

# FÓRUM EMPRESARIAL

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## The Effect of Support Initiatives on the Operations and Performance of South African Worker Co-Operatives

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### ■ ABSTRACT

This study of 111 worker co-operatives registered as clients with the Small Enterprise Development Agency represents a research into the contribution of government support to the business performance and operations of these entities. A relatively successful group was evaluated against unsuccessful ones to establish whether there was any difference in the support received by the groups concerned. Moreover, the performance, operations, and management of supported co-operatives were evaluated against unsupported ones to establish whether the support had made a difference. The results reveal a minimal effect on the co-operatives' operations and performance. Recommendations for future development are made.

**Keywords:** business performance, co-operative development, small business development, worker co-operatives

### ■ RESUMEN

Este estudio de 111 cooperativas de trabajadores registradas como clientes en la Small Enterprise Development Agency representa una investigación de la contribución del apoyo del gobierno al rendimiento empresarial y las operaciones de estas entidades. Se evaluó un grupo relativamente exitoso versus las que no tuvieron éxito, para determinar si había alguna diferencia en el apoyo que recibieron los grupos concernidos. Además, se evaluaron el rendimiento, las operaciones y la gestión de las cooperativas apoyadas versus las que no lo fueron, para determinar si la ayuda había hecho una diferencia. Los resultados revelan un efecto mínimo en las operaciones y el rendimiento de las cooperativas. Se hacen recomendaciones para el desarrollo futuro.

**Palabras clave:** rendimiento empresarial, desarrollo cooperativo, desarrollo de pequeños negocios, cooperativas de trabajadores

Since democratic South Africa came into being, the government has introduced several strategies and pieces of legislation, in order to grow and develop the co-operative sector. In an address on June 25, 1999, former President Thabo Mbeki stated that the government would emphasize co-operative development in the country to combine financial, labour, and other resources, the goal being to rebuild communities and involve people in their own development (DTI, 2004).

The primary aim of worker co-operatives in which this study is focused is to provide employment for their members. The impact of these entities have, thus far, proved disappointing. In fact, the sector has gained itself a reputation of incompetence and inefficiency. One author (Ressel, 2014) proclaimed the whole co-operative business model as fatally flawed.

Satgar (2007) is of the opinion that co-operative development in South Africa fails to consider member needs and capacities, only regarding government objectives as important. This disposition represents danger for co-operative sustainability since it fails to build autonomy and independence. The co-operatives are initiated by members after they have independently identified opportunities; the challenge facing government is to provide them strategic enabling support.

A study by the Department of Trade and Industry (DTI) found that a large percentage of the co-operatives reported losing members due to insufficient income generated by the co-operative (Redrebel, 2009). A full 31.41% of the co-operatives surveyed had an annual turnover of less than R5,000 (US\$385, based on an exchange rate of R13.00/US\$1). The study also found that only a small percentage of the registered co-operatives were in fact operational.

Chakela (2012) studied eleven agricultural and manufacturing co-operatives in the Mantopa Municipal area in the Free State. Of these, 64% indicated that their turnover levels were below R1,000 per month (US\$77). A mere two realized a turnover in excess of R5,000 (US\$385).

Statistics provided by the South African National Apex Co-operative (Sanaco) provided in 2012 considered only 20 of its nearly

10,000 member co-operatives to be successful (Machaba, 2012). It is, thus, clearly and quantifiably evident that co-operatives in South Africa are struggling; few of them are sustainable.

The purpose of the study is to evaluate the effectiveness of government and support agency on the management and operations of South African worker co-operatives. Pursuant to the purpose, the study objectives are:

1. To determine the criteria for measuring business success of worker co-operatives;
2. To establish whether there was a difference in government and support agency interventions received by “successful” worker co-operatives compared with those classified as “unsuccessful”;
3. To establish the difference government and support agency interventions have made in the management and operations of supported worker co-operatives as compared to those who were unsupported.

## **Literature Review**

The DTI remains the South African government’s main instrument in support facilitation for the country’s co-operatives (Redrebel, 2009). The department both offers and facilitates financial support in form of grants and special project funding aimed at co-operative development. Furthermore, the DTI has partnerships with other government agencies and organisations which provide financial support to co-operatives. A co-operative unit was established by the DTI with twofold aim; firstly, to support and promote co-operative development; and secondly to co-operate with other government agencies to ensure practical support, such as capacity building. Other governmental departments and agencies, as well as non-governmental organisations, have likewise made financial and other support available to co-operatives.

DTI statistics (DTI, 2010) indicate that government spent at least R558 million (US\$42,9 million) on financial support to co-

operatives between 2005 and 2010. These figures exclude the cost of non-financial support.

Satgar and Williams (2011) declare that between 2005 and 2010 the total financial outlay for co-operative development from government amounted to R923 million (US\$71 million). The development initiatives by government have led to a huge increase in the registration of co-operatives, from 469 in 1994 (Theron, 2008) to 69,430 on December 31, 2012 (CIPC, 2013).

According to the Companies and Intellectual Property Commission (CIPC) data quoted by the DTI (2010), in 2009 co-operatives contributed nearly R12 billion (US\$923 million) to the South African Gross Domestic Product (GDP). In 2009, South Africa's total GDP was R1 594,336 billion (US\$122,641 billion) (Statistics South Africa, 2012). This means that the co-operative sector contributed a mere 0,75% to total GDP. According to the International Co-operative Alliance (ICA, 2012), co-operatives have internationally made a significant impact on their countries' economy. In Iran, co-operatives contribute 6% of GDP; in Kenya, 45%. In Switzerland, the two largest co-operatives are responsible for 8% of GDP. In Vietnam, the total contribution to GDP comprises 8.6%.

The GDP Baseline study found that 84.1% of co-operatives in South Africa employed fewer than fifteen people (Redrebel, 2009). Of the co-operatives, 48% employed between one and five employees. The study, thus, found that the co-operatives' impact on unemployment is negligible. In contrast, this is not the case internationally. Co-operatives provide over 100 million jobs globally; this represents 20% more than multinational enterprises (ICA, 2012). In Slovakia, approximately 700 co-operatives provide jobs to nearly 75,000 individuals (about 107 jobs per co-operative). In France, 21,000 co-operatives provide jobs to 700,000 people (33 per co-operatives). Co-operatives in Kenya provide work for 250,000 people.

In 2005, more than half of co-operatives had a turnover of smaller than R10,000 (US\$769) per annum, while 30.2% received no income at all (Theron, 2008). In a similar vein, the DTI study found that the majority of emerging South African co-operatives do not

exist at a level where they can contribute to poverty alleviation (Redrebel, 2009).

Hough, Wilson, and Corcoran (2010) state that measuring success is fairly easy to carry out in conventional businesses since the measure incorporates financial profitability and viability. Financial viability is a key criterion as the co-operative would otherwise cease to exist. Other factors, such as that discussed by Dash (2013) prove more complex. Dash posits measuring the incorrectness of the efficiency of co-operatives in like manner to other business entities, since this fails to provide information on their impact in advancing individual, social, and environmental wellbeing. The author, nevertheless, admits that no internationally recognised standard management system and tools have been effectively developed to measure the performance of co-operatives on the 'triple bottom line' of financial, social, and environmental success.

Fairbairn (2002) states that many researchers share the opinion that the economic concerns of co-operatives should be subordinate to their social goals; however, unless the social goals are met by economic activities, it would make no sense to start an economic enterprise to achieve them. Similarly, Chamard, and Webb (2006) stress the importance of financial health of the co-operative, since bankrupt co-operatives fail to meet members' needs.

In their study, Brazda, and Schediwy (2001) suggest that the success of co-operatives should be measured in terms of simple economic survival. Similarly, Theron (2008) states that most support agencies and donors accentuate the importance of recognizing co-operatives as private economic enterprises that need to make profits or surpluses.

The study's approach was that worker co-operatives need to meet financial objectives in order for them to meet their social objectives. Success will subsequently depend on the co-operative's business performance. This approach is supported by Develtere, Pollet, and Wanyama (2008), who state that the World Bank expects co-operatives to adhere to business principles prevalent in a market economy.

After the criteria for success used in the above and other studies (Chibanda, Ortman, & Lyne, 2009; Cornforth, Thomas, Lewis, & Spear, 1988; Mqingwana, 2010; Skibbens & Chamard, 2006) were considered, it was decided that the following criteria should be utilised as the basis for the measurement of the business success of worker co-operatives:

**Longevity:** A term of three years of existence was used in the survey as a minimum criterion for longevity.

**Financial independence:** To be categorized as successful, the worker co-operative may not have received outside funding in the form of loans or grants for at least a year.

**Profitability:** For the purposes of this study, the worker co-operatives needed to have been profitable for at least one year, in order to be considered successful.

**Member income:** The worker co-operatives in the study should have been able to pay their members at least R955 per month for the co-operative to be categorized as successful.

## Method

The research population of the study was actively operating worker co-operatives registered with the Small Enterprise Development Agency (SEDA) as clients between 2009 and 2013. One hundred eleven completed questionnaires were received. The questionnaires were completed by either the chairperson of the board or another board member.

The developed questionnaire contained 140 multiple choice questions with regard to management practices and operations. The questionnaire contains questions regarding identification and membership, finances and financial management, marketing and marketing management, operations and operational management, human resources management, management processes and support from external institutions.

When the worker co-operatives in the study were compared with the criteria for success, the following was found: 90.65% of them

were operating for more than three years and 35.64% of them were profitable. Of the co-operatives, 79.66% had operated without external funding for more than a year and 18.68% were able to pay their members a monthly income in excess of R955 (US\$73,50); however, only three of the responding co-operatives met all the criteria; this did not constitute a sufficiently large group. A group of 13 of the worker co-operatives in the study met 3 of the business success criteria; they, however, failed to meet the criterion for member income. This group was considered large enough, labelled as “Relatively Successful” and utilised for the statistical analyses.

Eighty of the worker co-operatives in the study have received either financial or non-financial support; and 31 have not received any support. These groups were large enough for statistical analysis. Those co-operatives that have not received support were either registered as clients of SEDA just before the questionnaires were completed or were in the process of being assessed in terms of the support needed.

Thirty-two constructs were developed, and Cronbach alpha reliability coefficients were computed for each construct. The Cronbach alpha values for the constructs ranged from .5 to .94, which are considered as sufficient.

Phi-coefficients were calculated in order to determine if there were practically significant relationships between relative success and certain conditions and practices in the worker co-operatives in the study. In view of the fact that the research did not involve random sampling, interpretation of comparisons between the various groups’ means was done by using Cohen’s effect size ( $d$ ) (Cohen, 1988). Effect sizes were discussed indicating practical significance where the difference was large enough to have an effect in practice (Steyn, 2009). Moreover, interpretations of the practical significance of effects were done by using the phi-coefficient and Pearson correlation coefficient as effect sizes. The guidelines utilised for  $d$ -values regarding differences between means are  $|0.3|$  for a small effect,  $|0.5|$  for a medium effect (noticeable with the naked eye), and  $d \geq |0.8|$  for a large effect (practically significant).

Guidelines for interpreting the phi-coefficient are  $\Phi = |0.11|$  (small effect),  $\Phi = |0.31|$  (medium effect, noticeable with the naked eye), and  $\Phi \geq |0.51|$  (large effect or practically significant) (Cohen, 1988). Guidelines for practical interpretation of the strength of correlation coefficients,  $r$ , according to Cohen (1988), are the same as those for the phi-coefficient.

## Results

### General Findings

General findings in the research applicable to this article are summarised in Table 1.

Table 1

*General Information Regarding Worker Co-Operatives Investigated in the Study*

	Supported	Not supported	All studied
Number of co-operatives	80	31	111
Average number of members per cooperative	12.6	7.81	11.26
Number that has lost founding members due to adverse circumstances within the co-operative	17 (21.25%)	4 (12.9%)	21 (18.9%)
% of members who were unemployed before joining the co-operative	37.33%	75.19%	45.84%
% with no members with previous industry experience	53.95%	48.39%	51.92%
% with no members with previous business experience	64.47%	74.19%	67.31%
% started on initiative from government or support agency employees	13.15%	3.26%	9.35%
% which were promised funding/grants before/during startup	64.52%	58.06%	62.62%
% where funding/grant promises played a role in the starting of the co-operative	100%	72.22%	92.42%
% who were of opinion that co-operatives are funded more easily than are other businesses	67.74%	70.97%	68.18%
% where the above perception played a role in the starting of a co-operative	100%	68.18%	90.67%

Source: Calculated from research results.



The large proportion of co-operatives without members who possess any industry experience indicates that relevant industry experience does not appear to play a role when support to co-operatives is considered. The research of Dvir, Sadeh, and Malach-Pines (2010) posit that personality traits have not predicted entrepreneurial success. Despite this, they conclude that background characteristics have been shown to play a role. These findings are confirmed by Haber and Reichel (2007) and Simpson, Tuck, and Bellamy (2004).

It is possible that many of those co-operatives which were started due to improper influence (promises of funding and the impression that co-operatives are funded more easily than other businesses in Table 1) could have been formed in order to gain access to funding and not due to entrepreneurial aspirations. Wessels (2014) hypothesises that the likelihood of successful enterprise growth is fairly low and that a higher failure rate of co-operatives as formal enterprises will unquestionably follow if there is undue influence on members in communities to form co-operatives.

Despite the challenges offered when co-operatives are initiated from the top—and the threat to the voluntary and open membership aspect of co-operatives as intended in the first ICA principle (ICA, 2010)—it appears that support agencies are continuing these practices. This threatens the long-term survival prospects of the co-operatives in which they are involved.

### **The Effect of Government and Support Agency Support**

Eighty of the co-operatives in the study have received support from different government departments and agencies, 61 of these from SEDA and 46 each from the National Empowerment Fund and the Small Enterprise Finance Agency.

**The extent of support.** Of the worker co-operatives taking part in the study, 61 (54.95%) indicated that they had received grants or funding before or since start-up. The total amount in funding received by the co-operatives included in the study was R61,636,282 (US\$4,741,252). The largest amount of funding to one co-operative

was R20,150,000 (US\$1,550,000) and 13 received grants or funding in excess of R1,000,000 (US\$76 923).

Of the funded co-operatives in the study, 37.7% received funding or grants from more than one support organization. This might indicate a fair amount of *double dipping*, where co-operatives successfully apply to different organisations for funding for the same purpose.

No pre-start up research was carried out for 11.47% of funded worker co-operatives and complete business plans were developed for only 47.54% of them, thus, indicating that 52.5% were funded or received grants without having submitted a business plan. These findings confirm the challenge with a lack of feasibility studies in development projects as identified by Harms (2012).

Thirty-four of the co-operatives in the study indicated that they received support on financial management while 32 received support on business planning. Other predominant forms of non-financial support were Mentorship (32), Tender assistance (25), Marketing and Promotional Material (24), and Coaching (21). Support, especially Mentorship and coaching, were provided to the co-operative as an entity and not to individual members.

The most prevalent training for representatives of the co-operatives in the study was recordkeeping and filing, with 57 of the participating co-operatives indicating that at least some of their members received training in this regard. Of the co-operatives, 54 received training in basic bookkeeping, 48 in marketing, 35 each in business management and technical aspects, 33 in basic business skills, and 29 in financial management.

Of the co-operatives which received support from external institutions, 54.1% stated that these institutions were very supportive, while 21.31% of the co-operatives indicated that they had not seen employees from these institutions since receiving their funding. This finding conflicts starkly with the need for sustained support, as suggested by Philip (2003). Moreover, more than half of the worker co-operatives (54.55%) indicated that they did not have regular contact with supporting agencies for advice, counselling, guidance, or auditing purposes.

**The financial impact of support and funding.** The main findings with regard to the effect of funding on the worker co-operatives in the study are depicted in Table 2.

Table 2

*Summary of Findings With Regard to Funding*

Factor		Funded	Non-funded	All
% of co-operatives that are profitable		41.1%	21.43%	35.64%
% that are able to cover operational expenses		39.24%	20.69%	34.26%
% able to expand operations without external funding		13.92%	10.34%	12.96%
Member income (per member pm)	<R200	31.34%	50%	36.26%
	R200 – R499	25.37%	41.67%	29.67%
	R500 – R954	17.91%	8.33%	15.38%
	R955+	25.37%	0%	18.68%
Turnover per month (<R10 000)		76.56%	87.50%	77.27%
Positive cashflow	Never and rarely	45.33%	78.57%	44.37%
	Sometimes	26.67%	21.43%	25.24%
	Usually	17.33%	0%	12.62%
	Always	5.33%	0%	3.88%

Source: Calculated from research results.

From the table, it is clear that the funding had a positive effect on the financial position of individual worker co-operatives; however, even after receiving on average R770,453 (US\$59,266) per worker co-operative in funding, more than 60% of the supported co-operatives still remained unable to cover their operating expenses. More than 86% were unable to expand operations without additional funding; furthermore, 74.63% remained unable to pay members an adequate income while most of them still realised an infrequent positive cash flow.

The success of support lies in assisting worker co-operatives to achieve total financial independence, thus, meeting a combination of financial criteria. Theron (2008) as quoted earlier, concurs that

the emphasis should be on financial management, solvency, profitability, financial sustainability, market penetration, and return on investment.

**The effect of support on the management and operations of worker co-operatives.** In terms of the differences in support received by successful versus unsuccessful worker co-operatives four constructs were identified; they were: Mentorship and Coaching; Management and Operational Support; Financial Management Support, combining Procurement Processes and Financial Management; and Marketing Support, combining Marketing and Promotion with Tender Applications).

The results of the statistical analysis revealed no statistically significant differences in the support received by the relatively successful group compared to the unsuccessful ones; for this reason, it may be deduced that the difference in success between the two groups was not due mainly to the amount of support they received. Although the unsuccessful group of worker co-operatives in the study did not receive significantly less support than the relatively successful ones, it made no difference to their success; furthermore, there was no statistically significant difference with regard to training found between the relatively successful and the unsuccessful groups. Again, four constructs regarding trainings were also identified, namely:

1. Training, containing all the questions with regard to business training in the questionnaire ( $d=0.4$ ,  $p=0.22$ );
2. Management training ( $d=0.1$ ,  $p=0.76$ );
3. Marketing training, combining marketing and tender trainings ( $d=0.3$ ,  $p=0.5$ );
4. Financial training, combining financial management, basic bookkeeping and recordkeeping and filing training ( $d=0.1$ ,  $p=0.8$ ).

As in the case of the support, the training seems to have made no significant difference to the success of the co-operatives in the

study. The results show that serious questions will need to be asked about two issues; firstly, the types of training conducted; and secondly, about the means by which the training is conducted with regard to practical knowledge gained.

The findings in respect of the differences in the operations and management of supported versus unsupported worker co-operatives are summarised in Table 3.

Table 3

*Differences in the Operations and Management Between Supported and Unsupported Worker Co-Operatives*

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**Practically significant effect**

Calculation of distribution costs ( $\Phi=0.5$ ,  $p=0.0001$ )

**Noticeable statistical effect**

Networking activities and decision-making (both  $d=0.6$ ,  $p<0.0001$ )

**No statistically significant effect or small/negligible effect**

Financial management ( $d=0.3$ ,  $p=0.17$ ) and financial analysis ( $d=0.3$ ,  $p=0.14$ )

Marketing activities ( $d=0.1$ ,  $p=0.40$ )

Competitor analysis ( $\Phi=0.2$ ,  $p=0.02$ ) and keeping up-to-date with market trends and movements ( $\Phi=0.2$ ,  $p=0.01$ )

Advertising other than word of mouth ( $d=0.2$ ,  $p=0.45$ )

Customer relations ( $d=0.1$ ,  $p=0.59$ )

Marketing challenges ( $d=0.3$ ,  $p=0.01$ )

Operational management, such as stock control ( $d=0.01$ ,  $p=0.97$ ), operational administration ( $d=0.3$ ,  $p=0.11$ ), management systems and policies ( $\Phi=0.02$ ,  $p=0.85$ ) and the use of formal goals and objectives ( $\Phi=0.1$ ,  $p=0.24$ )

Remuneration ( $d=0.4$ ,  $p=0.07$ ), HR systems ( $d=0.3$ ,  $p=0.22$ ), working conditions ( $d=0.02$ ,  $p=0.91$ ) and the motivation of employees ( $d=0.1$ ,  $p=0.50$ )

Conflict ( $d=0.3$ ,  $p=0.08$ ) and strategic management ( $d=0.4$ ,  $p=0.04$ )

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Source: Calculated from research data.

From the table, it is clear that the impact of support initiatives on the way worker co-operatives are managed and run is minimal; in fact, the support only influenced the calculation of distribution costs, networking activities and the way in which decisions were made. These findings imply that the way in which support initia-

tives are implemented and the nature of the support should be reconsidered. It is hoped that this issue will be addressed by means of the recommendations, which are presented in terms of worker co-operative development below.

## **Conclusion and Recommendations**

The study revealed numerous challenges in the way in which South African worker co-operatives are supported. It is hoped that government entities will take note of and address these in future support initiatives in order to increase the general business success of the sector.

### **Integrated Approach**

Government development efforts should be left to developmental agencies, with government departments playing a purely supporting role. In order to prevent *double dipping* and the duplication of support services, a central database should be established in order to track the assistance of worker co-operatives by support agencies.

### **Motivation to Start Worker Co-Operatives**

The concept that anyone can both start and run a business has been marketed by government departments and small business chambers during recent years. That this is evident in worker co-operatives is clear from the amount of improper influence on starting or joining of the worker co-operatives in the study. Research results quantifiably prove that this assumption is untrue. Timmons (1999) identifies it as a myth, stating that starting up a business is the easy part. Surviving, sustaining, and building the business is the difficult part; therefore, government departments, development agencies and their employees should cease to promote co-operatives—in particular worker co-operatives—as an easy way to obtain money and (or) funding. This practice leads to the initiation of hundreds of worker co-operatives that should never have existed at all.

### **Support by Development Institutions**

To ensure effective support and improve the probability of survival of worker co-operatives the following support is necessary.

**Pre-start up research and planning.** An objective evaluation of the business opportunity, the worker co-operative and its members and the fit between the opportunity and the co-operative should be conducted. This implies that the members should possess the required industry and business skills, knowledge, and experience in order to make a success of the venture; if not, realistic plans to ensure that the correct amount of knowledge and skills are obtained prior to start-up should be established, either by bringing in members to fill the gaps, or by training. If this is not possible, the co-operative should not be established.

It is necessary to carry out market research and develop business plans that truly investigate the existence of an opportunity, and not merely to ensure funding. The research should take into account the number of members to be supported by the co-operative to ensure that, if the opportunity exists, it will be able to generate sufficient turnover, and will be sufficiently profitable, to support the number of members and to pay members and employees decent wages.

**Grants and loan funding.** The ease of funding and the expectation of continuous funding remove any urgency and lead to complacency and a lack of motivation to make the business operational and profitable. Worker co-operative members are aware that when funds dry up at one institution, a probably successful application may be lodged at another institution. This factor complicates the situation further. For these reasons, the grant systems of different government departments and agencies should be reconsidered in favour of non-interest bearing loans or part grant and part loan.

**Training.** The requirement mentioned earlier, stating that at least some members have the necessary technical knowledge to be able to operate the co-operative, will call for effective partnerships

between various stakeholders involved in technical training. It is clear from the results that business-related training as it is currently carried out, is not having the desired effect. It is, therefore, recommended that a more developmental approach be utilised with regard to business-related training. Follow-up, either in the form of visits and consultations by the support agency practitioner or through a mentorship programme is recommended to ensure that what was learned is implemented.

It is a further requirement that all the members of the co-operative and not only directors be trained to prevent ordinary members from being alienated by the Board of Directors on account of a lack of knowledge and consequently an inability to take part in discussions during member meetings. This submission is confirmed by the findings of Cornforth et al. (1988) that the skills gap that may develop between the Board and ordinary members represents a major challenge in worker co-operatives.

**Assessment.** Thorough, objective assessments should be conducted in respect of existing worker co-operatives and those with potential to survive without continued external funding and support identified. Alternatives should be sought for those who would not be able to survive and the option of turnaround strategies contemplated. If this proves to be impossible and the co-operative is too deeply in trouble to render it financially viable, all assistance should be stopped.

Assistance for those with potential and those that have been surviving without funding should be determined by the assessment. A meeting between various stakeholders and members of the co-operative will then become necessary to develop a project plan for the survival and growth of the enterprise. The project plan should include specific milestones to be met. It is necessary to inaugurate monitoring and regular meetings to assess progress and to contemplate changes to the project plan after the achievement of each milestone.

**Mentorship and coaching.** Training and development should ensure that members know the basics of strategic and business



management, operations, HR practices, financial management and marketing. Mentorship and coaching should assist in the implementation of these. Mentors should have the necessary industry, technical, and business knowledge to be able to lead the members of the co-operative to growth. Mentors should, furthermore, be trained for their role, which would include training in co-operative management.

A clear mentorship plan should be developed, in terms of which the objectives, the role of the mentor and the members of the co-operative are clearly set out and the exit strategy is discussed. The programme should stress the fact that mentors are there to lead, guide, advise, and assist, but not to perform the work. The formalisation of systems applicable to the co-operative and at the level at which it is expected to operate, should form part of all mentorship programmes.

### **Tertiary Qualifications and Research**

Tertiary institutions should be mandated to develop co-operative management qualifications. This will enable support agency employees and co-operative managers to obtain a qualification in this field, thus, leading to improved support and—in the case of co-operative members and managers—to improved management capabilities in the sector.

It is anticipated that the establishment of qualifications specific to this sector will lead to further research into the operational aspects and management of these businesses; this, in turn, will lead to an improved body of knowledge and specialization.

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## Psychological Contract and Organizational Change: Assessing M&As' Impact on Survivors of Pharmaceuticals in Puerto Rico

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### ■ ABSTRACT

Mergers and acquisitions (M&A) affect the psychological contract of employees. This study assessed the impact of the M&A on survivors' psychological contract, job satisfaction, organizational commitment, turnover intention, and whether credible explanation moderated employees' reactions. Statistical analyses were performed on data gathered from 196 respondents of two pharmaceuticals in Puerto Rico. Results revealed an inverse correlation between perceived psychological contract violation (PCV) and the variables job satisfaction and organizational commitment. They also confirmed the direct correlation between PCV and the variable turnover intention. This study found an effect of the moderating variable credible explanation on the variables job satisfaction and organizational commitment. An understanding of psychological contract theory may reduce the perceived violation and its impact on employees' attitudes.

**Keywords:** psychological contract violation, mergers and acquisitions, job satisfaction, organizational commitment, turnover intention

### ■ RESUMEN

Las fusiones y adquisiciones (F&A) afectan el contrato psicológico de los empleados. Este estudio evaluó el impacto de las F&A en el contrato psicológico, la satisfacción laboral, el compromiso organizacional, la intención de dejar la empresa, y si la explicación creíble moderó las reacciones de los empleados. Se realizaron análisis estadísticos de los datos de 196 encuestados de dos farmacéuticas en Puerto Rico. Los resultados revelaron una correlación inversa entre la percepción de violación del contrato psicológico (VCP) y las variables satisfacción laboral y compromiso organizacional. También confirmaron una relación directa entre la VCP y la variable intención de marcharse. Este estudio encontró un efecto de la variable moderadora explicación creíble sobre las variables satisfacción laboral y compromiso organizacional. La comprensión de la teoría del contrato psicológico puede reducir la violación percibida y su impacto en las actitudes de los empleados.

**Palabras clave:** violación del contrato psicológico, fusiones y adquisiciones, satisfacción laboral, compromiso organizacional, intención de marcharse de la empresa

Changes, such as mergers and acquisitions (M&A), involve changes in management, organizational climate, workforce composition, and bring a sense of uncertainty and insecurity to survivors. Survivors refer to employees who remain within an organization after a significant organizational change (Baruch & Hind, 2000) such as mergers and acquisitions. M&A activity is increasing and will continue to grow (Weber, Tarba, & Öberg, 2013).

In the pharmaceutical environment, M&A have proven to be very popular as they have been used both for creating strong companies and for conquering new markets; currently this industry is one of the most expansive and profitable industries in the world (Condrat & Boboia, 2012). Some of the top U.S. and global pharmaceuticals operate in Puerto Rico, and their M&A activities directly affect Puerto Rican employees.

A main support of Puerto Rico's economy is the manufacturing sector (47.5% of GDP). According to the Pharmaceutical Industry Association of Puerto Rico, (PIAPR, 2013), the biopharmaceutical industry represents 26.5% of the Island's GDP; 60% of all Island imports, and 98% of all Island exports; and generates over 86,000 jobs (18,000 direct and 68,000 indirect). The importance of this industry supports focusing on the assessment of Puerto Rico's pharmaceutical sector and its survivors as an object of study, specifically, within the context of M&A.

Although the financial value of the M&A activity is generally easy to calculate, the human value and cost of these transactions are not. Researchers have argued the primary reason M&A fail is the lack of consideration of the human factor (Weber et al., 2013). Survivors are described as experiencing "merger syndrome" (Buono & Bowditch, 1989/2003); hence, the financial results of M&A are hard to explain without considering M&A's human side (Cho, 2003). The present research addresses the effect of both perceived psychological contract breach (PCB) and psychological contract violation (PCV) on survivors' attitudes after M&A.

Business disruptions such as M&A affect employees' perceptions of their psychological contract with their employer. Mergers are used to gain market share, competitive advantage, increased



revenues, and risk and product diversifications (Ferrer, 2012). Employees may perceive a PCB as organizations change (Robinson & Rousseau, 1994). Employees' perceptions of a PCV may engender negative outcomes, such as diminished performance, organizational commitment, job satisfaction and reduced trust (Agee, 2000).

The objective of this study was to investigate from a psychological contract perspective the attitudes of survivors of M&A within the pharmaceutical industry in Puerto Rico. Specifically, the researcher assessed the effects perceptions of PCB and PCV had on job satisfaction (JS), commitment to the organization (CO), and turnover intention (TI) of survivors of M&A, of companies within the pharmaceutical industry that merged five or six years ago.

A literature review on psychological contract theory shows that contracts, whether written or oral, are exchange agreements that bind the transacting parties and regulate their activities and are enforced, or at least recognized, in law (Farnsworth, 1982; cited in Rousseau, 1989). In any employment relationship, there are three main types of contracts: formal (a written agreement between two parties that clearly specify the obligations of both sides), implied (an agreement between two parties based on previous interactions with one another), and psychological (an individual's subjective beliefs and perceptions regarding the terms and conditions of a perceived agreement that individual has established with another party; Rousseau, 1989). All contracts have a psychological component, which is inherently perceptual and deals with implicit details and perceived obligations beyond those that can be explicitly described in formal legal terms (Pavlou & Gefen, 2005), which result from all contracts being inherently incomplete (MacNeil, 1980). Psychological contract theory posits that a social element exists in contractual relationships, according to the social exchange theory (Agee, 2000; Coyle-Shapiro & Conway, 2005).

The present research is based on the theoretical contribution of Rousseau's (1989) psychological contract, which marked a fundamental shift in the meaning and functioning of contracts. As proposed, employees perceive a violation to such contracts when the organization adapts to environmental challenges through significant

changes. The present study adopted an idiosyncratic perspective of the psychological contract, since Rousseau defined psychological contract as “an individual belief, shaped by the organization, regarding terms of an exchange agreement between individuals and their organization” (p. 9). This belief arises from the perception that a promise has been made, such as of employment or career opportunities, and a consideration offered in exchange for it, such as accepting a position or foregoing other job offers (Rousseau & Tijoriwala, 1998). By definition, psychological contracts exist on an individual level and are based solely upon an employee’s perceptions (Morrison & Robinson, 1997) and begin to form very early in the employee-employer relationship (Baker, 1985); as such, these beliefs may diverge from what is in writing and from interpretations by other parties (Rousseau & Tijoriwala, 1998). Rousseau (1995) posited that a key feature of a psychological contract is that the individual voluntarily assents to make and accept certain promises as he or she understands them. It is what the individual believes he or she has agreed to, but not what that person intends, that makes the contract.

The general terms researchers have focused on in the study of psychological contracts are the ends of a contractual continuum; “transactional” and “relational” (Rousseau, 1989, 1995). Transactional terms are exemplified by a “fair day’s work for a fair day’s pay,” focusing on short-term monetizable exchanges. Relational contracts focus on open-ended relationships involving considerable investments by both employees (company-specific skills, long-term career development) and employers (extensive training), and is the focus of the present study because of the long-term, highly subjective, and dynamic nature of the relationship between the survivors of M&A and their employers.

Although the literature uses the terms PCV and PCB interchangeably, this study distinguishes them because even though both constructs are closely related, they are measured differently. A contract breach is the perception of a discrepancy between what was promised and what was actually experienced, while a contract violation is the intense affective experience that frequently follows

that perception (Morrison & Robinson, 1997). After either, an employee may experience a reduction in JS or organizational commitment, and increase his or her turnover intention.

## Theories and Hypotheses

The present research is grounded on the framework of the psychological contract theory, which is defined as “an individual belief, shaped by the organization, regarding terms of an exchange agreement between individuals and their organization” (Rousseau, 1989).

The study has evaluated the relationship between perceived PCV and M&A survivors’ job satisfaction, organizational commitment, and turnover intention. Further, the study attempted to evaluate the moderating effect of the economic crisis as a justification or credible explanation that reduces the perception of psychological contract breach and violation on the attitudinal outcomes of survivors of mergers and acquisitions. The present research has proposed four hypotheses to be tested, expressed in terms of null hypotheses ( $H_0$ ) and alternative hypothesis ( $H_1$ ). The latter are the substantive or research hypotheses.

### Psychological Contract and Job Satisfaction

JS is the perception that one’s job fulfills the important values that are congruent with one’s needs (Locke, 1976), the emotional response or feeling (positive or negative) an employee has about her or his job (Martin & Bennett, 1996), and an employee’s attitude, a summary evaluation, about the job from a variety of aspects (Boes, 2006). Violation of these perceptions is associated with lower levels of JS (Robinson & Rousseau, 1994); thus, the first hypotheses on the relationship between perceived PCB and PCV and JS in pharmaceutical companies facing M&A in Puerto Rico follow:

*Hypothesis 1a. There is an inverse correlation between M&A survivors’ perception of psychological contract breach and job satisfaction.*

*Hypothesis 1b. There is an inverse correlation between M&A survivors' perception of psychological contract violation and job satisfaction.*

### **Psychological Contract and Organizational Commitment**

Organizational Commitment (OC) is an important variable in understanding the work behavior of employees in organizations (Mowday, Steers, & Porter, 1979). OC comprises three factors: the desire to remain an employee, the willingness to exert effort on behalf of the organization, and the acceptance of the organization's values (Allen & Meyer, 1990); and is tied to the concept of psychological contract (Rousseau, 1989). Meyer and Allen (1997) further stated that OC reflects three broad themes: an affective orientation to the organization (affective commitment), a recognition of costs associated with leaving the organization (continuance commitment), and a moral obligation to remain with the organization (normative commitment); and each is influenced by different factors, including PCB and PCV. OC is a more stable attitude than JS and may be more effective in measuring employees' attitudes toward their work environment (Boes, 2006), because a violation may signal to an employee that the organization does not care for his or her well-being, and the employee might perceive lessened organizational support (Boes, 2006); thus, the second hypotheses regarding the relationship between PCB and PCV and OC follow:

*Hypothesis 2a. There is an inverse correlation between M&A survivors' perception of psychological contract breach and organizational commitment.*

*Hypothesis 2b. There is an inverse correlation between M&A survivors' perception of psychological contract violation and organizational commitment.*

### **Psychological Contract and Turnover Intention**

According to Guchait (2007), behavioral intentions (intention to leave) are the most immediate determinant of actual behavior. High turnover rates incur significant costs in organizations through

reduced productivity, lost sales, unstable corporate image, and tarnished reputation (Singh, 1999). Several studies confirm that OC is negatively related to TI (Guchait, 2007). Due to the relevance of these concepts, the study explored the relationship between PCB and PCV and TI; thus, the following hypotheses were formulated:

*Hypothesis 3a. There is a direct correlation between M&A survivors' perception of psychological contract breach and turnover intention.*

*Hypothesis 3b. There is a direct correlation between M&A survivors' perception of psychological contract violation and turnover intention.*

### **The Moderating Effect of a Credible Explanation**

According to Agee (2000), when an organization fails to fulfill the terms of its psychological contract, there is the possibility that it will not be held solely accountable for the breach. A moderator such as a credible explanation justifying the employers' actions may mitigate employee attitudes. A credible explanation (CE) is a strategy for reducing the experience of violation that targets both the actual losses incurred as well as the perception of these losses, a justification for the actions taken (Rousseau, 1995). Even when promises are made in good faith, a changing in the internal or external environment or an unanticipated decrease in the availability of resources may preclude the organization from keeping them (Morrison & Robinson, 1997). The idea of a CE such as an economic crisis might reduce the perception of violation if it serves as a justification for the employers' actions. In this respect, rather than seeing the M&A as a breach or violation of the psychological contract, it might give the perception of being inevitable due to economic constraints (Sronce & McKinley, 2006), helping to reduce its negative effect on employee's attitudes. This concept led to formulating the following hypotheses:

*Hypothesis 4a. The perception of the economic crisis as a credible explanation for employers' merger decision reduces the perception of psychological contract breach and its effects on M&A survivors' attitudes.*

*Hypothesis 4b. The perception of the economic crisis as a credible explanation for employers' merger decision reduces the perception of psychological contract violation and its effects on M&A survivors' attitudes.*

## Method

### Sample and Procedure

Participants of this study were managerial and non-managerial employees from two pharmaceuticals with similar products, operating in Puerto Rico, and were selected by availability. All of them were survivors of M&A. A convenience sample ( $n = 196$ ) participated. Employees were informed of the goals of the study and were invited to participate. Respondents' identification information and the two company names (represented as F1 and F2) were held confidentially. The researcher distributed 210 measurement instruments to employees (105 to each plant). Employees answered 201, but five were eliminated due to missing data; thus, 196 (93.3% response rate) were used for analysis. The sample was comprised of 59% males, with 41% between 31 and 40 years old. In both plants, the majority of employees were full-time and had a permanent contract. In both plants, the majority of respondents did not supervise other employees.

In F1, 54.9% of total respondents were female and 45.1% were male. In F2, 27.6% of total respondents were female and 72.4% were male ( $p$ -value  $< .01$ ). In F1, a ratio of six of each ten employees lies on the range of 40 years old or younger. A little more than half of them are married, and eight of each 10 have obtained at least an associate degree education. The profile of employees from F2 shows that half of employees are 40 years old or younger; six of each 10 are married; and 7 of each 10 possess at least an associate degree education.

Respondents' results in terms of employment characteristics are as follows. There is statistical significant difference between the times employees are working for their respective companies. In F1, nearly 35 % of employees have been working for the firm between 6 and 10 years, while in F2 only 6% fall in the same time range. The

other ranges of years present similar results, with a  $p$ -value  $< .01$ . In both plants, the majority of employees is fulltime and has a permanent contract. In both plants, the majority of respondents do not supervise other employees. The employees who answered that they have supervisory responsibilities include both non-managerial (line) employees and managerial employees; however, there is a statistically significant difference between the two plants regarding the managerial and non-managerial positions of the employees, where  $p < .05$ . Five percent of F1 employees have managerial positions compared to 18% in F2. There is also a significant difference on annual salary between the two plants. F1 has more employees with salaries under \$20,000 than F2, nearly 29% compared to only 8%. F1 has fewer employees with annual salaries over \$50,000 than F2, 14% compared to nearly 25% ( $p$ -value  $< .01$ ). The estimated average annual salary is \$32,857 in F1 and \$37,602 in F2.

### Research Design

The methodology used in this research is a non-experimental, cross-sectional correlation study, which refers to a statistical test to establish patterns for two variables (Creswell, 2002, 2003; Schwab, 2004). The independent variables of this study are PCB and PCV as experienced by survivors of M&A within the pharmaceutical industry in Puerto Rico. The moderating variable is the credible explanation of an economic crisis as a justification for the merger decision. The dependent variables are job satisfaction, organizational commitment, and turnover intention.

The data collection consisted of survey research with quantitative responses. For measuring the variables under study, six previously developed and validated instruments were used, with permission granted by their authors. All used a 7-point Likert-type scale ranging from 1 (*strongly disagree*) to 7 (*strongly agree*). An academic expert certified the correct translation of the instrument items from English to Spanish. PCB was measured using Robinson and Morrison's (2000) 5-item instrument. PCV was measured using Robinson and Morrison's 4-item instrument. CE was measured using a

4-item scale comprising a shortened version of Robinson and Morrison’s scale for causal attribution, specifically the two items that measure the disruption. Two new items were designed for this study including: “I understand that the economic crisis hindered my employer from fulfilling his promise.” JS was measured using part of Hackman and Oldham’s (1980) Job Diagnostic Survey; a 5-item measure focused on “general satisfaction.” OC was assessed using Meyer, Allen, and Smith’s (1993) 18-item scale (revised version) that measures the three components of OC: affective, continuance, and normative commitment, with 6 items for each. This scale has been previously translated and used in other empirical researches that validate it (e.g., Cedeño & Pirela, 2002, with a reliability coefficient of .8002). Finally, TI was assessed using a combined version of Wayne, Shore, and Liden’s (1997) 5-item scale and Lum, Kervin, Clark, Reid, and Sirola’s (1998) 3-item scale.

## Results

### Data Analysis

Statistical analyses were performed to verify the properties of the measures. Table 1 shows the mean and standard deviation of each variable under study. To determine whether there were statistically significant differences between the two plants, *p*-values are also included.

Table 1

*Aggregate Means of Variables Under Study, by Company*

Variable	F1			F2			p-value
	N	Mean	S.D.	N	Mean	S.D.	
Job satisfaction	94	5.56	1.00	102	5.90	0.90	<.05
Organizational commitment	94	4.57	1.79	102	5.11	0.88	N.S
Turnover intention	92	4.12	1.17	102	2.18	1.29	<.05
Credible explanation	91	4.59	1.52	102	4.45	1.51	N.S
Psychological contract breach	90	2.71	1.29	101	2.92	1.36	N.S
Psychological contract violation	90	2.24	1.47	101	1.84	1.25	<.05

Source: Own elaboration.



Cronbach’s alphas were used to evaluate construct reliability. Table 2 presents the values of Cronbach’s alphas for the variables. Overall, the results showed adequate levels of reliability.

Table 2

*Cronbach’s Alpha*

Instrument scale	Items	Cronbach’s alpha
Job satisfaction (JS)	1-5	0.593
Organizational commitment (OC)	6-23	0.822
Turnover intention (TI)	24-31	0.829
Credible explanation (CE)	32-35	0.790
Psychological contract breach (PCB)	36-40	0.808
Psychological contract violation (PCV)	41-44	0.879
Total	1-44	0.643

Source: Own elaboration.

The study applied statistical tools for the construction of a structural model to confirm the model and to test Hypothesis 4. They involve the use of confirmatory factor analysis to develop an acceptable measurement model. Overall, the results showed adequate levels of acceptance.

**Testing of Hypotheses**

Table 3 displays the results of the correlation analyses to test the hypotheses. Hypothesis 1 anticipated an inverse relation between PCB and JS, and between PCV and JS. Hypothesis 2 posited an inverse relation between PCB and PCV with OC. Hypothesis 3 predicted a direct relation between PCB and PCV with TI. As anticipated, overall, the hypotheses were supported.

Table 3

*Aggregate Correlation Coefficients Between Variables for the Total Sample*

	Aggregate values		
	Psychological contract breach	Psychological contract violation	Credible explanation
Job satisfaction	-0.348**	-0.353**	0.261**
Organizational commitment	-0.391**	-0.383**	0.486**
Turnover intention	0.129 <sup>N.S.</sup>	0.369**	-0.044 <sup>N.S.</sup>

*Note.* Significant levels: \**p-value* < 0.05, two-tailed. \*\**p-value* < 0.01, two-tailed.

N.S. = No statistical significance.

Source: Own elaboration.

The present study applied advanced statistical tools for the construction of a structural model in order to test Hypothesis 4 through mediation analysis. They involve the use of confirmatory factor analysis to develop an acceptable measurement model. The test of a measurement model allows the researcher to assess whether observed variables are really measuring the underlying theoretical constructs, and whether the measurement model provides evidence of an acceptable fit to the sample data. Structural Equation Modeling (SEM) with Analysis of Moment Structures (AMOS) performed those specialized tests. SEM is a statistical methodology that takes a confirmatory (i.e., hypothesis testing) approach to the analysis of a structural theory bearing on some phenomenon (Byrne, 2010; p. 3). Typically, this theory represents causal processes that generate observations on multiple variables (Bentler, 1988, in Byrne, 2010; Pearl, 2012). Byrne (2010) explains that “if goodness-of-fit is adequate, the model argues for the plausibility of postulated relations among variables: if it is inadequate, the tenability of such relations is rejected”. Two relevant fit statistics of SEM are Comparative Fit Index (CFI) and Root Mean Square Error of Approximation (RMSEA).

Structural Equation Modeling (SEM) with Analysis of Moment Structures was applied to test hypothesis 4, which predicted that a CE such as an economic crisis would have a moderating effect on the relation between independent variables and dependent vari-

ables. First, correlations were calculated for the moderating variable CE and the two independent variables, PCB and PCV. Table 4 displays the results by plant and for the entire sample. These correlation values were calculated taking into account the aggregate results of all the items that comprise CE, PCB, and PCV.

Table 4

*Correlations Between the Moderating Variable and the Independent Variables*

Independent variables	CE (Moderating variable)			Interpretation
	F1	F2	Total	
PCB	-0.483**	-0.452**	-0.467**	Moderate
PCV	-0.421**	-0.286**	-0.342**	Moderate

*Note.* Significant levels: \*\* p-value < 0.01

Source: Own elaboration.

Using maximum likelihood estimation, which yields the most precise (smallest variance) estimate (Ullman, 2006), 18 indicators were selected, representing two to four indicators for each of the six latent variables. The lowest acceptable threshold for factor loading is .40 (Matsunaga, 2011) but should exceed .60 (Hair, Anderson, Tatham, & Black, 1998); thus, a factor load greater than .50 is acceptable. Table 5 depicts the correlations or factor loadings between factors (latent constructs) and their respective indicators (observed variables).

Table 5

*Coefficients Between Latent Constructs and Observed Variables*

Latent construct	Observed variable	Observed variable description	$\beta$
Job satisfaction	JS1	En general, estoy satisfecho(a) con mi trabajo.	.74
	JS3	En general, estoy satisfecho(a) con el tipo de trabajo que desempeño.	.70
	JS4	La mayoría de los empleados están satisfechos con su trabajo.	.56
Organizational commitment	OC2	Percibo que pertenezco a la organización.	.70
	OC7	En este momento, permanecer en la organización es un asunto de necesidad tanto como de deseo.	.64
	OC16	La organización merece mi lealtad.	.56
Turnover intention	TI2	Tan pronto tenga un mejor empleo, saldré de la organización.	.63
	TI7	En los pasados meses, he pensado seriamente en buscar trabajo en otra industria.	.88
	TI8	El próximo año, realizaré un gran esfuerzo en buscar un nuevo empleo.	.81
Credible explanation	CE1	Cuando el patrono no cumplió una promesa se debió a circunstancias fuera de su control.	.84
	CE2	En la mayoría de los casos, cuando mi organización incumplió una promesa, se debió a factores no anticipados.	.87
	CE3	La crisis económica que afectó a mi patrono, impidió que cumpliera sus promesas.	.68
Psychological contract breach	PCB4	No he recibido todo lo que el patrono prometió a cambio de mis contribuciones.	.66
	PCB5	El patrono ha roto muchas de sus promesas, aun cuando he mantenido mi parte del trato.	.93
Psychological contract violation	PCV1	Me siento muy frustrado(a) por el trato recibido por la organización.	.81
	PCV2	Me siento traicionado(a) por la organización.	.85
	PCV3	Siento una gran ira hacia mi organización.	.79
	PCV4	Percibo que la organización ha violado el contrato entre ambos.	.81

*Note.*  $\beta$  = Factor loadings between latent constructs and observed variables. Factor loadings should exceed .60. Factor loadings > .50 are acceptable.

Source: Own elaboration.

SEM builds the model structurally and incorporates more variables into the equation to determine whether there was a moderating effect on dependent variables. Overall, the results showed adequate levels of acceptance (CFI = .914, TLI = .880, RMSEA = .070). Figure 1 shows the entire Structural Equation Model of the variables under study.

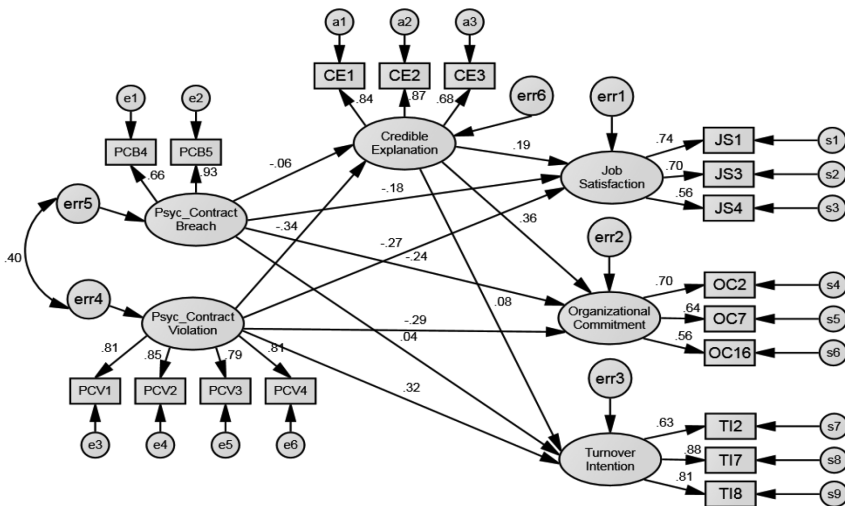


Figure 1. Final Structural Model framework.

Table 6 depicts the decomposition of structural effects. It summarizes the values of direct effects of the independent variables PCB and PCV and their indirect effects through the moderating variable CE upon the dependent variables JS, OC, and TI, and the total effects.

Table 6

Standardized Structural Effects for the Entire Model

Effect of	Effect on								
	JS			OC			TI		
	Direct	Indirect	Total	Direct	Indirect	Total	Direct	Indirect	Total
PCB	<b>-.175</b>	-0.014	<b>-.186</b>	<b>-.244</b>	-0.021	<b>-.265</b>	.042	-0.004	.037
PCV	<b>-.272</b>	-0.065	<b>-.337</b>	<b>-.287</b>	-0.122	<b>-.409</b>	<b>.325</b>	-0.025	<b>.299</b>
CE	<b>.194</b>	.000	<b>.194</b>	<b>.363</b>	.000	<b>.363</b>	.076	.000	.076

Source: Own elaboration.

There is a total, negative effect of PCV on JS and of PCV on OC. There is a direct effect of PCV on TI. The moderating variable CE reduces the total effect of PCV on TI, though its effect is weak. The total effect of PCB on JS and OC is important, but the total effect of PCB on TI is weak. SEM Analysis confirms hypotheses 1 and 2, as previously demonstrated by correlation analysis.

## Discussion

The present research empirically assessed whether organizational change adversely affects employees' psychological contract. Findings confirmed that an inverse relationship exists between both perceived PCB and PCV and JS and OC, as well as a direct relationship between perceptions of PCV and TI. SEM confirmed the proposed conceptual model, revealing goodness of fit among the variables under study.

Perceived breach and violation of the psychological contract reduce JS. There was a stronger inverse correlation between PCB and JS in F2 than in F1. Communication between employers and survivors of major organizational change, like M&A, may help employees to understand, interpret, and make sense of events. Accordingly, if employers dedicate time to communicate the reasons for the merger decision, this CE reduces the effect of the perceived PCV on employees' attitudes. In F1, the organization's agents clearly informed employees of their new plans. According to the responses to the CE indicator, it appears that the lack of effective communication in F2 resulted in employees in F2 showing a stronger inverse correlation between PCV and JS. Communication dedicated to explaining organizational change helped employees to make sense of the changes, as posited by sense-making theory proponents (Weick, 1995). This supports the effect of the moderating variable on employees' attitudes. Accordingly, when analyzing the SEM results of indirect effect of PCV on JS through CE, separately by pharmaceutical, the effect of the moderating variable was diminished in F2, with a value of  $-.012$  compared to  $-.123$  in F1; consequently, a CE impacts employee attitudes, reducing the effect of PCV on JS. These findings

coincide with previous empirical research on PCV and JS, showing an inverse relationship between these variables (Kraft, 2008).

The effect of PCB and PCV on OC showed an inverse correlation for the entire sample, confirming perceived PCB reduced employee's commitment toward the organization in diverse cultural settings, among different types of employees, from various business sectors (Chiang, Liao, Jiang, & Klein, 2012; Freese, Schalk, & Croon, 2011; Robinson & Morrison, 1995). In F2, the correlation between PCB and OC was moderately significant, having a stronger inverse correlation than in F1. The effect of the moderating variable CE, which was lower than in F1, might explain this difference.

The aggregate value for the entire sample shows a positive, yet non-significant correlation between PCB and TI, but significant between PCV and TI. Findings coincide with previous researchers who revealed that a perceived PCV can increase M&A survivors' TI. In F2, the correlation between the perceived PCV and TI was significant. This indicates that perceived PCV has a strong direct relationship with employees' intention to leave the organization and that in multi-faceted employer-employee relations, and within diverse employment characteristics, a PCV significantly increases employees' TI; however, no correlation existed between PCV and TI in F1 (correlation coefficient = .099). In comparing some elements of employment characteristics of F1 and F2, there were significant differences between both plants. T1 had fewer employees working between 11 and 20 years (41.3%), annual salaries exceeding \$50,000 (14.3%) and a smaller percentage of managers (5.7%), compared to T2 (67.3%, 24.5%, and 18.1% respectively,  $p < .05$ ). Inferences can be drawn from these differences regarding employment attitude toward TI when experiencing PCV; thus, TI may be affected by tenure, position, and compensation.

Hypothesis 4 tested whether the perception of economic crisis as a CE for employers' merger decision reduced the perception of PCV and its effects on M&A survivors' attitudes. The CE of an economic crisis was the moderating variable, and the total effects analysis confirmed the predicted inverse correlation between the perception of PCB and PCV on JS and OC as well as supporting the

direct effect of PCV on TI. Although PCB had no important effect on TI, it shows an indirect negative effect, which means that the moderating variable might have the tendency to change the direction of the effect of PCB on TI.

One possible limitation of this study was the use of a self-report questionnaire. Several related empirical studies in diverse contexts, however, have validated the measurement instruments used. A second limitation of this study was the mono-method bias, frequently attributed to the utilization of a common method for data collection, such as self-report questionnaires with Likert-type scales. Spector (2006) argued that little scientific data unequivocally supports this view, and there are data to refute it. The inclusion of reverse-scored items in most of the constructs attenuated this threat to validity and contributed to validating the consistency of participants' responses to similar questions. A third limitation may be due to using a convenience sample. All participants, however, met the characteristics of the sample under study; survivors of M&A within the pharmaceutical sector in Puerto Rico and every employee willing to participate had the same opportunity to do so.

Organizational change is inevitable in fast-pacing globalized business environments and forces companies to find effective and adequate strategies to adapt to them. Understanding employees' attitudes and behavior patterns is an essential role of strategic and global human resources management in pursuit of organizational performance. An effective integration of all business activities through an adequate alignment of all organization stakeholders' interests, including attention to human capital and its dynamic psychological contract is of utmost relevance in every employment relationship, especially in the context of organizational change.

Employment relations are moving to transactional, short-term contract agreements with fewer benefits and less job security for employees; measure that represent savings for the company (i.e. Maguire, 2003). Labor-related legal aspects of this tendency should be a source of consideration, as well as the emotional effects on employees' performance, since that modality may lead to the death of employment permanency and its attendant side effects.



Future research on PCV after a merger should investigate the impact of such organizational change on basic conditions of employment, such as pay, working hours, job opportunities, development opportunities, job demands, new boss, new skills, retraining, and relocation; identifying the practical direct impact of M&A on employees. Based on the findings, tenure, position, and compensation seemed to have an impact on employees' TI, and could be a subject for future research. The effect of PCB and PCV should be studied and measured in the public sector. In government, a major organizational change occurs every four years after elections. This implies a never-ending sense of uncertainty and adaptation to a new psychological contract. Further research contributing to better management of change and improved employee attitudes is called for. In summary, this study is a useful tool to guide future research considering other factors, moderating variables, and labor sectors to enrich the literature on psychological contract perspectives and to better understand the effects of organizational change.

## Conclusion

Changes are inherent to any type of organizations in the present fast-paced globalized business environments. Their inevitability forces companies to find effective and adequate strategies to adapt to them considering all parts involved. Psychological contract theory is a relevant conceptual framework to study and analyze employees' reaction to organizational change. An appropriate and successful way to manage and deal with employees' reaction to major organizational change is to understand the implied and unwritten agreement comprised in employees' psychological contract. As confirmed in this study and in prior research, the psychological contract conceptual framework is a useful theory to assess the effect of M&A on employees' attitudes, such as JS, organizational commitment, and turnover intention. Employees' reaction to organizational change deserves attention from both the academia and practitioners in managerial positions, in order to comprehend the

inner dynamics caused by such changes and that inevitable affect organizational performance.

Psychological contract theory contributes to the field by providing explanation of the effect of psychological contract breach and violation upon employees' outcome. The present study expanded the scope of previous research by including the assessment of the impact of a moderating variable such as a credible explanation to justify employers' merger decisions on employees' perceived PCV. Beyond the direct effect of PCV on survivors' attitudes, there is opportunity for further examination of other indirect effects, which may be equally relevant to the study of organizational behavior. Those yet unidentified factors may comprise mediating components of the so-called "black box," which, according to Burke and Cooper (2006) consist of human capital, behaviors, organizational culture, organizational climate, attribution focus, and social exchange, among others, and relate to the linkage between Human Resources practices and organizational performance. Understanding employees' attitudes and behaviors patterns is an essential role of strategic and global human resources management in pursue of organizational performance. An effective integration of all business activities through an adequate alignment of all organization stakeholders' interests, including the attention to the human capital and their dynamic psychological contract is of utmost relevance in every employment relationship as well as in the context of major organizational change.

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## What is Marketing? A Study on Marketing Managers' Perception of the Definition of Marketing

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### ■ ABSTRACT

Several authors indicate that there is confusion about what marketing is, because there are multiple definitions and interpretations established in academic literature. This multiplicity about the conceptualization of marketing complicates the development of marketing functions and contributes to its decline within organizations. This study uses content analysis techniques to explore how marketing managers define the concept of marketing in Puerto Rican companies. The results show that 16% of managers define it using concepts related to strategic functions, 50% define it using concepts related to marketing tactics, and 28% state that it reflects both functions.

**Keywords:** marketing definition, marketing functions, marketing managers

### ■ RESUMEN

Varios autores indican que hay confusión acerca de lo que es mercadeo, porque existen múltiples definiciones e interpretaciones en la literatura académica. Esta multiplicidad sobre la conceptualización del mercadeo complica el desarrollo de las funciones de mercadeo y contribuye a su declinación dentro de las organizaciones. Este estudio utiliza técnicas de análisis de contenido, para explorar cómo los gerentes de mercadeo definen el concepto de mercadeo en compañías puertorriqueñas. Los resultados muestran que el 16% de los gerentes lo definen utilizando conceptos relacionados con funciones estratégicas, el 50% lo definen utilizando conceptos relacionados con las tácticas de mercadeo y el 28% expresan que refleja ambas funciones.

**Palabras clave:** definición de mercadeo, funciones de mercadeo, gerentes de mercadeo

The existence of different conceptualizations of marketing theory and the confusion as to what marketing is and what are its functions have been proposed (McDonald, 2009). Several authors indicate that the confusion about the conceptualization of marketing is due to the multiplicity of definitions and interpretations established by academic literature (e.g. Bolajoko, Salome, & Sikuade, 2013; Brooksbank, Davey, & McIntosh, 2010a, 2010b; Gamble, Gilmore, McCartan, & Durkan, 2011). Literature exposes a debate as to how broad or specific the definition of marketing should be; for example, Gronroos (2006) states the definition should be broad or generic as to include a wide variety of products and contexts (such as transaction-based marketing or relationship-based marketing). He established that the “marketing definition has to be somewhat abstract, without losing its power as a guideline for teaching and practicing marketing” (p. 397). On the other hand, McDonald (2009) states that many definitions of marketing are admirable and correct; however, they provide little direction as to what the term includes and excludes. This may cause those definitions to be harder to use in a practical manner. The inconsistent, somewhat abstract, definitions offered by academics and organizations contribute to a growing confusion about marketing among marketing professionals (Brooksbank et al., 2010a, 2010b).

From the perspective of marketing managers, this multiplicity of definitions and interpretations complicates the development of marketing within organizations and has contributed to its decline (Davidson, 2009; McDonald, 2009). It could also be related to the decline of the functions carried out by the marketing manager within organizations (McDonald, 2009). Verhoef and Leeflang (2009) suggest that marketing has lost its strategic importance within organizations primarily due to the development of marketing by the marketing manager from a tactical perspective (product management, pricing, promotion, and place) and not from a strategic perspective (marketing analysis, selection of target market, brand positioning strategies for value creation in consumers). One of the arguments established in literature seeks to reach a consensus as to the development of an underlying definition that includes strategic and tactical functions (McDonald, 2009). If the marketing manager finds it difficult to understand what encompasses marketing, it becomes even more difficult to

develop marketing efforts in an organization, given that managers in other departments may have the same confusion (Webster, Malter, & Ganesan, 2005).

In the writings of Bolajoko, Salome, and Sikuade (2013), “the conceptualization and the domain of marketing has been a contentious issue among academicians and practitioners in the field of marketing” (p. 56). The authors state that this could lead to different perspectives as to what is marketing. Webster, Malter, and Ganesan (2005) have also found differing views of marketing within organizations.

Since literature has clearly established the multiplicity and confusion present in the conceptualization of marketing and its functions, this study seeks to evaluate it using a sample of Puerto Rican marketing managers. This will help contribute to the ongoing debate established in literature and within the practice.

## Literature Review

The numbers of marketing definitions presented in literature have led to ambiguity about what marketing is for marketing managers, senior management and other functional managers. In 2009, McDonald states that although there are many “admirable and correct” definitions, these definitions provide little guidance on what to include and exclude in the marketing practice (p. 434).

Literature states that the ambiguity surrounding what is marketing—because of its multiple definitions—could be causing confusion among marketing managers that carry out marketing efforts in organizations (Brooksbank et al., 2010a, 2010b). Previous research has looked at how the multiple definitions of marketing have influenced marketing departments; for example, Webster et al. (2005) conducted in-depth interviews with chief executive officers (CEOs) and chief marketing officers (CMOs), which disclosed a general uncertainty among marketing’s definition. One of the significant findings raised by the authors was the fact that the definition of marketing tends to be specific to each company, which is mainly guided by the vision of the CEO; for example, one of the definitions provided by a CEO was: “I have always defined marketing as brand management plus sales” (Webster et al., 2005, p. 36). These senior officers also noted that marketing has moved

from the advertising and merchandising divisions to be part of the sales and service divisions; in fact, some marketing executives tended to equate marketing with sales. Other general comments from the CEOs and CMOs were that it was difficult to identify people that conducted specific marketing responsibilities. The CMOs also agreed that the definition of marketing was an important situation that needed to be addressed. Finally, they indicated that the ambiguity that surrounds the concept of marketing makes it difficult to gain financial support in the organizations because marketing managers' responsibilities are unclear.

This confusion about what marketing is within organizations is also evident in the profusion of titles that those professionals practicing marketing functions have (McDonald, 2009). Some examples of the titles that define the position of a marketing manager are: sales people, copy writers, advertisers, direct mailers, and market researchers; therefore, the perception of senior management about marketing could be dictating how the marketing manager carries out strategic and tactical functions.

The way marketing is defined within organizations may be limiting the strategic and tactical actions that are executed by executives. McDonald (2009) states that in practice marketing is seen as "mismarketing"<sup>1</sup> (p. 431) which has resulted in the degradation of marketing as a promotional tactical function.

In the last decade there has been a change in the trend with the definitions context for marketing from a tactical approach to a more strategic approach or a combination of both; for example, the definitions of the American Marketing Association have been changed since its first release in 1935 (Wilkie & Moore, 2012). The definition in 1985 was the one that introduced the concept of the four P's (product, price, promotion, and place), which gave a managerial focus on specific tasks. In 2004, a new definition was introduced with a managerial character that focused on a strategic point of view but also kept the tactical part of marketing (Wilkie & Moore, 2012). Although this definition included a managerial approach, they delineated marketing to organizations with a more

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<sup>1</sup> "Mismarketing" is a term often used in journal publications, case studies and trade publications to refer to misleading or false marketing (e.g. Beverland & Luxton, 2005; Detwiler, 1974; Morgan, 1984; Suris, 1993).

appropriate definition for marketing management discipline and not for marketing (Gundlach & Wilkie, 2009; Wilkie & Moore, 2007). Later, this definition was revised and a new definition was introduced in 2007 which presents marketing as an activity that provides value to customers, partners, customers, and society in general (Wilkie & Moore, 2012).

Definitions of the American Marketing Association show that marketing is much more than promotion and personal selling (Kerin, Hartley, & Rudelius, 2013). They have academic and professional relevance and are developed using the consensus of academic and professional marketers.

### **Purpose of the Study and Research Questions**

The purpose of this study is to address how marketing managers are currently defining marketing. In contrast to previous studies (e.g. Webster et al., 2005), this study will be performing a more specific analysis of the marketing definitions provided by marketing managers. Previous research and writings are based on the analysis of definitions established in literature (Gamble et al., 2011; Bolajoko et al., 2013). This study helps expand academic literature by providing a different perspective on the situation, the marketing manager's viewpoint. The study will also analyze the definitions established by marketing managers from strategic and tactical perspective, something not addressed in previous research. Finally, it also serves as a descriptive tool of the different perspectives in Puerto Rico that address how marketing managers define marketing. It serves as an initial study that will lead to further, more in-depth research about marketing in Puerto Rico.

Specifically, the research questions addressed in this study are:

1. How do marketing managers define marketing?
2. How often do marketing managers define marketing as a tactical function, strategic function, or both?
3. How often do marketing managers define marketing as a sales function?
4. How often do marketing managers define marketing as a function of promotion?

## Method

Content analysis is “the systematic, objective, quantitative analysis of message characteristics” (Neuendorf, 2002, p. 1). This study utilized content analysis techniques to examine the definitions of marketing as presented by the person who is in charge of marketing activities (i.e. brand manager, marketing managers, director of marketing, vice-president of marketing, etc.), in companies’ native to Puerto Rico.

The selection of the population and sample used in this study followed methodology established in previous studies about marketing managers (e.g. Dibb, Simkin, & Farhangmehr, 2001; Verhoef & Leeflang, 2009, 2010; Verhoef et al., 2011), where researchers sampled managers in charge of marketing. The sample was obtained through the following procedure. First, the top native companies in Puerto Rico were identified using the “Top 400 Locally Owned Companies” of 2012 published by *Caribbean Business Book of Lists*. Second, companies were contacted via telephone to identify who the person in charge of marketing was. A total of 102 companies stated that they had a marketing manager or a related position.

Data collected for this study was part of a previous survey conducted on the marketing functions performed by marketing managers and marketing metrics used by them. From this instrument, the researchers used two open-ended questions to perform the analysis in this study: (1) How do you define marketing? (2) What is the title of the position you hold within the company? A personalized email message was sent to each marketing manager with the electronic survey. The email explained the purpose of the study and invited marketing managers to complete the electronic survey. To increase response rates, email reminders were sent a short period after the initial survey was sent to participants.

The four variables used to classify marketing definitions in this study were: strategic marketing function, tactical marketing structure, sales, and promotion/communication. Strategic marketing structure refers to the identification and analysis of consumer needs, the definition of the target market or target markets, and development of positioning strategies to create a value proposition to the consumer (Cravens & Piercy, 2006; Ferrell & Hartline, 2006; Kotler & Keller, 2009). The tactical marketing function specifies

the precise marketing actions to be implemented, such as product characteristics, promotion, pricing, distribution channels, and services (Kotler & Keller, 2009). This definition is mainly related to the marketing mix (product, price, promotion, and place) developed by McCarthy (1960). Sales functions refers to the attainment of sales force goals in an effective and efficient manner through planning, staffing, training, leading, and controlling organizational resources (Futrell, 2001). The promotion/communication function is part of the marketing mix. Kotler and Keller (2012) define promotion/communication as “the means by which firms attempt to inform, persuade, and remind consumers, directly or indirectly, about the products and brands they sell” (p. 476).

### **Findings and Discussion**

The sample of managers (marketing managers, marketing directors, vice-presidents of marketing, vice-presidents of sales and marketing, etc.) that accessed the link to participate in the study was of 69 people; however, after eliminating 19 samples from survey because of incomplete responses, the final sample size was of 50 marketing managers. Content analysis allowed the researchers to analyze the 50 responses of the open-ended question about how marketing is defined by marketing managers. The Appendix lists the definitions that marketing managers provided<sup>2</sup> (referring to Research Question 1). All 50 definitions provided by marketing managers were analyzed using the four constructs—strategic function, tactical function, sales and promotions/communications.

Based on the definitions provided, this study found that marketing managers do not define marketing using a particular concept or frame (strategic functions, tactical functions, sales, and promotions/communications). In fact, many marketing managers tended to include more than one of the four constructs in their definition; for example, one manager stated that marketing is “the entire set of activities and strategies designed to foster and position products to potential customers in the right distribution channels.”

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<sup>2</sup> The definitions provided in the Appendix represent a literal translation from the definitions marketing managers provided. The data for this study was gathered in Spanish.

This definition illustrates the strategic, tactical, and the promotion/communication concepts.

### **Strategic Function**

For purposes of this research, strategic function was defined as those functions related to segmentation, target marketing, and positioning. It was important to analyze the definitions of marketing from this perspective since literature has stated that marketing has lost its strategic importance in organizations (Verhoef & Leeflang, 2009; Webster et al., 2005). Definitions were analyzed by identifying at least one of these three concepts—segmentation, target market, and positioning (referring to Research Question 2).

Sixteen percent (n=8) of marketing managers stated at least one of the three concepts relating to strategic functions as part of their definition. This is a significant finding because it supports what literature has established, that many marketing managers do not perform strategic functions (Verhoef & Leeflang, 2009; Webster et al., 2005). Of all the definitions presented, only one had a clear and comprehensive strategic approach:

It is everything about a company. It's the management and development of a product or service; it's the analysis of the competition; the evaluation of culture; public acceptance; without leaving aside the development of the concept of advertising; communication strategy, media planning and advertising tools (direct marketing, traditional media, non-traditional media, events, promotions, internet). Work with the Finance Department the viability of a business. In addition, they are the people in charge of realizing marketing research and the positioning of a product in order to estimate the growth of a product or service. (Appendix)

The above definition includes important functions that can be related to strategic marketing, such as: analysis of the competition, public acceptance, development of a product, and positioning of a product. It is important to mention that the first line of the definition establishes marketing as the main function within a company.



### **Tactical Function**

The tactical function is defined as the administration of the marketing mix (product, price, promotion, and place). Literature suggests that the marketing manager has remained primarily performing functions related to the administration of any of the four parts of the marketing mix (Verhoef & Leeflang, 2009; Webster et al., 2005). Fifty percent (n=25) of marketing managers established in their definition a concept related to the administration of product, price, promotion, and place (referring to Research Question 2); for example, one manager stated that marketing is the “discipline of meeting the needs of customers and profit at the same time through activities to achieve customer satisfaction with a product or service aimed at a specific market” (Appendix). This emphasis on the tactical aspects of marketing supports what literature has stated that most of the functions carried out by marketing managers relate to product management, pricing, promotion, and place (Verhoef & Leeflang, 2009; Webster et al., 2005).

### **Sales**

For many years there has been confusion between the functions carried out by the sales manager and marketing manager (Webster 2005; Webster 2002). In this study's findings, the word “sales” was identified in 20% (n=10) of the definitions (e.g. “sales satisfying customer requirements”), suggesting that managers view marketing as a tactical function that supports the sales department (referring to Research Question 3). This supports McDonald's (2009) research that states that marketing as a tactical function is still seen primarily as a sales support function.

### **Promotion/Communication**

For many years, literature has argued that marketing has been marginalized from organizations and that the marketing manager only performs functions related to promotion (Kotler, 2005). To analyze this concept, only the answers whose main focus was on strategies or promotion and communicational activities were used; for example, one manager stated: “Marketing is the way in which managers create efforts to persuade, create needs, communicate, innovate, among others, consumer, seeking always to meet the needs of the same, but add value” (Appendix). The results suggest that

26% (n=13) of marketing managers perceive their organizations as a promotional role (referring to Research Question 4), supporting Kotler's (2005) arguments.

### Additional Findings

Participants were also asked to provide the "name" for the position they held within the company. In this study, 19 different titles for managers that carry out marketing functions were identified. Table 1 delineates the variety of titles that the person in charge of marketing held and the number of participants that held each of those titles.

Table 1

<i>Position Title</i>		
Position title	Percent	n
Vice President of Marketing	2	1
Vice President of Sales and Marketing	2	1
Senior Vice President of Sales and Marketing	2	1
Vice President of Marketing and Public Relations	2	1
Vice President of Sales and New Business Development	2	1
Vice President of Product Marketing	2	1
Vice President	2	1
Marketing Manager	2	1
Marketing and Communications Manager	34	17
Marketing Director	2	1
Brand Supervisor	30	15
Marketing Specialist	2	1
Promotion and Marketing Representative	2	1
Business Development Manager	2	1
Regional Business Manager	2	1
Buyers Supervisor	2	1
Area Director	2	1
Other	2	1
	4	2
Total	100	50

Source: Own elaboration.

The variety of titles for a marketing manager also supports previous literature relating the confusion of the role of the marketing

manager and the definition of the term “marketing” (McDonald, 2009).

### **Conclusions and Implications**

A variety of definitions from marketing managers were identified. This goes in accordance to previous literature that has also identified many definitions for marketing in the past 60 years. This diversity of definitions has caused confusion about the functions to be performed by the marketing manager within organizations (Gamble, Gilmore, McCartan-Quinn, & Durkan, 2011; McDonald, 2009;). This confusion about marketing is evidenced by the multiplicity of titles that marketing managers possess (McDonald, 2009).

One of the research questions sought to examine whether marketing managers perceived marketing within an organization as a strategic or tactical function. Various authors have stated that it is important that the marketing manager possess a more pertinent strategic role in organizations (Verhoef & Leeflang, 2009; Webster et al., 2005); however, this study observed that only a small percentage of marketing managers performed strategic functions and that the majority performed tactical functions. This supports the decline or marginalization of marketing to tactical functions related to administration of the marketing mix. Twenty-eight percent (n=14) reflected performing both functions. The small group of marketing managers that stated they performed both strategic and tactical functions could perceive marketing as a strategic and tactical role, reflecting the marketing domain that new marketing definitions are trying to emphasize (McDonald, 2009). This study also found that marketing is still being viewed from a promotional perspective by practitioners. This goes in accordance with what is stated in literature relating to how marketing has become strictly a promotional feature (Kotler, 2005).

The analysis carried out in this study provides evidence of the confusion that exists about what marketing means to the marketing manager in organizations. Gamble, Gilmore, McCartan-Quinn, and Durkan (2011) suggest that there are two opposing views related to the definition of marketing. The first perspective is to find and agree on a single definition of marketing, something that has not been

found. The second perspective is that there is no unifying theory of marketing. Given that marketing occurs in different contexts and industries, a definite marketing theory is not possible. This perspective allows for variations to marketing definitions depending on the context or situation in which it occurs. It is influenced by the different uses of the term and languages of the industry in each context. This could be an explanation for the inconsistency of definitions raised by the managers. This perspective may explain the multiplicity of definitions established by the managers. The existence of multiple definitions and interpretations that enhance what has been raised into awareness may cause confusion into what marketing is. In this research what stands out most is the diversity of the definitions and terms offered by the management under study.

### **Theoretical Implication**

This research makes a contribution to the gap in literature about how marketing is defined. Previous studies address the definition of marketing from the academic and theoretical perspective. They do not cover the perspective of marketing managers, the people in charge of executing the functions. This study advances research on the definition of marketing from that perspective. It is a starting point for further research on the perception that marketing managers have on the meaning of marketing.

The multiple marketing definitions presented by managers in this study, revealed important theoretical implications for academics and marketing educators. First, the multiplicity of definitions found could be a result or a reflection of the debate that theoreticians and academics have about how broad or specific marketing should be defined. Given that it has been so difficult to develop one definition for the term among academics, one implication could relate to the education necessary for future professionals in marketing about what their role and function within an organization is. Second, this study's findings indicate that the tactical function is the one that managers associate their functions with the most; therefore, this might indicate a necessity in re-evaluating school curriculums and verifying if they include courses about strategic marketing. It is necessary for the new generation of aspiring marketing professions to put adequate emphasis on teaching strategic marketing as part of the academic marketing curriculum.

### **Managerial Implication**

The managerial implication that results from this study is that the majority of marketing managers defined marketing as a tactical function. This could provide support to previous studies that state that marketing departments have gradually lost their strategic and managerial importance within companies (Homburg, Vomberg, Enke, & Grimm, 2015; Homburg, Workman, & Krohmer, 1999; Krush, Sohi, & Saini, 2015; Verhoef & Leeflang, 2009; Webster, 2002). This is why marketing managers should be aware of what their strategic and tactical functions are within a company. They should also make sure that they know the scope of marketing within their company. Literature has established that the marketing department has lost its importance throughout the years, and for that reason, their functions have been reduced (Kotler, 2004). Webster (2002) argues that marketing has yielded its strategic responsibilities to other departments that do not visualize the consumer as a priority. In addition, Webster (2002) also indicates that marketing as a function is in danger of being marginalized given that a lot of people think that its main function is to develop flyers and discounts. The limited vision marketing managers in our study present significant challenges for professionals and future professionals in the marketing area.

### **Limitations and Future Studies**

This study is not without its limitations. The results obtained for the main research question were from one question in a questionnaire. Future studies should look for a more in-depth approach to exploring marketing definitions. A more comprehensive definition can be obtained from marketing managers from the use of interviews instead of a questionnaire. Future studies may also elaborate on this study by conducting research on how top management defines marketing. A comparative research among marketing managers in Puerto Rican companies and marketing managers of foreign companies in Puerto Rico will elaborate on the findings as well.

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## Appendix

### How Do You Define Marketing?

Description	Strategic function	Tactical function	Sales	Promotion/ Communication
Any gesture aimed at increasing sales.			X	
It is everything about a company. It's the management and development of a product or service; it's the analysis of the competition; the evaluation of culture; public acceptance; without leaving aside the development of the concept of advertising; communication strategy, media planning and advertising tools (direct marketing, traditional media, non-traditional media, events, promotions, internet). Work with the Finance Department the viability of a business. In addition, they are the people in charge of realizing marketing research and the positioning of a product in order to estimate the growth of a product or service.	X	X		
It is the department that is responsible for using the necessary tools to reach consumers.				X
Marketing is the way to create a need or help fill a need for a consumer through a product and service...including price, product, distribution, communication.	X	X		
Process from before the creation of a product or service to the maintenance. Set of processes that are carried out to meet/promote/communicate the existence of a product or service so that an exchange occurs. It does not end there as the exchange which is retention in which marketing is fundamental.				X
Marketing for me is, has to do with how attaining the exchange of products and/or services that fill different needs or desire for customers in a market.	X	X		
Discipline of meeting the needs of customers and profit at the same time through activities to achieve customer satisfaction with a product or service aimed at a specific market.	X	X		

Is the function that examines and analyzes the market, its people, its economy and the factors that impact positively and negatively to position products and/or services in a relevant way that will result in growth for the organization.	X	X		
The discipline that is responsible for identifying the sales process by studying the needs and tastes of consumers and look for ways that the product, service or brand meets the same.	X	X	X	
Marketing is the way in which managers create efforts to persuade, create needs, communicate, innovate, among others, consumer, seeking always to meet the needs of the same, but add value.	X	X		X
Sale, promotion, public relations. Anyway all functions that lead me to growth in the company.	X	X	X	X
Marketing is a limitless world where different resources, strategies, tactics, among others, for the birth, development of a product, event, etc., to be used either individually or in groups with a common purpose are used.		X		
The analysis of market characteristics and needs to determine how to communicate a message.	X			X
The action that creates, communicates value and benefits of a product, brand or service to meet customer needs.		X		X
It is the function that determines the creation of demand for products and services in an enterprise.		X		
The process of creating, planning, promoting and distributing a product or service.		X		
Method used in a business to promote their services or products in order to sell them.		X	X	X
Integration of products with the environment and customers.		X		
The study of the conditions that lead the public to decide which items consume and where they buy and the development of strategies conducive to serving the public in the most complete way possible.	X			

WHAT IS MARKETING? A STUDY ON MARKETING MANAGERS'

One way to promote a brand and make it be on everyone's mind effectively (both cost and running).		X		X
Sales satisfying customer requirements.			X	
It is the piece that connects all the functions of the firm/company and gives a face that is presented to customers.	X			
It is the practice of creating a product, promotion, distribution and all comprising the same.		X		
The presentation of a product, brand or concept to be able to increase your sales.		X	X	X
The discipline of identifying consumer needs and develop products, strategies and programs leading to a genuine consumer interaction with the brand.	X	X		
The process of promoting a product or service, creating an image of superiority over any other alternative available to solve the problem or meet the need to have the customer or consumer.	X	X		X
It is the administrative discipline of establishing strategies and coordinating tactics to provide a solution (service or product) to a need of a target market. This solution should represent value for the potential consumer so that it is relevant over other solutions available in the market.	X	X		
The way we promote a product, whether in print, TV, radio, "email blast", etc.		X		X
Marketing is the engine that makes brands, whether of products or services, reach their final destination. From product conceptualization, development monitoring, trace the sale price, where we will locate how we will promote and fulfill what you promise the consumer to buy it again.			X	
It is the development of strategies in order to comply with the objectives of a product or service and achieve customer or consumer satisfaction.			X	
The way of exposing to an optimum level, the existence and service that the individual, company and/or product provide.	X			

Marketing is the way to feel or create a need for the consumer to purchase your product.		X	
For me marketing is the process of exchange between company and client where the company satisfies consumer needs through the provision of a good or service; during this process both parties win and establish long-term relationships provided the company achieves customer retention through positive experience and satisfaction.	X		
Strategic, promotional, advertising, research and financial actions taken to develop a brand in order to sell a product/service profitably.		X	X
The way to bring products or services to the final recipient.		X	
Marketing, more than any other line of business in a company, has contact with consumers; they are responsible for creating “customer satisfactions & values” and brand loyalty. Marketing is and should always be the focus of the company.	X		
It is a set of techniques used to sell a product and/or service; and, in turn, meet the needs of the consumer/client.		X	X
It is the set of techniques and tools that facilitates the exchange of services and products.		X	
The process involves identifying the needs and wants of the target market, the development of consumer-oriented objectives, building strategies that create added value, the implementation of customer relations and retention of customer value to achieve benefits.	X		
Research and development of the strategic plan to produce the image of the company or product and as a result of its implementation produce sales for the company/product.		X	X
It is the means by which we develop the identity of a brand, product or service, locate a market to direct it and develop appropriate measures to that mark, product or service is accepted with expected growth potential strategies.	X	X	

WHAT IS MARKETING? A STUDY ON MARKETING MANAGERS'

Promoting and selling products or services that meet the needs of a market segment and is always innovating. Search and identify development opportunities.	X	X	X	X
Establish customer satisfaction with a product or service.		X		
Discipline that studies, develops, promotes, sells a product or service to the consumer.		X	X	
Marketing is a set of actions that begin by defining the need of individuals where you research, project, plan, communicate, execute and measure results.	X			
How to create a demand for a product in potential buyers.		X		
Process where some needs are met by creating and exchanging goods and services		X		
Functions with which it seeks to create value to the shareholders of a business/company by offering and managing a portfolio of products/services, in which each product/service meets the needs of the target consumer.		X		
The entire set of activities and strategies designed to foster and position products to potential customers in the right distribution channels.	X	X		
People who work in the marketing area, our mission is to find quality products to meet the needs of our customers. Considering prices in order to make profit.		X		
Total	22	39	10	13
Percentages	44%	78%	20%	26%

Source: Own elaboration.

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## OPEN CALL FOR PAPERS for FÓRUM EMPRESARIAL

*Forum Empresarial* is a peer-reviewed academic journal published twice a year by the College of Business Administration at the University of Puerto Rico, Río Piedras Campus.

We are continuously accepting submissions for future issues. The purpose is to provide a forum for the dissemination of new ideas and research in all areas of business, which would be of interest to academics. Within that broad scope, theoretical and empirical contributions, from a local or an international perspective, are accepted.

- Only articles not previously published or currently under review elsewhere can be considered.
- All submissions must be in English or Spanish, and should represent the original work of the authors.
- All submissions are double-blind refereed.
- Submissions must be sent electronically (e.g. Microsoft Word Document) using the *Someter artículo* link found on our website at <http://forum-empresarial.uprrp.edu> or the following link: <http://www.formstack.com/forms/?1045911-qRDvLDw0KZ>.
- Submission guidelines are available on our website at <http://forum-empresarial.uprrp.edu>.

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- La Revista publica artículos metodológicamente rigurosos, que hagan una contribución intelectual original a las principales áreas de investigación en todas las disciplinas de importancia para los negocios. Dentro de ese amplio ámbito, se aceptarán aportaciones teóricas y empíricas desde una perspectiva local e internacional.
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- La portada deberá incluir el título del artículo, el nombre del autor, el puesto que ocupa, la dirección, los números de teléfono del trabajo y de la casa y la dirección electrónica. El título se escribirá nuevamente en la parte superior de la primera página del manuscrito. Las páginas restantes no deben llevar ninguna identificación.
- La extensión de los artículos no debe exceder de 20 páginas a espacio sencillo (tamaño 8.5" x 11.5"), incluyendo tablas y referencias. La letra debe ser Times New Roman, tamaño 12.
- El título del artículo no debe exceder de 15 palabras.
- Los artículos deberán estar precedidos de un resumen en español e inglés (de un máximo de 125 palabras cada uno). Tras el resumen deben incluir un máximo de cinco palabras clave en ambos idiomas.
- Las notas deben ser breves (por lo general, no más de tres oraciones) y limitarse a hacer aclaraciones marginales al texto; no deben utilizarse solo para indicar referencias bibliográficas. Las notas deben estar enumeradas consecutivamente a lo largo del texto y aparecer al final de cada página.



- Los artículos deben redactarse siguiendo consistentemente las normas de estilo del siguiente manual:

American Psychological Association. (2010) *Manual de publicaciones de la American Psychological Association*. Washington, DC: Autor.

- El autor deberá someter su artículo en formato digital (e.g. Microsoft Word Document) utilizando la plataforma electrónica accesible a través del enlace de “Someter artículo” en el menú principal de nuestra página web en <http://forum-empresarial.uprrp.edu> o mediante el siguiente enlace: <http://www.formstack.com/forms/?1045911-qRDvLDw0KZ>.
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## POLÍTICA DE REVISIÓN

La Revista cuenta con la colaboración de evaluadores especialistas en las diferentes áreas de la Administración de Empresas y disciplinas relacionadas, miembros de la comunidad empresarial del ámbito local e internacional y una Junta Asesora Internacional.

Cada artículo se somete a la consideración de al menos tres evaluadores. El proceso de revisión por pares es doble ciego. Se requiere la aprobación de la mayoría de los revisores y la Junta Editora para la publicación de un artículo. Los criterios empleados en el proceso de arbitraje son establecidos por la Junta Editora.

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- *Fórum Empresarial* publishes rigorously conducted research that makes an original intellectual contribution across the major research fields in all disciplines of importance to business. Within that broad scope, theoretical and empirical contributions from local or an international perspective are accepted.
- Submissions can be written in Spanish or English.
- Articles should be unpublished. Submission to the Journal's Editorial Board requires a commitment to not submit the article simultaneously to other publications.
- The Editorial Board will not recommend an already published article unless there is evidence that it represents a new synthesis of the author's ideas.
- The cover page must include the title of the article, author's name, job title, address, work and home telephone numbers, and email address. The title should appear at the top of the first page of the manuscript. Subsequent pages should not have any identification.
- Submissions should be no longer than 20 pages, single space (8.5" x 11.5"), including tables and references. The font should be Times New Roman 12.
- The article title must not exceed 15 words.
- Articles must be preceded by an abstract drafted in both English and Spanish (125 words maximum each). The abstract should be followed by a maximum of five keywords in both languages.
- Notes should be brief (generally, not longer than three sentences) and be limited to marginal clarifications to the text; they should not be used to indicate bibliographical entries. Notes must be consecutively numbered in the text and should appear at the bottom of the page.
- Submissions should be written consistently following the style and format of the following publication manual:

American Psychological Association. (2010). *Publication manual of the American Psychological Association*. Washington, DC: Author.

- Submissions must be sent electronically (e.g. Microsoft Word Document), using the *Someter artículo* link found on our website at <http://forum-empresarial.uprrp.edu> or the following link: <http://www.formstack.com/forms/?1045911-qRDvLDw0KZ>.
- All tables, graphs, and figures must be submitted in an editable format (i.e. Word and Excel).
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The Journal has the contribution of evaluators with expertise in different areas of the field of Business Administration and its related disciplines, members of the local and international business community, and an International Advisory Board.

Each article is submitted to the consideration of at least three evaluators. The peer review process is double-blind. The approval of the majority of the reviewers and of the Editorial Board is required to accept an article for publication. The criteria employed in the refereeing process are established by the Editorial Board.

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- Nombre del traductor (si lo tiene)
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- Translator's name (if any)
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