisano and Anthony (2017). The findings of the study indicate a positive but insignificant relationship between ethical leadership and financial performance of small businesses.

The results also indicate a significant positive relationship between ethical leadership and social performance. H2 is accepted. The findings are consistent with previous empirical studies on the relationship between ethical leadership and social performance. Wang et al. (2017) find a significant positive relationship between ethical leadership and social performance. Ethical leadership creates a supporting and caring workplace environment through the recognition of rights and genuine concern about the wellbeing of employees and the creation of supporting and caring workplace environment by leaders. Ethical leaders also treat customers as valuable and unique and are sensitive in attending to customer needs. This helps to promote customer satisfaction and loyalty. Agbim (2018) finds that a strong relationship exists between ethical leadership and corporate social responsibility (CSR) of deposit banks in Nigeria. Kim and Thapa (2018) in a Korean Study find that ethical leadership has a significant influence on CSR. Ethical leadership helps senior management to establish clear and relevant societal responsibilities and also encourage employees to initiate them. Tourigny et al. (2017) in a Chinese study find that the ethical stance of supervisors affects the perception of CSR by subordinates. Amisano and Anthony (2017) find a significant positive correlation between ethical leadership and social sustainability of small businesses.

The study finds a positive but insignificant relationship between ethical leadership and environment performance of SMEs. H3 is not accepted. Boiral et al. (2014) point out that corporate greening is dependent to a large extent on the commitment and leadership of managers who are in a position to implement policies and practices that can improve environmental performance. The findings of the study are inconsistent with Anisano and Anthony (2017) which find a significant association between ethical leadership and environmental responsibility of small businesses.

The findings of the study can be linked to the social learning theory, the social exchange theory and the stakeholder theory. The Social Learning theory (Bandura, 1977, 1986) argue that ethical leaders provide guidance because of their credibility and attractiveness as role models. This suggests that an ethical leader can influence the sustainable performance of a firm through values, behaviour, guidance and attitude. The Social Exchange Theory by Blau (1964) posits that when employees perceive that their leaders are ethical, they are likely to reciprocate by improving task performance. This can lead to the achievement of organisational sustainability goals. The Stakeholder Theory Stakeholder Theory by Freeman (1984) holds that a firm should take into consideration the interest of different stakeholders in its activities. An ethical leader takes into consideration all the stakeholders that can influence or are affected by a firm’s operation and activities.

**CONCLUSION**

Repeated scandals involving public and business sector leaders in recent times have increased the importance of ethical leadership. Employees often look outside themselves to leaders for ethical guidance in the workplace. Many SMEs in South Africa have been involved in unethical practices such as the sale of substandard goods, misleading of customers and the avoidance of quality assurance certification. Such unethical practices negatively impact on customer trust, reputation, and performance. The study investigated the relationship between ethical leadership behaviours of owner/managers and the sustainable (financial, social, environmental) performance of SMEs. The results indicated a significant positive relationship between ethical leadership and financial and social performance. The relationship
between ethical leadership and environmental performance is positive but insignificant. The findings of the study are relevant to small business owner and managers, researchers, and governmental and non-governmental bodies that support small business development in South Africa.

From a theoretical perspective, the study contributed to knowledge by linking ethical leadership to sustainable (financial, social, environmental) performance. Empirically, the study contributes to the literature on ethical leadership and sustainable performance from an emerging country perspective. Ethical leadership can help to enhance the performance of SMEs by building trust and reputation. The findings of the study can help small business owners to develop strategies to improve their sustainable performance by attending by attending training and seminars on ethical leadership. SMEs should develop ethical policies, codes and programmes to guide their ethical behaviour and promote sustainable performance. The reward system of SMEs should take into consideration ethical practices.

The study has some limitations. First, the study focused on subjective and not objective measures of firm performance. This is because objective measures of the performance are often unavailable as many SMEs hesitate to disclose objective measures. In addition, SMEs are not obliged by law to publicly reveal their annual performance. The validity of the findings could have been improved by objective measures. Second, the study used convenience sampling method because of the difficulty in obtaining the population and sampling frame of SMEs in the study area and this can lead to sampling bias. Also, only 148 respondents participated in the survey. Therefore, care should be exercised in generalising the findings of the study. Third, the study used the cross-sectional approach and cannot be used to analyse behaviour over a period to time. This limits the ability of the study to determine cause and effect. Because of the cross-sectional nature, the timing of the survey is not guaranteed to be representative. Additional studies can investigate the effect of ethical leadership on innovation and quality performance of SMEs.

The findings of this study can be validated by measuring ethical leadership using other scales. This study examined the perception of owner/managers about ethical leadership. Other studies can explore the perception of employees about owner/manager’s ethical leadership and its influence on sustainable performance using the longitudinal approach.

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ABSTRACT

Emotions and feelings have come to play a crucial role in people’s performance and success at work. Success in business life is not based solely on intellectual quotient (IQ) anymore. Human resources (HR) professionals can make a greater impact in the workplace and add value to HR services they provide through emotional intelligence (EI). This study explores the impact of some demographic factors (i.e., gender, age, work experience) on HR managers’ emotional intelligence levels. Using a questionnaire survey, pertinent data were gathered from 140 HR managers who are the members of People Management Association of Turkey (PERYÖN). HR managers’ EI was measured using Wong and Low’s Emotional Intelligence Scale (WLEIS). The data were analyzed using Microsoft Excel and SPSS. Descriptive statistics were presented. T-tests and ANOVA were conducted to estimate the differences in-group means. Means were further compared using Tukey post-hoc tests. The results of the study show that age is a factor affecting EI of HR managers negatively and most HR managers in Turkey are young (under 41 years old) female professionals who have less than 10 years of work experience.

Keywords: Emotional Intelligence, HR Managers, Human Resource Management, Age, Gender, Work Experience

INTRODUCTION

As the pressures of new trends such as global competition, demographic changes, the changing nature of work, and Web 2.0 (user-generated content) increase, companies are changing in the way they work. The pressure to compete with emerging and maturing global markets has forced organizations to examine their entire business model and inspired employees to acquire new skills, such as EI, to cope with change.

Evidence suggests that EI has the potential to protect organizations from failing due to competition. This can be accomplished through the application of EI competencies (Goleman, 1998). People with a high degree of EI are more successful and happier at work since they can build better
relationships with colleagues and superiors. As a result, they have higher work satisfaction (Cherniss, 2000).

The influence of demographic factors on the EI of individuals has been explored in many studies but there is a lack of research on factors affecting HR managers’ EI levels. It is important to note that demographic factors in the current study are very popular in existing literature and have been studied across various job groups such as nurses, bank managers, call center representatives, academic professionals, and radiation therapists (e.g. Humpel & Caputi, 2001; Nagar, 2017; Sergio, Dungca, & Ormita, 2015; Stami, Ritin, & Dominique, 2018).

Therefore, this study aims to investigate if age, gender, and work experience have an impact on EI levels of HR managers in Turkey. Turkey is chosen for this study because of the author’s familiarity with the country. Since age, gender, and work experience are the most commonly examined personal factors, which are found as the best predictor of EI in recent studies (e.g., Marembo & Chunyamurindi, 2018; Nagar, 2017; Pooja & Kumar, 2015; Stami et al., 2018), only these three demographic factors are explored in the current study.

**LITERATURE REVIEW**

Although a significant body of literature exists on the demographic factors affecting EI, studies on HR managers are very limited. The literature review pertinent to this study is drawn from the three sections: brief history of EI, the importance of EI for HR managers, and studies on demographic factors affecting EI.

**Brief History of EI**

Broadly defined, EI represents a set of competencies for identifying, processing, and managing emotion (Zeidner, Roberts, & Matthews, 2008). The earliest mention of EI can be traced to 1920, with the concept of Social Intelligence introduced by E. L. Thorndike (1920) and a more concrete definition cannot be found before 1985 (Landy, 2005). First, Payne (1985), and then Salovey and Mayer (1990), defined it as a type of social intelligence which helps people analyze their own and others’ emotions.

Salovey and Mayer (1990) described EI first, as the ability to monitor one’s own and other's feelings and emotions, to discriminate among them, and to use this information to guide one’s thinking and actions. Then, they revised their definition in 1997. The revised definition further refined conceptualization of EI and restricted it to the mental ability concept while removing it from classical social-emotional personality traits (Salovey & Mayer, 1997). In addition, although Salovey and Mayer (1990) defined and modeled emotional intelligence, they did not suggest a specific measurement instrument. This gap was later filled by Mayer et al. (2002), who used the Four-Branch Model to form the Mayer-Salovey-Caruso Emotional Intelligence Test (MSCEIT).

Popularized by Daniel Goleman in 1995, EI has gained significant popularity in the media and business world (Reilley & Karounos, 2009). According to Goleman (1995), EI refers to how well people handle themselves and their relationships. Goleman (1998) analyzed 181 positions in 121 companies worldwide and found that two out of three competencies that were essential for a given job were emotional competencies.

Psychologist Reuven Bar-On is another pioneer in the field of EI and was involved in defining, measuring, and applying various aspects of this construct since 1980 (Cooper, 1997). Bar-On (1997)
defined EI as the emotional, personal, social, and survival dimensions of intelligence. According to Bar-On (2006), EI is concerned with coping with the immediate surroundings towards better success in dealing with environmental demands.

In various aspects, and within the scopes of social intelligence, multiple intelligences, or intrapersonal intelligence, EI constitutes a wide range of application for researchers (Bar-On, 2002; Cooper & Sawaf, 1996; Freedman, 2003; Goleman, 2000). However, studies on EI generally conclude that EI skills that are required for overachievement in social life are also applicable to and effective in work life (Martin & Lopes 2015; Mokoena, 2019; Springs & Kritsonis, 2008).

The importance of EI for HR managers

Professionals who are responsible for managing a company's human resources are referred to as HR managers. The structure of a typical HR department varies, depending on the company’s size. Not every company is large enough to have a separate HR department. For example, most organizations with 25 or more employees have only one HR manager while organizations with 10,000 and more employees typically have a big HR department with several HR managers for each HRM functions (Renckly, 2011).

In the future HR managers will likely be given the opportunity to play a larger role in organizations. Whether they are successful and can demonstrate a positive impact on important organizational outcomes may depend, however, on the quality of their information and knowledge bases, and on the quality of their recommendations and decisions regarding HR activities and practices (Terpstra & Rozell, 1996). Floyd and Woodridge (1992) also stated that HR managers can influence top management and organizational performance through the synthesis of information and knowledge regarding employee productivity.

A growing body of research underscores the importance of emotional intelligence for HRM (Demir, 2010; Reilly & Karounos, 2009; Yousuf & Ahmad, 2007). Not only is EI effective at every stage of HRM, it also, employees with EI skills are more successful and supportive of each other with constructive and respectful human relations (Day & Carroll, 2008; Sy, Cote, Springs, & Kritsonis, 2008). Employees with high EI are likely to excel in various aspects of work such as executive-employee interaction, performance evaluation, career development and planning, motivation, training, etc. (Demir, 2009). Additionally, EI is considered as an important factor in regulating and improving the relations of individuals with their social and working environment. This is because EI provides significant convenience to executives and employees in the practice of executive concepts and plays an important role on both personal and organizational achievements. (Cooper & Sawaf, 1996; Goleman, 2000). Therefore, EI skills are significantly advantageous and distinctive assets for both employees and HR managers for HRM functions such as selection, recruitment, training, career planning, and development (Kulkarni, Kramer, Hess, & Aitken, 2009; Day & Carroll, 2008; Sy et al., 2006; Orioli & Cooper, 2005).

Fiedelday-Van Dijk and Freedman (2004) state that the EI skills of the employees are more important for the organization than their technical capabilities and skills. On the other hand, EI skills contribute to personal and organizational achievements of both executives and employees (Sy et al., 2006; Weisinger, 1998). Therefore, organizational achievement and the advantage of competitiveness depend on the higher EI levels of both employees and executives.

Impact of Demographic Factors on EI

Numerous studies have examined the influence of demographic factors on the EI of different professionals. Age is believed to be associated with the level of social adaptability and awareness (Frank,
Baron-Cohen, & Ganzel, 2015). According to Sergio et al. (2015), older individuals are better at developing flexibility and adaptability in their social lives and dealing with their own emotions. Kumar and Muniandy (2012) stated that EI rises with age up to 50 years and tends to decline as the subjects grow beyond 50 years. Some other previous studies have also identified that age is a factor affecting EI positively (Schutte, Malouff, Thorsteinsson, Bhullar, & Rooke, 2007; Bennett, Chamorro-Premuzic, & Furnham, 2007; Bissessar, 2011). While an American study involving 405 participants aged between 22 and 70 years found that EI increased slightly with age (Farisalli et al., 2006), the findings of Guro, Ozercan, & Yalcin (2010)’s study suggest that there is no significant relationship between age and EI. Chen, Peng, and Kirk (2015) concluded that while age has a positive impact on emotional appraisal and regulation in self, it has a negative impact on appraisal and use of emotion in others.

Gender as a factor affecting EI, has been investigated by various researchers. Researchers like Goleman (1998), Bar-on (2002), Petrides and Furnham (2000), and Alumran and Punamaki (2008) proposed that EI does not vary with gender while researchers like Brackette and Mayer (2003), Palmer et al. (2005), and Mandell and Pherwani (2003) indicated that EI is different when comparing men and women.

Since females tend to be more emotional and intimate in relationships as compared to males, the popular belief is that women’s EI is higher than that of males. However, previous research demonstrated that they both are emotionally intelligent in different ways. For example, Harrod and Scheer (2005), Pandey and Tripathi (2004) as well as Bindu and Thomas (2006) found that men have higher scores in self-regulation than women, while Yogun and Miman (2016) stated that female workers have higher levels of self-awareness compared to male workers. Moreover, Gur, Gunning-Dixon, Bilker and Gur (2002) stated that biological factors between men and women, such as having a larger size of brain area which controls emotions, have an impact on EI levels of individuals.

The longer the time spent in the profession, the greater the experience, adaptability and knowledge that is gained by the individual. In this regard, some studies reported that individuals with more work experience have higher levels of EI than those who are novices to the respective profession. Humpel and Caputi (2001) investigated the relationship between the work stress and EI of mental health nurses and found that female nurses with less experience had lower EI levels than their male colleagues.

A study carried out by Adeyemo (2008) among 215 workers in selected organizations in Oyo State in Nigeria indicated that work experience had significant predictive effects on emotional intelligence. Another study conducted among 90 executives in India also found work experience to be positively associated with EI (Mishra & Mohapatra, 2010). These findings are also supported by Kumar and Muniandy (2012) who found EI to significantly vary with lecturers’ teaching experience. However, Sergio et al. (2015) argue that work experience has no significant relationship with EI among call center employees in the Middle East, Iran, Pakistan, Russia, India and the Philippines.

METHODOLOGY

This study, as part of a larger research project (Oztimurlenk, 2019), gathered data using an online questionnaire survey which comprised two sections. The first section contained Wong and Law Emotional Intelligent Scale (WLEIS) items, which were generated by Wong and Law in 2002, for measuring EI levels of HR managers. This 16-item scale assesses EI within four constructs: (a) self-emotion appraisal; (b) others’ emotion appraisal; (c) use of emotion; and (d) regulation of emotion. Four items in the scale measure each of the four constructs (Wong & Law, 2002). This study utilized the WLEIS because it offered the shortest administration time, was one with a clearer construct structure of
EI and has been used in other organizational studies in Turkey (e.g., Bakan & Guler, 2017; Isler & Atilla, 2013). The second section comprised 4 questions designed to collect demographic information. The survey was distributed via SurveyMonkey to HR managers who are the members of People Management Association of Turkey (PERYÖN). In this study, HR managers are defined as HR professionals who have at least two or more employees reporting to them.

Reliability is measured using correlation coefficients to determine the degree of relationship between two sets of scores and is considered strong when the coefficient is $r = .70-1.0$, moderate from $r = .30 - .69$, and weak from $r = .00 - .29$ (Jackson, 2009). In this study, the reliability coefficient Cronbach’s alpha, $\alpha=0.921$ has been calculated through the 16 questions of the WLEIS scale. According to the reliability coefficients of each dimension, it can be said that the research portrays a reliable structure (See Table 1).

Table 1 Reliability of the WLEIS Dimensions

<table>
<thead>
<tr>
<th>WLEIS Dimensions</th>
<th>Cronbach</th>
</tr>
</thead>
<tbody>
<tr>
<td>Self-emotion Appraisal</td>
<td>0.898</td>
</tr>
<tr>
<td>Regulation of Emotion</td>
<td>0.877</td>
</tr>
<tr>
<td>Use of Emotion</td>
<td>0.844</td>
</tr>
<tr>
<td>Emotion Appraisal of Others</td>
<td>0.918</td>
</tr>
</tbody>
</table>

A total of 143 survey responses were received after the two follow-ups with a response rate of 3.5%. This is a low response rate mainly because the target population was limited to HR managers who have at least two or more employees reporting. Of the 143 surveys completed, two participants did not meet the criteria of two or more reporting employees and one participant skipped some Likert items. Those three surveys were thus excluded from the study, leaving 140 surveys for data analysis.

The data gathered were analyzed using Microsoft Excel and SPSS. First, descriptive statistics including frequencies, percentages, means, and standard deviations were obtained. Second, EI was analyzed using independent-samples t-tests when comparing two groups and ANOVA when comparing more than two groups. Differences among the means were further compared through Tukey post-hoc tests. Those were the commonly used statistical tests in previous studies on demographic factors affecting EI (e.g., Oztimurlenk, 2012; Nagar, 2017; Yogun & Miman, 2016)

RESULTS AND DISCUSSION

The Profile of Study Participants

Demographic characteristics of the survey participants are described in Table 2. The demographic profile of study participants, to a certain degree, reflects the characteristics of the HR manager population in PERYÖN. The majority (62.1%) of the HR managers who participated in this study are females while 37.9% of them are males. Over 75% of HR managers are under the age of 41 years and only 2.9% of them are over the age of 51 years. The age group of 31-41 years is the largest, representing 51.4% of respondents, followed by 24.3% of respondents who belonged to the age group of 21-30 years. On the other hand, 21.4% of respondents fall in the age group of 41-50 years.
Among all the HR managers surveyed in this study, 30% had three or fewer years of work experience, 42.9% had four to 10 years and 27.1% had 10 years or more of work experience (See Table 5.3). Most of the research participants (72.9%) had less than 10 years of experience in HR, which suggests that HR managers in Turkey are relatively young and have not been in the workforce for a long time.

These findings suggest that HRM tasks in Turkey are usually performed by young women in organizations (Aycan, 2001). The reasons why women in Turkey prefer human resources as a career field might relate to their management, organization, problem solving, and communication skills. When one considers the social structure of Turkish families, it is evident that women oversee coordinating and organizing roles (Aycan, 2001).

**Table 2. The Demographics of Study Participants**

<table>
<thead>
<tr>
<th></th>
<th>Frequency (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Gender</strong></td>
<td></td>
</tr>
<tr>
<td>Female</td>
<td>87 (62.1)</td>
</tr>
<tr>
<td>Male</td>
<td>53 (37.9)</td>
</tr>
<tr>
<td><strong>Age</strong></td>
<td></td>
</tr>
<tr>
<td>21-30</td>
<td>34 (24.3)</td>
</tr>
<tr>
<td>31-40</td>
<td>72 (51.4)</td>
</tr>
<tr>
<td>41-50</td>
<td>30 (21.4)</td>
</tr>
<tr>
<td>50+</td>
<td>4 (2.9)</td>
</tr>
<tr>
<td><strong>Years of Experience</strong></td>
<td></td>
</tr>
<tr>
<td>3 years and below</td>
<td>42 (30)</td>
</tr>
<tr>
<td>4 to 9</td>
<td>60 (42.9)</td>
</tr>
<tr>
<td>10 years and more</td>
<td>38 (27.1)</td>
</tr>
</tbody>
</table>

**HR Managers’ Emotional Intelligence Levels**

Table 3 represents measures of central tendency and variability according to four WLEIS dimensions and total EI scores. The researcher used the median value (94) as a cut-off point to categorize total EI scores as high and low since the variable was normally distributed (DeCoster, Gallucci & Iselin, 2011). Therefore, it can be said that most HR managers who participated in this study (55%) have high EI in terms of the four dimensions and the total EI scores.

The highest mean value (24.25 ±2.81) belongs to the Self-Emotions Appraisal dimension while Regulation of Emotion has the lowest mean value (22.26 ±3.82). This means the study participants’ ability to understand and accept their own emotions is better than their ability to control these emotions. A possible reason for this might be Turkish culture and business structure. In Turkey, there are many small or medium-sized, family-owned companies and nepotism is very common. Although globalization has changed company dynamics, the business culture is still very personal in most organizations.

The standard deviation shows how scattered the data are around the average or how much the data deviate from the average (Ozbek & Keskin, 2007). The dimension of emotion regulation has the highest standard deviation (3.82). This shows that HR managers' scores on regulation of emotion dimension are more variable than other dimensions.
The Relationship between Demographic Factors and Emotional Intelligence

Table 3. Summary Statistics of Participants’ EI Scores

<table>
<thead>
<tr>
<th>WLEIS Dimensions</th>
<th>Mean</th>
<th>Median</th>
<th>Standard Deviation</th>
<th>Minimum</th>
<th>Maximum</th>
</tr>
</thead>
<tbody>
<tr>
<td>Self-Emotions Appraisal</td>
<td>24.25</td>
<td>24</td>
<td>2.81</td>
<td>14</td>
<td>28</td>
</tr>
<tr>
<td>Regulation of Emotion</td>
<td>22.26</td>
<td>23</td>
<td>3.82</td>
<td>7</td>
<td>28</td>
</tr>
<tr>
<td>Use of Emotion</td>
<td>23.65</td>
<td>24</td>
<td>2.91</td>
<td>15</td>
<td>28</td>
</tr>
<tr>
<td>Others’ Emotions Appraisal</td>
<td>23.49</td>
<td>24</td>
<td>3.12</td>
<td>13</td>
<td>28</td>
</tr>
<tr>
<td>Total Score</td>
<td>93.64</td>
<td>94</td>
<td>10.36</td>
<td>64</td>
<td>112</td>
</tr>
</tbody>
</table>

The study findings indicated that of the three (3) demographic factors investigated (gender, age, work experience), only age was found to be a significant factor influencing the emotion appraisal of others (F=2.877, p=0.021) and the overall emotional intelligence levels of HR managers (F=3.985, p=0.001) negatively. The significance levels (p-values) obtained through t-tests and ANOVAs for demographic factors are presented in Table 4.

Table 4. The relationship between demographic factors and EI: p-values

<table>
<thead>
<tr>
<th>Demographic Factors</th>
<th>Self-emotion appraisal</th>
<th>Emotion appraisal of others</th>
<th>Regulation of emotion</th>
<th>Use of emotion</th>
<th>Total WLEIS Scores</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gender</td>
<td>0.590</td>
<td>0.240</td>
<td>0.455</td>
<td>0.218</td>
<td>0.346</td>
</tr>
<tr>
<td>Age</td>
<td>0.166</td>
<td>0.001*</td>
<td>0.112</td>
<td>0.071</td>
<td>0.021*</td>
</tr>
<tr>
<td>Work Experience</td>
<td>0.994</td>
<td>0.739</td>
<td>0.715</td>
<td>0.973</td>
<td>0.803</td>
</tr>
</tbody>
</table>

* p<0.05, significant relationship

Based on the research done on demographic factors affecting EI, there is a relationship between age and EI in most studies. In the late 1990s, some studies showed that older people possessed high levels of EI compared to younger people. This made the researchers assume that EI can be learned and increase with age (Bar-On & Handly, 2003). Also, the results of a few significant studies conducted on EI by Bar-On (1997, 2002) and Mayer, Caruso, and Salovey (1999, 2002) supported this assumption. However, there are some more recent studies which resulted in no significant relationship between age and EI such as Oztimurlenk (2012) and Yogun and Miman (2016).

In this current study, Tukey post hoc tests revealed that HR managers who belong to the age group 21-30 years have higher EI levels than HR managers who belongs to the age group 31-40 years in terms of emotion appraisal of others and total EI scores since the difference between is the means of
these groups was more than 1.98 (HSD=1.88). A possible reason may be the changing nature of world and social values. Younger managers usually work by thinking and communicating in team environments since they grew up with technology and the tools it offers. That world requires them to learn more about concepts such as EI that might help improve their communication skills by reading, doing more research or participating in more seminars and training programs. Therefore, they became more conscious and knowledgeable about EI. Moreover, these younger employees work with colleagues in different buildings (offices), cities, countries, and even on different continents. Team members may be in different time zones, speak different languages, and be a part of different cultures. As a result, they are better at appraising others’ emotions to ensure effective work than their older colleagues.

Another finding of the study is that the HR managers’ gender and work experience are not found to be significant for any of the EI dimensions (p>0.05) (See Table 3). Despite gender being commonly examined and found as an important factor affecting EI in many studies, there are also some studies indicating no significant impact of gender on EI (Alumran & Punamaki, 2008; Bar-on, 2000; Goleman, 1998; Oztimurlenk, 2012; Petrides & Furnham, 2000). The results of the current study echo those previous studies.

Regarding work experience, the study’s findings concur with some of the previous studies (Oztimurlenk, 2012; Yogun & Miman, 2016); nevertheless, in some other studies, the impact of working experience on EI has also been noticed (Adeyemo, 2008; Humpel & Caputi, 2001; Kumar & Muniandy, 2012; Mishra & Mohapatra, 2010; Sergio et al., 2015).

CONCLUSION AND FUTURE RESEARCH

The findings of the study show that age is a factor affecting EI levels of HR managers negatively and most HR managers in Turkey are young (under 41 years old) female professionals who have less than 10 years’ work experience and possess high levels of EI. This provides organizational leaders with a perspective of age differences regarding EI. The information age has created new knowledge, skills, and ability requirements for HR managers. Ongoing developments in technology are reshaping HR activities done by HR managers in organizations. Since HR activities or HR managers’ responsibilities have shifted from operational to strategic due to trends that shape HRM, HR managers will be more involved in strategic decisions and their positive impact on organizational success might depend on their EI levels (Terpstra & Rozell, 1996).

This study has some implications for management practices. The demographic changes have profound impacts on businesses and the aging workforce is consistently the most significant one among others (i.e., education, gender, ethnicity) (Hedge, Borman, & Lammlein, 2006). First, organizations need to recognize those changes and the challenges or opportunities they bring, to manage diversity effectively. While older HR managers can contribute a significant value to organizations in terms of knowledge, expertise, and experience, they might present certain issues for companies such as low degree of EI levels or technology adaptation challenges.

Second, organizational leaders should consider different ways to overcome these problems. For example, EI can be considered as a performance evaluation criterion to identify if there is a training need for older HR managers. If there is a need, more EI seminars, webinars, workshops or online EI courses should be offered to increase their knowledge about EI and boost their understanding of how to apply it. Moreover, they can develop special EI training programs or group activities such as tabletop exercises for strengthening employees’ EI skills.
Due to a number of constraints such as time, this study has the following limitations that can be addressed in future research. First, this study focused on only three demographic factors (i.e., age, gender, work experience) and their impact on HR managers’ EI. Factors such as education, company size, industry type, position, should all be considered in future research. Secondly, the study findings are obtained from HR managers in Turkey who are the members of PERYÖN. To be more generalizable, future research should be conducted in other countries (e.g., USA, Canada, and Australia) which have larger companies and analyze representative samples of all HR managers in those countries rather than only members of a specific HRM association.

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