The background of the cover is a dramatic photograph of a volcanic eruption. A bright, glowing plume of orange and yellow lava or ash rises from a dark, rocky mountain peak, filling the upper half of the frame. The foreground shows dark, jagged rock formations, some of which are illuminated by the intense light from the eruption, creating a stark contrast between the dark shadows and the bright, fiery light.

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FOREWORD

Dear readers,

we present the second number of the fifth volume of the Journal of Accounting and Management. We are proud to be able to maintain continuity in publishing for five years, continuously. Our primary aim is to present the results of international research works and novelties in the fields of accounting and management.

The Journal is on a completely open-access basis and is available for use to scholars, professionals and students.

The articles submitted for publishing are blindly peer-reviewed and approved by two independent reviewers for publishing.

We thank all the authors, reviewers, members of the Editorial Board and especially the readers and users of our Journal and we invite and welcome new submissions of articles.

Editor-in-Chief

Đurđica Jurić, PhD, College Professor

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EVIDENCE OF AN EXPECTATION GAP IN CORPORATE ENVIRONMENTAL REPORTING IN SOUTH AFRICA

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ABSTRACT

Research evidence has suggested that the environmental reports produced by listed South African companies, like in other countries are perceived to be deficient in decision-usefulness, thus not of a standard that can satisfy the decision-making needs of users of these reports. This article explores whether the perceived deficiency in the decision-usefulness of the reports is due to differing perceptions between users and preparers of the reports with regard to what decision-useful reports ought to be. The article thus explores whether an environmental reporting expectation gap exists within South Africa with regard to what attributes the reports ought to have to be decision-useful. Using a questionnaire survey, this study elicited the perceptions of 54 individuals from three user groups, namely, ethical investors, environmental groups and accounting academics, as well as those of 42 preparers from the Top 100 South African companies listed on the Johannesburg Securities Exchange (JSE). Upon comparing the responses, significant differences were found between the views of users and preparers in relation to the attributes that decision-useful environmental reports ought to have. The differences are con-

sistent with the existence of an expectation gap in South Africa with regard to the decision-usefulness of the environmental reports.

Keywords: *environmental reports, expectation gap, quality, users, preparers*

1. INTRODUCTION

Environmental reporting, like any other form of accounting, aims to provide users with information that is useful for making decisions (GRI, 2013). Research evidence suggests that different user groups do use environmental reports for making various types of decisions (Kamala, 2015). Environmental lobby groups for instance may use the reports to decide whether to launch a campaign against a “ungreen” company, institute a legal action or even intervene in cases of gross environmental violation (GRI, 2008). Accounting researchers may use environmental reports to evaluate the reporting practice or to decide the best reporting practice (KPMG & SustainAbility, 2008). Green consumers may use environmental reports to decide whether to boycott a company’s products or not (Strandberg Consulting, 2009). Socially responsible investors may use an environmental report to decide whether or not to invest in a company (De Villiers & Van Staden, 2010). Similarly, the ever growing environmentally conscious employees may need environmental information when deciding the company to which they will supply their labour (Greening & Turban, 2011). Given the evidence that users do use environmental reports for making decisions, it is imperative that the reports be decision-useful.

Recent studies conducted in South Africa and abroad show that users are increasingly critical of the decision-usefulness of environmental reports (Kamala, 2015; GRI, 2014; KPMG, 2013). In some studies, users have lamented that the reports are too generic, overloaded and incomprehensible (Laud & Schepers, 2009). In other studies, users have complained that the reports are patchy, biased and/or, self-laudatory with minimal negative information disclosure even when such information is known to exist (Delmas & Burbano, 2011; KPMG, 2013). In yet in other studies, users have opined that environmental reports are questionable due to the low levels of reasonable assurance of the reports as well as a general failure to include resentful stakeholders’ voices in the reports (GRI, 2014; KPMG, 2013).

In some studies, users have also complained that environmental reports vary widely with regard to their scope, depth and content and are thus incomparable (Kamala, 2015). Yet others have bemoaned the lack of quantitative data, over-aggregation of data, as well as a lack of standardisation of environmental information which has been proliferated in a variety of media using varied formats (GRI, CFCGIA & UNEP, 2013). These together with a lack of consistency

in reporting from one period to another and infrequent reporting have led to users' dissatisfaction with the quality of the reports (Kamala, 2015; Mitchell & Hill, 2010). Indeed, some South African studies have lamented that users are increasingly asking for better quality of environmental information than they were receiving (De Villiers & Van Staden, 2010; Mitchell & Quin's, 2005).

If the environmental reports produced by South African listed companies are perceived to be lacking in decision-usefulness, then the decisions made in relation to issues such as those identified above may be different to those that would have been made if the users were provided with more decision-useful information (Deegan & Rankin, 1999). The deficiency in information implies that companies with undesirable environmental practices continue to operate at a higher scale than they should, had the respective users been provided with decision-useful information. Thus failure to provide decision-useful environmental information denies the users the power to drive desirable change in corporate behaviour (Gray, 1992).

This article explores whether the perceived deficiency in the decision-usefulness of corporate environmental reports in South Africa is due to differing perceptions between users and preparers of environmental reports as to what attributes a decision-useful environmental report ought to have. The rest of the article proceeds as follows: Section 2 reviews the relevant prior literature. Section 3 provides the theoretical perspective adopted in this article. Section 4 presents the methodology, followed by results and discussion in section 5. Section 6 provides the summary and conclusion of the article.

2. LITERATURE REVIEW

An expectation gap occurs when there is a difference in expectations between a group with expertise on a particular subject (preparers) and a group which relies upon that expertise (users) (Deegan & Rankin, 1999). Although the notion of an expectation gap is most commonly used to represent differing views between auditors understanding of what their role is and the public's expectation of the auditors, the notion has been extended to environmental reports to refer to the differences in perceptions of users and preparers with regard to various issues pertaining to the reports (Deegan & Rankin, 1999; Mitchell & Quin, 2005).

One such study conducted by Deegan and Rankin (1999) in Australia, found significant differences in perceptions of users and preparers on various environmental issues pertaining to the reports. Specifically, most users, unlike preparers expected environmental information to be disclosed in annual reports in a confined separate section (Deegan & Rankin, 1999). Similarly, unlike the preparers, users perceived the environmental reports to be significantly

more important, preferred that guidelines on disclosure of environmental information be provided by accounting professional bodies and governments and that environmental reporting be regulated (Deegan & Rankin, 1999). However Deegan and Rankin's (1999) study was conducted more than 16 years ago thus its findings may not be applicable at present. In addition, the researchers did not investigate the existence of an expectation gap with regard to the decision-useful of environmental reports. Furthermore, they conducted their study in Australia, therefore the views of the respondents may not represent those of users and preparers in South Africa.

In a more recent Australian study, Haque, Deegan & Inglis (2013) found low levels of disclosure of climate change information, as compared to what users expected. The authors attributed their finding partly to perceived higher costs of producing the information relative to mostly unquantifiable benefits derived. Haque *et al.*'s (2013) study was however conducted in Australia, therefore the views of the respondents may not represent those of users and preparers in South Africa. In addition, they only focused on climate change related disclosures, a small component of environmental information disclosed by South African companies.

In the South African context, Mitchell and Quin (2005) compared the expectations of preparers and users of environmental reports, and found that users expected higher levels of disclosure than the preparers thought they did (Mitchell & Quin's, 2005). Similarly, users rated many disclosures to be of more importance than preparers thought they did, thus there was evidence of the existence of an expectation gap between preparers and users (Mitchell & Quin's, 2005). However, Mitchell and Quin's (2005) study only surveyed the views of one category of users (environmental pressure groups), who are known to provide prejudiced answers to further their own ulterior objectives (Deegan & Rankin, 1997). In addition, the study is outdated as it was conducted more than 10 years ago. Besides, the study did not investigate whether there was an expectation gap with regard to the decision-useful of environmental reports.

The above-mentioned gaps in the prior literature suggest a need for a more recent study in the South African context, to determine if indeed an expectation gap exists between users and preparers of environmental reports with regard to the perceived attributes of decision-usefulness that these reports ought to have. This study aims to determine whether an expectation gap exists between users and preparers of corporate environmental reports produced by listed South African companies with regard to the qualitative characteristics that a decision-useful environmental report should have.

3. METHODOLOGY

3.1 QUESTIONNAIRE DESIGN

The users' and preparers' perceptions on the qualitative characteristics that a decision-useful environmental report should have were elicited using a questionnaire survey. As was the case in Deegan and Rankin's (1999) study, two sets of identical closed-ended questionnaires were designed, one for the users and the other for the preparers, to maximise comparability of responses of the two groups of respondents. The two questionnaires comprised eight questions requiring responses on a five-point likert scale, yes/no answers, multiple-choice and numerical answers. The questionnaires were thus designed to be easy to answer, a strategy deployed to maximise the response rate by minimising the time required to complete the questionnaire, which ideally should have been 15 minutes.

The questionnaires were divided into a three sections. The first section requested demographic information such as gender, age, highest educational qualification, and occupation to ensure that the selected respondents were knowledgeable users and preparers of environmental reports, and thus appropriate for this study. The second section elicited respondents' perceptions on what environmental reports should do or how they should be. The third section elicited respondents' perceptions on how environmental reports are read and the media from which the reports are read.

Prior to disseminating the questionnaire, a pilot test was conducted whereby the questionnaires were completed and critically evaluated by ten academics with vast experience in questionnaire design. The questionnaires were then adjusted according to the recommendations of the academics and when re-submitted to them were found to be clear, concise and understandable.

3.2 POPULATION AND SAMPLE SELECTION

The population comprised both users and preparers of environmental reports produced by JSE listed companies. The population of users as defined in the accounting conceptual frameworks could foreseeably comprise the entire South African population (IASB, 2010; FASB, 2010; Mitchell & Quinn, 2005). This study focused on the user groups actively involved in 1) ethical investment (ethical investment funds), 2) environmental protection (environmental NGOs), and 3) environmental reporting research (environmental reporting researchers who have published journal articles on environmental reporting in South Africa).

Given that there appears to be no comprehensive public listing of all ethical investment funds, environmental NGOs and environmental reporting researchers in South Africa, a compilation of a population frame list was done with aid of the Internet. A thorough Internet search was conducted, which yielded 100 users that comprised representatives of 30 ethical investment funds, 30 representatives of environmental NGOs and 40 accounting researchers. Consistent with the prior studies, a census of the identified users was conducted given that the population was relatively small (Tilt, 1994; Danatas & Gadenne, 2004).

The population of preparers of environmental reports included representatives of the top 100 operating companies by market capitalisation listed on the JSE. The representatives included financial directors, accountants, executives, managers and environmental officers involved in the preparation of the reports. Again, a census of the preparers was conducted, given that the population was relatively small.

3.3 QUESTIONNAIRE DISTRIBUTION

Each identified respondent was contacted telephonically to obtain his or her co-operation prior to sending an Email with a link to a web-based questionnaire. Attached to the Email sent was a detailed cover letter that explained the purpose of the study and invited the respondents to participate in the survey by clicking on the Uniform Resource Locator (URL) link provided, which re-directed them to a web-based questionnaire. Therefore only respondents who had an E-mail address were included in this survey. The E-mail which was sent out on 1 July 2013 included a deadline for completing the questionnaire of 31 August 2013.

4. RESPONSE RATE AND TEST FOR NON-RESPONSE BIAS

Out of the 100 E-mails sent to users, 54 usable questionnaires were returned resulting in a response rate of 54%, a rate higher than that achieved by Tilt (1994) (46.8%), and O'Dweyer, Unerman and Hession (2004) (52.8%), that also conforms to Fowler's (1988) recommendation that a response rate should be at least 20% to provide credible statistics about a population. Out of 100 questionnaires sent to preparers, 42 usable questionnaires were returned resulting in a response rate of 42%, which also conforms to Fowler's (1988) recommendation cited above.

Of the users, 55.56% were male, 44.44% were female. All users were above 26 years old and had a minimum of a post-matric certificate/diploma. In addition, the users were mostly accounting researchers (39.62%), followed by other

professionals (32.08%), and representatives of environmental groups (22.64%). The above information suggests that the users were generally well educated and thus could reasonably be expected to understand the content of environmental reports. Besides, the sampled users represented a variety of stakeholders in a manner consistent with the broad definition of users in the accounting conceptual frameworks (FASB, 2010; IASB, 2010).

Concerning preparers, 45.24% are male while 54.76% are female. All preparers were above 26 years old and had a minimum of a post-matric certificate/diploma. With regard to occupation, 11.9% of the preparers were accountants, while 88.1% belonged to other professions. Although most preparers of environmental reports were non-accountants, they were generally well educated and knowledgeable, and thus appropriate to answer the questionnaire.

To minimise non-response bias, a series of T-Tests for equality of means (2-tailed) were performed on the responses of the users on each of the likert scale questions by comparing the responses of the first 27 users that responded (early responders), to those of the last 27 users that responded (late responders). Similar tests were also conducted on the responses of preparers on each of the likert scale questions, by comparing the responses of the first 21 preparers that responded (early responders), to those of the last 21 preparers that responded (late responders). The late responders served as proxies for non-responders, an approach that has been widely used in the prior literature (De Villiers & Van Staden, 2010). The T-Tests revealed no significant differences between the views of early and late responders for both users and preparers at 95% confidence level ($p < 0.05$). With high response rates, a variety of opinions from heterogeneous respondents and a lack of significant differences between the early and late responses, it is unlikely that the results of the current study were significantly influenced by non-response bias (De Villiers & Van Staden, 2010).

5. RESULTS AND DISCUSSIONS

5.1 WHAT ENVIRONMENTAL REPORTS SHOULD DO AND HOW THEY SHOULD BE

Respondents were asked to rate the importance of 28 statements about what a company's environmental reports should do or how they should be. A five point likert scale was used with weightings of one for not important at all, two for slightly important, three for fairly important, four for very important, and five for extremely important. Therefore the closer the mean was to five, the more important the statement was to the respondents. The responses of both

users and preparers were then ranked according to the mean score of responses to each statement, in a descending order, and then compared to each other to determine whether there were differences in the perceptions of the two groups on the importance of the statements. In addition, the mean scores of the users' and preparers' rating of the statements were compared using T-Tests for equality of means (2-tailed) to determine whether there were any statistically significant differences between the perceptions of the two groups on the importance of the statements.

As summarised in Table 1, only four out of 28 statements were ranked equally by both users and preparers. These included the statement that "environmental reports should identify and describe key relevant issues", ranked second by both groups, although the mean of the users was higher (4.61) than that of the preparers (4.31). Likewise both users and preparers ranked the statement that "environmental reports should adhere to well-established international guidelines" fifth, but the users' mean was higher (4.36) than that of the preparers (4.13).

Similarly, both groups ranked the statement that "environmental reports should indicate whether environmental management systems have been certified" 21st. Here again the users' mean was higher (3.75) than that of the preparers (3.31).

Following the same pattern, both users and preparers ranked the statement that "environmental reports should be produced quarterly or bi-annually" 28th. However, the users' mean was again relatively higher (2.77) than that of the preparers (2.09). The foregoing indicates that users perceived the above statements to be more important than the preparers did, although both groups ranked them equally, which could suggest existence of an expectation gap between the two groups on the importance of the four statements.

Besides the four statements discussed above, all the other statements in Table 1 were ranked differently, but in all cases, the users' means were higher than those of the preparers. Even in cases where the preparers ranked a statement higher, the users' means remained relatively higher.

Table 1: What a company's environmental report should do or should be

Number	Statement	User	Rank	Preparers	Rank	Statistical Significance of differences
		n=36		n=32		
		Mean		Mean		
1	Disclose both negative and positive aspects in a balanced manner	4.67	1	4.03	6	0.000*
2	Identify and describe key relevant issues	4.61	2	4.31	2	0.098
3	Be specific and contain accurate information	4.47	3	4.39	1	0.634
4	Provide future oriented information	4.42	4	3.72	11	0.001*
5	Adhere to well-established international guidelines	4.36	5	4.13	5	0.226

Number	Statement	User	Rank	Preparers	Rank	Statistical Significance of differences
		n=36		n=32		
		Mean		Mean		
6	Provide targets	4.36	5	3.88	8	0.019*
7	Identify and address key stakeholders and their concerns	4.33	7	4.16	4	0.365
8	Demonstrate top management commitment to environmental issues	4.33	7	4.25	3	0.669
9	Compare quantitative outputs/impacts against best practice/industry standards	4.33	7	3.50	17	0.000*
10	Demonstrate the integration of environmental issues into core business processes	4.33	7	3.69	12	0.009*
11	The reports should be readily accessible via multiple media (Printed hard copies and soft copies via Internet)	4.31	11	3.72	10	0.008*
12	Allow for quick reading (executive summary, and fact sheet of key indicators)	4.28	12	4.00	7	0.254
13	Show trends (performance over time)	4.19	13	3.69	12	0.018*
14	The report should provide quantitative/ monetary disclosure of significant outputs/impacts	4.17	14	3.69	12	0.024*
15	Include interpretation and benchmarks to provide context	4.17	14	3.63	16	0.019*
16	Include an assurance statement from an independent third party	3.94	16	3.45	19	0.074
17	Enhance readability using multiple languages, pictures, charts, explanations	3.86	17	3.23	23	0.027*
18	Description of the organisation's structures that deal with environmental matters	3.83	18	3.26	22	0.037*
19	The reports should provide contacts for feedback and further information	3.78	19	3.69	12	0.725
20	Indicate whether internal auditing coverage is extended to environmental systems and procedures	3.78	19	3.34	20	0.073
21	Indicate whether environmental management systems have been certified	3.75	21	3.31	21	0.114
22	Describe the management system	3.74	22	3.50	17	0.323
23	Be produced annually	3.74	22	3.88	8	0.595
24	Enhance accessibility of information using navigation tools	3.50	24	2.88	25	0.017*
25	Include stakeholder voices	3.42	25	3.06	24	0.181
26	Be produced on a real time basis	3.06	26	2.48	27	0.103
27	Be interactive	2.97	27	2.53	26	0.102
28	Be produced quarterly or bi-annually	2.77	28	2.09	28	0.019*

Scale: 1 = not important at all; 5 = extremely important

*statistically significant differences ($p < 0.05$) at 95% confidence level

The foregoing suggests that the users perceived the 28 statements to be more important than the preparers did, which further suggests the existence of an expectation gap between the two groups with regard to the perceived importance of the 28 statements.

The results of the T-Tests for equality of means (2-tailed) revealed significant differences ($p < 0.05$) between the responses of users and preparers in 13 (46% of all statements) out of 28 statements at a 95% confidence level. Of the 13 significant differences, four relate to statements associated with comparability, four to statements linked to understandability, three to statements related to reliability, one to a statement associated with relevance and another to a statement related to timeliness. The foregoing discussion suggests that the significant differences found mostly relate to statements associated with enhancing qualitative characteristics, as nine out of the 13 statements with significant differences relate to these characteristics.

Although the above results suggest the existence of an expectation gap primarily related to the enhancing qualitative characteristics, three of the significant differences found in statements relate to reliability of the environmental reports and one to relevance, but on a key statement namely that "environmental reports should identify and address key stakeholders and their concerns". One can therefore conclude that there was an expectation gap between users and preparers with regard to the qualitative characteristics that decision-useful environmental reports should have.

The above results are consistent with the findings of prior studies (Mitchell & Quin, 2005; Myburgh 2001; Deegan & Rankin, 1999), which also found an expectation gap between users and preparers on various issues related to environmental reporting.

5.2 HOW ENVIRONMENTAL REPORTS ARE READ AND THE MEDIA FROM WHICH THE REPORTS ARE READ

5.2.1 How environmental reports are read

Bearing in mind that the technique employed to read a report determines how well it's understood, and used to influence decisions, the users were asked to indicate how often they employed five techniques when reading environmental reports. The techniques included, scanning (to locate specific information), skimming (rapid reading of headings, topic sentence to get the main idea), exploratory reading (to get a fairly accurate picture of the entire report), study reading (to maximise understanding of the main ideas) and critical reading (questioning, analysing and evaluating the text). Likewise the preparers were asked to express an opinion on how often their readers em-

ployed the five reading techniques. A five point likert scale was used with weightings of one for never, two for rarely, three for sometimes, four for often, and five for almost always. Therefore the closer the mean was to five, the more often a reading technique was used by users or was perceived by preparers to be used by users.

Table 2: Frequency of usage of various reading techniques by users

Number	Reading technique	User		Preparers		Statistical significance of differences
		n=36	Rank	n=32	Rank	
		Mean		Mean		
1	Scanning (to locate specific pieces of information)	4.06	1	3.81	1	0.239
2	Skimming (rapid reading of headings, topic sentence to get the main idea)	3.89	2	3.68	2	0.291
3	Exploratory reading (to get a fairly accurate picture of the entire report)	3.68	3	3.00	3	0.000*
4	Study reading (to get a maximum understanding of the main ideas)	3.37	4	2.71	4	0.006*
5	Critical reading (questioning, analysing and evaluating the text)	3.34	5	2.55	5	0.033*

Scale: 1 = never; 5 = almost always

*statistically significant differences at 95% confidence level

The responses of both users and preparers were then ranked according to the mean scores for the responses, in a descending order, and then compared to each other. In addition, T-Tests for equality of means (2-tailed) were performed to determine whether there were statistically significant differences between the perceptions of the two groups with regard to the frequency of usage of the five reading techniques.

As summarised in Table 2, the ranking of the five reading techniques, based on the means of the users and preparers are identical. However, the means of the users on the five reading techniques are higher than those of the preparers, indicating that users perceived themselves to have used the reading techniques more often than was perceived by the preparers, which suggests the existence of an expectation gap between the perceptions of users and preparers. Indeed, the T-Test for equality of means (2-tailed) reveals three significant differences ($p < 0.05$) in the perceptions of the users and preparers pertaining to exploratory reading, study reading and critical reading at 95% confidence level, which further confirms the existence of an expectation gap. The apparent expectation gap particularly on the three reading techniques considered to be more effective, could perhaps explain the provision of lengthy environmental reports documented in the prior literature (KPMG & SustainAbility, 2008; Solo-

mon & Solomon, 2006; Spada, 2008). The lengthy environmental reports are meant to be read using lesser effective reading techniques such as scanning and skimming, techniques that are unlikely to inform sound decision-making.

5.2.2 Media from which environmental reports are read

Users were asked to indicate how often they read environmental reports from various media, primarily the print media and company websites. With regard to the print media, the users were required to specify how often they read environmental reports from integrated annual reports or sustainability reports. Likewise, with regard to the company websites, the users were required to specify how often they read environmental reports in integrated annual reports, or stand-alone sustainability reports, and the format of the reports that they often read (HyperText Markup Language (HTML) format or Portable Document Format (PDF)). Preparers were also asked to express an opinion on how often their users read environmental reports from the media mentioned above. A five point likert scale was used with weightings of one for never, two for rarely, three for sometimes, four for often, and five for almost always. Therefore, the closer the mean was to five, the more often environmental reports were read or were perceived to have been read from a given medium.

The responses of both users and preparers were then ranked according to mean scores of responses, in a descending order, and then compared to each other. In addition, T-Tests for equality of means (2-tailed) were performed to determine whether there were statistically significant differences between perceptions of the two groups.

Table 3: Comparison of users’ and preparers’ perceptions on how often users read environmental reports from different media

Number	Medium	User	Rank	Preparers	Rank	Statistical Significance of differences
		n=36		n=32		
		Mean		Mean		
1	PDF integrated annual reports on companies’ websites	3.46	1	4.30	1	0.005*
2	PDF stand-alone sustainability reports on companies’ websites	3.43	2	4.07	4	0.057
3	HTML format stand-alone sustainability reports on companies’ websites	3.32	3	4.10	3	0.010*
4	HTML format integrated annual reports on companies’ websites	3.29	4	3.29	5	0.989
5	Print medium integrated annual reports	2.83	5	4.23	2	0.000*
6	Print medium stand-alone sustainability reports	2.74	6	3.19	6	0.178

Scale: 1 = never; 5 = almost always

*statistically significant differences ($p < 0.05$) at 95% confidence level

As illustrated in Table 3, the ranking of three media was identical for both users and preparers, namely, PDF integrated annual reports on companies' websites, ranked first, HTML format stand-alone sustainability reports on companies' websites, ranked third, and print medium stand-alone sustainability reports ranked sixth. In addition, the ranking of HTML format integrated annual reports on companies' websites was more or less the same for both users and preparers, as users ranked it fourth whereas the preparers ranked it fifth. However, the rankings of users and preparers differed with regard to PDF stand-alone sustainability reports on companies' websites which users ranked second, whereas the preparers ranked it fourth. Likewise, the users ranked print medium integrated annual reports fifth, whereas the preparers ranked it second.

What is noteworthy in the above results is that the preparers' means were relatively higher than users' for all the media except HTML format integrated annual reports on companies' websites, which were equal for both groups (3.29). The foregoing suggests the existence of an expectation gap as preparers perceived that users read more often from the media provided in Table 3, than the users themselves did.

The T-Tests for equality of means (2-tailed) revealed three statistically significant differences ($p < 0.05$) in the perceptions of the users and preparers with regard to the media that users most often read their environmental reports from. The significant differences pertained to how often users read environmental reports from three media namely PDF format integrated annual reports on companies' websites, HTML format stand-alone sustainability reports on companies' websites, and print medium integrated annual reports. These differences suggest the existence of an expectation gap that could undermine the decision-usefulness of the environmental reports. In other words, the preparers could be using inappropriate or inconvenient media, particularly the print medium integrated annual reports, to disseminate the environmental reports, and yet the users do not read often from this medium, a situation that undermines the decision-usefulness of the environmental reports. The above results suggest that HTML format integrated annual report found on companies' websites is the optimal media as there is no expectation gap between the users and preparers with regard to its usage .

The above results are consistent with the findings of prior studies (Deegan & Rankin, 1999; Mitchell & Quin, 2005), which found an expectation gap between the users and preparers with regard to the usage of annual reports for environmental reporting. In particular, Deegan & Rankin (1999) found that a majority of users (67.8%) sought the environmental information in the annual reports, whereas only 24.1% of the preparers disclosed this information in their annual reports, and fewer had plans of doing so in the future.

5.3 EXPLANATION FOR THE EXPECTATION GAP

Accounting conceptual frameworks assert that providing decision-useful accounting information is limited by cost constraint (FASB, 2010; IASB, 2010). Specifically, the frameworks assert that accounting information can be useful and yet too costly to justify providing it. To be useful and worth providing, the perceived benefits of providing the information should exceed its perceived costs (FASB, 2010; IASB, 2010). The costs of providing information include costs of collecting, classifying, processing, verifying, disseminating as well as the costs that arise as a consequence of providing such as litigation and lost competitive advantages (FASB, 2010; IASB, 2010). The benefits of providing information include avoidance of regulation, lower cost of capital, attraction of quality labour, enhanced reputation and customers' goodwill (Kamala, 2015). As apparent from the foregoing, the benefits of disclosing accounting information are not always evident or measurable, and are thus more difficult to quantify than the costs (FASB, 2010).

The more decision-useful an environmental report is, the more costly it is to produce (FASB, 2010; IASB, 2010). For example, producing a more relevant environmental report may require a more thorough and costly stakeholder engagement exercise. Likewise, producing a more reliable report may require a reasonable assurance statement from a third party, which costs more than producing a less reliable report that does not need a reasonable assurance statement.

Although users too do incur costs of obtaining environmental information, their costs are a small fraction of the preparers' and in fact it could be deemed to be negligible (FASB, 2010). In fact, most of the costs of providing environmental information fall initially on the preparers, while the benefits are reaped by both users and preparers (FASB, 2008). Considering that some of the benefits of providing decision-useful environmental reports are intangible, unquantifiable and even questionable, and bearing in mind that the more decision-useful an environmental report is, the more costly it is to produce, preparers may be reluctant to produce environmental reports of a decision-usefulness level, and in media desired by users, as the benefits of those reports are not as apparent as their costs are (FASB, 2010). It is thus probable that preparers will perceive that the any environmental reports currently provided in a variety of media are adequately decision-useful and value for money, even if the opposite is true, given that users do not initially contribute to the cost of providing such reports, a scenario that could result in an expectation gap (IASB, 2010).

Likewise the users may be oblivious of the costs involved in producing environmental reports of a decision-useful level that they desire, and thus may

thus expect reports of a decision-useful level, and in types of media beyond what can be reasonably provided. Users may also want to avoid the cost of erroneous decisions that could arise when the reports provided are not decision-useful (FASB, 2008). However the cost of erroneous decisions may not be apparent to preparers, a scenario that is likely to result in an expectation gap.

6 SUMMARY AND CONCLUSION

This article provides evidence of research undertaken to determine whether an expectation gap exists between users of environmental reports produced by listed South African companies and the preparers of the reports with regard to the qualitative characteristics that a decision-useful environmental report should have. The results presented in this article show that such a gap exists. The users of environmental reports produced by these companies are more likely to suggest that environmental reports should disclose both negative and positive aspects in a balanced manner, provide future oriented information, provide targets, compare quantitative impacts against best practice and demonstrate the integration of environmental issues into core business processes than is perceived to be the case by the reports preparers.

In addition the users are also more likely to suggest that environmental reports should be readily accessible via multiple media, show trends, provide quantitative/monetary disclosure of significant impacts, include interpretation and benchmarks to provide context, enhance readability using multiple languages, pictures, charts, explanations, than is perceived to be the case by the reports preparers. Furthermore, users are also more likely to suggest that environmental reports should describe the organisation's structures that deal with environmental matters, enhance accessibility of information using navigation tools and be produced quarterly or bi-annually than is perceived to be the case by the reports preparers.

The results also show that an expectation gap exists with regard to the reading techniques most frequently used by users when reading environmental reports and the media from which the reports were frequently read. Specifically, users were more likely to use more thorough reading techniques such as exploratory reading, study reading and critical reading than was perceived to be the case by preparers. Likewise, users were more likely to read the reports from PDF integrated annual reports on companies' websites, HTML format stand-alone sustainability reports on companies' websites and print medium integrated annual reports reading than was perceived to be the case by preparers.

Given the above expectation gap, it is rather not surprising that the users perceived the reports read to be of lesser understandability, relevance, time-

liness, reliability and verifiability than the preparers did. The existence of an expectation gap may be explained in part by the fact that preparers incur the initial costs of producing environmental reports but they do not derive immediately apparent benefits from such reports. Accordingly they are reluctant to provide decision-useful reports that meet the expectations of users as this requires that extra costs be incurred. Alternatively, users may be oblivious of the costs that are involved to prepare the reports at a decision-useful level that they desire because they do not pay for these costs, thus may expect the reports to be at a decision-usefulness level beyond what can be reasonably provided.

The findings of this article have implications for preparers to find ways, perhaps using technology to engage users more effectively in order to reduce the expectation gap. Professional bodies could develop standards to improve the quality of environmental reports. The work of this study could be extended further to investigate whether an expectation gap exists in other forms of corporate reports. An obvious limitation of this article is the limited sample used and the selection of only three user groups to represent the diverse possible users of environmental reports in South Africa and the narrow focus on preparers from listed companies.

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PRIKAZ OČEKIVANIH Odstupanja u korporativnim izvješćima o zaštiti okoliša u Južnoj Africi

SAŽETAK RADA:

Istraživanja su pokazala da se izvješća o zaštiti okoliša južnoafričkih tvrtki, kao i u drugim zemljama, smatraju manjkavima kao podloga za donošenje poslovnih odluka te da nisu u mogućnosti zadovoljiti potrebe koje imaju donositelji odluka u tvrtkama. Ovaj članak istražuje proizlazi li takvo stajalište iz različitih gledišta donositelja odluka i osoba koje pripremaju izvješća o zaštiti okoliša. Pokušava se istražiti postoji li jaz između sadržaja izvješća i očekivanja koja imaju donositelji odluka o tome što bi izvješća o zaštiti okoliša trebala sadržavati.

Koristeći anketni upitnik ova je studija pokušala prikupiti mišljenja 54 ispitanika-korisnika izvješća iz tri različite grupe: investitori, grupe za zaštitu okoliša i akademici te 42 ispitanika odabranih iz baze 100 najvećih južnoafričkih tvrtki koji sudjeluju u izradi samih izvješća u.

Usporedbom rezultata pronađene su značajne razlike između stajališta korisnika izvješća i osoba koja ih izrađuju u smislu sadržaja. Uočene razlike u skladu su s očekivanim jazom između postojećeg i očekivanog sadržaja izvješća o zaštiti okoliša.

Ključne riječi: izvješća o zaštiti okoliša, kvaliteta, izvještavači, korisnici izvješća o zaštiti okoliša.

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IMPACT OF PROMOTIONAL COSTS ON COMPANY'S PROFITABILITY

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ABSTRACT

The purpose of this paper is to theoretically identify and delineate the specifics of various costs of promotion and to assess their influence on company's profitability, assuming that the companies that invest more in promotional activities generate higher income and more profit. In addition, the current study will examine whether there is a difference in the amount of investment in promotion with respect to the legal structure and the size of the company, starting from the assumption that large enterprises and public limited companies have more funds at their disposal, and consequently invest more in promotional activities. The study was conducted on a random sample of 67 companies in 2012, and the obtained results show that the share of promotion in the overall costs significantly affects company's profitability, while there is no significant difference in promotional investment neither regarding the legal structure nor the size of the company.

Key words: *promotional costs, profitability, company size, legal structure*

1. INTRODUCTION

Changes in the environment caused by technological innovation, globalization, deregulation, privatization, strengthening the power of consumers, convergence of different industries and disintermediation have led to the increased market competition (Kotler, 2001: 15). In such a situation, companies have to compete in winning the consumers' favour and they have to create the demand for their products and services among the prospective customers. In order to succeed, many resort to promotional activities that will get through to the consumers and encourage them to buy their products or services. However, in the periods of economic crisis managers often apply the policy of cost-cutting, which has recently led to a continuous decrease in investment in promotion.

Promotional costs are regular operating costs, which are recorded in the enterprise's accounting. They represent tax deductible expenses, and the taxpayer may use the right of pre-paid tax deduction because it is a service that is related to his taxable transactions. Tax aspects of these costs are regulated by the Income Tax Act (Official Gazette 177/04 - 143/14), the Regulations Concerning Income Tax (Official Gazette, 95/05 - 157/14), the Value Added Tax Act (Official Gazette, 73/13 - 143/14) and the Regulations on Value Added Tax (Official Gazette, 73/13 - 157/14).

Based on the above, the following objectives of the current study have been established: 1. to theoretical identify and delineate the specifics of various promotion costs; 2. to determine the impact of these costs on business profitability; 3. to investigate whether there are differences in investment in promotion with respect to the legal structure and size of the company.

2. THEORETICAL DETERMINATION AND CLASSIFICATION OF PROMOTIONAL COSTS

Adopting the language of marketing, promotion is *any form of communication whose role is to inform, persuade and/or remind people of products, services, image, ideas or involvement (Previšić, 2004: 231).* Promotional costs are the costs incurred to promote a particular company and its products and/or services. *Promotion seeks to better inform customers (current and prospective), and improve sales (Dojčić, 2013: 87).*

However, in the regulatory context, there is no single definition of what is considered a promotional expense. The main legal acts that define these costs are the Income Tax Act and the Value Added Tax Act and their associated regulations. According to the Income Tax Act, promotional costs can be defined as those that include items that are not considered entertainment costs, i.e. such taxpayer's products and goods that are adapted for this purpose and

marked "not for sale", and other promotional items with the name of the company, products and other forms of promotion (e.g. cups, coasters, pencils, etc.) provided for use in the retail store, and if given to consumers should be up to HRK 160.00 per item without VAT. Similarly, by categorizing them as gifts of small value, the promotional costs are defined in the provisions of the Value Added Tax Act. Promotional costs are defined in the Regulations Concerning Income Tax, according to which the promotional costs for which the tax base is not increased are the *costs incurred by using the mass media, the advertising columns and slabs, telops, flyers, catalogues, trade shows, the costs of prize competitions in accordance with the regulations concerning the organization of prize and similar games, and the costs used to promote the taxpayer's name, goods or services in any other way in public* (Regulations Concerning Income Tax, Art. 24, paragraph 1). As such, promotional costs represent the costs of the current period and are, in terms of income tax, fully tax-deductible expenses, i.e. they do not increase the income tax base. On the other hand, the Regulations on Value Added Tax exclude the following from the list of promotional costs: delivery of goods and services that are not considered to be periodical, as well as those whose individual value exceeds HRK 160.00, prize contests gains of more than HRK 160.00 without VAT where these are subject to value added tax (Regulations on Value Added Tax, Art. 11, paragraph. 5).

Summarizing all the relevant provisions of the above-mentioned laws and by-laws, the promotional activities can be classified into the following categories: (1) the costs of promotion through the media, i.e. advertising, which refers to the *paid, impersonal communication of a particular organization identified in the message through various media* (Previšić et al, 2004: 246); (2) promotional materials, such as leaflets, brochures, catalogues, and the like, which are given free of charge to present or prospective buyers; (3) sales promotion, which involves the use of any kind of stimulation to prompt intermediaries and/or consumers to purchase a particular brand (Previšić et al, 2004: 246); (4) sponsorship, where the donations require a favour done in return, i.e. promotion of the company, product or sponsor's logo (Regulations Concerning Income Tax, Art. 30 paragraph 2); (5) entertainment costs, which sometimes also have a promotional character for an organisation that aims to achieve the best possible cooperation with business partners - however, it is important to determine the difference between the promotional and entertainment costs because entertainment costs are only partly recognized as an expense in terms of tax and the prepaid tax is not recognised at all.

3. REVIEW OF PREVIOUS RESEARCH

A large number of studies on the impact of promotion on company's performance date back to the 1970s. For example, Lambin (1970) and Peles (1971) conclude that promotion has a long-term impact on sales, which indicates that it increases business efficiency. In their study Sherman and Tollison (1974) found that industrial promotion has no direct influence on the profit gained, explaining it by the fact that the promotion cannot be treated as a real independent variable, but as an indirectly dependent variable that depends on technological factors and prices. After the 70s, the studies of the effects of promotion were again popularized at the beginning of the 21st century. Thus, for example, Iftekhhar, Hunter and Roswell (2000) studied the impact of the promotional costs on performances and asset management in the savings and loan institutions. Their results showed that the relationship between the promotional costs and performances measured by return on assets is not statistically significant, where the defined direction of the impact is negative. However, when they broke down the return on assets into non-interest return on assets and interest return on assets the relation between the non-interest return on assets and promotional costs proved to be statistically significant and of a positive direction. In his study Roberts (2003) found that the profitability of the companies that have increased spending on marketing during the recession has not been reduced. On the contrary, after the recession, their profits have increased significantly, as opposed to companies that reduced promotional activities. By applying the VAR model methodology Srinivasan (2006) analyzed the weekly data from the automobile industry collected in course of six years to investigate how the investment in promotion contributes to creating additional revenue from the brand. Based on the results, the author concluded that promotion has a positive cumulative effect on the revenues from brand in the long term.

In Croatia research on this topic are rare. Frančišković and Tomljanović (2001) studied the impact of promotion on the effectiveness and efficiency of travel agencies. They used a simple linear regression model in which the independent variable is the cost of promotion, while the dependent variable is income from sales, on the grounds that higher sales revenues generate greater profits, and the results confirmed the hypotheses.

Based on previous studies, to our knowledge, there are no such studies that consider the legal structure and the size of the company when examining the impact of promotion on the profitability of companies from various industrial sectors, which has been established as the subject of this paper and its main scientific contribution.

4. SAMPLING AND RESEARCH METHODOLOGY

Based on the defined problem and subject of the research, and in accordance with the theoretical background and previous relevant research the following research hypotheses are defined:¹

H1 - There is a statistically significant positive correlation between promotional costs and enterprise profitability.

Although costs, by definition, represent an item that reduces profits, it is expected for investment in promotion to contribute to the growth of demand of the company's products, which will contribute to the growth of sale and thus higher profitability.

H2 - There is a significant difference in the amount of investment in promotion with respect to the legal structure of company organization.

Since the public limited companies are larger than limited liability companies, they have a larger value of assets and have more funds, it is expected that they would invest more in promotion than the limited liability companies.

H3 - There is a statistically significant difference in the amount of investment in promotion with respect to the size of company.

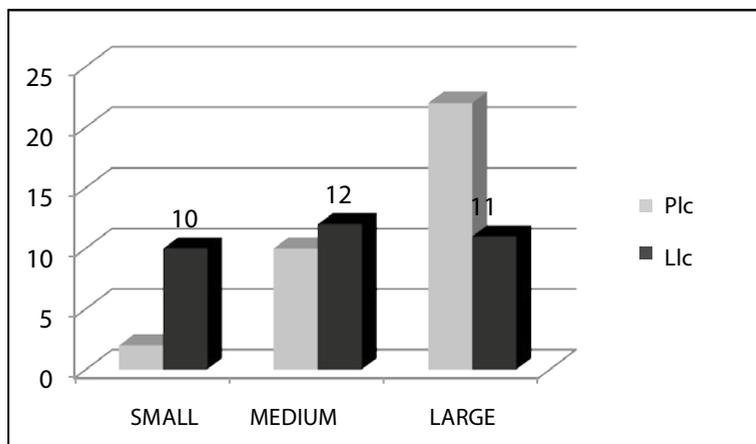
Similar to the previous hypothesis, it is expected that larger companies, which are assumed to have more funds available, would invest more in promotion than SMEs.

A random sample of 67 companies was created in 2012 to meet the needs of the study. The sample included only capital companies, i.e. public limited companies and limited liability companies, since these are the most common legal structures of business organisations established in Croatia. The companies' financial statements the research is based on were retrieved from the public register of financial statements of the Financial Agency (FINA), available at rgfi.fina.hr. Below is a brief description of the sampled companies.

As can be seen in Figure 1, the sample consists of a total of 34 public limited companies, 2 of which are categorized as small enterprises, 10 as medium, and 22 as large enterprises, and 33 limited liability companies, of which 10 are in the category of small, 12 in the category of medium and 11 in the category of large enterprises.

¹ The research presented in this paper is part of a broader research, see Knezović (2014).

Figure 1: the sample structure according to the size of business entity and the legal structure



Source: Authors' calculation (2014)

Financial information from the retrieved financial statements was extracted in the Microsoft Excel spreadsheet and the required indicators were calculated using the nested functions. PASW 18.0, statistical package for social sciences was used in data processing.

The next step was to define the variables based on the defined problem, the subject of the research, and the set research hypotheses: profitability, the share of promotional costs in total costs, the legal structure of a company and the size of the business entity. In order to measure the **profitability** the traditional indicator of return on assets (ROA) was used and its equivalent from the group of cash-flow indicators of profitability, cash return on assets (CROA). Return on assets (ROA) is calculated as the ratio of total capital to total assets which makes it the most comprehensive indicator of return on investment. It measures the ability and efficiency of management in the effective use of company's assets in order to make a profit, and it is calculated by putting the operating profit in relation to the average total assets. Among the financial indicators of profitability the equivalent of the traditional ROA indicator is cash return on assets (CROA), which calculates the ratio of the operating cash flow to average total assets. It measures the ability of assets to generate cash-flow from operating activities. According Aljinović Barać (2008: 148), the advantage of the cash return on assets compared to the traditional indicator of return on assets lies in its ability to indicate the actual ability of the company to pay return on assets, while the main disadvantage is neglecting the amount of provi-

sions for future investments and liabilities. The second variable measures the level of investment in **promotion** expressed by the cost of promotion. For the purpose of relativization (for better comparability) this indicator is put in relation to the company's total costs. **The legal structure** of companies is defined under Art. 2, paragraph 2 and 3 of the Law of Business Organisations (Official Gazette 152/11 - 68/13). For the study purposes the sample consists of the public limited companies and limited liability companies. **The size of business entity** is defined in accordance to Art. 3 of the Law on Accounting (Official Gazette 109/07 - 121/14) where they are classified as small, medium, and large enterprises.

5. RESEARCH RESULTS

5.1. DESCRIPTIVE STATISTICS

The first step was to generate the descriptive statistics for all variables used in the statistical tests, as shown in Table 1.

Table 1: Descriptive statistics

	ROA	CROA	PROMOTION
N	67	67	67
Arithmetic mean	-0.928303	-0.828800	0.024157
Standard deviation	7.1057039	6.0450090	0.0484827
Range of variation	59.4482	49.5540	0.3245
Minimum	-57.8367	-49.1178	0.0000
Maximum	1.6115	0.4362	0.3245

Source: Authors' calculation (2014)

The arithmetic mean of return on assets (ROA) for the sampled enterprises is -0.928, while for the indicator of cash return on assets (CROA) it is -0.829. Standard deviation, or the average deviation value of return on assets from its arithmetic mean is 7.106, and the average deviation value of indicators of cash return on assets from its arithmetic mean is 6.045. The range of variation, or the difference between the highest and lowest values of the indicator of return on assets amounts to 59.448, while for the indicator of cash return on assets it is 49.554, where highly negative values of both indicators can be noted (-57.8367 for ROA and -49.1178 for CROA). The average share of promotional costs in total costs of the sampled enterprises is 0.02416, or 2.416%. The standard deviation of the share of promotional costs in total costs amounts to 0.048.

5.2. TESTING THE HYPOTHESES AND DISCUSSION

After the descriptive analysis of the observed variables was generated, in the second part of the study the set hypotheses were statistical tested.

The results of the univariate analysis by Pearson correlation coefficient are shown in the following table:

Table 2: Pearson’s correlation coefficients

	PROMOTION	ROA	CROA	LEGAL STRUCTURE	SIZE
PROMOTION	1	-0.238*	-0.233*	0.059	0.023
ROA		1	0.999**	-0.137	0.234*
CROA			1	-0.140	0.237*
LEGAL STRUCTURE				1	-0.368**
SIZE					1

** Correlation is significant with significance of 0.01 (two-way test).

* Correlation is significant with significance of 0.05 (two-way test).

Source: Authors’ calculation (2014)

Table 2 clearly shows that the Pearson’s coefficient of linear correlation between the share of the promotional costs in the total costs and the return on assets is -0.238, while the correlation between the share of the promotional costs in the total costs and the indicator of cash return on assets is -0.233. Both correlations are statistically significant at the confidence level of 99%, and indicate a weak negative relationship between the observed variables. The coefficients of linear correlation between the legal structure of enterprise and its size in relation to the share of promotional costs in the total costs are positive but are not statistically significant.

However, since the correlation coefficient indicates only the relationship between the two variables, but does not explain their causal relationship, the second degree polynomial multiple regression was applied. Although it is assumed that the promotional costs have a positive impact on the company’s profitability, upon reaching a certain level, their impact on profitability will become inverse, because, by their nature, these costs are not purely variable, and they are also often classified as discretionary.

The proposed model is: , where the return on assets (ROA) or cash return on assets (CROA) are taken as dependent variables (, while the investment in promotion is an independent variable The obtained results are summarized in Table 3.

Table 3: Results of the regression analysis

Independent variable	PROMOTION	
	ROA	CROA
Dependent variable		
Constant	1,03 (0,321)	0,812 (0,359)
PROMOTION	-0,846 (0,004)	-0,834 (0,004)
PROMOTION**2	0,668 (0,020)	0,660 0,022
<i>R</i>	0,365	0,360
<i>r</i> ²	0,133	0,102
<i>Standard regression error</i>	6,717	5,728
<i>F test</i>	4,930	4,756
<i>Sig.</i>	0,010	0,012

Source: Authors' calculation (2014)

Table 3 shows the calculated values of the correlation coefficient $R = 0.365$ and $R = 0.36$, which show a weak positive relationship between the variables of the achieved profitability, measured by return on assets (ROA) and cash return on assets (CROA) with the variable of share of promotional costs in the total costs. The coefficients of determination are $r^2 = 0.133$ and $r^2 = 0.129$, which means that the estimated regression models have interpreted approximately 13% of the sum of squares of all deviations of the dependent variable from its arithmetic mean. Based on the ANOVA analysis of the estimated regression model and the F-test value it can be concluded that the regression model is statistically significant. In both models parameter β_0 is not statistically significant, while other parameters in the polynomial regression (β_1 β_2) are statistically significant. Thus, it can be concluded that the share of promotional costs in the total operating costs of enterprises statistically significantly affects the profitability measured by return on assets (ROA) and cash return on assets (CROA).

To test the second and third hypotheses about the impact of legal structure and size of company on the share of investment in promotion as compared to the total operating cost analysis of variance with one variable factor was applied. Upon completion of Levene's test of homogeneity of variance ($L = 0.965$ and $\alpha = 0.330$ for legal structure; $L = 1.716$ and $\alpha = 0.188$ for size) ANOVA test was conducted.

Based on the results obtained ($F = 0.227$; $\text{sig.} = 0.635$) it can be concluded that the variance of the variable factor of legal structure does not have a significant impact on the share of promotional costs in total costs. The results of ANOVA test of influence of variable factor of company's size on investment in promotion ($F = 0.125$; $\text{sig.} = 0.882$) also point to the absence of a significant impact of the variable factor of the company's size on the share of promotional costs in total costs.

Finally, it is important to point out the limitations that are imposed in the study, in form of the non-deductible expenses. These expenses affect company's financial results, and thus the profitability indicators, which in its turn affect the results of the present study, but their influence cannot be excluded due to the unavailability of data about them. In addition, the interpretation of results should take into account the impact of the quality of implemented promotional activities, the impact of promotional activities undertaken in earlier periods that would be reflected on the observed period, as well as the impact of other elements of the marketing mix that cannot be ignored.

6. CONCLUSION

In conditions of economic crisis, managers often resort to cost-cutting strategy, the marketing costs commonly being the first ones affected.

However, the question arises of whether such decisions would have negative effects on business performance, considering the promotion necessary to maintain and improve profitability. For this reason, the subject of this study was to determine the effect that the promotional costs have on the profitability of enterprises, and to research whether there are differences in investments in promotion with respect to company's legal structure and size.

The results indicate there is a positive relationship between investment in promotion and profitability of enterprises, while company's legal structure and size are not statistically significantly related to the amount of investment in promotion. Considering that and taking into account that the promotional costs in relation to the change in the level of activity are categorized as discretionary costs (which means that they arise solely as a result of manager's decisions and are designed to meet their wishes), managers can be recommended that prior to cutting these costs they should consider the negative consequences on business profitability that are expected to arise if they decide to do so.

Future researchers of the issues brought forward by this study can be recommended to expand the subject of the research by including items of non-deductible expenses, which also indirectly represent the promotional activities. Likewise, the subject of the research can be expanded by studying the contribution of particular promotional activities on profitability, and/or the impact of additional financial and non-financial performances, such as organizational factors, industry, etc.

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UTJECAJ TROŠKOVA PROMIDŽBE NA PROFITABILNOST PODUZEĆA

SAŽETAK RADA:

Svrha ovog rada je teorijski identificirati i razgraničiti specifičnosti različitih troškova promidžbe i utvrditi utječu li na profitabilnost poduzeća, pretpostavljajući da će poduzeća koja više ulažu u promidžbene aktivnosti ostvarivati i veće prihode i biti profitabilniji. Dodatno, predmetnim istraživanjem će se ispitati postoji li razlika u visini ulaganja u promidžbu s obzirom na pravni ustroj i veličinu društva, polazeći od pretpostavke da veliki poduzetnici i poduzeća koja su ustrojena kao dionička društva raspolažu s više novčanih sredstava, te posljedično više i ulažu u promidžbene aktivnosti. Istraživanje je provedeno na nasumično odabranom uzorku od 67 poduzeća u 2012. godini, a dobiveni rezultati pokazuju da udio troškova promidžbe u ukupnim troškovima značajno utječe na profitabilnost poslovanja, dok s druge strane ne postoji značajna razlika u promidžbenim ulaganjima ni prema pravnom ustroju niti s obzirom na veličinu poduzeća.

Ključne riječi: trošak promidžbe, profitabilnost, veličina poduzeća, pravni ustroj

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EVOLUTION OF CORPORATE ENVIRONMENTAL REPORTS IN SOUTH AFRICA

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ABSTRACT

Using a literature review, we track the evolution of the quality of environmental reports of the Top 100 Listed South African (T100LSA) companies from 1990 to 2015. Furthermore, we attempt to predict the future quality of these reports.

The findings reveal a dramatic improvement in the quality of environmental reports produced by T100LSA companies. Not only did the number of companies disclosing their stakeholder engagement practice increase dramatically, but also there was an increase in number of companies whose environmental report contained an assurance statement. Increasingly, T100LSA companies were quantifying their environmental impacts and comparing the impacts to those of their prior years. Also revealed was a dramatic increase in number of T100LSA companies that provided annually updated summaries of their performance indicators using visual aids, multiple formats and media. However, the companies did not take full advantage of the Internet to enhance the quality of their environmental reports.

Keywords: *relevance; reliability; comparability; understandability; timeliness.*

1. INTRODUCTION

Accounting reporting as a practice cannot be properly understood unless the historical context within which it emerged is recognised (Sangster 2010: 01). Understanding the historical context of accounting also assists in predicting the trajectory of its future (Wiley 2013: 01). While it is well documented that the number and volume of environmental reports produced by T100LSA companies have increased dramatically in the last few decades (KPMG 2013: 20), few papers have addressed the milestones of these developments with regard to the quality of the reports. It is thus unclear whether the increase in volume has occurred in tandem with an improvement of the quality of these reports (Kamala 2015: 05).

By focusing on the quality of environmental reports, this article tracks the key developments and shortfalls of the environmental reporting practice of the T100LSA companies, which constitute over 95% of the market capitalisation of the Johannesburg Securities Exchange (Kamala 2015), and searches for ways to improve the quality of the reports. To date only a few studies have attempted to track the evolution of the quality of environmental reports produced by listed companies (KPMG 2013; KPMG 2011; KPMG 2008; Wheeler & Elkington 2001; Azzone *et al.*, 1996). *However most of these studies are dated, focus mostly on the reporting rates of European companies and do not entirely focus on the quality of environmental reports.*

This article, to the best knowledge of the authors, is the first to entirely study the evolution of the quality of environmental reports of T100LSA companies. It attempts to determine how the quality of environmental reports produced by the T100LSA companies has evolved to the current quality, and predicts how the quality of these reports is likely to evolve in the future. The article does not only fill in the gap on the evolution of the quality of environmental reports in South Africa, it also provides a more recent prediction of the future quality of the reports by factoring in more recent advancements in information technology.

The rest of the paper is structured as follows: Section 2 discusses the evolution of the quality of environmental reports in the period between 1990 and 2015. Section 3 predicts the future quality of environmental reports produced by T100LSA companies. Section 4 provides the conclusion of this study.

2 EVOLUTION OF ENVIRONMENTAL REPORTING OF LISTED COMPANIES IN SOUTH AFRICA

2.1 ENVIRONMENTAL REPORTING IN SOUTH AFRICA FROM 1994 TO 1999

Following the demise of Apartheid era in 1994 and South Africa's re-admission into the international community, the number of T100LSA companies that produced environmental reports increased, though dismally, in the period between 1994 and 1999 (De Villiers 2000: 72). The increase was attributed to the international market pressure that compelled the companies to raise their environmental reporting practices which had fallen far below the international best practice as a result of the country's pro-longed period of political isolation (Visser 2005: 01).

To enhance the quality of their environmental reports, the T100LSA companies increasingly involved their stakeholders in their environmental reporting exercise to make the reports more relevant (Visser 2005: 02). In addition, the companies increasingly adopted international standards and guidelines to improve the reliability of their reports.

Unlike in Europe, only a few studies were conducted between 1994 and 1999 on environmental reports produced by listed South African companies. In one such study, De Villiers & Bernard (2000) examined the environmental disclosures of Financial mail top 100 South African industrial companies. Their study revealed that the percentage of the companies that mentioned their environmental impacts and risks rose from 14% in 1994 to 24% in 1999. The percentage with a policy towards the environment rose from 19% in 1994 to 31% in 1999. By contrast, those with measurable objectives declined from 18% in 1994 to 11% in 1999. Those which indicated whether they had met their objectives rose from 17% to 22%. Those with an accounting policy note regarding environmental disclosures rose from 4% in 1994 to 5% in 1999. In short, the reporting rate and quality of reports only improved marginally.

Given the marginal improvement in environmental reporting rates and quality of reports of T100LSA companies, some authors like De Villiers (1998, 2000) and KPMG (1999) criticised the quality of the reports which they deemed inferior to those of listed companies in the developed countries. In addition, the stakeholder engagement initiatives undertaken by most companies were not genuine thus undermined the relevance of the reports (Visser 2005: 04). Given the absence of assurance standards and universal key performance indicators, most environmental reports lacked an assurance statement (De Villiers 1998: 08). As a result, the reports produced during the period were mostly

incomplete, narrative and devoid of detailed monetary or physical values, an attribute that rendered them incomparable (KPMG 1999). Furthermore, the reports had a bias towards positive information and were rarely updated (De Villiers 2000: 72).

2.2 ENVIRONMENTAL REPORTING IN THE PERIOD BETWEEN 2000 AND 2015

In the period between 2000 and 2015, the environmental reports produced by T100LSA companies did not only dramatically increase in number and volume, they also improved in quality (Kamala 2015; KPMG 2013; IRAS 2012). Indeed the percentage of T100LSA companies that prepared environmental reports increased from 45% in 2008 to 97% in 2011, to 98% in 2013 (KPMG 2008; 2011; 2013).

During the afore-mentioned period, the T100LSA companies increasingly included foreword statements from top management in their reports reassuring readers of their commitment to environmental objectives (Mammatt *et al.*, 2009: 01). Increasingly, the companies, incorporated environmental issues in their mission, vision and objective statements. Similarly, they increasingly established board committees to oversee environmental issues. To further enhance the relevance of their environmental reports, the companies were increasingly tailoring their reports to better suit specific stakeholders' needs (Mammatt *et al.*, 2009: 01).

In a bid to improve the reliability of their environmental reports, an increasing number of the T100LSA companies included an assurance statement in their reports (KPMG 2013: 33). The percentage of the companies that included an assurance statement in their environmental reports rose from 27% in 2002, to 33% in 2005 to 38% in 2013 (KPMG 2002; 2005; 2013). The assurance was increasingly conducted within the context of auditing standards and mostly by major accountancy firms, an aspect meant to enhance the credibility of the reports (Mammatt *et al.*, 2009:01).

To enhance the understandability of their environmental reports, the T100LSA companies were increasingly producing more concise and effective reports with less prolix (Mammatt *et al.*, 2009:01). In addition, the companies were increasingly producing summarised hard copy reports often supported by more detailed on-line resources (Mammatt *et al.*, 2009:01). Furthermore, the companies were increasingly including GRI Index tables in their reports to ease access to information (IRAS 2013; Mammatt *et al.*, 2009:01). With 90% of the companies referring to the GRI guidelines when selecting the content to report on (KPMG 2013), the comparability, credibility and completeness of the resulting reports was enhanced.

Although the companies had prior to 2010, increasing converged their environmental, social, and ethical reports into one sustainability report (Visser 2005: 02). As from 2010, T100LSA companies led their counterparts from the rest of the world by integrating their environmental reports fully into their annual reports (IRAS 2012). Indeed all of these companies stated that their reports were fully integrated (Kamala 2015). The integrated reports provided a more complete picture of the companies' performance by placing their financial performance within the context of their environmental and social performance (Ernst & Young, 2010). In addition, the integrated reports clarified the causal link between their environmental performance and financial performance to enable the stakeholders to better understand and predict the impact of companies' actions on the society (IODSA, 2009). Furthermore the reports provided readers with a one-stop shop for all the information required (Corporate Register.com, 2010).

Given that integrated reporting required a deeper engagement with the stakeholders, the environmental reports in the integrated reports were more attuned and therefore more relevant to diverse stakeholders than the stand-alone reports (HBS, 2010:37; IRC, 2011:02). To integrate reports, the T100LSA companies required robust information management systems to be able to capture, measure, analyse and disseminate accurate environmental data on a more frequent basis (IRC, 2011:21; KPMG, 2011:27). Indeed 12% of the companies had implemented a dedicated information management system to improve the integrity, reliability and timeliness of their environmental data as well as the resulting reports (KPMG 2011; IRC, 2011:17). The integration also subjected the environmental data to the internal controls and rigorous auditing procedures used for the financial information, which further enhanced the reliability and rigor of the data (IRC, 2011:17; KPMG, 2010:08). Furthermore, the integrated reports required a universal level of standardisation of key environmental performance metrics which enhanced the consistency, conciseness and comparability of the reports across time, and to those of other companies in similar industries (HBS, 2010:142; KPMG, 2010:08).

Notwithstanding the above-mentioned developments, the quality of environmental reports of the companies remained questionable for various reasons: Firstly, only a few entered into a meaningful dialogue with their stakeholders to define the issues that should be reported or even asked for specific feedback (KPMG 2013: 69). Accordingly, the stakeholder dialogue was limited, typically unilateral, and almost always employed the lesser effective channels of communication and unrepresentative stakeholder panels. As a result, most of the reports failed to reflect the needs of their targeted audience, lacked credible and or resentful stakeholders' voices (KPMG 2013: 69). Secondly, only

38% of the companies had assured their reports, mostly using limited assurance, by 2013 (KPMG 2013). In addition, the assurance statements themselves varied significantly did not refer to any recommendations for improvement therefore they offered little insight into how the assurance process was useful to a company's environmental reporting and performance (Kamala 2015; Mammatt *et al.*, 2009: 01). Accordingly, the resulting assurance statements did not enhance the reliability of the reports but instead led to a credibility gap that made stakeholders to be dismissive of the assurance process, statements, practical competencies of the assurance providers and the overall institutional legitimacy of the environmental industry (Kamala 2015).

As a result of the above weaknesses in the assurance process, the environmental reports produced by most T100LSA companies tended to be declarative, over-exaggerated with regard to compliance with guidelines such as GRI and focussed on good news even when bad news was known to exist (IRAS 2012; Incite Sustainability 2008: 78). In addition, most of the performance measurement systems were inept and error prone, as they relied on manual or simple spread sheet software that could not guarantee the accuracy of the reports produced (Mammatt *et al.*, 2009:01). In fact 88% of the companies had not implemented a dedicated information management system for capturing and processing the increasingly complex environmental data (KPMG 2011). As a result, 25% of the companies had restated their data in the subsequent reports (KPMG 2013). Worse still, some of the companies undermined the credibility of their own reports by providing cautionary statements about the nature of the information contained therein (KPMG 2013; KPMG 2011). Thirdly, although all T100LSA companies had produced an integrated report by 2015, none had included an integrated assurance statement in these reports (Kamala 2015). Instead the reports had a different assurance statement in each section an indication that the assurance was undertaken in silos. This had the potential of leading to an assurance fatigue, assurance gaps and increased risk exposure, overlaps, competing and even conflicting assurance objectives that escalate the assurance costs (Kamala 2015).

Fourthly, to cater for diverse stakeholder groups, many T100LSA companies simply expanded their integrated reports through the dumping of verbose, unprioritised, generic, repeated and unintelligible environmental information (Kamala 2015). In addition, most companies proliferated these reports in different formats and types, using a varying range of media which did not only lead to multiplication of data and information-overload, but also it diminished the relevance, readability and comparability of the reports to the readers (Kamala 2015). Furthermore, some of the multi-national T100LSA companies, had dis-aggregated their environmental information per country, product or

line of business, in a manner that undermined readers' comprehension of the overall performance of these companies (Mammatt, 2009: 04). By contrast, some companies, over-aggregated information without supporting detail or link between environmental issues and strategy consideration, an approach that impaired the readers' comprehension of the information (Kamala 2015).

Fifthly, although the Internet had altered environmental reporting, only a few T100LSA companies took full advantage of the Internet's technological capabilities to make their reports more relevant, reliable, comparable, understandable, timely and verifiable (Kamala 2015). With regard to relevance, many companies did not tailor their environmental information for the needs of different stakeholders, neither did their websites have software to track and manage the stakeholders' usage of the information on the web (Turk *et al.*, 2013: 01). In addition, analytical tools were hardly utilised to provide users with an option to manipulate environmental information to suit their needs.

Almost all T100LSA companies did not employ advanced reporting software such as eXtensible Business Reporting Language (XBRL), to reduce the risk of manual error entries (Mammatt *et al.*, 2009:01; Kamala 2015; KPMG 2011: 27). Instead they opted for manual and error prone spreadsheet software that could not guarantee accuracy of the reports produced. In addition, most of the companies had proliferated their environmental information on different sections of their websites and made no effort to standardise the information reported (GRI 2012: 32). This together with the duplication of the information across a variety of media, failure to adopt XBRL software (which makes inter-company comparability almost immediate) and the adoption of different reporting structures undermined the comparability of the information reported (Kamala 2015).

With respect to the understandability of the environmental reports, most T100LSA companies did not use their on-line capabilities to enrich the content of their reports, instead they opted for Portable Document Format (PDF), a replica of the printed reports (Turk *et al.*, 2013: 01). Accordingly, their on-line environmental reports were hardly interactive or animated, lacked video and audio features which could captivate readers as well as in-built embedded software to translate the reports to different South African languages (Kamala 2015).

Regarding the timeliness of the environmental reports, most T100LSA companies did not leverage their on-line capabilities to report more frequently using HyperText Markup Language (HTML) format files, instead they increasingly relied on PDF files which were aligned to their annual reporting cycle (Turk *et al.*, 2013: 01). Where the HTML files were used, they duplicated prior years' information and did not always include the dates to enable readers to assess how current the reports were.

3 PREDICTION OF THE FUTURE QUALITY OF ENVIRONMENTAL REPORTS PRODUCED BY TOP 100 LISTED SOUTH AFRICAN COMPANIES

Thus far we have attempted to track the evolution of environmental reports of T100LSA companies from 1994 to 2015. To predict the future of the quality of the reports produced by T100LSA companies, we have to ask whether the benefits of improving the quality of these reports will outweigh the related costs. According to KPMG (2011), the answer to this question is a resounding yes. To further predict the future quality of these reports, we have to consider which stakeholders will influence the quality of the reports (Wheeler & Elkington 2001: 11). In addition we have to acknowledge the fact that the Internet has irreversibly altered environmental reporting practice and the quality of the resulting reports by availing new capabilities that can make the reports more relevant, reliable, comparable, understandable, timely and verifiable (KPMG 2013).

3.1 THE EXPECTED FUTURE NEEDS OF STAKEHOLDERS

The stakeholders with an immediate influence on the quality of environmental reports include investors, customers, employees and local communities (European Commission 2011). Investors who aim to maximise return on their investment will be interested in future-oriented, real-time indicators of environmental risks and opportunities (De Villiers and Van Staden 2010: 442). These stakeholders are likely to reject vague narrative statements about a company's environmental performance and demand numeric raw data and analytical tools to enable them to analyse the data themselves and to compare the numbers against an entity's past similar data and data from peer companies (European Commission 2011: 92). The shareholders may expect to participate in the writing process by adding their views to the reports and sharing the unedited content with their colleagues and friends (Baue & Murningham, 2010:15).

Customers of the future are likely to shop on-line and to be consciousness about the environmental impact of the products they buy (Walker Sands 2014: 03). These customers will expect environmental information to be available instantly alongside other standard product information (European Commission, 2011:97). Such information will preferably be in form of simple precise summaries and presented in a multilingual manner. Most potential employees seek employment via the Internet and try to match their personal values to those of the companies that they intend to work for. It is predicted that the future employees will expect environmental information of their interest as close as possible to the corporate home page of the companies they seek employment in (European Commission, 2011:100). Bearing in mind the unique interest of

employees in their well-being at the work place and work-place environmental hazards, it is predicted that they will expect to be able to tailor environmental information to cater for their unique needs, perhaps using drill down capabilities of the Internet.

From the foregoing, it is clear that the stakeholders' will in the future expect environmental reports that are relevant, reliable, comparable, understandable, timely and verifiable. In addition the users will expect that those reports be made available to them conveniently, on demand and be accessible regardless of their location. Accordingly such reports would have to be disseminated via the internet and preferably on a real-time basis.

3.2 THE EXPECTED IMPACT OF THE INTERNET ON THE FUTURE QUALITY OF ENVIRONMENTAL REPORTS

The proliferation of Internet in South Africa has made on-line publishing, arguably the quickest, easiest and most cost-effective method to keep numerous stakeholders informed about a company's environmental performance (Mlarvizhi & Yadav, 2008:03). As a result, T100LSA companies have embraced the medium for reporting on their environmental issues (Kamala 2015: 313). The internet has not only revolutionised the environmental reporting practice in general, it has availed on-line capabilities that can dramatically improve the quality of environmental reports. The impact of these capabilities is expounded on in the next section.

3.3 THE EXPECTED FUTURE OF THE QUALITY OF ENVIRONMENTAL REPORTS

Bearing in mind that company stakeholders are increasingly demanding relevant, reliable, comparable, understandable, timely and verifiable environmental information, and considering the Internet's capability in providing such information at a low or no extra cost, the future of the quality of environmental reporting practice in South Africa is promising and exciting (Kamala 2015: 89). Regarding the relevance of environmental reports, it is envisaged that T100LSA companies will leverage the Internet to engage their stakeholders meaningfully and effectively, on an on-going basis through interactive surveys, discussion forums, web chats, wikis, blogs and social media (Radley Yeldar & GRI, 2011: 05). In so doing, the companies will not only be able identify stakeholders' concerns, but they will be able to address these issues in a timely manner given the instantaneous feedback that the above on-line tools allow.

It is also envisaged that through the robust capabilities of the web technologies availed by the Internet, T100LSA companies will use the in-built flex-

ibility of the Internet to allow different stakeholder groups to tailor environmental reports to their specific information needs. It is also envisaged that the companies thus facilitating the provision of relevant information in the reports by better targeting of the intended audience (HBS, 2010: viii).

To the enhancement of the reliability of their environmental reports, it is envisaged that the companies will deploy their robust on-line capabilities to provide readers with raw data and analytical tools to enable them to analyse the data themselves (CSR Europe, 2010:23). Similarly, the companies may use the same to allow readers to participate in the writing process by enabling them to add their views to the reports and sharing the unedited content with others via the social media (Baue & Murningham, 2010:15). The companies could also use robust on-line reporting software such as the XBRL to reduce manual error entries (KPMG 2013: 64).

Concerning the enhancement of verifiability of environmental reports, it is envisaged that T100LSA companies will deploy Internet-based web technologies which are embedded with auditing capabilities to facilitate and accelerate continuous monitoring and assurance process (Blundell, 2007:11; Kuhn & Sutton, 2010:91). The same technologies may also be leveraged to leave a seamless audit trail and support thorough documentation of systems, processes and controls, as well as track any related changes (Blundell 2007:40; Kuhn & Sutton, 2010:107). In addition, the web technologies may also be deployed to facilitate the usage of automated and standardised Computer Assisted Audit Techniques (CAAT) that test entire data populations with ease thus effectively reducing detection and audit risk (Blundell, 2007:25). These CAATs should also provide consistent working-paper documentation that lead to accurate assertions about the effectiveness of a company's internal controls (Blundell, 2007:89; 95).

To enhance comparability of environmental reports, it is envisaged that T100LSA companies will adopt web technologies such as XBRL to allow users to standardise the formats and structures of environmental reports of different companies to facilitate inter-company comparison of similar environmental information (CSR Europe, 2010:23). The technologies may also facilitate comparability of a company's performance across time by allowing readers to juxtapose items of a company's most recent report with similar items from the prior periods' reports (HBS, 2010: 243).

Concerning the enhancement of the understandability of environmental reports, it is envisaged that T100LSA companies will adopt Internet-based web technologies to enrich their reports with visually attractive and easily digestible multimedia content, such as videos, pod casts, slide shows, animations, dynamic graphs and charts (CSR Europe, 2010:15; Radley Yeldar & GRI, 2011:03).

Such technologies may also enhance the usability of the websites by providing alternative ways of accessing information such as reading, watching, listening, and touching (via Braille) (CSR Europe, 2010:07). The understandability of the reports may also be enhanced by the user-friendly web toolkits which ease readers' navigation, enable them to create PDF files, send emails, provide feedback, create charts, enlarge existing charts, download tables in Excel, conduct quick search for information, obtain detailed view of data using infinite drill-down capability and so on (CSR Europe, 2010:15; HBS, 2010:174). More importantly, the web technologies could be leveraged to translate environmental reports to any of the nine official South African languages.

To enhance timeliness of environmental reports, it is envisaged that T100LSA companies may will deploy on-line tools to speed up stakeholders' feedback in an uncensored and real-time manner (CSR Europe, 2010:18). This should enable the companies to update their environmental information and news feeds at a faster and more frequent pace, thus ensuring that new environmental information is disseminated as soon as it becomes available (CSR Europe, 2010:18). In addition, the Internet-based web technologies could be deployed to enable the transmission of real-time environmental data to stakeholders (KPMG, 2008:19).

4. CONCLUSION

This article sought to determine how has the quality of environmental reports produced by T100LSA companies have evolved from 1990 to 2015, and to predict the future evolution of the quality of these reports. Although several positive developments in the quality of environmental reports were documented, those developments were marred with a plethora of shortfalls. More precisely, the T100LSA companies appear not to have taken full advantage of the latest available technological capabilities of the Internet to make their reports more relevant, reliable, comparable, understandable, timely and verifiable. Given that company stakeholders are increasingly demanding environmental information that has these characteristics and considering the Internet's capability to provide such information at a low or no extra cost, it is predicted that T100LSA companies will leverage the Internet to produce more relevant, reliable, comparable, understandable, timely and verifiable environmental reports.

The findings of this article have implications for preparers of environmental reports, as they will be made aware that readers expect the reports to be relevant, reliable, comparable, understandable, timely and verifiable, and that the Internet is perfectly suited for producing reports that demonstrate these

qualities at a low or no extra cost. The obvious limitation of this paper is its literature review approach. Future empirical studies could investigate the actual extent to which T100LSA companies leverage the Internet to produce relevant, reliable, comparable, understandable, timely and verifiable environmental reports.

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PRIPREMA KORPORATIVNIH IZVJEŠĆA O ZAŠTITI OKOLIŠA U JUŽNOJ AFRICI

SAŽETAK RADA:

U ovom radu prati se, koristeći dostupnu literaturu, razvoj i kvaliteta izvješća o zaštiti okoliša stotinu najvećih južnoafričkih tvrtki u razdoblju od 1990. do 2015. godine. Također se pokušava predvidjeti i kvaliteta navedenih izvješća u budućnosti.

Rezultati istraživanja pokazuju značajno poboljšanje kvalitete izvješća o zaštiti okoliša u promatranim tvrtkama.

Povećao se ne samo broj tvrtki koje redovito izvještavaju o praksi zaštite okoliša već i broj tvrtki koje u izvješće uključuju i izjavu o osiguranju.

Pozitivan pomak u promatranim tvrtkama ustanovljen je i u praksi usporednog izvještavanja i analiziranja izvješća prethodnih godina te godišnjim ažuriranjima sažetaka izvješća pomoću raznih vizualnih pomagala te korištenjem raznih medija. u približavanju izvješća krajnjim korisnicima. Primijećeno je ipak da promatrane tvrtke premalo koriste internet kao dostupni resurs.

Ključne riječi: relevantnost; pouzdanost; usporedivost; razumljivost; pravovremenost.

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BUSINESS GIFT GIVING ETIQUETTE

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ABSTRACT

Business world today is faced with cultural similarities and cultural gaps. Every business person should be familiar with the business etiquette, in order to avoid a cultural faux pas. The topic of this paper is business gift giving in various parts of the world with the special emphasis on the English speaking countries. It comprises the basic rules of business gift giving etiquette, the types of gifts, especially the difference between the gifts for clients, the gifts for employees and the gifts for service providers. The author also included some typical and frequently asked questions regarding business gift giving.

Keywords: business gift, business gift giving etiquette, cultural faux pas, basic rules of business gift giving, types of business gifts, frequently asked questions.

INTRODUCTION

The term *gift* dates back to the 13th century from the Scandinavian source such as Old Norse *gift* or *gip*, the meaning of which was 'to give or receive'¹. The verb first appears in the *Oxford English Dictionary*, which cites an anonymous 16th-century English ballad entitled *A Merry Jest of a Shrewd and Curst Wife Lapped in Morel's Skin for her Good Behaviour*. ('Morel' is the name of a horse the husband kills for its skin. The horsehide is then rubbed in salt and wrapped around his wife to teach her good behaviour). Some scholars believe this long and very brutal poem about wifely submission, which was popular in its day, inspired Shakespeare's *The Taming of the Shrew*.

¹ Online Etymology Dictionary

Giving gifts to clients or business partners can be rather complicated and stressful, if the etiquette behind it is unknown. The objective of this paper is to present the cultural differences upon gift giving in the business world. It includes some important rules of gift giving in various countries and points to the mistakes which may be made if the business gift giving etiquette of the particular country is not followed. Accordingly, all the persons engaged in the business world should be familiar with the topics presented in this paper.

1. BASIC RULES

Before starting to shop gifts for clients, colleagues or employees, the following business gift giving etiquette tips should be considered:

Personalize gifts if possible

Whenever possible, a gift should be personalized to each recipient. Clients, business partners and colleagues want to know that they are appreciated. Giving an item that is specifically aligned with their interests can mean more than a promotional item from one's company. However, there are exceptions. For instance, most employees would prefer cash bonuses in lieu of a physical gift. In the case of a large number of clients, when it is not possible to buy for each one individually, a small but useful item or even a gift card are options. Cheap promotional items or ones that are too specific to benefit each client should not be sent.

Plan a budget for gifts

Deciding on a budget for gift-giving occasions throughout the year will largely have to do with the company's finances. Even if a small amount can be spent on gifts, a small token or just a handwritten card will suffice to let people know that they are important to this company. However, the big mistake would be to spend too much on gifts. Certain types of service providers have limits for the types of gifts they can receive, whereas some are not allowed to accept gifts at all. Postal workers in the USA, for instance, are not allowed to accept gifts worth more than \$20. Accordingly, one should be well-informed on this issue before giving gifts, in order to avoid an unpleasant situation.

Consider religious beliefs

Upon gift giving, the fact that not all the clients or colleagues celebrate Christmas, Easter or other big holidays of the Christian world should be taken into account. Giving a gift to someone who cannot accept it because of their religious beliefs can make both the gift giver and the gift recipient uncomfortable. To avoid this, you can simply ask if they celebrate Christmas, for example, without getting into specifics about their religious preferences. If someone does not celebrate Christmas and would be uncomfortable receiving a gift, your ap-

preciation may be shown in other ways, such as sending a small token after the completion of a big project or offering them an end-of-the-year bonus.

Regift with caution

Regifting is the practice of giving gifts that you previously received from someone else. This is not an acceptable practice in every culture, but is becoming more and more common. Regifting should be carefully practiced due to the fact the recipient may be able to tell the item is regifted and thus not purchased specifically for him or her. If the person who originally bought you the gift would be likely to find out that you passed along their purchase, it could hurt both them and the recipient.

Every person is important

When giving gifts to the employees, it is important to remember every person and not to give gifts to only certain team members. Even clients within a certain industry or group may talk with one another and therefore no one should be forgotten. To avoid such awkward situations, one should prepare a list of all the clients and employees and check it carefully before sending out gifts or cards. Even a small item or a card can make people feel important to the business.

2. TYPES OF GIFTS

Gifts for Clients

"Gifts keep you at the top of clients' minds year round", writes Forbes contributor John Hall. At least once a year a small gift should be sent to all the company's clients. Even in the period of recession business people believe that gift giving is important for maintaining good business relationships. Personalized gifts make clients feel important for the business. For example, if the client plays golf, a small token from their favourite course is more appropriate than a bottle of wine. However, if the company has too many clients to make individual purchases, smaller, more general items will do, except cheap promotional items like pens or notepads with the company's business logo. Even a handwritten card seems more genuine than such items.

Gifts for Employees

Employees usually expect a small token of appreciation from their employer at least once a year. Gifts are usually presented during the holiday season or at the end of the year. The most important aspect of giving gifts to employees is to remember every single person. Gifts can range from a small token like a restaurant gift card to sizeable cash bonuses, depending on the size of the company, the financial situation of the company or the manager's own will. If there are only one or two employees like an assistant or a partner, larger gifts would be more appropriate.

Gifts for Service Providers

Service providers comprise a large group of associates, ranging from virtual assistants, consultants to postal workers. The gifts to service providers may be sent over Christmas or after the completion of a certain project in which they actively and successfully participated. The gifts may be personalized, i.e. purchased for each person individually, small items, cash or gift cards, depending on the provided type of service.

3. GIFT GIVING IN ENGLISH SPEAKING COUNTRIES

United Kingdom

Giving gifts is not a common part of British business culture. British business people are quite likely to feel embarrassed when receiving any gift at all. The only exception represents the completion of a business deal, when it is regarded appropriate to give a gift to mark such an occasion. Such gifts may be gold, silver, or porcelain with a suitable inscription. Accordingly, the object should be tasteful and not too expensive, in order to avoid embarrassment on the part of the recipient. However, small gifts may be considered appropriate to give to colleagues for the provided services, comprising a pen, a book, flowers (not red roses, white lilies, or chrysanthemums), or wine/champagne. Spirits, on the other hand, are a matter of personal taste and best not given as a present. Business gifts are never exchanged at Christmas but it may be appropriate to send a card, particularly as an expression of thanks to your business associates but also as a means of maintaining valuable contacts.

United States of America

A business gift giving in the USA is a nice gesture, however not obligatory. They are mostly presented after a closed deal or during the Holiday season (late November through the first week of January). Business gifts on such an occasion comprise useful items for the office, spirits or wine. Gifts for women such as perfume or clothing are usually inappropriate. They are considered too personal.

Gifts should not have any religious connotations, due to the fact that not all the business associates celebrate the same holiday. While Christmas is the dominant celebration, and is widely commercialized during this period, people may be celebrating many other holidays during this period (e.g. Hanukkah, Kwanzaa). In the case when a gift giver is from another country, the best gifts are those that come from his/her country.

Indian giver is an American expression, which describes a person who gives a gift and later wants it back, or something similar in return. The term dates back to

the 15th century when the Europeans first encountered the Native Americans on arriving in North America. The Europeans thought they were receiving gifts from the Native Americans, while the Native Americans believed they were engaged in bartering, which resulted in the Native Americans finding the European behaviour ungenerous and insulting. It was a custom among some groups of Indians that when a gift was given, something of equal value was given by the receiver of the gift. The phrase was first used in print in 1765. It is based on the experiences of early European settlers and pioneers like Lewis and Clark who documented that any trade, once consummated, was considered a fair trade. If on one day, they traded beads for a dog from a tribe, then days later, the trade could be reversed - upon surrendering the beads, the tribe expected the dog back. The phrase was first noted in the 18th century characterizing an Indian gift as "a present for which the equivalent return is expected", which suggests that the phrase originally referred to a simple exchange of gifts. However, according to Bartlett² the phrase was being used by children in New York to mean "one who gives a present and then takes it back."

Australia

Principally, business gift-giving is not a part of the Australian business etiquette. However, if a foreign business partner is invited to a home for dinner, it is advisable to bring a gift, such as flowers, chocolates, wine, a craft or an illustrated book from his/her home region. One should bear in mind that a thoughtful choice is considered more important than the actual cost of the gift.

4. CULTURAL FAUX PAS

Giving a gift has long been an accepted social tradition in business, but knowing what presents are appropriate for foreign clients can be difficult. Cultural faux pas can be avoided by researching the country and company before presenting a gift. Gifts are intended to show appreciation and respect and should not be seen as trying to buy favour. Some corporations have strict policies on the practice so it is best to check with the company first. Embassies and consulates can provide guidelines for international customs.

To avoid embarrassing situations and sending unintended messages, special consideration should be given not only to the gift but also to how it is wrapped and presented and why and when it is given. For instance, in Japan and China gifts should not be wrapped in white paper as it symbolises death. The colours blue and black should also be avoided in China because they are associated with funerals. Using red ink when signing a card or notes in China

² Bartlett, J.R., Dictionary of Americanisms

should be avoided as it symbolises death and the end of a relationship. Sharp objects also imply the severance of a relationship, letter openers are out of question. Both, in China and Japan gifts should be presented with two hands, since such a gesture implies the importance of the gift. The gift should be given at the end of the business meeting.

According to Terri Morrison and Wayne A. Conway³ plants and flowers can be dangerous. Many countries associate certain flowers with funerals or graves. For example, the Germans consider heather, which is placed on graves, bad luck in the home, whereas chrysanthemums are inappropriate in Spain and France where they are used for funerals. Yellow flowers are best avoided in France because they symbolise infidelity, while in Mexico they are associated with death.

In view of the Latin America, Morrison and Conway⁴ say gift giving can be a part of establishing successful relationships with Latin Americans. When giving gifts to Latin clients, the following items should be avoided: knives or scissors because blades represent the severing of a friendship, carved elephants because some Latin Americans have an entire folklore about them, handkerchiefs because they are associated with weeping and sorrow and items wrapped in black or purple because they are colours symbolic of Holy Week (Semana Santa) processions.

In the Muslim countries business gifts should be presented with the right hand and never comprise alcohol, as they are regarded as offensive.

5. FREQUENTLY ASKED QUESTIONS

Below are some most frequently asked questions and replies referring to business gift giving:

Should I have a gift for everyone who gives me something?

A gift for everyone is not necessary. However, it is always nice to give a gift to somebody, especially if this person thought enough of you to give you one. It is advisable to have pre-wrapped items which are suitable for most people, such as pens, gift-wrapped food items, coasters, etc.

Should I hide a disappointment with the gift?

A disappointment with the presented gift should not be shown, since nobody's feelings should be hurt. Upon opening the gift, a smile would be sufficient, including saying *thank you to the gift giver*.

Is it appropriate to give gift cards?

³ Morrison T., Conway W.A., *The International Traveller's Guide to Doing Business in the European Union*

⁴ Morrison T., Conway W.A., *The International Traveller's Guide to Doing Business in Latin America*

Giving gift cards is generally appropriate, but we should be familiar with the recipient's interests, hobbies and habits.

Should I give my boss a holiday or a birthday gift?

It all depends on the company's policy, the corporate culture, and the relationship you have with your boss. If the company policy allows it, consider getting a group of co-workers together for one nice gift, preferably for the desk, such as a picture frame or a pen set.

Is it necessary to send a thank you note if you say thank you in person?

Yes. Every time someone gives you a gift or does something special for you, always show good manners by sending a thank you note later.

6. CONCLUSION

Emily Post, the greatest American writer on etiquette business wrote in her book⁵ that *"Etiquette is the science of living."*

A business gift giving etiquette is an intricate issue, taking into consideration cultural differences. The fact that clients or business partners come from various parts of the world requires a good knowledge on the etiquette behind. Good intentions may be overshadowed by the gaffe if you have purchased the gift which does not correspond to the recipient's interests, a particular philosophy of life or conception of the world. Therefore, before giving or sending any gifts, one should be acquainted with the business gift giving etiquette of the client's country.

The main points to consider are the appropriate types of the gift, the value of the gift, the occasion when it should be presented, the way it should be presented, even the colours which should be avoided. It should not be forgotten that not all the nations celebrate the same holidays. Accordingly, business gifts presented for Christmas will not be regarded as appropriate in all the countries. On the other hand, the holidays celebrated in the client's country can be an opportunity for gift giving. However, business gifts need not be sent out for the holidays, only. There are several different groups of people that might warrant gift giving. In the case when it is difficult to decide when to give business gifts and who to give them to, a general rule of thumb is to send gifts to the people who help make one's company successful.

⁵ Post E., *Etiquette in Society, in Business, in Politics and at Home*

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KULTURA DARIVANJA U POSLOVNOM SVIJETU

SAŽETAK

Današnji svijet biznisa suočava se s kulturnim sličnostima i različitostima. Svaki poslovni čovjek trebao bi biti upoznat s kulturom darivanja u poslovnom svijetu, kako bi izbjegao neugodnosti. Ovaj se članak bavi kulturom darivanja u različitim dijelovima svijeta, s posebnim naglaskom na zemlje engleskog govornog područja. Autorica navodi osnovna pravila darivanja u poslovnom okruženju, vrste darova, osobito razliku između darivanja klijenata, darivanja zaposlenika i darivanja osoba koje pružaju redovite usluge određenoj tvrtki. Članak također navodi najčešća pitanja i odgovore vezane za kulturu darivanja u poslovnom svijetu.

Ključne riječi: poslovni poklon, kultura darivanja u poslovnom svijetu, neugodnost, osnovna pravila darivanja u poslovnom svijetu, vrste poslovnih darova, najčešće postavljana pitanja.

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ICT ADOPTION AND FINANCIAL MARKETS: A STUDY OF THE LEADING STOCK EXCHANGE MARKETS IN AFRICA

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ABSTRACT

This paper examined the effects of ICT adoption on Nigerian and Johannesburg Stock Exchange markets - the leading exchanges in Africa. Analysis was anchored on panel data metrics of ICT adoption, control and transaction capacities measures of the exchanges. Findings: ICT adoption had heterogeneous effects during the study periods. Use of the Internet had negative effects on the market indices, except capitalisation. Some of the regressors had no significant effects on individual merits, but aggregate effects were significant. The regressors well-explained total variations in the stock market measures. Consequently, this paper considered ICT adoption to be sine quo non to the growth and development of Africa's stock exchange and financial markets; and recommended more investments in ICT innovations and adoptions for greater regional and continental co-operations and possible integration into global settings.

Key words: *ICT adoption, Stock exchange markets, Financial markets, Gompertz curve, Disaggregated functional models.* JEL Classification: C12, C13, C23, D53, E43, G23, O55,

1. INTRODUCTION

Studies and experience have shown that information and communication technology (ICT) has tremendously affected innumerable aspects of human

lives, activities and interactions in the last few decades. In the economic, business and financial world, it has been shown that ICT has specifically affected financial markets the world over, including Africa. However, available studies on ICT in relation to stock market development, especially in the past five years, have concentrated on the developed economies, leading and emerging markets as well as high-income economies of the world. Relatively therefore, only a few studies have been on Nigeria and other developing economies (Hossein et al., 2013; Ezirim et al. 2009; and Ngassam and Gani, n.d.). Obviously, the studies have not placed particular emphasis on ICT in relation to transaction capacities of the Nigerian Stock Exchange (NSE), the Johannesburg Stock Exchange (JSE) or any other leading stock exchanges in the African continent. Available literature suggests non-considerable volume of studies yet on ICT and stock market development for South Africa.

Moreover, significant research efforts at investigating the relevance of financial markets in general and stock markets in particular to the growth and development of many developed, emerging and developing economies have focused on the linkage path between capital market development and economic growth. These include Kumar and Vu (2014), Shahram (2014), Saeed (2013), Vincenzo (2013), Lawal and Okunola (2012), Osisanwo and Atanda (2012), Obiakor and Okwu (2011), Francesco (2011), Zagorchev et al. (2011) and Donwa and Odia (2010). Efforts have also been expanded to study the role of ICT in cross-border trade of tangible goods, regional cooperation and integration of exchanges as well as banks' operations and financial performance (Adesola, Moradeyo and Oyeniya, 2013; Farid, 2013; Onwe, 2013; Benkraiem and Miloudi, 2012; Adejola, 2011; Mihasonirina and Kangni, 2011; Bankole et al., 2010). Similarly, some researchers have examined ICT in relation to corporate governance, financial information communication, internationalisation flows, investor news valuation as well as socio-economic development (Oyelere and Kuruppu, 2012; Fernandez et al., 2011; Donwa and Odia, 2010; Lattemann, 2005). However, there have not been substantial inquiries to determine the impact of ICT on the transaction capacities of the capital markets, which form the basis of stock market influences on the various indices of research interests in the previous studies particularly in Africa.

To allude to the importance of ICT in transaction capacities of stock exchanges in Eastern and Southern Africa, Irving (2005) noted that closer cooperation and, at a later stage, integration would improve the liquidity, efficiency and competitiveness when anchored on cross-border listings, technology and information sharing.

Available literature also indicates that while studies on ICT in relation to macroeconomic indicators have concentrated on economic growth, there has

been little consideration for the stock market which is the pivot of capital market in driving the process of economic growth and development. Perhaps, this explains the literature dearth on the impact of ICT on transaction capacities of African stock markets in general and the stock markets of the continent's first and second largest economies, Nigeria and South Africa, in particular. Further, while available studies on Nigerian and South African financial markets have tilted toward the banking industry, few have been on Nigeria's Stock Exchange (NSE) market and, perhaps, none yet on the South Africa's Johannesburg Stock Exchange (JSE) market. This has provoked the curiosity and interest in this article to study the impact of ICT on the transaction capacities of the two exchanges, particularly for this transformation era in which regional cooperation and integration of stock exchanges and cross-border listing have become a driving force towards global integration and international competitiveness of financial markets.

Therefore, main thrust of this article is to establish the impact of information and communications technology (ICT) adoption on the transaction capacities of Nigerian and Johannesburg stock exchanges during the 1995 – 2014 periods and, thus, contribute to bridging the identified knowledge gap in the literature. The article identifies ICT uses and relevant metrics of stock market development. The approach is anchored on time series exploratory research design as a launch pad to stimulate further research interests for the NSE and JSE in particular and other African exchanges in general either on cross-sectional or comparative basis.

The article has five sections. Section two which comes after this introduction is the literature review. Section three discusses the methodology. Section four is data analysis and discussion, while section five is the conclusion and recommendations.

2. LITERATURE REVIEW AND SUMMARY OF BACKGROUNDS OF THE STOCK EXCHANGES

2.1 THEORETICAL REVIEW

Several studies have been done to test existing theories and to enhance the understanding of ICT diffusion, adoption, acceptance and usage (Yi et al., 2006; Venkatesh et al., 2003, Rogers, 2003). However, ICT adoption is of specific relevance to this article because it comprises innovation, acceptance and diffusion. On the other front, transaction capacities reflect the outcomes of ICT-driven stock market development, innovations and efficiency of the exchanges measured in terms relevant metrics of stock market performance.

The theoretical launch pad of this article is the Roger's (2003) model of innovation diffusion, which has found application in disciplines like sociology, communications, economics, marketing and technology. Some studies have used it to explain the technology innovation process (Oliver and Goerke, 2008; Tabata and Johnsrud, 2008). Moreover, Jayson (2009) critically examined the innovations diffusion theory and its relevance in developing nations.

In the theory, Rogers (2003; 11) explains diffusion as the "process by which innovation is communicated through certain channels over time among the members of a social system". Innovation is explained as "an idea, practice, or object that is perceived as new by an individual or other unit of adoption" (p. 12), and adoption as "a decision to make full use of an innovation as the best course of action available" (p. 473). Galvanising these concepts, the model explains diffusion as the process through which ideas, practices, or objects are communicate and adopted by members of a given setting. However, as a caveat, Rogers noted that various types of adopters will naturally emerge for any innovation; and that certain attributes influence the choice to adopt an innovation.

This article considers stock market operators, participants and other stakeholders to be among the adopters of technology innovation, adoption and use; and that efficiency and desire for optimal transaction capacities influence the choice to innovate, adopt and use ICT in stock market operations. This implies that the relevance of ICT for optimal stock market activities and outcome has prompted its adoption and acceptance. It has become a vital tool not only for industrial and marketing advantages, but also for effective policy measures to overcome existing and even increasing digital inequalities. To corroborate this, Parida et al. (2009) see ICT as an effective tool improved external communications and quality service delivery to customers [clients].

2.2 EMPIRICAL REVIEW

While some researchers have studied information and communication technology (ICT) in relation to stock market development and performance, especially in the developed and emerging economies, much more studies have investigated ICT in relation to economic growth and some other aspects of socio-economic development. Thus, it is not out of place to note that ICT has been studied in relation to various aspects of human activity. Available literature suggests that the effects of ICT on stock market development and performance are yet to be well researched and documented for Africa. Most of the studies have been on developed countries, high-income economies and emerging markets outside of Africa (Hosseini et al., 2013; Oyelere and Kuruppu, 2012; Bhunia, 2011; Fernandez et al., 2011; Yartey, 2006; Lattemann, 2005;

Ngassam and Gani, n.d.). The studies have concentrated on ICT, economic growth and related macroeconomic variables (Kumar and Vu, 2014; Shahram, 2014; Vincenzo, 2013; Benkraiem and Miloudi, 2012; Dahl and Kongsted, 2011; Farhadi and Famah, 2011; Martinez and Rodriguez, 2009; Sophia and Sotiris, 2009; Choi and Cook, 2005).

Similarly, available studies for Nigeria and few other African countries have mainly been on ICT in relation to economic growth and development, trade, financial inclusion, other macroeconomic indicators, regional cooperation and integration, and banking sector performance as well as other financial variables (Binuyo and Aregbesola, 2014; Adesola et al., 2013; Mihasonirina and Kangni, 2011). Also, research efforts have been on stock or capital market in relation to these variables (Kolapo and Adaramola, 2012; Obiakor and Okwu, 2011; Donwa and Odia, 2010). Obviously, related studies have been scanty for South Africa. Available literature also suggests that ICT in relation to capital markets in general and stock exchanges in particular have been sparingly studied for the African continent. And more of the few studies have been on Nigeria relative to South Africa and other African countries (Farid, 2013; Ezirim et al., 2009; Irving 2005). This leaves a knowledge gap on the relevance of ICT to operations of African capital markets in general and stock exchanges in particular.

Lattemann (2005) investigated the actual penetration of ICT into 'external' corporate governance of publicly listed companies in Germany. With the tools of descriptive statistics and Capital Asset Pricing Model (CAPM)-based regression analysis, the study found a negative correlation between ICT usage and stock market returns. Yartey (2006) employed panel data for 76 advanced and emerging countries to examine the role of financial development structure in explaining cross-country diffusion of ICT during the 1990-2003 periods. The study found that credit and stock market development tend to foster ICT development, but financial structure does not appear to have any significant relationship with ICT development. Thus, the study concluded that financial development is an important determinant of ICT development. In France, Benkraiem and Miloudi (2012) employed descriptive analysis and OLS pooled multiple regression models to study access to banking finance by ICT small businesses. They found that the ICT businesses had difficulties in accessing bank debt to finance further ICT investment assets.

In their study, Choi and Cook (2005) documented a steep drop in the liquidity of Japanese stock market in the post-bubble period and a steep rise in liquidity risk. They found also that aggregate liquidity had macroeconomic effects on aggregate demand through its effect on money demand. The study employed methods of descriptive statistics and vector autoregression on time

series market variables via ordinary least squares to consider stock market liquidity and liquidity shocks.

Fernandez, Callen and Gadea (2011) investigated investors' valuation of non-financial corporate news items issued by European companies in the ICT industry. They also analysed stock reaction to the publication of press releases on a sample of 145 firms during 2003 – 2005. Based on relevant variables in a multivariate regression model, they found that investors react positively to information relating to firms' capacity to consolidate positions, diversify and grow, but negatively to information about new product launches and upgrades. Also, while investors in companies with strong market position and growth prospects value highly information on takeovers and internalisations, those in low-performing companies value news of disposal and distribution alliances. Bhunia (2011) examined the impact of ICT on the growth of Indian Stock Exchange (ISE) for the proposition that capital markets have become excessively volatile since the adoption of computer-assisted trading strategies. With relevant ICT adoption and capital market data, the study found that, though the ISE remains thin relative to more developed markets, ICT adoption has significant effects on most of the stock market indicators, such as capitalization, value of shares traded, turnover ratio, liquidity and number of stock-brokers. Similarly, Oyelere and Kuruppu (2012) enquired into the use of ICT as a channel for voluntary communication of financial information by companies listed on the United Arab Emirates (UAE). They investigated the extent and variety of Internet financial reporting (IFR) by the companies and found that, though IFR is still at an embryonic stage, a greater proportion of the companies use their websites to disseminate financial information. The findings also revealed that the UAE has lower level of IFR relative to the western countries.

Hossein et al. (2013) used the techniques of correlation and regression to study how ICT adoption has affected stock market development in world's leading capital markets. The study showed that market capitalisation, turnover ratio and value of shares traded have direct relationship with the ICT adoption components, but found no relationship between ease of access to local markets and ICT adoption. On the aggregate, however, metrics of ICT adoption in the study exerted significant impact on stock market development. In a similar, Ngassam and Gani (n.d.) explored the links between ICT and stock market development in emerging markets and high-income economies. They considered relevant proxies for ICT adoption and stock market development in least squares multiple regression model. The study found that personal computers and Internet hosts have strong effects on stock market development. It also found that credit to private sector and market capitalization exerted significant positive effects on stock market development.

Sophia and Sotiris (2009) investigated the outcomes of FDI and ICT on productivity growth in 42 developing and developed countries during the 1993-2001 periods. Based on descriptive statistics and panel regression model, the study found that the growth contribution of ICT was quite high in both developing and developed countries, while contribution of FDI was relatively low. The impact of ICT was significant positive in all groups, with larger effects among the developing countries. FDI exerted significant positive effects in the developed countries, but insignificant positive effects in the developing countries. The variables of interest were domestic capital and labour, foreign capital and ICT. In a related study, Martinez and Rodriguez (2009) used disaggregated time series approach to examine ICT in relation economic growth and labour productivity in Andalucia, Spain. With hardware and software communication equipment, and such non-ICT assets as transport equipment, buildings and other structures, machinery and others, and gross value added. The study found that while ICT assets moderately improved total market gross value-added growth, they did not significantly improve value-added growth of ICT-intensive sectors.

For newly industrialised countries of Brazil, Russia, India and China (BRIC), Organisation for Economic Cooperation and Development (OECD), and Association of Southeastern Asian Nations (ASEAN), Farhadi and Famah (2011) used panel data in endogenous production growth model to study the external effects of ICT on economic growth during the years 1990-2008. The data are GDP per capita as proxy for economic growth, ICT investment, physical capital, human capital or labour, FDI and trade openness as proxies for ICT adoption, and relevant control variables. They found ICT to have statistically significant effects on GDP growth of the countries collectively and individually. In a related study, Dahl and Kongsted (2011) showed that ICT has significant positive effect on productivity in post-1995 Europe. They used econometric panel regression analysis and data on gross output, value added, ICT capital, non-ICT capital, labour hour, employment, intermediate inputs and total factor productivity. On the basis of EU KLEMS Database, Vincenzo (2013) used econometric model of production function to study the contribution of ICT investments to total factor productivity (TFP) growth in 18 OECD countries for the period 1995-2007. The study examined the entire business sector (26 industries) of the economies, and found variations in the contributions of the ICT components to value added growth. The analysis showed that in most of the countries, computing equipment yielded more than 50% of the entire ICT contribution.

Kumar and Vu (2014) used the methods of descriptive statistics, autoregressive distributed lag (ARDL) bounds procedure and Granger causality to study the short- and long-run effects of ICT, as well as the direction of causality

between ICT, remittances and output per worker in Vietnam from 1980 to 2012. Other variables of interest are FDI, official development assistance (ODA), merchandised exports, commercial services exports, migrants and Internet users. The findings were: ICT exerted momentous short- and long-run effects on per worker output, insignificant positive elasticity coefficient of remittances in the long-run, bidirectional causation between remittances and output per worker, and mixed effects in the short-run effects. Similarly, Shahram (2014) employed historical descriptive analysis methodology to examine the association between ICT diffusion and economic growth Russia. The study considered per capita GDP, proportion of the population using the Internet and telephone, investment in ICT and components. The findings revealed emergence of new industries owing to ICT spread.

Mihasonirina and Kangni (2011) employed standardised growth model and system Generalised Method of Moment (GMM) estimator to analysed the impact of ICT development, particularly mobile phone rollout, on financial inclusion and economic growth in a sample of African countries for the 1988-2007 periods. They found that ICT development contributes to economic growth in the Continent, and that financial inclusion is a transmission channel from mobile phones to growth.

Adesola et al. (2013) used regression analysis technique to investigate the impact of ICT on operations of Nigerian banks. Considering speed of operations, efficiency in service delivery, workers' performance and banks' profit levels, they found that ICT usage has made significant contributions. It is interesting to note that the finding of significant positive contribution to profit levels in Adesola et al. (2013) contradicts that of Adejola (2011). Perhaps, this could be explained in terms of ICT improving banks' profitability over time given the different study periods. In a related study, Binuyo and Aregbesola (2014) used dynamic panel and orthogonal transformation method to examine the impact of ICT on performance of commercial banks in South Africa during the 1990-2012 periods. They found that ICT use increases return on capital employed and return on assets of the banks. The finding supports the study by Adesola et al. (2013) on Nigerian banks and thus, validates the suggestion that ICT enhances banks' performance over time.

Via OLS multiple regression analysis, Donwa and Odia (2010) analysed the impact of the Nigerian capital [stock] market on socio-economic development for 1981-2008 periods, and found that the market significantly improved economic growth but moderately explained growth dimensions during the period. Partial effects of the market indicators on socio-economic development of the country were mixed. They considered gross domestic product (GDP), market capitalisation, total new issues, transactions volume, total listings and government stock. In their study, Obiakor and Okwu (2011) employed multi-

ple regression analysis methodology on relevant capital market development and economic growth indicators to analyse the impact of the former on the latter in Nigeria for the period 1981-2008 period. They showed that while market capitalization, gross capital formation, and foreign direct investment have significant positive impacts on economic growth, the impact of traded shares values was positive but not significant.

Kolapo and Adaramola (2012) studied the impact of Nigerian capital market on economic development from 1990 to 2010. Regarding stock market as the impetus for growth and development, they used GDP as proxy for economic growth, and market capitalisation, total new issues, value of transactions, total listed equities and government stocks as metrics of capital market. Having validated data sets on the time series variables via appropriate diagnostic tests, they found that capital market and economic growth are co-integrated and that a long-run relationship exists between capital market and economic growth variables. They found bi-directional causation between GDP and value of transactions, but a unidirectional causality from market capitalisation to GDP and not vice versa. They also found independence “no causation” between GDP and total new issues as well as GDP and listed equities and government stocks. Therefore, they concluded that capital market activities have positive impact on the economy.

Ezirim et al. (2009) employed a modified version of Gompertz technology diffusion model introduced by Chow (1983) to examine the effects of ICT on the growth and development of capital market in Nigeria between 1998 and 2007. They found that ICT significantly affect market capitalization growth as well as volume and value of shares traded. But ICT does not have significant effect on number of listings and government bonds. A similar study by Farid (2013) attempted to ascertain the possibility of African stock markets to improve informational efficiency via common platform-based operations. The study used the method of Generalised Method of Moments (GMM) for panel data analysis and relevant capital market and macroeconomic indicators. The findings showed that institutional deficiencies and openness to trade have negative impact on economic growth. Financial market integration so far executed is still not sufficient to reflect in the data sets owing probably to the short-term maturity concentration of the financial instruments. Moreover, African economies that were more open to international capital flows do not seem to grow faster than the rest, thereby leading to a number of empirical questions.

2.3 BRIEF SUMMARY OF BACKGROUNDS OF THE STOCK EXCHANGES

2.3.1 Nigerian Stock Exchange (NSE)

The Nigerian Stock Exchange (NSE) was founded in 1960 as the Lagos Stock Exchange (LSE), became the NSE in 1977. Effectively, the NSE/LSE commenced operations in 1961 with 19 securities listed for trading. The NSE has a head office (Lagos, 1961) and several branches in major cities in Nigeria, and each branch has a trading floor. The NSE creates a market place for companies to raise equity capital, and for shareholders to trade on existing stocks. The NSE and relevant media outfits publish market-related data of listed companies on regular basis - daily, weekly, monthly, quarterly and annually. The NSE is licensed under the Investments and Securities Act (ISA), and is registered and regulated by the Securities and Exchange Commission (SEC) of Nigeria. It is a founding member and executive committee member of the African Securities Exchange Association (ASEA), a member of the Intermarket Surveillance Group (ISG), affiliate member of the World Federation of Exchanges (WFE) and International Organisation of Securities Commissions (IOSCO). It officers market data, disseminates services, market indices, and ancillary technology services amongst others. The NSE also offers electronic clearing, settlement and delivery (CSD) services through Central Securities Clearing System (CSCS), which is one of its associates. Over the years, the NSE has undertaken several ICT-driven reforms as well as developments. As at end-2014, the NSE had over 250 listed securities and 223 active brokers. It brings together the best of African enterprises, the local and global investor communities in its efforts to champion the acceleration of Africa's economic development, and become "the Gateway to African Markets (NSE, 2014: Sustainable Stock Exchange (SSE) Initiatives ((<http://www.sseinitiative.org/fact-sheet/nigse/> accessed on June 26, 2015). The NSE is the second largest exchange in Africa.

2.3.2 Johannesburg Stock Exchange (JSE)

The discovery of gold on the Witwatersrand in 1886 led to the opening of many mining and financial companies; and the need for a stock exchange. Subsequently, The JSE was established on 8 November 1887 from the Johannesburg Exchange & Chambers Company owned by a London Businessman, Benjamin Minors Woollan. By 1963, the JSE became a member of the Federation International Bourses de Valeurs (FIBV). It became an active member of the African Stock Exchanges Association in 1993. It officially became JSE Securities Exchange in September 2000. In 2001, the JSE reached an agreement with the London Stock Exchange (LSE) which enabled it to replace its trading system with that of the LSE. On 18 June 2012, the JSE became a founding member of

the United Nations Sustainable Stock Exchanges initiative on the eve of the United Nations Conference on Sustainable Development (Rio+20). Over the years, the JSE has undertaken several ICT-driven reforms as well as developments. On 14 April 2014, the JSE re-branded to demonstrate the bourse's identity as a modern African marketplace that connects investors to growth opportunities not only in South Africa but globally. As at end-2014, the JSE had over 472 listed companies and a market capitalisation of US\$182.6 billion. The JSE is the largest stock exchange in Africa (https://wikipedia.org/wiki/JSE_Limited; accessed on 26 June 2015).

3. METHODOLOGY

3.1 DESIGN, DATA AND SOURCES

The paper employed panel data on exploratory perspective. This is because, as seen in the review of previous empirical studies, there have been no such insights for the Africa's leading exchanges either on comparative or cross-sectional basis. The article is expected to stimulate further empirical inquiries into this and other areas of financial markets in Africa. The study took into cognisance the influences of relevant professional bodies, monetary and regulatory authorities as the capital market moderators in both countries. The study considered stock market development in terms of relevant metrics of ICT adoption and, subsequently, evaluated the effects on transactions capacity of the stock exchanges.

Data used in this study are subset of the ICT ecosystem identified by Perin and Pouillot (2013). The ICT indices are Number of Personal Computers (NPCs) per 100 people, Number of Internet Users (NIUs) per 100 people, Number of Mobile Telephone Subscriptions (NMTSs) per 100 people and Number of Fixed Telephone Subscriptions (NFTSs) per 100 people. The control variables are commercial banks' deposit and lending rates (CBDR and CBLR), and domestic credit relative to size of the economy (RDCPS); i.e. domestic credit to the private sector as a share of gross domestic product (GDP). Metrics of transaction capacities for the stock exchange markets are Stock Market Capitalisation (SMCP), Value of Shares Traded (VSTR), Stock Market Turnover Ratio (SMTR) and Stock Market Liquidity (SMLQ). Stock market turnover ratio (SMTR) and Stock market liquidity (SMLQ) are respectively considered in terms of value of shares traded relative to market capitalisation (World Bank, 2008) and near cash or money as a share of GDP (World Bank, 2008).

Some of these ICT adoption and stock market indices have been used in previous studies (Hossein et al., 2013; Bhunia, 2011; Obiakor and Okwu, 2011;

Ezirim et al., 2009; Choi and Cook, 2005;) while others are derived (own computations) for this article. The data used in this article were originally sourced from World Bank's publications: World Development Indicators (various years), World Development Report (2005, 2001), World Bank Annual Report (2014), African Development Indicators (2007), World Bank's World Development Report (various years).

The data from World Bank databases were sourced during June 2015, and mainly via <http://data.worldbank.org/indicator./FR.INR.LEND/countries> and <https://databank.worldbank.org/data/reports.aspx?>

3.2 HYPOTHESES

From a position of neutrality, the following relationships and effects were hypothesised and tested at the 5% level of significance:

H_01 : Adoption of ICT has not significantly affected capitalisation of the stock exchange markets.

H_02 : ICT adoption has not significantly affected the values of shares traded on the exchanges.

H_03 : Adoption of ICT has not significantly enhanced turnover ratio of the stock exchange markets.

H_04 : Adoption of ICT has not significantly enhanced liquidity of the stock exchange markets.

3.3 ANALYTICAL MODELS

This article adapts the Chow's (1967, 1983) technology diffusion model modified by Rogers (2003). Based on the assumption that technology usage tends to an equilibrium level over time along an S-shaped path, the model is specified as: $\log h_{i,t} - \log h_{i,t-1} = q_i [\log h^*_i - \log h_{i,t-1}]$

where $h_{i,t}$ is ICT use in country [stock market exchange] i in period t , $h_{i,t-1}$ is ICT use in country [stock market exchange] i in the preceding period, $t-1$, h^*_i is post-diffusion [adoption] equilibrium level in country [stock market exchange] i , and q_i is the speed of adjustment in country [stock market exchange] i .

In the model, ICT is the explained variable and factors that cause changes in ICT level are the explanatory variables. Thus, the model considers ICT usage in relation to the determinants of extent of usage. But in this article, ICT adoption is the explanatory variable while the measures of transaction activities of the stock exchanges constitute the explained variable. This necessitated the need to adapt or modify the model in line with the data sets and study thrust. For convenience, we replaced h and q with Y and Z respectively. Thus, the model becomes:

$$\log Y_{i,t} - \log Y_{i,t-1} = Z_i[\log Y^*_i - \log Y_{i,t-1}] \quad (1)$$

where Y_i is ICT adoption in stock market exchange i in time period t , $Y_{i,t-1}$ is ICT adoption in stock market exchange i in the preceding time period, $t-1$, Y^*_i is post-ICT adoption optimal transaction capacity for stock exchange i and Z_i is the speed of adjustment to optimal transaction capacity in stock exchange i .

Subsequently, we juxtaposed the metrics of ICT and transaction capacities as the explanatory and explained variables respectively, and introduced an autonomous component, Φ_0 , and a stochastic term, μ , such that we obtained a variant of the model as:

$$\log TC_{i,t} - \log TC_{i,t-1} = \Phi_0 + \Phi_1 ICT_{Adp,t} + \mu \quad (2)$$

where $\log TC_{i,t} - \log TC_{i,t-1}$ depicts of transaction capacities dynamics responding to ICT adoption in the respective exchanges. ICT_{Adp} encompasses the metrics of ICT adoption in the exchanges. Φ_0 , autonomous component, is extent of transaction capacity without ICT adoption. Φ_1 encompasses the interactions (effects) of ICT adoption on transaction capacities. It measures the magnitude and direction of the effects of ICT innovations and adoption on transaction capacities of the stock exchanges. Thus, it shows the measure of responsiveness or sensitivity coefficient of transaction capacities to a given change in ICT innovations and adoption in the exchanges. μ , the stochastic variable, depicts exogenous influences.

Given a dynamic environment such that changes in ICT adoption and the control variables induce changes in transaction capacities, equation (2) becomes:

$$\Delta TC_{k,jt} = \Delta[\Phi_0 + \Phi_{k,jt} \sum_{j=1}^{n=4} ICT_{Adp_{k,jt}} + \alpha_{k,jt} \sum_{j=1}^{m=3} Z_{k,jt} + \varepsilon] \quad (3)$$

Since the autonomous component, Φ_0 , is constant while the sensitivity coefficients, Φ_j and β_j are not constant over time, and given the assumption of constant variance characteristic for ε , equation (3) becomes:

$$\Delta TC_{k,jt} = \Phi_0 + \Phi_{k,jt} \Delta \sum_{j=1}^{n=4} ICT_{Adp_{k,jt}} + \alpha_{k,jt} \Delta \sum_{j=1}^{m=3} Z_{k,jt} + \varepsilon \quad (4)$$

where $\Delta TC_{k,jt}$ is change in transaction capacities of the stock exchange markets, $\Delta \sum_{j=1}^{n=4} ICT_{Adp_{k,jt}}$ and $\Delta \sum_{j=1}^{m=3} Z_{k,jt}$ are the matrices of the respective aggregate changes in ICT adoption and the control variables, $\Phi_{k,j}$ and $\alpha_{k,j}$ are the respective sensitivity coefficients for market k over time period t given variables j (identifier descriptors), Φ_0 is the intercept or autonomous component of the model, and ε is the error term.

This implies that the predicted change in transaction capacity depends on changes in the aggregate ICT adoption indices and the control variables over time plus its long-run mean, which is depicted in Φ_0 , plus the stochastic term ε . Essentially, some steps of the model transformation into composite model contained our own contributions to the previous version. Therefore, as we substituted TC for the transaction capacities and assumed a static model since the data sets corresponded to specific points in time, equation (4) translates to a composite model (equation 5 below) of the relationship between ICT adoption and transaction capacities of the stock exchange markets, which we disaggregated and employed for analysis in this article:

$$TC_{k,jt} = \Phi_0 + \Phi_{kjt} \sum_{j=1}^{n=4} ICT_{Adp_{k,jt}} + \alpha_{k,jt} \sum_{j=1}^{m=3} Z_{k,jt} + \varepsilon \tag{5}$$

Thus, to determine the partial and collective effects of the ICT and control variables on the respective measures of transaction capacities of the stock exchange markets within a panel data environment, we disaggregated equation 5 into the following models:

$$SMCP_{j,t} = \beta_0 + \beta_1 NPCs_{j,t} + \beta_2 NIUs_{j,t} + \beta_3 NMTSs_{j,t} + \beta_4 NFTSs_{j,t} + \beta_5 CBLR_{j,t} + \beta_6 CBDR_{j,t} + \beta_7 RDCPS_{j,t} + \beta_{1,t} \tag{Model 1}$$

$$VSTR_{j,t} = \lambda_0 + \lambda_1 NPCs_{j,t} + \lambda_2 NIUs_{j,t} + \lambda_3 NMTSs_{j,t} + \lambda_4 NFTSs_{j,t} + \lambda_5 CBLR_{j,t} + \lambda_6 CBDR_{j,t} + \lambda_7 RDCPS_{j,t} + \lambda_{2,t} \tag{Model 2}$$

$$SMTR_{j,t} = \pi_0 + \pi_1 NPCs_{j,t} + \pi_2 NIUs_{j,t} + \pi_3 NMTSs_{j,t} + \pi_4 NFTSs_{j,t} + \pi_5 CBLR_{j,t} + \pi_6 CBDR_{j,t} + \pi_7 RDCPS_{j,t} + \pi_{3,t} \tag{Model 3}$$

$$SMLQ_{j,t} = \theta_0 + \theta_1 NPCs_{j,t} + \theta_2 NIUs_{j,t} + \theta_3 NMTSs_{j,t} + \theta_4 NFTSs_{j,t} + \theta_5 CBLR_{j,t} + \theta_6 CBDR_{j,t} + \theta_7 RDCPS_{j,t} + \theta_{4,t} \tag{Model 4}$$

where SMCP, VSTR, SMTR and SMLQ are components of $TC_{k,jt}$ while NPCs, NIUs, NMTSs, NFTSs are ICT adoption variables, and CBLR, CBDR and RDCPS are control variables. The variables are as defined earlier. The subscripts k , t , and j are the identifier descriptors for the respective stock exchange markets in the time periods and variables. β_0 , λ_0 , π_0 and q_0 are the intercepts of the respective models. Each is autonomous; i.e., neither dependent on the ICT indices nor the control variables. The coefficients β_i , λ_i , π_i and q_i ($i = 1, 2, 3, 4$ and $5, 6, 7$) measure the respective size and direction of effects of the ICT metrics and control variables on $TC_{k,t}$. ε_t ($t = 1, 2, 3, 4$) are fitted residuals to accommodate disturbances or deviations from line of best fit for the respective models.

The indices of $TC_{k,it}$ are expected to change in the same direction with signs of the coefficients of the ICT variables and RDCPS but change in the opposite direction with the coefficients of the control variable, CBLR. The $TC_{k,it}$ measures are expected to correlate positively or negatively with the sign of the coefficient of CBDR, depending on investors' desire to divest from shares to deposit income as a result of attractive deposit rates. These imply that transaction capacities are expected to increase when more domestic credit, relative to the size of the economy, is available to the investing private sector, and vice versa. On the other hand, transaction capacities are expected to decrease with either increase in CBLR or CBDR or both, owing to the inverse relationship between bank rate and stock market rate. Further, attractive deposit rates will induce investors to sell off share stocks, with the likely consequence of reduction in share prices owing to increased supply of share stocks to the markets, and ultimately a decrease in aggregate value of shares traded. The underlying assumption here is a positive real interest rate, i.e., inflation rate being less than both bank and stock market return rates.

Some previous studies have disaggregated and employed similar models in previous studies (Okwu, 2015; Adesola et al., 2013; Bhunia et al., 2011; Obiakor and Okwu, 2011; Ezirim, 2009; Choi and Cook, 2005).

4. RESULTS AND DISCUSSIONS

Table 1: Partial Correlation Coefficients

	NPCs	NIUs	NMTSs	NFTSs	CBLR	CBDR	RDCPS	SMCP	SMLQ	SMTR	VSTR
NPCs	1.0000										
NIUs	0.3052	1.0000									
NMTSs	0.6804	0.8367	1.0000								
NFTSs	0.2120	-0.0667	-0.0522	1.0000							
CBLR	-0.7764	-0.6249	-0.8579	-0.0863	1.0000						
CBDR	-0.4419	-0.6835	-0.7476	0.0783	0.8478	1.0000					
RDCPS	0.8850	0.1938	0.5326	0.4004	-0.6867	-0.3841	1.0000				
SMCP	0.8867	0.4267	0.7991	0.0985	-0.8146	-0.5384	0.7947	1.0000			
SMLQ	0.7276	0.2553	0.7021	0.1132	-0.7666	-0.4750	0.8291	0.8000	1.0000		
SMTR	0.8722	0.2867	0.6635	0.2702	-0.7213	-0.4008	0.7810	0.7265	0.8873	1.0000	
VSTR	0.8781	0.4140	0.8271	0.0567	-0.7965	-0.5293	0.7382	0.8410	0.8416	0.8433	1.0000

Source: Own Computations using EViews8

Matrix of partial correlation coefficients was used to diagnose the data series for multicollinearity problem. The results in Table 1 below showed the variables were not highly linearly since none of the partial correlation coefficients exceeded 0.95 (Agung, 2009; Iyoha, 2004) or 0.80 when squared (Ken-

nedy, 2008). Therefore, the data series were considered adequate and suitable for regression analysis and investigation of causal effects.

Table 2: Empirical Analysis of the ICT-Capital Markets Relationships

Method: Panel Least squares Sample: 1 40 Included observations: 40

	Model 1	Model 2	Model 3	Model 4
	Dept. Var: Log(SMCP)	Dept. Var: Log(VSTR)	Dept. Var: Log(SMTR)	Dept. Var: Log(SMLQ)
ICT Indices	Effect (β_i)	Effect (λ_i)	Effect (π_i)	Effect (θ_i)
NPCs	0.2011 (0.1329)	0.8015 (0.4018)	0.1704 (0.1005)	1.4876 (0.3264)**
NIUs	0.0297 (0.0259)	-0.4097 (0.2204)	-0.0111 (0.0196)	-0.0475 (0.0262)
NMTSs	0.0030 (0.0123)	0.7657 (0.2408)**	0.0091 (0.0093)	-0.0080 (0.0121)
NFTSs	-0.0034 (0.0549)	0.0286 (0.0643)	0.0376 (0.0415)	-0.0117 (0.0555)
CBLR	-0.1126 (0.340)	-2.6474 (1.1151)**	0.0658 (1.3974)	-2.5564 (1.8020)
CBDR	0.4735 (1.8486)	1.3111 (0.7062)	0.2228 (0.7428)	0.7037 (1.0062)
RDCPS	0.7905 (0.3400)**	0.4238 (0.3387)	0.0666 (0.2570)	0.0001 (0.0055)
	Adjst. R ² = 0.8045 F-stat = 23.9315** DW-Stat = 1.8133	Adjst. R ² = 0.8176 F-stat = 59.5542** DW-Stat = 1.7887	Adjst. R ² = 0.6455 F-stat = 11.1429** DW-Stat = 1.8397	Adjst. R ² = 0.8277 F-stat = 34.99** DW-Stat = 1.8477

Standard errors are enclosed in parentheses. **Significant at 5%; p-value < 0.05.

Source: Own Computations using EViews8

4.1 EFFECTS ON CAPITALISATION OF THE STOCK EXCHANGE MARKETS

As shown in Table 2, estimates of Model 1 showed that the ownership of personal computers and the use of the Internet and mobile telephone subscriptions had positive and significant relationships with market capitalisation of the stock exchanges while fixed telephone lines subscriptions was negatively signed and statistically insignificant. Personal computers, the use of the Internet and mobile telephone subscriptions had positive but not significant effects on the market capitalisation of the stock exchanges while fixed telephone subscriptions had negative and insignificant effect. These were evidenced by the positive but not significant coefficients of NPCs, NIUs and NMTSs, respectively; and the insignificant negative coefficient of NFTSs. The positive relationship of market capitalisation with these ICT indices lends credence to the find-

ing by Hossein et al. (2013) that, for the world's leading capital markets, market capitalisation has direct relationship with ICT adoption. Also, the significant effects are in line with findings by Ezirim et al. (2009) and Ngassam and Gani (n.d) that ICT adoption has strong effects on stock market development in the emerging markets and high-income economies. However, the insignificant effects are contrary to the findings by Bhunia (2011) that of ICT adoption has significant effects on the stock market indicators in the Indian Stock Exchange. Similarly, while commercial banks' lending rates showed insignificant negative effects, the effects of deposit rates, though positive, were also not significant. The Coefficients of NFTSs and CBDR did not have the expected positive and negative signs, unlike the coefficients of CBLR and RDCPS. The insignificant coefficients of CBLR and CBDR suggested that commercial banks' lending and deposits rates, respectively, were not significantly relevant to the market capitalisation of the stock exchanges. On the other hand, the positive and significant coefficient of RDCPS suggested that domestic credit, relative to the size of the economy, significantly affected market capitalisation of the stock exchanges during the study period. The F-statistic value of 23.9315 shows that, at the conventional 5% level of significance, overall effect of the causal variables on the response variable was significant. This supports the findings by Hussein et al. (2013), Ezirim et al. (2009). Therefore, the hypothesis, H_01 , which stated that adoption of ICT had not significantly affected capitalisation of the stock exchange markets was rejected. As indicated by adjusted R^2 value of 0.8045, the causal variables in the model explained approximately 80% of the total variations in the response variable, with approximately 20% variations not explained. Hence, the model was a good fit. The DW-stat of 1.8133 showed that the variables had no serial autocorrelation problem.

4.2 EFFECTS ON VALUE OF SHARES TRADED ON THE STOCK EXCHANGE MARKETS

Estimates of Model 2, as shown in Table 2, revealed that ownership of personal computers and fixed telephone lines subscriptions had positive but not significant relationships with share values traded on the stock exchange markets while mobile telephone subscriptions had significant positive relationship with the share values. This is consistent with the findings by Hossein et al. (2013), Bhunia (2011), Ezirim et al. (2009) and Ngassam and Gani (n.d), However, the use of the Internet had a negative but not significant relationship with the share values traded on the stock exchange markets during the study period. The evidences are shown by the statistically insignificant coefficients of NPCs, NIUs and NFTSs, and the statistically significant coefficient of NMTSs, respectively. The coefficients of NPCs, NMTSs and NFTSs had the expected

signs, while the sign of the coefficient of NIUs was contrary to pre-estimation expectation. This suffices to say that while the effect of mobile telephone subscriptions on the value of shares traded on the stock exchange markets during the period under study was significant, the effects of personal computers ownership, the use of the Internet and fixed telephone subscriptions were not significant. Further, the effect of CBLR was negative and significant while the effects of CBDR and RDCPS were positive but insignificant. The coefficients of CBLR, CBDR and RDCPS had the expected signs. These showed that commercial banks' lending rates had significant relationship with value of shares traded on the stock exchanges, deposit rates and domestic credit relative to the size of the economy did not have significant relationship with the share values traded. Therefore, deposit rates and credit to the private sector relative to the size of the economy were not significantly relevant to value of shares traded on the stock exchange markets during the study period. The independent variables in Model 3 jointly exerted statistically significant effect on the dependent as evidenced by the F-stat value of 59.5542. Consequently hypothesis H_02 , which stated that ICT adoption had not statistically affected values of shares traded on the stock exchange markets, was not validated. Similarly, the adjusted R^2 value of 0.8176 provided empirical evidence that Model 3 was a good fit since the independent variables explained approximately 82% of the total variations in the dependent variable, with unexplained variations of about 18%. The DW-stat value of 1.7887 provided empirical proof that the regressors were free from serial autocorrelation problem.

4.3 EFFECTS TURNOVER RATIO OF THE STOCK EXCHANGE MARKETS

As shown in Table 2, the estimates of Model 3 revealed that personal computers, mobile and fixed telephone subscriptions had positive but insignificant relationships with market turnover ratio (SMTR) of the stock market exchanges while the use of the Internet had negative and insignificant relationship with the turnover ratio. These are evidenced by the positive coefficients of NPCs, NMTSs and NFTSs, and negative coefficient of NIUs which are consistent with pre-estimation expectations, except for NIUs. These showed that, in isolation, none of the ICT indices had significant effect on the turnover ratio of the stock market exchanges during the study periods. Positive relationship of the ICT variables with stock market turnover ratio supports the findings by Hossein et al. (2013) but does not support the significant effects found by Bhunia (2011) and strong the strong effects in the study by Ngassam and Gani (n.d). Though the turnover ratio had positive relationships control variables, none of the variables had significant effect on market turnover ratio. This indicates that, on their individual merits, the control variables were not significant determinants of turnover ratio

of the exchange markets. The coefficients of the control variables (CBDR and RDCPS) were consistent with expectations, except for commercial banks' lending rates, CBLR. However, as indicated by F-stat value of 11.1429, the ICT indices and control metrics in Model 4 jointly exerted a statistically significant effect on turnover ratio of the stock exchange markets. As a result, the third hypothesis, H_{03} , was also not valid and, hence, was rejected. The Model exhibited a high explanatory power as indicated by the adjusted R^2 value of 0.6455. This means that the ICT indices and causal variables accounted for approximately 65% variability in stock market turnover ratio during the study period. Further, the DW-stat value of 1.8397 provided empirical evidence that the causal variables were free from serial autocorrelation.

4.4 EFFECTS ON LIQUIDITY OF THE STOCK EXCHANGES MARKETS

Estimates of Model 4 showed that liquidity of the stock markets (SMLQ) had a positive relationship with possession of personal computers but negative relationships the other ICT variables. These were seen in the positive coefficient of NPCs but negative coefficients of NIUs, NMTSs and NFTSs, respectively. The estimates further showed that personal computers had significant positive effect on the liquidity of the stock exchange markets while the use of the Internet, mobile and fixed telephone subscriptions, respectively, had negative and insignificant effects. The coefficients of the control variables (CBLR, CBDR and RDCPS) were consistent with the pre-estimation expectations; but none had significant effect in isolation. On the aggregate, however, the regressors had statistically significant effect on liquidity of the stock exchange markets during the periods under study period as evidenced by the F-stat value of 34.99. The significant effect of ICT adoption on the liquidity of the stock exchange markets validates the finding by Bhunia (2011), Hosein et al. (2013), that ICT adoption has significant effects on the stock market indicators in the Indian Stock Exchange. Therefore, the fourth hypothesis, H_{04} , had no validity and, hence, was rejected. Also the power of the variables was high in explaining variations in liquidity of the stock exchange markets, as indicated by the adjusted R^2 value of 0.8277. This shows that the regressors explained approximately 83% of the total variations in market liquidity during the period, while about 17% was unexplained. Therefore, the Model is considered a good fit. The DW-stat value of 1.8477 provided evidence that the variables had no serial autocorrelation problem.

5. SUMMARY, CONCLUSION AND RECOMMENDATIONS

This paper has employed panel data and exploratory perspective to analyse the effects of ICT adoption on stock exchange markets, with specific focus

on the transaction capacities of Nigerian and Johannesburg Stock Exchange markets, which are the leading stock exchanges in the African continent. The paper found that the metrics of ICT adoption considered in the analysis (NPCs, NIUs, NMTSs and NFTSs) exerted heterogeneous effects on the transaction capacity measures (SMCP, VSTR, SMTR and SMLQ) of the stock exchanges. Specifically, results of the analysis showed that personal computers (NPCs) had positive effects on transaction capacities of the stock exchanges and that the effect on market liquidity (SMLQ) was significant. Contrary to pre-analysis expectations, the use of the Internet (NIUs) had negative effects on the transaction capacities measures, except for capitalisation (SMCP) of the stock exchange markets. However, the effects were not significant on their individual merits. On the other hand, mobile telephone subscriptions (NMTSs) exerted positive effects on the metrics of transaction capacities of the stock exchanges, except for market liquidity (SMLQ). The effect of this ICT adoption index (NMTSs) was significant only on value of shares traded (VSTR). Similarly, fixed telephone subscriptions (NFTSs) had positive effects on value of shares traded (VSTR) and turn over ratios (SMTR) of the exchanges, but the effects were negative on capitalisation (SMCP) and liquidity (SMLQ) of the stock markets. Singularly, the effects on the transaction capacities were not significant.

Like the ICT indices, the control variables (CBLR, CBDR and RDCPS) had heterogeneous effects on transaction capacities of the stock exchanges during the study periods. The effects were not significant, except banks' lending rates (CBLR) and domestic credit to the private sector relative to the sizes of the economies (RDCPS) which were significant on value of shares traded (VSTR) on, and capitalisation (SMCP) of, the exchanges respectively.

On the aggregate, however, the ICT adoption indices exerted significant effects on the respective transaction capacity variables of the stock exchanges. Further, the ICT indices exhibited very high powers in explaining total variations in the respective metrics of the transaction capacities of the stock exchanges during the study periods.

Consequently, this paper concludes that ICT adoption has significantly enhanced transaction capacities of the Nigerian and Johannesburg Stock Exchange markets in particular, and Africa's financial markets in general, and that information and communication technology (ICT) is sine-none-quo-none or indispensable to the growth and development of Africa's stock exchange and financial markets. And on the basis of these findings, this paper recommends more investments in ICT innovations and adoptions to the operations of Africa's stock markets in particular, and financial markets in general, if the quest for regional, continental and global co-operations and integrations of the Continent's stock and financial markets must be a reality.

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PRIHVAĆANJE ICT I FINANCIJSKA TRŽIŠTA: ISTRAŽIVANJE VODEĆIH BURZI U AFRICI

SAŽETAK RADA:

Članak se bavi učincima prihvaćanja ICT na burzama u Nigeriji i Johannesburgu, koje su vodeće burze u Africi. Analiza je provedena na metričkim podacima prihvaćanja ICT, uključujući kapacitete kontrole i transakcije na burzi. Utvrđeno je da prihvaćanje ICT ima različite učinke tijekom razdoblja istraživanja. Korištenje interneta imalo je negativne učinke na tržišne indekse, osim kod kapitalizacije. Neki regresori nisu imali značajan učinak na pojedinačne vrijednosti, ali su ukupni učinci bili značajni. Regresori su omogućili zadovoljavajuće objašnjenje ukupnih odstupanja prilikom mjerenja burzovnih transakcija. U članku se navodi kako se prihvaćanje ICT smatra osnovnim preduvjetom za rast i razvoj burzi i financijskih tržišta u Africi. Preporučaju se veća ulaganja u ICT inovacije kao i bolja suradnja u regiji i na kontinentu, što bi omogućilo bolju integraciju u globalnom okruženju.

Ključne riječi: prihvaćanje ICT, burze, financijska tržišta, Gompertzova krivulja, pojedinačni funkcionalni modeli.

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DETERMINING THE MANAGERIAL SKILLS' TRAINING NEEDS OF RETAIL AND WHOLESALE INDUSTRY IN TSHWANE AREA OF GAUTENG

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ABSTRACT

The paper determines the managerial skills training needs of Retail and Wholesale industry in Tshwane area of Gauteng. Several researches identified range of problem with retail and wholesale businesses emanating from lack of managerial skills without identifying the lacking skills. Survey research method was adopted. The population of study was the retail and wholesale businesses in Tshwane area of Gauteng from which sample were selected using multistage and convenience sampling technique. Questionnaire was used as research instrument, validated through content validity while reliability was done through test-re test method. The Cronbach alpha value was 0.836. Descriptive analysis was employed to analyze data and make decisions. The paper identified business management, financial management, marketing and sales management together with access to funds and adequate financial record keeping as the major challenge as well as the managerial training needs of the retail and wholesale. In effect the big challenge is the conceptual skills that is lacking. The paper concluded that management effectiveness of the retail and wholesale industry will strongly depend on adequate managerial skill in the business. By implication, business operators are exposed to

relevant managerial training required of them while the various support services to small and medium scale enterprises are to focus on the conceptual needs of the retail and wholesale industry for ultimate effective performance and contribution to economic development.

Keywords: *managerial Skill; Training needs; Retail and Wholesale industry;Tshwane SMEs*

1. INTRODUCTION

The retail and wholesale industry, an integral part of the small and medium scale enterprises, has contributed to the economic growth of the nation. They formed 98.8% of all companies in European Union and are considered to be the engine for society's development. This is because they play significant part in employment and professional training of young people. Compared to big companies, they employ more women, young people and part-time employees. SMEs are closely connected with the region than large employers and therefore have significant influence on the region's development.

Several researches conducted identified range of problems with small and medium enterprises. According to Gerber, (2001) "Within any given year, close to one million small enterprises are founded. Sadly, at least 40% of those businesses fail within the first year. The failure rate over time is nothing short of staggering. Of the one million started the given year, more than 800,000 (80%) of them will be out of business within 5 years and 96% will have closed their doors before their 10th birthday" . The result of empirical studies of small enterprises (Newton, 2001) show that failure and bankruptcy of enterprise is caused more by internal problems rather than external forces.

Gerber (2001) further opined that small enterprises are mostly founded by technicians, specialists or professional in certain field. For example, an accountant or a carpenter "know their onions" but have little information and experience in the field of management. They can perform their work on professional level, but seldom do they entrust their enterprise in the hands of manager, or try to acquire this knowledge by themselves. They run into problems with management of their enterprise because they concentrate all attention just to their specialized field of expertise. The management and managerial skills are neglected. More complications develop when the enterprise is successfully expanding and the entrepreneur is not capable of running the enterprise due to lack of needed knowledge and managerial skills. The inadequate level of management coupled with other related issues accounted for the failure of enterprise.

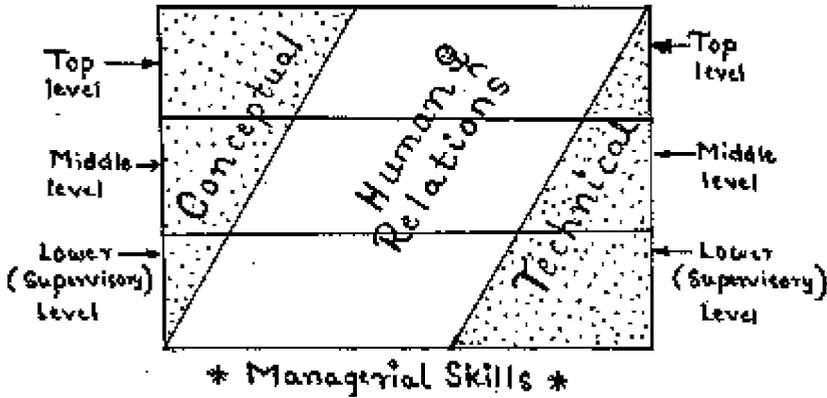
Determining the managerial skills training needs of the retail and wholesale industry in Tshwane area of Gauteng is a positive intervention in arresting failure and equally to ensure sustenance of retail and wholesale industry through the process of identifying the areas of training needs that will foster managerial development of the entrepreneurs and managers.

Some of the studies conducted on managerial skills focused on its importance for small entrepreneurs and how prioritizing managerial skills are effective in developing organization as well as in relations to other variables. There was a lack of study on determining the managerial skills training needs of retail and wholesale industry as a focused study to guide policy direction in empowering the retail and wholesale entrepreneurs and ultimately reduce the high incidence of small and medium scale mortality before their tenth anniversary. The objective of the paper therefore is to determine the managerial skills training needs of the retail and wholesale entrepreneurs in Tshwane area of Gauteng. Following this introduction, section two of the paper considered the review of Literature, section three discussed the methodology of the paper, and section four presented the analysis, results and discussion while the last section dwelled on the conclusion and recommendations.

2. LITERATURE REVIEW

2.1 MANAGERIAL SKILLS

Efficient and effective management assures achievement of organizational strategy and goals, Managerial skills are one of the reasons in consecutive organisational successes as well as forestalling the premature death of retail and wholesale entrepreneurs. Management effectiveness therefore requires managerial skills. Managerial skills are essential skills which every manager needs for doing a better management. According to Katz's theory(1991), a successful manager has triplet managerial skills. These are **Conceptual Skills**, **Human Relations Skills**, and **Technical Skills**. Managers require the three managerial skills but the degree of these skills varies from levels of management and from organization to organization. The diagram below shows the managerial skills required by managers working at different levels of management. The top-level managers require more conceptual skills and less technical skills. The lower-level managers require more technical skills and fewer conceptual skills. Human relations skills are required equally by all three levels of management.



Source; 2015 Kalyan City life blog.

The conceptual skill is the ability to visualize (see) the organization as a whole. It includes Analytical, Creative and Initiative skills. It helps the manager to identify the causes of the problems and not the symptoms. It helps him to solve the problems for the benefit of the entire organization. It helps the manager to fix goals for the whole organization and to plan for every situation.

The human relations skill is the ability to work with people. It helps the managers to understand, communicate and work with others. It also helps the managers to lead, motivate and develop team spirit. Human relations skills are required by all managers at all levels of management. This is so, since all managers have to interact and work with people. The technical skill is the ability to perform the given job. Technical skills help the managers to use different machines and tools. It also helps them to use various procedures and techniques. The low-level managers require more technical skills. This is because they are in-charge of the actual operations.

Scholars have further identified additional managerial skills to the work of Katz (1974). These other skills identified includes communication skill, administrative skill, institutionalized skill, leadership skill, problem solving skill, team making, compatibility, specialization, designing and decision making skill. Notable authors who identified additional managerial skills are Yukl (2010), Koontz and Wehrich(1988) Montel, Meredith Shafer and Sutton(2004). Yukl 2010 adopted two-factor taxonomy to classify managerial skills. According to Yukl (2010), the skills profile of owners/managers is broadly classified into two main categories, namely technical and conceptual skills.

Aminian (2004) related managerial performance to managerial skills in the work that examined the relationship between managerial skills and mana-

gerial performance in female management. The study concluded that managerial effectiveness was positively related to managerial skill. In the study of prioritization of managerial skill in organization, Bigedi (2001) and Seid Shoja (2006) identified that managerial skill follows the respective order of technical skill, conceptual skill and human skill in management. However the study by Fartash Esfahlan (2004) reordered the priority of managerial skills in management as conceptual skill, human skill and technical skill.

2.2 RETAIL AND WHOLESALE BUSINESS

This sector includes entities engaged in trade in agricultural raw material, livestock, food, beverages and tobacco, household goods, waste and scrap, machinery and equipment, motor vehicles, automobile fuel, hotels and restaurants. Given its extremely low entry barriers, wholesale and retail trade has the highest concentration of small businesses. The sector is recognised by many people as a safety net, due to shrinking formal job opportunities, lack of skills, demographic pressures and retrenchments. It also serves as an incubator for entrepreneurship, poverty alleviation and job creation. SMEs in this sector typically have a key person who takes control of the entire value chain activities.

However, recent years has seen South Africa moving increasingly towards mall-based retailing. There is an increasing level of competition with a number of giant retail groups and mushrooming shopping centres in remote areas of the country. There is also a decline in the role of wholesalers who traditionally acted as intermediaries between manufacturers and retailers. Today retailers source goods directly from manufacturers, thus reducing the function of wholesalers in the value chain. These bring goods from other areas at reduced prices thereby making it difficult for small businesses. Wholesalers are now mainly transacting with small businesses and informal traders, who buy directly from them.

The wholesale and retail sector is also characterised by high levels of informalisation (casualization, outsourcing, labour-broking and subcontracting) aimed at reducing operating costs. Casualization implies that casual workers receive little if any skills development (W&R SETA 2012).

3 METHODOLOGY

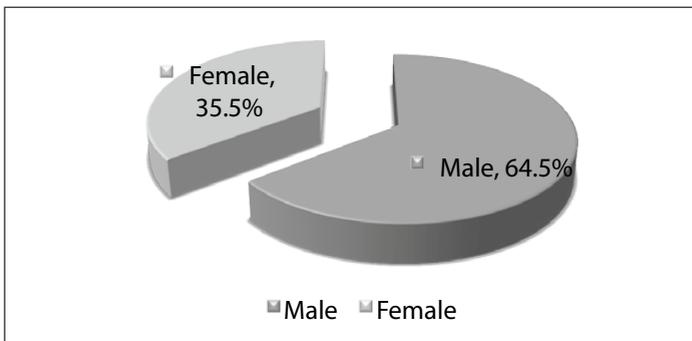
To establish the managerial skills training needs of the retail and wholesale entrepreneurs, a survey research was designed. Primary data were collected from wholesale and retail traders in the Tshwane area. The population of study was 430 SMEs. Convenience sampling techniques was used. The industrial classification codes of agriculture, hunting and fishing; mining and quarrying;

manufacturing; electricity, gas and water supply; construction; wholesale and retail trade; transport, storage and communication; financial intermediation, insurance, real estate and business services; and community, social and personal services and 61 participants were selected on convenience basis from each category. To assess the internal consistency of the instrument, Cronbach's alpha was run and a reliability coefficient of 0.836 resulted. The instrument was validated through content validity. Descriptive statistical analysis was employed to determine managerial training needs of the retail and wholesale entrepreneurs. The outcome of the determination was used to make decision.

4. RESULTS, ANALYSIS AND DISCUSSION

4.1 CHARACTERISTICS OF RESPONDENTS

Figure 4.1: Respondents by Gender

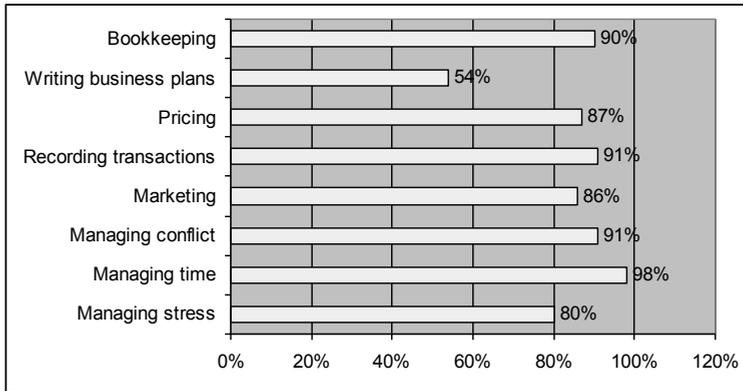


Source: 2014 Field Report

As Figure 4.1 confirms, almost two-thirds (64,5%) of the respondents were male. Only 35,5% of the respondents were women, which validates the secondary research conducted.

The figure presents the distribution of respondents by position held in businesses. It is evident from this figure that only the owners and managers of selected businesses provided information about their businesses during the interviews. The number of owners is slightly higher (50.4%) than that of managers. This is not surprising as the majority of small business owners are involved in the day-to-day management of their businesses.

Figure 4.2: Respondents by Skill



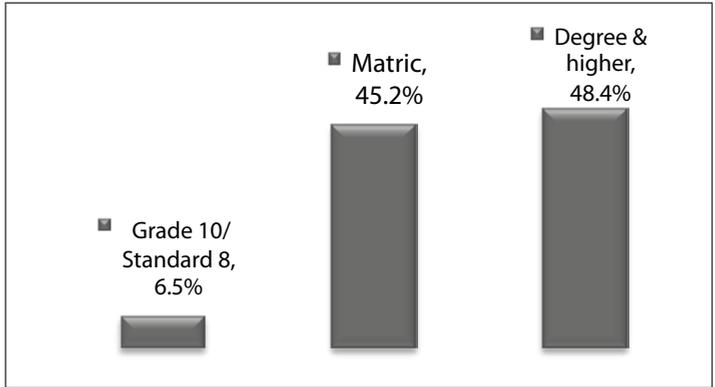
Source: 2014 Field Report

Figure 4.2 indicates that motivating workers occupies most (98 percent) of an owner's time. Besides this function, managing time and solving problems are more frequently attended to when compared to the other business functional area? Nearly 86 percent of the respondents are constantly involved in marketing activities. The rest of the respondents never or hardly ever market their business, or do not know what marketing is. These business owners should be assisted in acquiring knowledge about marketing.

90 percent of the respondents are constantly involved in bookkeeping activities and 91 percent of daily record their business transactions. A disturbing 54 percent of the respondents never wrote a business plan, or does not know how. Verbally, most of these respondents indicated that they did not really know how. However, this is an important activity since without this it is hardly possible to obtain finance from the banks. About 87 percent of the entrepreneurs constantly devote time to the pricing of products and services. The rest of these small business owners never do pricing themselves, but indicated verbally that they invite outside help with this function.

From the generally positive results expressed by the respondents that are reflected in figure 4.2, one can safely conclude that most business owners have a high regard for managerial skills and what they mean for the success of their businesses, although some are unfamiliar with the demands of these skills for a lack of training. Although the respondents find all the managerial skills listed in the table as important in their day-to-day work, it is obvious that writing business plans is the least favourite activity, most likely because of unfamiliarity. All the managerial skills mentioned in figure 4.2 are important and should be attended to if a business were to succeed.

Figure 4.3: Respondents by Qualifications

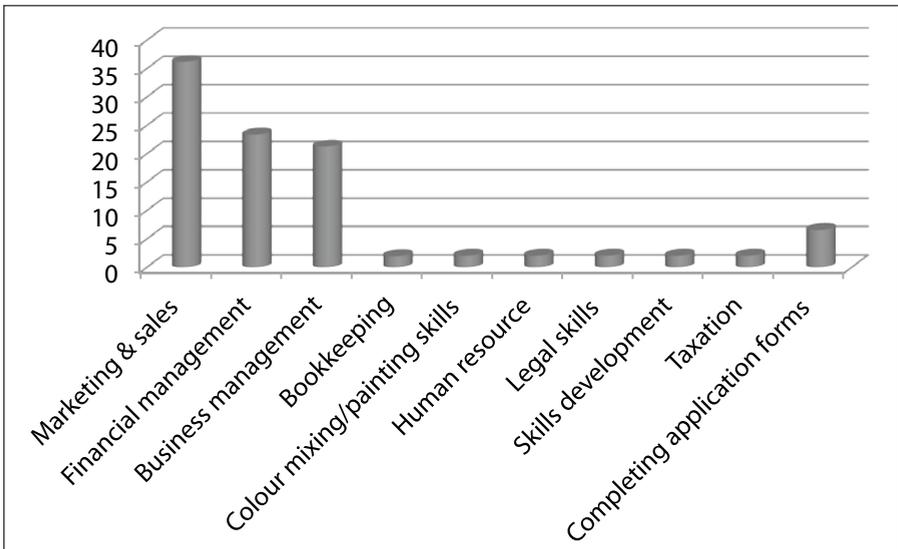


Source: 2014 Field Report

Figure 4.3 substantiates that most SME owners in Tshwane received good education as only 6,5% of the respondents had an educational level of less than grade 12. The proportion of respondents with a graduate education and higher (48,4%, n=15) was only slightly larger than those with grade 12 (45,2%, n=14).

4.2 MANAGERIAL SKILL TRAINING NEED

Figure 4.4: Respondents by Managerial Skill Training Needed



Source:2014 Field report

Figure 4.4 presents the types of training needed by owners/managers in the wholesale and retail industry. It is evident from this table that there is an overwhelming need for conceptual skills, especially in the area of marketing and sales (36.2%), financial management (23.4%) and business management (21.3%).

4.3 DISCUSSION

Retail and wholesale industry in Tshwane area of Gauteng largely wanted managerial skill training intervention in the area of marketing and sales, financial management and business management. This is because 80.9% of the survey participants indicated their desire to be trained in these three critical areas of their business concern. This has clearly reveal a policy direction to the government and NGO's to know the areas intervention is required by the retail and wholesale business. The various consulting firms should equally note the areas of needs by the retail and wholesale businesses.

The participants further indicated managerial skill training need in the area of accessing funds. 73 % of the respondents desired to be motivated on how well to access funds for their businesses. The issue of records keeping was also a challenge to the retail and wholesale. In effect, 73.3% of the respondents desired to be motivated on how well to keep financial records of their businesses. The findings revealed that retail and wholesale businesses are seriously constraint with the conceptual skill. In effect they are rich in technical and interpersonal skills but are limited with the conceptual skill. This view was supported by the study carried out by Bigedi (2001) and Shoja (2006) indicating that managerial skills follows the order of technical, conceptual and interpersonal skill in management. The managerial effectiveness of the retail and wholesale businesses is related to their managerial skill. This view was corroborated by Aminian (2004) who posited that managerial effectiveness was positively related to managerial skill.

5. CONCLUSION AND RECOMMENDATIONS

Based on the analysis and the findings thereof, this paper concludes that owners and managers of small businesses are predominantly technically skilled and less skilled in the area of business management, marketing and financial management. This is as a result of their limited academic qualifications. Specific managerial skill training needs required by managers include marketing, financial management (including business financing) and business management.

Therefore, managerial skill training in the areas identified by the study is a critical success factor for achieving optimum organization's performance by the retail and wholesale businesses.

Consequently, the paper recommends that retail and wholesale businesses should avail themselves of any training in the areas of the managerial skills training needs identified to boost their operations. Entrepreneurship Centre should equally focus their training on the areas the retail and wholesale businesses are limited. Government support to the retail and wholesale business in terms of empowerment should be targeted at the areas the retail and wholesale businesses are lacking. It has been revealed by the study that technical and interpersonal skills are not a critical challenge as the conceptual skill is to the retail and wholesale businesses.

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POTREBA USAVRŠAVANJA MENADŽERSKIH VJEŠTINA U MALOPRODAJI I VELEPRODAJI U PODRUČJU TSHWANE GAUTENGA

SAŽETAK RADA:

U radu se utvrđuje potreba za usavršavanjem menadžerskih vještina u maloprodaji i veleprodaji u području Tswane Gautenga. Nekoliko istraživanja identificiralo je da niz problema u maloprodaji i veleprodaji tvrtki proizlazi iz nedostatka menadžerskih vještina no bez identifikacije vještina koje nedostaju. U ovom radu je korištena istraživačka metoda ankete, upitnik kao istraživački instrument.

Uzorak istraživanja bile su maloprodajne i veleprodajne tvrtke u području Tshwane Gautenga. Opisna analiza korištena je za analizu podataka i donošenje odluka.

Rad je identificirao poslovno upravljanje, financijsko upravljanje, marketing i menadžment prodaje, zajedno s pristupom financijskim fondovima i odgovarajuće financijske evidencije kao izazov u radu no naglašena je i potreba za usavršavanjem menadžerskih vještina u maloprodaji i veleprodaji.

U radu se zaključuje da je učinkovitost u maloprodaji i veleprodaji u međuo-
nosu sa odgovarajućim menadžerskim vještinama u poslovanju.

Ključne riječi: menadžerska vještina; usavršavanje menadžerskih vještina; maloprodaja, veleprodaja, industrija; Tshwane MSP

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MEDIA RELATIONS AS A STRATEGIC INSTRUMENT IN SLOVENIAN COMPANIES

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ABSTRACT

Media relations, being the most visible instrument of public relations, is a very important strategic tool of every company. Like every other relations, media relations also represent cooperation of two different sides, journalists and company representatives. In this article, we explore how these two groups cooperate: which instruments do media practitioners in Slovenia use in order to reach the media and which are the sources actually used by the journalists. The survey implemented among 65 journalists and 106 PR representatives in Slovenia showed that media relations tools used by the majority of companies are not the same as the sources of information most frequently used by journalists. Data was analyzed with SPSS.22. Managerial implications are introduced.

Key words: public relations, media relations, journalists, media, Slovenia.

1 INTRODUCTION

Every company is a part of the broader environment. Whatever the size, industry, life-cycle level, ownership or legal form of a company is, it consists of a variety of communication activities and communicates to different publics - customers, suppliers, employees, investors, journalists and regulators. In this context, public relations cannot be avoided, it is only a question of to what degree these relations are controlled and coordinated.

An important and most visible part of public relations represent the media relations. In the context of public relations, the field of media relations is also

understood as a strategic tool which requires managerial skills (Khodarahmi 2009; Phillips 2006; Fill 2005, p. 680; Smith and Taylor 2004, p. 445; Podnar and Golob 2009; Sterne 2008; O'Dwyer 2005; Beard 2002, p. 25). Media relations in practice is more tactical in nature, but it also can contribute to achieving long-term strategic objectives, such as a better image of the company or brand, appropriate media profile, a change in behavior of target audiences, better relations with the local community, greater market share, the impact on government policy, better relationships with investors and better relations in industry (Theaker 2004, p. 161).

In practice, it often happens that the articles in the media (in terms of volume and content) do not match with wishes and expectations of the companies. We theorise that a lack of knowledge about the field of media relations is the most common reason for this divergence. Moreover, companies do not follow the advice of Supa and Zoch (2009), about using the strategy of targeted media relations.

The article presents the basic characteristics of media relations with a focus on the available tools of this activity and also a survey about the scope of the available and actually used tools of media relations by the relevant groups (journalists and representatives of companies). The key question is whether the companies in Slovenia in order to reach the media coverage use the same media relations tools, which are most commonly used by Slovenian journalists as sources of information.

2 THEORETICAL BACKGROUND

2.1 MEDIA RELATIONS AS PART OF PUBLIC RELATIONS

Public relations represent a long-term effort of organizations focused on creating and maintaining good relationships and mutual understanding and communication with all important stakeholders, which significantly contributes to its acceptance in the environment (Linning 2004; Phillips 2006; Gruban 1990, p. 12; Smith and Taylor, 2004, p. 445; Verčič et al., 2004, p. 17; Henslow 1999, p. 1; Egan, 2007, p. 245; Fill 2005, p. 680; Smith and Taylor, 2004, p. 444). It is a managerial activity which is in the organizational structure of the company close to the main director or the part of the management itself. It has gradually evolved from an activity of influencing media coverage, which is now called media relations and represents only a part of the public relations (Smith and Taylor 2004, p. 445; Podnar and Golob, 2009; O'Dwyer 2005, Sterne 2008). According to Zoch and Molleda (2006, adapted from Tsetsura and Grynko, 2009) media relations represent about 60 % to 70 % of all public relations efforts.

Media relations constitute a mutual relationship between journalists and media relations practitioners, who provide information about their company and changes in it to journalists; through the media they want to reach other target public (Sterne 2008; Smith and Taylor 2004, p. 444; Supa and Zoch 2009; Fill 2005, p. 691-693; Verčič et al., 2004, p. 14).

2.2 MEDIA RELATIONS CHARACTERISTICS

Although through editorial coverage a company achieves several objectives which are similar to those achieved by the advertising, there are three important differences between editorial coverage and advertising (Smith and Taylor 2004, p. 452). The first difference is cost. In the case of editorial coverage the space in the media is not purchased like in the case of advertising, but other costs appear because the messages should be written up carefully for a selected target group and sent to the correct editor/journalist at the right time and in the right format. The second difference is credibility. Editorials are more credible than advertisements because they are perceived as something that was written by the editor or a journalist, not the advertiser who wants to sell something. In the case of editorials less resistance to the message exists than in the case of advertisements. Some argue that the credibility of the editorials is up to three times higher than that of an advertising message (Smith and Taylor, 2004, p. 454). Editorials published in traditional media receive higher credibility marks than those in new communication media such as blogs and social media, which are known as »consumer or users generated media« (Wright and Hinson 2010). The third difference is control. The organization controls the editorial messages only in a limited extent: what and when is or will be sent to the media (Fill 2005, p. 692-693), but not what content is or will be published. Fill (2005, p. 691) points out the possibility of changes in the original message as a critical assessment of opinion makers, which leads to higher credibility of editorials. According to Smith and Taylor (2004, p. 454-456), *»the same information can have a completely differently interpretation in different media: one positive, the other negative, perhaps with a touch of cynicism«*. *»Lack of control over the editorials may be slightly reduced by preventive activities, such as caution in the dates of events and messages (eg. the opening of a restaurant that sells hamburgers is not suitable on The vegetarians world day) or a review of journalists and editors who have written positively about the company in the past«* (Smith and Taylor 2004, p. 454-456).

2.3 MEDIA RELATIONS TOOLS

A press release is a basic media relations communication tool, which helps organizations to provide to the media information, which the public sho-

uld be acquainted with and also encourage an editor or a journalist to look for more information on this topic (Smith, 2006, p. 204). The written message about a specific change in the organization is sent to the media (journalists or editors) to include this information as news in the media. Press release is deliberately short and written in a style that is attractive to the editor (Fill, 2005, p. 691). Unfortunately, only every one out of ten messages sent to the media is published, which some authors (Bland et al., 2001, p. 80; Pang 2010) relate to the following causes: incorrectly selected target media, poorly written message with too many technical details and terminology incomprehensible to target audience and the lack of news value - news do not exist or is too old or irrelevant in terms of attractions to readers. When writing a press release there should be taken into account the five basic journalistic questions - who, what, where, when, why (Theaker 2004, p. 162). The writing language should be understandable to readers, without using jargon and explaining any technical issues. Pang (2010) points out that it should not be suggested to journalists how to write their stories, because this is considered as an interference in editorial decisions.

A press conference is organized in case of a large, significant event for which a press release would not provide details that organization would like to underline (Fill, 2005, p. 691). Novak (2006, p. 204) explains that we organize a press conference when we want to communicate our important news to all the media at the same time and give them an opportunity to ask questions. It is always necessary to provide for journalists a material that contains a reconstruction of all statements, photos and important general information that illuminate the background (Fill, 2005, p. 691).

A press material is a company's personal card, which includes all important information about the company; the photos, biographies, company brochure, internal newsletter, among others (Smith 2006, p. 205).

An interview with representatives of organizations allows the communication of news and opinions of the organization about a problem or event (Fill, 2005, p. 691). Novak (2006, p. 205) explains that journalists decide to interview in case they want an in-depth narration of a particular topic. It is recommended to try to predict what a journalist will ask and to prepare some replays.

Journalists often want the representatives of the companies to comment some news or events. In a **statement** the representative of the company tells the company's opinion about the topic in a few sentences. It is important that the statement is brief and answers the journalist's question (Smith 2006, p. 205).

Among other tools of media relations Fill (2005, p. 691) refers to articles, speeches, letters to editors, photo captions.

The creation of a **website** for journalists is a part of the presentation of the organization online. According to some research, 80% of American journalists their first source of information search on the Internet (Novak 2006, p. 206). Andrewes (2006) explains that a good website meets the needs of the user as part of a complex network.

Tench et al. (2007) have found that the most effective and the most popular tool of media relations are honest, well presented personal messages forwarded by e-mail, in person at meetings or in the form of a press folder.

3 RESEARCH ON THE USE OF MEDIA RELATIONS TOOLS

The theoretical review presented all the available tools of media relations. The empirical survey analyses which of these tools are actually used by companies in Slovenia and also whether the companies use the tools, which are most commonly used as sources of information by Slovenian journalists. Two hypothesis are examined.

Hypothesis 1: A press release is the most commonly used source of information among journalists.

Hypothesis 2: Majority of companies do not use those media relations tools which are frequently used as a source of information by journalists. The criterion is the average value of grades 3 by journalists.

3.1.1 Research and data collection

The research was implemented between the two relevant groups: journalists and company representatives. Primary data for the quantitative study was collected by an online survey, which was sent to the email addresses of random selected 200 journalists from 40 most important media in Slovenia (random sampling) and 500 companies (systematic sampling: every 350th company from the **Slovenian Business Register** list, without public organizations) in April and May 2014. By the beginning of May, 35 completed surveys of companies and 25 completed surveys of journalists were received, based on which we conducted a pilot study. In June 2014 all the needed 171 completed surveys were collected. Cronbach alpha coefficient exceeded the value of 0.7, which in the literature represents the threshold for sufficiently high reliability of the sample (Nunnally and Bernstein, 1994).

Online survey was completed by 65 **journalists**, among them 44.6 % were men and 55.4 % were women. The response rate was 32.5 %, which is slightly above the expectations. The sample included journalists aged 28 to 65 years with 2 to 38 years of journalistic experience. On average highly educated, even if the range of education is from the fifth level (high school) to the eighth level

(Master of Science). Respondents come from different areas of Slovenia. Almost half (49.2 %) of surveyed journalists do not belong to either of the two Slovenian journalists peer associations. Respondents generally have experience with a variety of media, some with at least two types, some with every type. Thematic areas in which respondents have experience are very different (67.7 % economy, 66.2 % politics, culture 49.2 %, 43.1 % education, 36.9 % health).

In the group of **company representatives** an online survey was sent to the general addresses of companies with a request to forward it to the person who is responsible for media relations (if there was no such person, it should have been completed by the director) of the company. In the period from 25th April to 6th June 2014, 106 responses from company representatives were received, which means that responsiveness was in line with expectations (21.2 %). Among the representatives there were 43.4 % women and 56.6 % men. Respondents were aged 26 to 70 years (average 43.29 years); on average high educated (from fifth level to the doctoral degree); coming from different regions of Slovenia. Among the company representatives that have completed a questionnaire there are 73.6 % directors, only 10.4 % media relations representatives, 2.8 % heads of departments and 13.2 % employees in other areas.

3.1.2 Results and hypothesis

The question *»How often do you use for your work sources of information listed below?«* **journalists** responded at a 5-level Likert scale, with the importance ratings as follows: 1 = never, 2 = rarely, 3 = sometimes, 4 = often, 5 = very often. The table below shows that as a source of information journalists most often use for their work *answers to written questions*. *Sometimes to often* they use *interviews or statements made by representatives of companies, media material, press conference or press release*. *Company websites, events and photos from the archives of the company* are less frequently (*rarely to sometimes*) used sources of information by journalists. It follows that **hypothesis 1**, which reads **»A press release is the most commonly used source of information among journalists.«** can not be accepted because as can be seen in **Table 1** a press release is in the fifth place after the frequency of use among journalists.

The company representatives answered the question of closed type with more than one answer possible: *»What were the media relations activities used in your company in 2013?«* About frequency of use they weren't asked, because of a very small chance of real comparison of responses. The table below shows that the 67 % of companies use an *updated website*, 39.6 % of companies use a *press release*, 27.4 % of companies organize events. Only 15.1 % of companies organize a *press conference*, supply journalists with *media material* and *photos from their own archive*; the same percentage of companies is not carried on any media relations activities.

As can be seen in Table 1, the only media relations tool used by more than majority (50 %) of companies is an *updated company website*, which is as a source of information used by journalists less than sometimes (average frequency of use is 2.89 which is less than criterion 3). It follows that the hypothesis 2, which reads »Majority of companies do not use those media relations tools which are frequently used as a source of information by journalists.« can be accepted.

Table 1: Use of media relations tools in companies and frequency of use of different sources of information among journalists

Source of information (journalists) / Media relation tool (company representatives)	Journalists		Company representatives	
	Frequency of use (average)	Standard deviation	Number of companies using the tool	Percentage
No activity	-	-	16 16	15,1 15.1
Photos from the archives of the company	2,15 2.15	00,905.905	16 16	15,1 15.1
Events	3,95 2.15	0,837 0.905	20 29	18,9 27.4
Updated company website	2,89 2.89	0,937 0.937	71 71	67,0 67.0
Press Conferences	3,23 3.23	0,880 0.880	16 16	15,1 15.1
Press releases	3,25 3.25	0,811 0.811	42 42	39,6 39.6
Media material	3,42 3.42	0,882 0.882	16 16	15,1 15.1
Statement of the company representative	3,66 3.66	00,853.853	20 20	18,9 18.9
Review with a company representative	3,95 3.95	0,837 0.837	20 6	18,9 5.7
Answers to journalists' written questions	4,06 4.06	1,044 1.044	5 5	4,7 4.7

Source: Survey 2014

4 MANAGERIAL IMPLICATIONS AND FUTURE RESEARCH

If companies want the media to publish editorials on them, they need to inform the journalists about their achievements by themselves. As illustrated by a literature review, there exist quite a few available tools for informing the media. Nevertheless, we find that the majority of Slovenian companies do not use those media relations tools, which are most frequently used as a source of information by Slovenian journalists. From a strategic point of view, this certainly is not good for the companies.

The first step to improve the situation is rising awareness within a company's management that media relations are of strategic importance for the company and, as such, in the context of public relations stand side by side to the Board Director. The second step is to ensure that at least one person is in

charge of media relations in the company. We recommend that this is a person who knows the area. We suggest that this person gains media-relations skills and pays particular attention to learning about the media in a local environment, establishing and maintaining good relationships with journalists and editors, and the corresponding transmission of information to the media. Only information placed in the right way will trigger interest in target audiences.

It is very important for a company to respond to journalists' questions and provide appropriate counterparts for any statements or interviews. In doing so, the temporal component is very important, since journalists are bound by time constraints of their editorial boards. Constantly, the work of the media relations representative is updating the company's media material for journalists and informing them through the press releases and press conferences if necessary. Updates in the company's website and archive photos are rarely used by journalists.

The reasons for the poor use of media relations tools in Slovenian companies, understanding the individual areas of media relations and management of this area with other aspects can be the starting point for any of the following research.

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ODNOSI S MEDIJIMA KAO STRATEŠKI INSTRUMENT U SLOVENSKIM PODUZEĆIMA

SAŽETAK RADA:

Odnosi s medijima , kao najvidljiviji instrument za odnose s javnošću , je vrlo važan strateški alat svake tvrtke . Kao i svaki drugi odnos , odnos s medijima ipredstavlja suradnju dviju različitih strana, novinara i predstavnika tvrtke . U ovom članku, istražiti ćemo kako ove dvije grupe surađuju: koji se instrumenti koriste u Sloveniji kako bi se doprlo do medija i koji se izvori zapravo koristi od strane novinara. Anketa provedena među 65 novinara i 106 PR predstavnika u Sloveniji pokazala je alati koji se koriste od strane većine tvrtki nisu isti kao i izvori dobivanja informacija koji se najčešće koriste od strane novinara

Podaci su analizirani uz pomoć SPSS.22 . Menadžerske implikacije su uvedene.

Ključne riječi: odnosi s javnošću, odnosi s medijima , novinari , mediji , Slovenija .

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- o **Review article** contains a detailed and comprehensive critical review of a certain problem area, but with no significant originality of the obtained results;
- o **Professional paper** contains the information and experience relevant for a certain profession, but without scientific characteristics.
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