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## The Applied Management Review

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# Determinants of Corporate Capital Structure in New Zealand

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## Abstract

Choosing the way to fund new projects would be one of the toughest tasks for top management in the real business world. Among the long history of study in financial management, several theories have developed to explain corporate capital structure such as net income approach, trade-off, agency costs and pecking order.

This paper identifies determinants of capital structure based on a sample of 155r 5-year financial statements from 31 of NZX 50 companies utilising statistical analysis: descriptive statistics, correlation and multiple regression. This study finds that there is a positive relationship between leverage and company size measured as total assets, total revenue and EBIT. Four independent variables chosen for the regression analysis are: a ratio of income tax expense divided by total assets; return on net assets (profit after tax divided by non-current assets plus working capital); aggregate of depreciation, amortisation, lease, occupancy and impairment expenses; and dividend pay-out ratio. Findings are consistent with the tax shield effect arising from the use of debt, which is given by the trade-off theory while being inconsistent with the notion of non-debt tax shield. Moreover, findings are also consistent with pecking order theory. However, the four independent variables only explain the leverage ratio at 46.76 percent.

*Keywords: Capital structure; Taxation; New Zealand*

*JEL Classifications: G32*

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## 1 Introduction

Choosing a funding mix for new projects is one of the toughest tasks for top management in the real business world. Some may say that capital structure is the consequence of such historical decisions, while others would say that top management should have their own policy and predetermined preferable structure such as a specified target debt ratio or debt-to-equity ratio. It is generally believed that equity is the most expensive

way of financing, while debt financing is slightly less expensive; however, there are usually covenants in the debt contract between a lender and a borrower to restrict a certain course of borrower's actions. Among the long history of study in financial management, several prevailing theories are developed to explain corporate capital structure such as net income approach, trade-off, agency costs and pecking order; however, researchers are still working on identifying determinants of capital

structure. This paper studies determinants of capital structure in New Zealand.

## 2 The Aim and Research Objectives / Scope

What are the key determinants of capital structure in New Zealand? Capital structure is a popular concern in the study of financial management. There is usually a choice between debt and equity when making and funding for investment. There might be a specific behaviour in making that decision. Identifying factors that affect capital structure assists understanding of the New Zealand financial market and management behaviour.

Although there are cases studies that identify factors in a national economic environment, this research project focuses on company specific factors. Three key questions of this research are:

- i) Is there a relationship between financial leverage and profitability?
- ii) Is there a relationship between financial leverage and degree of business risk?
- iii) Is there a relationship between financial leverage and asset structure or a type of expenditure, especially related to tangible and intangible assets?

## 3 Literature Review

Determinants of capital structure and optimal capital structure have generally been a popular issue in the study of the financial management area.

Capital structure is the aggregate of shareholders' equity and non-current liabilities while financial structure is the aggregate of current liabilities and capital structure, which is equal to total assets (Burrow et al., 2006). Burrow et al. reveal how the cost of capital plays the intermediary role connecting the company's asset structure to its financial structure. Cost of capital is the key to setting criteria for internal rate of return, net present value and profitability index in the capital budgeting process. Those capital budgeting decisions determine the company's asset structure which influences how and to what extent its net operating income (earnings before interest and tax: EBIT) fluctuates. This volatility is the determinant of selecting the extent of financial leverage, and therefore the financial structure, impacting the changeability of the company's earnings per share (EPS) which is the source of distribution to the ordinary shareholders. Jordan, Ross and Westerfield (2007) explain that companies with a

lower probability of facing financial distress ought to be able to borrow more than those with a greater probability of facing financial distress. Burrow et al. (2006) further explain that degree of operating leverage and degree of financial leverage are the tools to measure business risk and financial risk respectively, while degree of combined leverage is the tool to measure the whole risks.

Extant literature suggests a number of theories to explain capital structure. Net income approach, originally presented by Durand (1952), explains that valuation of a firm is influenced by the decision of capital structure. This theory is based on the following three assumptions: i) taxes are not levied; ii) using debt costs less than using equity; and iii) investors' risk perception is not affected by using debt. Therefore, the company is able to increase the share price and shareholder wealth by using more debt (Burrow et al., 2006).

Tax shield is a key factor in capital structure consideration and plays an essential role in trade-off theory (Modigliani & Miller (1963). Burrow et al. (2006) explain that interest paid for debt-financing is deductible in the consideration of tax. The firm has to pay income tax after identifying profit before tax (PBT), while dividends are not tax-deductible and paid out from profit after tax (PAT), or EPS. However, a company reaches its limit of leverage because of the existence and increase of bankruptcy costs. Jordan, Ross & Westerfield (2007) explain that there are direct and indirect bankruptcy costs: costs directly linked to bankruptcy like legal and administrative expenses, and costs incurred to avoid a bankruptcy filing, respectively. There would be a trade-off between the bankruptcy costs and the tax shield arising from leverage. According to static theory of capital structure, companies use debt financing until extra benefit from the tax shield reaches the equivalent amount to the cost arising from the increased risk of financial distress (Jordan et al., 2007). In addition to the tax shield arising from debt financing, there is also an idea of non-debt tax shield. As DeAngelo and Masulis (1980) state, deductions like depreciation as well as tax credits in investment are able to play a proxy role for corporate tax shielding, resulting in less debt usage in the capital structure.

Agency costs also typically receive attention in consideration of capital structure. Burrow et al. (2006) present share price reduction as an example of agency costs which arise when managers and owners of the firm are different and there is a conflict between them. Jensen and Meckling (1976) confirm the existence of agency costs and explain that statutory and common law as well as human integrity influence the extent of agency costs.

Jensen (1986) further develops the thoughts in agency costs by paying greater attention to free cash flow, which is defined as extra cash flow necessary to finance all the projects that show acceptable net present value (NPV). Jensen (1986) explains that agency costs tend to be larger in the case of entities that earn a sizable amount of free cash flow and debt could lower agency costs.

Pecking order theory is also used to explain capital structure. According to this theory, there is a sequential preference in selecting the way of funding. Internal funding like profit and retained earnings is used first, rather than external funding, while debt is preferred to equity among choices of external funding (Myers, 1984). Myers further explains that firms tend to issue new equity when the share price is high, in the consideration of timing. According to Burrow et al. (2006), pecking order theory implies that companies do not have any target for the extent of leverage if they follow the sequence of financing preferences, meaning that ratios for financial leverage are simply the consequence of companies' historical financing needs. According to the prediction of Myers (1977), there is a negative relationship between leverage and profitability.

Prior research has found determinants of capital structure all around the world. In the United States, Graham, Leary and Roberts (2015) examined a hundreds years of financial and market information of non-financial companies listed on U.S. stock markets. They found a significant shift in the leverage ratio of debt-to-capital, that started from less than 20 percent in the early twentieth century and reached over 45 percent in the 1990s, and reveal that there is a negative correlation in the leverage between private sector and public sector.

There are various assumptions in this relationship. One representation is known as the crowding out theory, which indicates that government deficit financed with debt has a negative impact on interest-sensitive spending in the private sector (Friedman, 1978). Another representative assumption is consistent with the idea of deficit spending favoured by Keynesian economists and used as a fiscal policy to stimulate a recessionary economy. A government makes greater expenditure than the tax revenue, increasing public debt although it influences the GDP negatively (Deficit Spending, n.d.; Hassan, Nassar & Liu, 2014).

Titman and Wessels (1988), on the other hand, examine company-specific determinants in the United States. They explain that there is a negative relationship between the leverage ratio and the uniqueness of the company's business characteristics, as companies have lower leverage

ratios when they are likely to spend more on their customers, employees and suppliers in the case of liquidation. Titman and Wessels (1988) also find a negative relationship between short-term debt ratios and corporate size, reasoning that transaction costs play a key role and smaller companies tend to confront the relatively high transaction costs when utilising long-term financial instruments. However, they do not find clear evidence to show the relationship between leverage and items such as non-debt tax shields, volatility, collateral value, and future growth.

In the case of the United Kingdom, Chittenden, Michaelas and Poutziouris (1999) work on the investigation of determinants of capital structure in regard to small and medium sized enterprises (SMEs) by referring and using a variety of theories and regression models. They examine several independent variables and find that there seems to be a relationship between the leverage ratio and each of size, age, profitability, growth and future growth opportunities, operating risks, asset structure, inventory turnover, and net receivables. In addition, the capital structure of SMEs depends on time and industry as they are the influential elements to duration of debt. Chittenden et al. (1999) detail further that usage of short-term debt increases when economy is in recession, while usage of long-term debt increases when there is an acceleration in economic growth.

Stoja and Tucker (2011), on the other hand, examine the role of industry membership using a sample of UK firms, with data from 1968 to 2006. They found target leverage behaviour in most companies in the long run when they are categorised by industry, although pecking order theory prevails in short-run decision making.

There are also Australian cases. Akhtar (2005) examined ten years of data from 1992 to 2001 for Australian multinational and domestic firms listed on the Australian Stock Exchange, and found no significant difference in the degree of leverage for both types of firms. Growth-related agency cost, profitability and size indicated significance in determining the capital structure for both multinational and domestic firms. While bankruptcy costs and the degree of geographical diversification showed significance for multinationals, collateral value of assets was another key determinant of leverage for domestic firms (Akhtar, 2005).

Allen (1991), on the other hand, investigated determinants of capital structure decisions by interviewing forty-eight listed Australian firms. Allen found a target in debt ratio for 75 percent respondents, while tax issues were influential in decision making for 85 percent respondents, and 93



percent respondents had a policy of maintaining spare capacity for debt financing. In addition, Allen (1991) found specific upper limits of external debt funding for nearly half respondents.

Regarding cases in New Zealand, Locke and Wellalage (2013) examined eight year of data from 2003 to 2010 for 40 of NZX50 Stock Exchange listed companies and found that the mean of debt ratio (total liabilities divided by total assets) was 44 percent. Alves and Ferreira (2011) also found a similar ratio of 42 percent for New Zealand companies, examining six years of data from 1996 to 2001. Locke and Wellalage (2013) found company-specific factors to be the key determinants of capital structure, such that company's size and growth as well as tax-shield had a positive relationship with leverage ratio, while risk (earnings' volatility) and asset-tangibility had a negative relationship.

Likewise, Smith, Chen and Anderson (2012) examined publicly listed New Zealand companies using data from 1984 to 2008. They found a positive relationship between relative-to-industry sales growth and leverage, while there was a negative relationship between leverage and relative-to-industry return on assets (ROA). They concluded that New Zealand companies tend to utilise more long-term debt to secure higher market share amongst the harsh rivalry competition, while identifying this as a cause of product price reduction, leading to higher sales growth yet lower ROAs in relation to their rivals.

If there were a unique exceptional case for determinants of capital structure, it could be found in Japan. McLannahan (2012) reports that Japanese firms hesitate to utilise more debt financing even though loans are available at the lowest rates in the world. McLannahan assumes that the extremely low interest rates in Japan are a sign of two interconnected trends: a shortage of demand for credit and an excessive liquidity at banks. McLannahan further states that there was a continuous decline for 22 months in a row from December 2009 to September 2011 in total outstanding balance of loans at nationwide banks.

Voutsinas and Werner (2011) examined 1,537 Japanese companies listed publicly in the market with data from 1980 to 2007. They selected Japan for their study as there were substantial fluctuations in credit supply during the period. Voutsinas and Werner specifically pay attention to what impacts there were on the firms' decisions on capital structure by the asset bubble economy in the 1980s and the following credit crunch of the late 1990s. They found that monetary conditions and credit supply affected corporate decisions, adding

that smaller companies tended to confront financial constraints, especially when the economy was in recession.

Cortez and Susanto (2012), on the other hand, tried to find determinants of capital structure by studying especially Japanese manufacturers. Manufactures play a key role in the Japanese economy and are influential to the global economy as well. While tangibility, profitability, non-debt tax shield, size, growth in fixed assets, and growth in total assets are examined as the possible determinants of leverage, Cortez and Susanto found a positive relationship between leverage ratio and tangibility and a negative relationship between leverage ratio and profitability, as well as non-debt tax shield. However, Cortez and Susanto (2012) found no significant relationship between leverage ratio and size.

There are many possible determinants of capital structure ranging from type of asset and expenditure to the degree of growth, profitability and risk.

## 4 Method

In this research project, quantitative analysis based on the data collection from documents (financial statements) was conducted. A sample of the research was 31 companies comprising the NZX 50 index and being listed on the New Zealand Stock Market, but those companies that belong to utilities and banking sectors were excluded. In addition, Xero Limited was also excluded from the sample because it seemed to still be in the start-up stage and obviously showed an exceptional financial performance and position. Several firms were further excluded from the sample as they were listed for a short period and both their financial statements and share prices were therefore available only for a part of the required period. One was excluded from the sample because of the financial statements' unavailability for a part of the required period, although it was listed on the market for more than the required period. 5 years of financial statements, from 2011 to 2015, were collected from the website of each sample company. As a consequence, the aggregate sample size was 155.

The analysis started with descriptive statistics. Selection of the independent variables followed, and this process was done by examining correlations with a dependent variable. At last, multiple regression analysis was conducted in the way of trial and error, in order to find the elements of independent variables to fit with the following regression formula:

$$Y = b_0 + b_1X_1 + b_2X_2 + b_3X_3 + b_4X_4$$

Equation (1)

(Y: a dependent variable, X: independent variables,  $b_0$ : intercept, and  $b_1 - b_4$ : regression coefficients).

There were some obvious limitations. The sample size of 155 with 31 companies for 5-year financial data is fairly small to conduct a statistical analysis. There are only a few companies that belong to one industry sector. In addition, there is a limitation to what extent those independent variables are able to explain the behaviour of a dependent variable, meaning that the explanatory percentage given by the multiple regression analysis might not be significant enough.

## 6 Results

One dependent variable used in this research as a leverage ratio is interest-bearing debt to interest-bearing debt plus market value of equity ratio. As Table 1 shows the descriptive statistics, the leverage ratio had mean of 0.1947; median of 0.1818; standard deviation of 0.1369; minimum of 0.0000; and maximum of 0.6425, while the skewness and kurtosis were 0.6097 and (0.1490) respectively.

Four dependent variables chosen for the regression analysis are: a ratio of income tax expense divided by total assets; return on net assets (PAT divided by non-current assets plus working capital); aggregate of depreciation, amortisation, lease, occupancy and impairment expenses; and dividend pay-out ratio.

As Table 2 shows results of the correlation analysis, the ratio of income tax expense divided by total assets had a correlation of 0.5441, with the leverage ratio indicating relatively strong negative relationship. Although each single item of income tax expense and total assets had positive different correlation figures of 0.0221 and 0.4603 respectively. Neither fit with the regression and they were adoptable only when combined.

Return on net assets, a profitability ratio, had correlation of 0.4126 with the leverage ratio indicating relatively strong negative relationship.

Aggregate of depreciation, amortisation, lease, occupancy and impairment expenses had correlation of 0.3771 with the leverage ratio indicating relatively strong positive relationship.

Dividend pay-out ratio had a correlation of 0.2173 with the leverage ratio. This positive relationship with the leverage ratio looked slightly weak; however, this was the additional factor to

increase the percentage of explanation for the leverage ratio in the regression analysis.

Based on the results of multiple regression analysis in Table 3, 46.76 percent of the leverage ratio can be explained by the four factors as follows:

Interest-bearing debt to interest-bearing debt plus market value of equity ratio =

$0.2502 - 2.9435$  (Income tax expense [NZD million] / Total assets [NZD million])  $- 0.3485$  (PAT [NZD million] / Net assets [NZD million])  $+ 0.000262$  (Aggregate of depreciation, amortisation, lease, occupancy and impairment expenses [NZD million])  $+ 0.0175$  (Dividend pay-out ratio)

In addition, there is obviously a positive relationship between the leverage ratio and the figures related to corporate size such as total assets, total revenue, and EBIT with 0.4603, 0.3591 and 0.3386 respectively as described in Table 2.

In contrast, there is no clear relationship between the leverage ratio and profit margin, as correlation shows 0.0811 with net operating profit margin (EBIT divided by total revenue) in Table 2.

Correlation between the leverage ratio and degree of operating leverage as a measure of business risk, degree of financial leverage as a measure of financial risk and degree of combined leverage as a measure of entire risk was also examined, but there was no significant relationship with the results of 0.0881, 0.1266 and 0.0011 respectively as described in Table 2.

Furthermore, the year average leverage ratio for the 31 sample companies is shown in Table 4 accompanied by Figure 1 to refer the interest movement in New Zealand.

Table 1: Descriptive Statistics

Variables	Observations	Mean	Median	Standard Deviation
Interest-bearing debt / (Interest-bearing debt + Market value of equity)	155	0.194	0.181	0.136
Income tax expense (NZD million)	155	24.3	14.0	39.0
Total assets (NZD million)	155	2,130	1,198	3,048
Income tax expense / Total Assets	155	0.021	0.020	0.018
Aggregate of depreciation, amortisation, lease, occupancy and impairment expenses	155	104.3	28.0	186.2
Dividend pay-out ratio	155	0.748	0.663	1.485
Degree of operating leverage	155	2.041	0.962	31.24
Degree of financial leverage	155	-0.51	1.235	22.12
Degree of combined leverage	155	-4.74	1.057	101.8

Table 2: Correlations

	Interest-bearing debt / (Interest-bearing debt + Market value of equity)
Interest-bearing debt / (Interest-bearing debt + Market value of equity)	1.0000
Property, plant and equipment	0.4850
Total assets	0.4603
Net assets = Non-current assets + Working capital	0.4695
Total revenue	0.3591
EBIT	0.3386
Finance expense	0.4540
PBT	0.2440
Income tax expense	0.0221
PAT	0.2627
Income tax expense / Total revenue	-0.1571
Income tax expense / Total non-current Assets	-0.516
Income tax expense / Total assets	-0.544
Income tax expense / Net assets	-0.5246
Depreciation & amortisation	0.3582
Lease and occupancy expenses	0.3297
Impairment losses	0.2227
Aggregate of depreciation, amortisation, lease, occupancy and impairment expenses	0.3771
Total expenses	0.3534
Aggregate of depreciation, amortisation, lease, occupancy and impairment / Total revenue	-0.3540
Aggregate of depreciation, amortisation, lease, occupancy and impairment / Total expenses	-0.3506
Degree of operating leverage = Percentage change in EBIT / Percentage change in sales	0.0881
Degree of financial leverage = Percentage change in EPS / Percentage change in EBIT	0.1266
Degree of combined leverage = Percentage change in EPS / Percentage change in sales	0.0011
Dividend pay-out ratio	0.2173

Table 3: Multiple Regression

Variable	Coefficient	t stat
Intercept	0.25	16.28
Income tax expense/Total assets	-2.94	-5.25
Return on net assets	-0.35	-2.39
Aggregate of depreciation, amortisation, lease, occupancy and impairment expenses	0.26	5.90
Dividend pay-out ratio	0.02	3.18
R Square	0.47	
Observations	155	

## 7 Discussion

The negative relationship between the leverage ratio and a ratio of income tax expense divided by total assets may be paradoxical but could be evidence of tax shield: the higher the leverage ratio, the lower the income tax expense in comparison with total assets. It could be understandable that income tax expense was required to be divided by the total assets as the size of individual firm differed. Because financial expense arising from debt is tax-deductible, NZX50 firms tended to use the external debt financing as a viable weapon of tax-shield. This is consistent with the findings of Locke and Wellalage (2013) who state that tax-shield has a positive relationship with leverage in their research.

Second, negative relationship between leverage ratio and return on net assets indicates a negative relationship between leverage and profitability. This is similar to the finding of Anderson et al. (2012) and consistent with pecking order theory based on prediction (Myers, 1977).

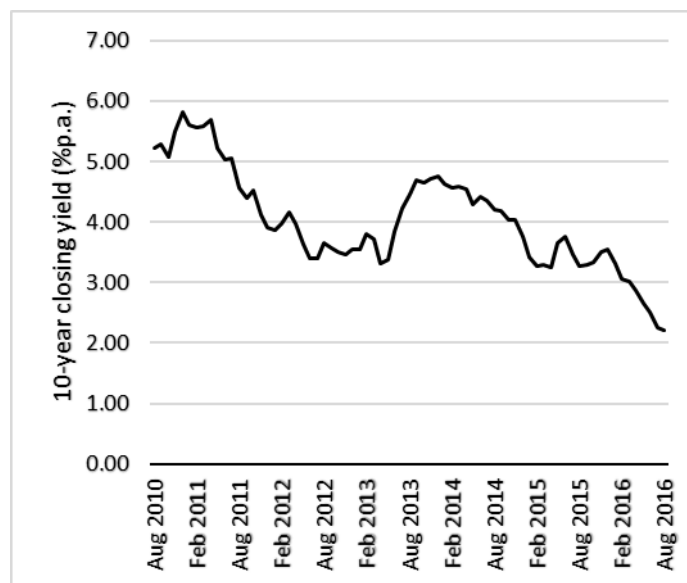
Third, the positive relationship between the leverage ratio and aggregate of depreciation, amortisation, lease, occupancy and impairment expenses would indicate that whatever the name of expenses, non-current assets related expenses would be influential to the capital structure. If so, it would further indicate that degree of dependence on assets consumed in a longer term could determine the corporate capital structure. But if it were looked at from a different point of view, this fact would be inconsistent with DeAngelo and Masulis (1980), who proposed the theory of non-debt tax shield such that depreciation works as a tax shield proxy for debt in relation to corporate tax, resulting in less debt in the capital structure.

Fourth, the positive relationship between the leverage ratio and dividend pay-out ratio means that the higher the leverage ratio, the higher the distribution

to the shareholders from the earnings. Based on the points discussed above, NZX50 companies tend to fit with the trade-off theory. They tend to utilise more deductions for the tax consideration and for the benefit of the shareholders, paying more dividends. This indication seems consistent with the idea of increasing shareholder wealth by using more debt, considered in net income approach.

On the other hand, there seems to be a certain relationship between leverage ratio and the interest rate when looking at the average leverage ratio for 31 sample companies as shown in Table 4, referring the movement of secondary market 10-year government bond yield which is described in Figure 1. The average leverage ratio was in a slight decrease but almost flat during 2 years from financial year (FY) 2011 to FY2012 at 0.22; however, the ratio declined significantly in FY2013 and slightly in FY2014 to be 0.18 and 0.17 respectively, while backing to 0.18 in FY2015. In contrast, the interest rate declined steadily in 2011 and was almost flat in 2012 at around 3.50%. However, it increased in 2013. There was a slight decrease in 2014 but the rate was higher by 50 basis points or more compared with 2012. Then, it was almost flat again in 2015, at around 3.50% but has been in constant decline since late 2015. Therefore, it would be natural to understand that companies reduced the debt when the interest rate was in increase and increased the debt when the interest rate was in decline.

Figure 1: Secondary Market Government Bond Closing Yield



In regard to the nature of debt funding, the most popular method was utilisation of bank loans; however, there were a few exceptions and an exceptional trend. Firstly, Tower Limited needs to be noted as an exception since it is an insurance company, so

insurance liabilities were the cause of interest-bearing debt. Secondly, Air New Zealand Limited should also be noted as another exception since the finance leases were an outstanding funding method because of its business characteristics. Thirdly and most importantly, there is a trend for companies to utilise more bonds and/or notes than bank loans when their total assets reach one billion dollars. Among the 31 sample companies, 12 of them had total assets of less than one billion dollars in FY2015 and none of them utilised bonds and/or notes as a main funding method. Among the other 19 companies, only 7 companies utilised bank loans as a main funding method.

### Case Study of Xero Limited

Xero Limited was excluded from the sample because it seemed to still be in the start-up stage and obviously showed an exceptional financial performance and position. Xero Limited recorded losses after tax for 5 years in a row with the 5-year average return (PAT) on net assets of negative 18.49 percent while the 5-year net operating margin (EBIT divided by total revenue) was negative 41.72 percent. Together with the financial performance, Xero Limited did not have any interest-bearing debt meaning zero leverage ratio and was adequately funded by equity with the 5-year average equity ratio (book value of equity divided by total assets) of 90.72. What these situations indicate is that the company is spending a lot of money as a kind of investment to develop the product and obtain the market share and penetration. As a proof of this assumption, the company recorded the 5-year average year-on-year total revenue growth of 83.22 percent in the meantime.

## 8 Conclusions and Implications

This paper utilises statistical analysis to identify determinants of capital structure based on the sample of 155 for 5-year financial statements regarding 31 of NZX 50 companies. Although this study finds that there is a positive relationship between leverage and company size, such as total assets, total revenue and EBIT, four dependent variables chosen for the regression analysis are: a ratio of income tax expense divided by total assets; return on net assets (PAT divided by non-current assets plus working capital); aggregate of depreciation, amortisation, lease, occupancy and impairment expenses; and dividend pay-out ratio. These four factors successfully explain the leverage ratio at 46.76 percent.

There is a relatively strong negative relationship between the leverage ratio and a ratio of income tax expense divided by total assets and this is a result of the tax shield effect arising from the use of debt, which

is given by the trade-off theory. At the same time, there is a negative relationship between leverage and profitability, which is consistent with pecking order theory. On the contrary, there is a positive relationship between the leverage ratio and aggregate of depreciation, amortisation, lease, occupancy and impairment expenses. This is an opposite result and finding to the notion of non-debt tax shield. There is also a positive relationship between the leverage ratio and dividend pay-out ratio. Overall, NZX50 companies tend to fit with both trade-off and pecking order theories and utilise more deductions for the tax consideration and for the benefit of the shareholders, paying more dividends.

However, these four factors only explain the leverage ratio at 46.76 percent.. There seems to be a relationship between the leverage ratio and the interest rate or financial market conditions.. In addition, larger firms tend to fund themselves by bonds and/or notes rather than bank loans. There is room left to investigate further the determinants of capital structure in regard to New Zealand companies.

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# Substitution for Yves Saint Laurent Beauty

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## Abstract

After the downfall in sales for the Yves Saint Laurent counter, managers of Life Pharmacy at The Base, Hamilton, made the decision to moderately discount products in order to prepare for discontinuation of the brand. In order to find a viable substitution for the brand, thorough research has been conducted of all the different brands currently available and identified two potential substitution brands. After gathering all relevant information about the overview of Shiseido and Cailyn Cosmetics it has become possible to write up a marketing mix analysis for both brands in order to compare one brand to the other and choose the most feasible one. An overview of the beauty industry has also been included within the research in order to gain an understanding of the current and future of the beauty market so that the decision can be based on the overall position of the beauty industry. From the results and discussion, it has been possible to conclude and make recommendations to Life Pharmacy.

*Keywords: Product Management, Cosmetics*

*JEL Classifications: M10*

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## 1. Introduction

### 1.1. Organisational Context

Life Pharmacy is one of 300 community pharmacies that Green Cross Limited represents throughout New Zealand under the Unichem and Life Pharmacy banners. Green Cross holds even interest in 70 of these pharmacies (Green Cross Health Ltd, 2014). Life Pharmacy is listed on the New Zealand stock exchange. Green Cross Health Limited (formerly Pharmacy brands) is a leading healthcare provider, delivering integrated healthcare solutions to communities throughout New Zealand (Green Cross Health Ltd, 2014). They state, "We are passionate about supporting the health and wellness of New Zealanders and our network of services including pharmacy, medical and community healthcare divisions" (Green Cross Health Ltd, 2014). They also offer healthcare

services through GP, accident and medical centres with most of them being operated under the Radius Medical or The Doctor brands. They also support the delivery of nursing, home and community support and education services through Total Care Health Services, providing care 24/7 to clients throughout the upper north (Green Cross Health Ltd, 2014).

Through the many years of Life Pharmacy's existence, the organisation has been through extreme changes. As shown above in Table 1, the changes have helped Life Pharmacy to grow and expand, especially through merging with other well stable organisations. This has helped consumers identify Life Pharmacy as a stable and well known pharmacy. The latest changes have definitely resulted in satisfied customers, an even larger loyalty scheme and more customer repeats.



Table 1: Progress of Life-Pharmacy

Year	Event
1980	Unichem Pharmacy Group established as a buying group for individual pharmacies throughout New Zealand.
1995	Unichem Life launched. Life Pharmacies became larger, ranging top cosmetics and perfumes, located mainly in malls.
1999	Unichem Pharmacy Group launches dispensary first, primarily aimed at health-focused pharmacies, delivering additional value added services and health advice.
2003	Unichem Pharmacy Group merges with the Amcal group and becomes Pharmacybrands Ltd.
2005	Life Pharmacy split from the group to establish the first listed pharmacy group on the NZX, through a company called Beauty Direct.
2008	Pharmacybrands integrates the Dispensary First brand into Amcal or Unichem. Then Life Pharmacy Ltd acquired Care Chemists Ltd.
2009	Life Pharmacy merges with Pharmacybrands and the company takes over the NZX listing under PHB.
2011	Pharmacybrands acquires Radius Pharmacy, Radius Medical Limited and Radius Medical Solutions Limited, marking a transition to becoming a provider of broader healthcare services.
2013	A major brand development project gets underway, reinvigorating the Unichem and Life Pharmacy brands.
2014	As New Zealand communities bid a fond farewell to their Radius Pharmacy, Amcal and Care Chemist brands, they welcome in fresh Unichem and Life Pharmacies, with a green cross identifier marking the heart of community health and wellness.
March 2014	With an investment in community care, specialist Total Care Health Services, Pharmacybrands, marks a clear intent to become a provider of integrated primary health services in New Zealand.
April 2014	Pharmacybrands becomes Green Cross Health Limited (GXH), creating an identity which better reflects the full scope of its business as a provider of primary health care services.
2015 - Now	The pharmacy rebranding project nears completion with a growing network of 330 pharmacies under the Unichem and Life Pharmacy brands and more than 1 million members in the Living Rewards loyalty programme.

The core business of Life Pharmacy is health and beauty specialised products. The organisation is known for providing beauty related prestige brands and high quality health products. Green Cross Health Limited represents the organisation. As stated in the Life Pharmacy Website, there are a few products that are characterised as key to the organisation. These are as follows: vitamins and supplements; medicines and treatments; baby and child medicines; mother medicines and products; prestige skincare, cosmetics and fragrances; weight management programmes.

Some of their services are also stated to be i) beauty services: makeovers, wax and laser, facials and ear piercings; ii) smoking cessation; iii) diagnostic and health checks - blood pressure monitoring, cholesterol levels testing, iron testing, zinc testing; iv) women's health- treatment for urinary tract infections, emergency contraceptive pill; v) travel services- passport photos; vi) weight management services; vii) medicine management- compliance packing; viii) flu vaccination.

Life Pharmacy targets two segments of the market. The main target audience are elderly people, aged sixty and over. This is due to the relevant products and services the organisation offers for this particular segment of the market. It offers a variety of medicines and prescription deals, such as 10% off for all gold card holders and grey power club members. This age group is known to have constant health issues. Providing related deals and great service will assure the repetition of business in this particular target segment.

Women are the second target segment of Life Pharmacy. This is due to the availability of prestige brands, some of which are only offered at Life Pharmacy. Women trust the genuine cosmetics and fragrance brands offered in this organisation. They therefore constantly prefer to purchase these particular products from reliable and trustworthy retailers. With the presence of the loyalty card scheme it is made easier to earn points which result in redeemable vouchers. Offering such bonuses attracts customers and assures their satisfaction.

Life Pharmacy branches are located throughout New Zealand, mainly located inside large shopping malls. In Hamilton there are 3 branches, in Chartwell Westfield shopping mall, Centre Place shopping mall and Te Awa shopping mall. Life Pharmacy is a large organisation with a stable financial state and staff numbers of approximately 20 staff per store.

## 1.2. Organisational Focus and Structure

Mission statement: Our aim is to be the best. Through quality products, a positive and exciting

environment and a dedicated team exceeding our customer's expectations Life Pharmacy will become New Zealand's Leading pharmacy.

**Vision:** Our aim is to provide an awesome customer experience, excellent products, and delighted customers every time.

**Values:** Approachable, easy to talk to and friendly staff, offering help when needed. Professional advice from specialists, trained and experienced staff. Ethical nature, moral principles and integrity based environment. Focused and determined on meeting customers wants and needs. Committed to providing only the best of products to our customers.

### 1.3. Life Pharmacy SWOT Analysis

**Strengths:** Monthly deals occur, offering more beauty related services, e.g. makeovers, waxing, etc., than other competitors. Certain products that are not carried by Life Pharmacy can be ordered on request to eliminate inconvenience for customers. Life Pharmacies are usually located in malls so are more recognised and visited than local pharmacies.

**Weaknesses:** The location of the business is not as visible as other stores. Errors have occurred with updating loyalty cards. This has now been merged with Unichem and Radius. Due to lack of demand on beauty treatments, these have been minimised. The store can look overstaffed at times., Customers may be intolerant of over acknowledgment.

**Opportunities:** Merging the three pharmacies has allowed more convenience to customers in regards to loyalty cards and club points. When the mall as a whole is being advertised and renovated, Life Pharmacy should become more acknowledged and appealing. Developing a new market on the internet like online shopping; moving into new market segments that offer improved profits; allowing expertise representatives to train the staff regarding new products and ways they can upsell; offering more up to date staff training courses, e.g. beauty courses, health courses, etc.

**Threats:** The high number of competitors can be a threat to Life Pharmacy, e.g. the Body Shop offers similar products in regards to beauty, and Hardy's health store offers more frequent specials. Farmers department store has become more popular due to the renovation. The location of other competitors can be a threat too, e.g. the Body Shop is closer to the main entrance, so more visible. Pricing is a threat, as there are always pricing wars with competitors. Another threat is competitors coming up with a new product or service or brand.

### 1.4. The Beauty Industry

The beauty industry is considered to be one of the most successful and profitable industries. The beauty industry has evolved greatly over the past 10 years, and has expanded in major ways (Fisher, 2015). In almost every category, a consumer is very careful with their spending and know when they are overpaying or being duped by extravagant claims, yet when it comes to beauty products, consumers are willing to spend the money without thinking twice, especially when the product promises to increase attractiveness or claims to change the appearance of skin within certain time frames (Fisher, 2015).

The global beauty business is powerful and growing; current trends seem to underwrite a golden future for the beauty industry. Consumers are becoming more and more willing to spend on beauty products. The spending is not decreasing with age but rather increasing with the availability of anti-aging skin care and treatments that are now on the same level of popularity as pre and post-ageing products are. The new generation of teenagers is becoming more interested in makeup and are starting to use makeup at a younger age. Parents are willing to spend the money, especially if their daughter is suffering from acne, which they would like to conceal as this is destructive of self confidence levels in teenagers and mothers are willing to do anything to help, from a psychological perspective.

Women are known to be the main consumers and targeted audiences of the beauty industry. However, men are also big spenders, and due to the fact that they are often habitual in their grooming regimes, once they become hooked on a particular product they can be very loyal and significant customers (Fisher, 2015).

The average woman spends approximately NZ\$25,000 on beauty products during her lifetime, with approximately NZ\$6,500 of that being spent on mascara alone (Fisher, 2015). Women also spend NZ\$3,500 on lipstick during their lifetime, and on average replenishes her makeup bag five times a year (Fisher, 2015). Women aged 18-64 spend more than \$107 billion NZD a year on their looks, which calculates to NZ\$640 per person per month (Fisher, 2015).

According to The Beauty Industry Analysis (2016), the beauty industry is known to be resistant to economic downturns - even managing well during the great recession of 2008. In 2015, the industry generated \$56.2 billion in the United States. Hair care is the largest segment with 86,000 locations; Skin care is a close second and growing fast, expected to have revenue of almost \$11 billion by 2018. This

growth is driven in part by a generally increasing awareness of the importance of skin care, but also specifically due to an increase in the market for men (Beauty Industry Analysis, 2016).

The beauty industry is not only a profit making and cosmetics and service providing industry, it is also a large employment providing sector. Many job positions are offered in the beauty industry. It opens up doors to employees with a passion for beauty. According to the Bureau of Labour Statistics, there are nearly one million people employed in the primary service segments of the market, and there are strong growth expectations.

Clearly this is an industry on the rise: Barbers, hairdressers and cosmetologists: 656,000 in 2014, 10% expected growth by 2024; Manicurists and pedicurists: 113,600 in 2014, 10% expected growth by 2024; Skincare specialists: 55,000 in 2014 with a 12% expected growth by 2024. Specific growth expected for businesses serving men; Massage therapists: 168,800 employed in 2014 with a whopping 22% growth by 2024. (Beauty Industry Analysis, 2016).

Interesting trends are always being introduced, consumers' attitudes towards beauty are changing as the culture changes. Beauty brands have chosen youthful ambassadors and models in the past because beauty was related with youth. However, the beauty industry is embracing the ageing population and are beginning to recognise that women also care about their appearances and maintaining their youth (Fisher, 2015). Older beauty ambassadors like Helen Mirren, 69, and Jane Fonda, 76, are used extensively to cater to the over-50s market which has now overtaken the younger age group to become the biggest buyer segment (Fisher, 2015).

Beauty is without a doubt a very powerful force; women believe it is absolutely rational for them to try and enhance their God-given features with makeup. Image is becoming more and more important in this generation and the way women present themselves in public reflects their personal identity and boosts their confidence levels (Fisher, 2015). Due to this particular belief the beauty industry is expanding immensely and becoming stronger by the day.

Table 2

**Beauty Industry Analysis 2016**

US Beauty Industry Segments	Market Share by Revenue
Hair care	24%
Skin care	23.7%
Cosmetics	14.6%
Perfumes and colognes	9.5%
Deodorants, antiperspirant, feminine cleaning	8.5%
Oral hygiene	5.6%
Other	14.1%

Table 2 shows each segment of the beauty industry and its market share by revenue in the USA for the year 2016, with hair care, skin care and cosmetics taking the lead and others following up quite closely. It is clear to see how much the industry generates and how it is growing and expanding in major ways

### 1.5. Reasons for Fallout of Yves Saint Laurent

The fallout of Yves Saint Laurent (YSL) occurred due to the lack of attention given to the brand. Yves Saint Laurent is a French brand that is well known for offering high end prestige products, targeting mature women with a love for luxury goods. The counter has been left with no counter manager for almost two years, therefore it has become harder to sell as other staff members have not been trained with YSL and do not have the knowledge required to sell or promote the brand. This was a result of Life Pharmacy being the only pharmacy in New Zealand to carry YSL. As it is a department store brand, many people had no idea that the brand was offered in pharmacies. Though this could have been beneficial for Life Pharmacy, it did not quite go that way as people did not know about it due to lack of advertising. Since Life Pharmacy is the only carrier of this brand at The Base, it was not getting included in the monthly catalogues shared with Unichem and Radius Pharmacies. This also meant that there were no direct mail campaigns set up, which forced pharmacy owners to pay for their own radio campaigns to inform customers about monthly deals and gift with purchase months. People preferred to purchase a brand that was well advertised, allowing them to see deals before they make the trip into the store.

This resulted in the brand being abandoned. Orders were being made incorrectly, leaving the counter constantly low on stock and causing an inconvenience for loyal customers. Customers were soon looking for alternative YSL stockers in order to receive better customer service, such as assistance with purchasing the products that best suit them, allowing customers to take away samples, trying the product before purchasing, offering in store trialling, keeping up with orders and making sure stock is always available for purchase without delays. The YSL counter at the Life Pharmacy store at The Base is one of two counters in the whole of Hamilton with the other counter being located inside Farmers – City Centre. The Farmers counter was soon not just a competitor but a major threat to The Base counter as customers were quick to realise the downfall of the brand when left with no counter manager.

Another important factor that contributed to the downfall of the brand was the fact that the brand was generally experiencing a fall in demand within the beauty industry in the whole of Hamilton. With new high end brands such as Smashbox, MAC, and Bobbi Brown, being introduced in the beauty market in Hamilton, consumers were substituting many of their well-loved YSL products with MAC dupes for much lower prices. Consumers were becoming more aware of beauty gurus on YouTube, and were being told that they can save on the price they pay for some brands by purchasing a similar quality product from another brand that offered lower prices. Mature women began to use brands that are targeted towards younger women in order to keep up with YouTube make-up tutorial trends and save money. French Beauty brands were becoming less popular with the competition of brands from the USA.

## 2. Marketing Mix Analysis

### 2.1. Cailyn Cosmetics

*Product:* Products are the main goods and services that the business provides for sale to the target market. When developing a product, a business should consider quality, design, features, packaging, customer service and any subsequent after-sales service (Marketing 91, 2015). Due to the fact that Cailyn Cosmetics is an online beauty brand, there are no services to be offered by the company. However, their shipping service can also be considered part of their customer service or their intangible product. In terms of their tangible products, the brand has many products to offer but doesn't offer skin care products such as facial moisturisers, etc. Some of their best selling products are as follows: BB Fluid Touch Compact; Super HD Pro Coverage Foundation; Matte

Primer Mousse Foundation; O! WOW Brush; O! Circle Brush; Gelux Eyebrow; 7 in 1 Dual 4D Fibre Mascara; Pure Lust Extreme Matte Tint; Star Wave Metallic Tint; Dizzolv'it Makeup Melt Cleansing Balm.

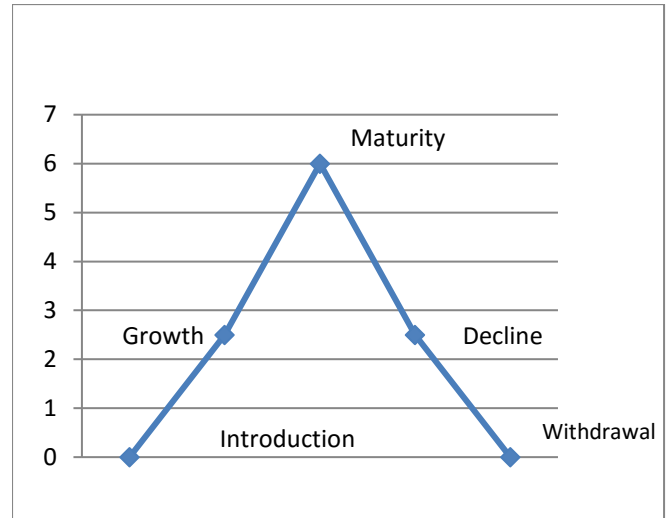


Figure 1

### Cailyn Cosmetics product life cycle

Cailyn Cosmetics is currently positioned at the growth level of the business life cycle. This level is reached when the business has endured through the initial stages of the business lifecycle, and is currently in its growth or survival stage (Chen, n.d.). At this stage the business should be consistently generating revenue and working towards expanding their customer base and developing their marketing strategies. The competition could be a threat to Cailyn Cosmetics. Therefore, innovation is required in order to be able to expand the business and increase profits to reach a stage where there is increased stability.

*Promotional:* Currently the only method of advertising and promotions for Cailyn Cosmetics is through the internet, due to it being an online company. They currently rely on beauty gurus on YouTube and beauty bloggers for advertising their brand and getting their name out to the public. They send these well-known beauty gurus all of their products and allow them to use them. In return, the beauty guru must upload a video or blog, sharing their thoughts, and review the product. That is how the name of the brand is promoted, as millions of people

watch these videos. However, if Cailyn Cosmetics comes into Life Pharmacy – The Base, then Life Pharmacy can look at different, more effective promotional ideas that will boost sales and further expand people’s knowledge of the presence of the brand in stores. This can be done in a number of different ways. Following are some of the marketing tactics that can be put into action when the brand is introduced into Life Pharmacy:

*Monthly Catalogue Deals:* Every month Life Pharmacy releases a specials catalogue that gets mailed to people’s houses. This catalogue informs customers about monthly deals and specials, and is a really great method of getting customers through the door. Once the customers are in store they end up purchasing more than they intended. It is suggested that Cailyn Cosmetics is featured in the catalogue every month, with a different promotion each month. Promotions can be anything from offering a free gift with purchase when you purchase a hundred dollars’ worth of Cailyn Cosmetics products, to offering a free mini makeover when you purchase over a certain amount worth of products, or be as simple as promoting newly launched products without specials to gain customers attention.

*Seasonal specials:* Life Pharmacy gets very involved with different seasons of the year. For Christmas, they offer free gift wrapping with Christmas wrapping, play Christmas Carols, decorate the store with Christmas decorations, have a gifts section especially designed for the season or the occasion with relevant gifts, and have different specials and promotions to match each season. Similar tactics can be incorporated into the Cailyn cosmetics counter from time to time.. The Counter can prepare gift boxes with products pre-packed, and individual prices can be taken off and replaced with an overall price. The products packed in the box should be colour themed for the season or the occasion, for example, if this promotion takes place during the Christmas season, then the products packed can include red lipstick, summer suitable products, etc. This way the customer gets attracted to the products and the way they have been packed, and when thinking of purchasing, they won’t focus on the individual prices but instead they will be viewing the package as a bargain. This is a great selling tactic when the price and presentation of product catches the eyes of the consumer.

*Facebook post:* When the brand is launched, the Life Pharmacy page on Facebook should post to inform customers of the availability of the brand in store.

*Samples & VIP’s:* Offer free mini samples. As customers are afraid of trying new products, a free

sample will never get rejected and it may raise awareness of the product and result in the customer returning to purchase the product. All loyal customers of the brand should be added to Life Pharmacy’s loyalty scheme, and the customer made aware that they can accumulate points when purchasing Cailyn Cosmetics products, and will gain rewards as vouchers once they have reached 150 points. Through this loyalty scheme the database will allow staff to recognise loyal customers of the brand and the system can generate a list of VIP customers. Once this list is identified, VIP’s should be invited to a ‘nibbles evening’ where they are offered nibbles and get to learn about newly launched products and also receive an exclusive 10% off for only that evening. This will allow the customer to feel valued and special; therefore, they will be more willing to make purchases.

*Radio Campaigns:* In the anticipation of the branding launching in Life Pharmacy, radio advertising campaigns should be set up so that people are aware of the brand coming into store so they can save the date. This should be done on the general radio and also added to the base advertising speakers.

*Place:* The Cailyn counter will potentially be located at the Life Pharmacy store in Te Awa Mall at The Base Shopping Centre. Te Awa mall is one of 3 malls that carries Life Pharmacy in Hamilton. However, Te Awa is definitely the busiest and more convenient. Life Pharmacy – The Base has a lot of foot traffic as it is located near one of the busiest cafés in the mall and is one store away from the food court. The Base provides its customers with free parking, making it more convenient to access as opposed to other malls.

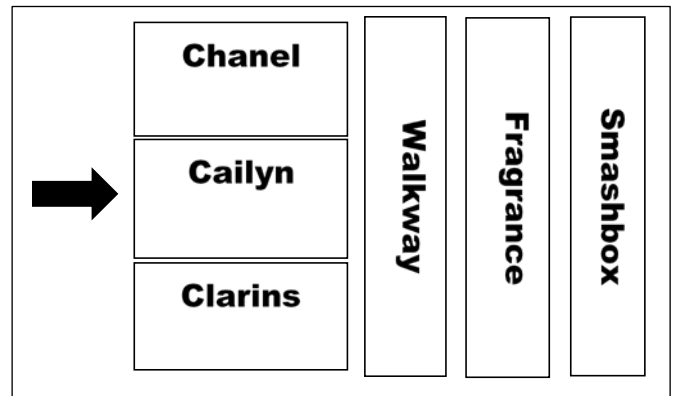


Figure 2

**Life Pharmacy – The Base, Cailyn Cosmetics counter location**

In terms of the location of the physical counter, the counter will be located at the top end

of the store on the entrance side where all the other cosmetic counters are located.

*Price:* In comparison to YSL, Cailyn Cosmetics is not as high priced; however, the pricing of the products is somewhat comparable to Shiseido's price range. It is definitely considered a high-end brand. Base products such as foundations and primers have a price range of \$60-\$70, with the famous O! WOW brush at a price point of \$55, and lipsticks and eyeshadows ranging from \$40-\$50. The prices are reasonable when taking into consideration the quality of the products and the packaging.

With most high end brands, the customer pays for the quality of the products and the packaging but also, most importantly, the brand name. The bigger the name of the brand and the wider their range of products extends to, the higher the price. French brands are generally higher priced than USA brands, and Japanese products are well known for their ingredients and quality of products, therefore Shiseido is somewhere in the middle of the French brands price point and the USA price point. However, due to the fact that Cailyn Cosmetics is still an upcoming brand that is at its growth level and is not yet known worldwide, the brand may seem a little overpriced.

When a new company sets the price of their products they take into consideration that changing the price in the future, once the brand becomes popular, can be a problem as it will be inconvenient for customer already aware of the brand. Therefore, Cailyn Cosmetics has made the right choice in choosing this price range, as through this it is shown that the products are worth the money spent on them as they are high quality and a lot has been spent on the process of engineering the product.

Pricing is a major element of marketing any product, and it is vitally important to set the right price. A price that is too high or too low for the target market can seriously affect sales (Magloff, 2016). Elements such as target market, profit margin needed, growth strategy for the company, and market share, all play a role in what pricing strategy is used (Magloff, 2016). It appears that Cailyn Cosmetics, like every other high quality brand, uses the premium pricing strategy. A premium pricing strategy involves setting the price of a product higher than similar products. This strategy is sometimes also called skim pricing because it is an attempt to "skim the cream" off the top of the market. It is used to maximise profit in areas where customers are happy to pay more, where there are no substitutes for the product, where there are barriers to entering the market, or when the seller cannot save on costs by producing at a high volume (Magloff, 2016).

When wanting to improve the brands identity in the beauty industry market, premium pricing can be used (Magloff, 2016). This strategy is also called

price-quality signaling because the high price of the product is a big indicator that the products are high in quality (Magloff, 2016). In order to give the company an aspirational image, this strategy can be used to do so (Magloff, 2016).

## 2.2. Shiseido

*Product:* The first object required in order to start a business is a product. Therefore, Product is also the first variable in the marketing mix. Product decisions are the first decisions that must be taken before creating a marketing plan (SmallBiz Connect, n.d. ). A product can be divided into two parts; the core product and the augmented/actual product. Products are also the main goods and services that the business provides for sale to the target market. When developing a product, a business should consider quality, design, features, packaging, customer service and any subsequent after-sales service (Marketing 91, 2015).

Core products are a business's products or services which are most directly related to their core competencies. Core products are the dominant benefit or satisfaction that a customer expects from a good or service that they purchase (Business Dictionary, 2015). As a potential brand at Life Pharmacy, the brand will carry some of these core products: skin care advice; relaxed environment at all counters; great customer service; staff training; innovation.

The actual product is the tangible and physical product. It includes all tangible aspects of a product, such as the brand name, design, features, quality level and styling (Business Directory, 2015a). Actual products are what the average person would think of under the generic banner of products (Business Directory, 2015a). Some of the actual products that Shiseido will offer at Life Pharmacy are: beauty makeovers; facial treatments; luxury skincare; quality foundations; fragrances; body creams and sprays.

*Promotion:* Promotion refers to the act of communicating the benefits and value of the product to consumers. It then involves persuading general consumers to become customers of the business, using methods such as advertising, direct marketing, personal selling and sales promotion (SmallBiz Connect, n.d. ). Information provided to the customer at this stage helps them in making purchase decisions regarding the product (Martin, 2014,). Often, there is substantial cost associated with promotional activities. Since the result is often an increase in sales or customer loyalty, there is thought to be long term return on this investment and also a possibility of reaching maturity stage, where there is more stability (Martin, B, 2014, b). There are many ends that a

business may try to reach through a promotion, such as an increase in sales, acceptance of new products, brand equity creation and brand positioning, addressing competitor actions and rebranding (Martin, 2014).

Shiseido is currently considered to be at the maturity stage of the business life cycle due to the fact that it is Japan’s number one cosmetic brand and has made it to the world’s top five cosmetics and beauty brands. Japan has the second largest cosmetics market in the world, with 17 market share following from the U.S who has the largest cosmetics market in the world, and this market makes up close to 30 of the entire global cosmetics market (Analysis of Shiseido, n.d.). Shiseido is the reason behind the success of Japan’s cosmetics market. At maturity stage, all that is required of the brand is to continue doing the things that they do in order to sustain their success, and also continue to be innovative in order to try to further expand.

Below are some promotional ideas that can be taken into consideration when looking at bringing Shiseido into Life Pharmacy – The Base:

*-Launching Events:* Setting up regular events where the business is able to invite VIP clients to enjoy an evening of nibbles as well as learn about new products, is a really great way at increasing sales. These clients are ideally existing buyers and will have an interest in finding out about new products. Such invitations will make the customer feel appreciated and acknowledged, which will in turn keep them coming back for more business.

*-Bonus Rewards:* Life Pharmacy is known for their Living Rewards Card scheme. The card is scanned with every purchase, and every dollar spent equals to one point accumulated on the client’s account. It allows clients to accumulate points with every purchase. When 150 points are reached, a \$10 reward voucher is earned, that can be used on anything in store. A good idea will be making sure all Shiseido clients are added to the rewards system. This will give the customer something to look forward to and also acts as a record of purchases in the system.

*-Online Bookings:* Offering online booking does not have to replace phone call appointment setting, if some clients prefer to book over the phone it will still be available. This way the business can accommodate to and satisfy a wider range of people. Online bookings enable staff members to send text message reminders to clients for confirmation. This will likely increase business, as when the store is closed, offering only phone booking means that clients cannot book appointments when there is not someone to answer the phone call. This eliminates the chance of clients booking with another business

simply because they are still able to book online at any time of the day (Prossor, 2015).

*-Monthly Catalogue:* Adding all monthly Shiseido deals and promotions into the Life Pharmacy monthly catalogue will raise awareness of promotions such as gift with purchase deals, etc. Using data base’ information collected through the bonus rewards card scheme, members who purchase Shiseido should also receive emails prior to the end of the month so that they are aware of upcoming promotions and deals.

*-Place:* The Shiseido counter will potentially be located at the Life Pharmacy store in Te Awa Mall at The Base Shopping Centre. Te Awa Mall is one of 3 malls that carries Life Pharmacy in Hamilton, and is definitely the busiest and more convenient. Life Pharmacy – The Base has a lot of foot traffic as it is located near one of the busiest cafés in the mall and is one store away from the food court (see Figure 3). The Base provides its customers with free parking, therefore, making it more convenient to access as opposed to other malls.

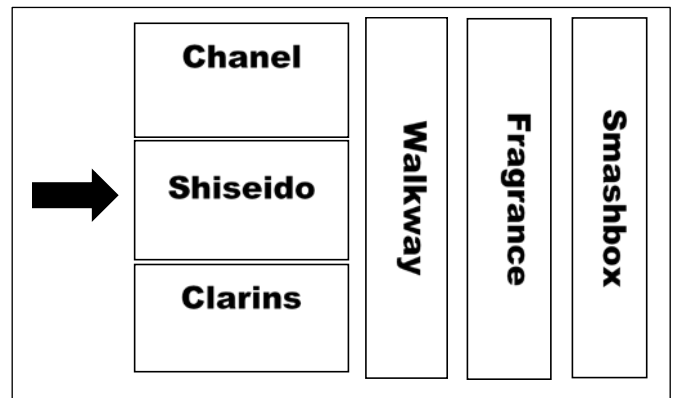


Figure 3

**Life Pharmacy – The Base, Shiseido counter location**

In terms of the location of the physical counter, the counter will be located at the top end of the store on the entrance side where all the other cosmetic counters are located. This diagram below shows where the Shiseido counter will potentially be.

*-Price:* Shiseido Cosmetics are considered to be luxury and high end quality products. Their target market is mainly mature women between the age of 30-60 who have high incomes or enjoy splurging with their makeup. Life Pharmacy has a 75% mark-up on products, therefore, a lot of thought must go into setting prices, though Shiseido must be sold at the same market price as it is set in department stores such as Farmers, the business should still consider other costs such as promotional costs. The money

spent on promotion must be in some way returned from the prices; the price must cover all of these factors, including expenses, and must also allow the business to make a profit. If the target market is willing to pay the price the business would like to set, then they may go ahead. Some factors other than the target market should also be taken into consideration, such as, the competing businesses, as the price must always be either on the same level or beat it. With Shiseido, the prices must all be the same at every store.

All products offered at Shiseido are produced by Shiseido in Japan. The brand is a multinational personal care company, has many subsidiaries, and is well-known worldwide. Products available for purchasing are well-known international products that are mostly imported from overseas by the manufacturers. Shiseido has full control of setting of prices. However, the price it is sold to suppliers at differentials, as they must allow the provider to also make a profit. The brand is currently set at high end prices as it is at the maturity stage of the business life cycle and any major changes to prices may affect customers' ability or willingness to purchase. Any sudden or noticeable change in price may result in loss of customers, therefore sticking to the prices it is well-known by is ideal.

The method of pricing that Shiseido uses is Premium Pricing. This strategy of pricing is when the business sets a high price in order to establish an exclusive product of high quality (Martin, 2014). This basically means that when a business offers high prestige brands such as those that Shiseido offer, they are predominantly choosing the type of consumers they would like to attract. In this case the targeted consumers are those who have the ability to pay high prices for well-known high quality brands.

Shiseido offers cosmetics such as foundations powders, etc. and these are priced between the \$70-80 mark while other products such as lipsticks, mascaras, etc. are between \$40-60. However, skin care is divided into different ranges, the anti-ageing range' products are between \$200-400, depending on the product, for example, masks and serums are higher priced than moisturisers and toners. The other range' products are between \$100-300, also depending on the particular product.

### 3. Literature Review

*Yves Saint Laurent – Brand Overview:* The brand Yves Saint Laurent, founded by designer Yves Saint Laurent, gained a huge success since his very early years that lasted for a lifetime (Beauty, 2015). For more than 40 years in a row genius Haute Couture designer and the respective brand creator had been

setting the fashion guidelines for the whole world as his amazing fashion creations were the main trends for women's and menswear and his fragrances were the main beauty wish for millions of people (Beauty, 2015).

The beauty division of the brand, that started off with the fragrances, has now become one of the most recognised and purchased beauty and makeup brands in the world; YSL Beauty is currently a substantial part of the L'Oréal Group Luxe (Beauty 2015). The most famous and prominent fragrance of the brand remains the gorgeous Opium, that has found its reincarnation in the Black Opium – an amazing modern adaptation. The sales of the YSL fragrances account for the majority of income from the beauty division of the brand as many of the YSL fragrances have become iconic over time (D Beauty, 2015).

The makeup line of the brand is very popular and successful among beauty lovers all around the world. The brands popularity increased and became more well-known after the launch of the very well-known products 'Touch Eclat Concealer' 'Effet Faux Cils Mascara, and the Rouge Pur Couture and Rouge Volupte lipsticks (Beauty, 2015).

YSL did not only succeed in the beauty industry with the products mentioned above, it stood out from the competitors and became unique due to the packaging of these products, which no other brand has offered before. It offered gold packaging that struck anyone's attention, making it recognisable from a distance. The quality and design of the packaging was a clear indication of the worth of the product, showing it to be not only high end in quality but in design as well. It soon became well-known for luxury packaging and amazing quality products (Beauty, 2015). The brand was also able to gain the loyalty of its devotees in the skin care department as well offering the most cutting edge technologies in terms of preserving the youth of the skin and capturing light from within (Beauty, 2015).

YSL always have something unique, something new and modern to offer and never fail to meet the expectations of its customers, whether it be in the makeup, fragrance or skin care side of the brand. The brand is known for innovating existing products into more modern versions while also keeping the existing versions for those customers who are still willing to stick to their old products, showing consideration of consumers' loyalty to the brand. It is not a question of outperforming its competitors – it is a core ideology of the brand and its creator who genuinely believed in progress of the beauty (Beauty, 2015).

*Chanel – Brand Overview:* In 1924, Chanel really started to expand as a brand when they launched their cosmetics and beauty line.



Beforehand, Chanel was well-known for fashion designs, but became more well-known with the launching of the best-selling fragrance in the world 'Chanel No 5' in 1921 (Chesters, 2012). Nowadays, the brand has added more than 20 different types of perfumes. The brand is not only focused on fashion designs and perfume. Chanel has managed to expand within the beauty industry offering a huge range of high-priced makeup with launching of new and exciting limited edition collections and seasonal launches (Chesters, 2012).

The Chanel cosmetics line makes a little bit of luxury accessible to everyone. Their cosmetics products are known for their superior quality and innovative formulas (McCarthy, 2016). Their beauty line is about extravagance and indulgence; it was designed to give women the experience of luxury in their daily routine (McCarthy, 2016). Chanel also offers a complete line of skin care products for the face and body such as cleansers, creams, masks, moisturisers and sun care. Skin care targets people with different skin types, mainly focusing the ranges on mature skin.

Due to the fact that Chanel is a luxury brand offering high end quality and highly priced products, the target segment is mainly mature women who have high incomes and have the ability to afford such luxurious products. Chanel is also considered a great gifting brand when wanting to show a person how much you value them.

*Smashbox Cosmetics – Brand Overview:* Smashbox cosmetics was created by Dean and Davis Factor, great-grandsons of makeup legend Max Factor. Born out of the legendary Smashbox Studios in LA, the cosmetics brand launched in 1996, offering customers long-lasting products that stay intact even in the toughest conditions (The Beauty Informer, 2013). The cutting-edge brand, loved by some of the most beautiful Hollywood stars, was acquired by Estée Lauder Companies in 2010 (Beauty Informer, 2013). Smashbox cosmetics stands out from other cosmetic brands because the products come straight from the Smashbox Studios. Their products are all tested in studio in order to find out how they hold up in bright lighting and hot weather conditions. This allows the creators to explore and develop problem-solving solutions for products who need improvement before making them available for consumers. Smashbox's focus on creating studio-ready cosmetics, enabled the brand to be the first cosmetics company to produce HD makeup (Beauty Informer, 2013).

The brand is mainly makeup focused and does not offer other products such as skincare and perfumes, allowing the creators to be fully focused and devoted to creating makeup that stands out from

all other brands (Beauty Informer, 2013). Smashbox Cosmetics is mostly targeted at younger women who enjoy long wearing and full coverage makeup. The products are suitable for all occasions especially wedding as the makeup holds up well through a long day and photographs really well (The Beauty Informer, 2013).

The brand became well-known for the number of different primers they have to offer, more than 12 different primers made for different types of skin. They were one of the first brands to introduce primers as an essential product for every makeup kit, and added beneficial ingredients for the skin within their primers that provided customers with skin changing results after a number of weeks of use, as well as instant results like prolonging the wear of makeup and helping with issues such as oily skin or dry skin etc. They are a very innovative brand always keeping up with current market trends and launching seasonal and limited edition collections. They are known for their big collections that come out at the beginning of each year and changing the theme every year. They spend time evaluating current products and discontinue products that don't sell well replacing them with better and improved formulas.

*L'Oréal Paris – Brand overview:* For more than a century, L'Oréal has been involved in the adventure of beauty. The small company founded by Eugène Schueller in 1909 has become the number one cosmetic group in the world (L'Oréal Paris, 2016). L'Oréal Paris is a total beauty care company offering products from cosmetics, skincare, to hair care. They combine the latest technology with the highest quality to gain the ultimate in luxury beauty at mass (L'Oréal Paris USA, 2016). L'Oréal Paris is a globally known beauty brand with many internationally renowned products. As the biggest beauty brand in the world, L'Oréal Paris has an unparalleled commitment to technology, research and innovation, providing ground-breaking, high-quality products for women, men, and children of all ages and ethnicities (L'Oréal Paris USA, 2016).

L'Oréal Paris is known for being dedicated to rejoicing the diversity of beauty. They have a broad range of well-known celebrities acting as spokespeople for the company, such as Jennifer Lopez, Eva Longoria, Andie MacDowell and Diane Keaton (L'Oréal Paris USA, , 2016c). L'Oréal Paris brands and divisions are numerous. The company owns big brands such as Giorgio Armani, Matrix, Urban Decay, Victor & Rolf, Diesel Parfums, Ralph Lauren, Essie, NYX, Lancôme, Garnier, Maybelline, Yves Saint Laurent and many more (L'Oréal Finance, 2016).

L'Oréal Paris is considered to be an affordable brand. In New Zealand the brand is priced slightly

higher than the USA, although still under the category of affordable brands. It is well-known for its quality products and immaculate packaging. The target market for this brand is consumers who are looking for products that are on trend but who are not willing to pay the price paid for brands such as YSL. The age this brand targets is anyone from teenagers to mature women, as they offer a number of different age defying foundations and skin care products as well as offer fuller coverage foundations targeting younger women. L'Oréal Paris is a brand that is ideal for wear at any given occasion and acts as a great starting brand for those who are only just starting to wear makeup.

*Revlon – Brand Overview:* Revlon was founded in 1932, by Charles Revson and his brother Joseph, along with a chemist, Charles Lachman, who contributed the "L" in the REVLON name. Starting with a single product - a nail enamel unlike any before it - the three founders pooled their meagre resources and developed a unique manufacturing process (Revlon, 2016b). The brand initially became well-known for their nail polishes. They stood out from the competitors with this product as they were one of the first companies to develop nail polish with pigment such as different shades of red, as opposed to the traditional transparent or cream coloured nail polishes. By 1940 Revlon had a whole line of manicure products. This was when they introduced their next product to the brand which was lipstick.. Its introduction was marked by a full-colour advertising campaign stressing the importance of cosmetics as a fashion accessory and featuring the novel idea of "matching lips and fingertips" (Revlon t, 2016a).

They then started to develop other products along the way. Nowadays the company offers a wide range of cosmetics, including makeup, skincare, perfumes and nail care products and is considered to be one of the top affordable makeup companies. Revlon has some really great advertising techniques, and mostly succeed with the launch of new products with the use of well-known celebrities. They seem to follow up with current beauty trends, and always come up with their versions of such trendy products. Revlon is an affordable USA brand that offers a number of different categories and ranges for different skin types and ages. Their skincare targets mature women as well as younger ones and almost everyone can find what they're looking for as they have an extensive and impressive colour range that matches most skin colours even darker women.

One of the main competitors for this brand is L'Oréal Paris because, as mentioned above, L'Oréal Paris also offers high quality but affordable products. At Life Pharmacy both brands sell well however

L'Oréal Paris tends to gain more attention from younger women as opposed to Revlon. This may be due to the fact that Revlon is not as innovative as L'Oréal Paris. Even though they do keep up with trends and bring out new products often, they don't re-package or reformulate their products as often as L'Oréal Paris. The company also tends to be slightly slower with the process of launching new products as L'Oréal tend to bring them out faster.

*Cailyn Cosmetics – Brand Overview:* Cailyn Cosmetics was established in 2000, launched by Smile World Inc., a manufacturer and supplier of the highest quality mineral cosmetics for private labelling companies, and skin care products for doctors, spas, salons, and big brand cosmetics companies throughout the United States, Canada, Mexico, Europe, South Korea, and South East Asia (Cailyn Ireland, 2016). Through Smile World, the company created the Cailyn brand, a leading cosmetic retailer and wholesaler of innovative, all-natural and mineral-based makeup products, and unique skin care lines to retailers, wholesalers, and distributors (Cailyn Ireland, 2016).

D & A Distribution Limited, T/A Cailyn Ireland is a family-owned beauty distribution company, they are the exclusive distributors of Cailyn Cosmetics in Ireland. They aim to offer an array of products to keep up with the latest trends and fashions (Cailyn Ireland, 2016). Cailyn Ireland brings beauty products that are unique to the beauty market, such as the all in one Foundation plus Corrector plus Brightener plus Moisturiser BB Fluid Touch Compact, which combines several face products in one compact. Also the magnificent O! Wow brush, which changed the look of traditional brushes, launching the first brush to look like a spoon and feel like feather (Cailyn Ireland, 2016).

Though Cailyn Cosmetics has been introduced into the beauty market since the early 2000s, it became better known in the beauty industry market in 2015 and is currently becoming more and more well-known through YouTube Gurus and Bloggers. Cailyn Cosmetics is a leading cosmetic private manufacturing company of over 10 years, located in the heart of Los Angeles. As mentioned earlier in this report, Cailyn Cosmetics is currently a possible substitute for the YSL counter.

Cailyn Cosmetics uses only high quality ingredients, cutting edge formulated products, and outstanding packaging designs (Cailyn Ireland, 2016). This is why their products are dynamically engineered and accurately processed. Cailyn Cosmetics also offer non-animal testing products which are certified by Leaping Bunny. The company do not test or re-test on animals to assess safety, efficacy, or environmental effects of cosmetics (Cailyn Ireland,

2016). Most of their products are formulated without petrochemical phthalates and other harmful ingredients making them really appropriate for those who are against animal testing or consumers with sensitive skin and or other skin conditions (Cailyn Ireland, 2016).

**Their Vision:** Cailyn Ireland is a progressive company committed to the future of the world of beauty. Without sacrificing any quality or beauty, Cailyn Ireland will bring the consumer what they are looking for- quality product, creativity and affordable price from a brand with a broad appeal. Cailyn Ireland constantly keeps abreast of trends to fulfil the goal of accommodating the changing needs of the consumers.

**Their Mission:** To supply top quality products and brands in constant evolution that satisfies the needs of end-consumers. In order to uphold this mission their most important values are, to be creative and innovative, to aim for product excellence, and to create and build strong links to both the company's stockers and end users.

## 4. Research

### 4.1. Aim of the Research

The main problem presented in this business case is that the brand Yves Saint Laurent, one of Life Pharmacy's prestige brands, is in the process of being discontinued from The Base store. The Counter has failed to meet sales targets, showing no progress within a time period of two years. Therefore, the decision has been made to moderately reduce products to half price in order to sell as much stock on hand as possible before the counter is fully taken out of the store. There is currently some negotiation around which brand would be suitable to replace this brand. A brand is needed that will be sure to reach sales targets, benefit the pharmacy and be more of a success for the store.

The aim of this project is to find a new product line that is a suitable, relevant, and a viable substitution brand. Currently looking into Shiseido and Cailyn Cosmetics as potential brands, and gathering all the information required such as patents, legal requirements and the brands background information is required in order to make a decision that is the most beneficial for Life Pharmacy, keeping in mind that the decision taken must be feasible.

### 4.2. The Scope

The research will mainly consist of current brand overviews and potential brand overviews. After conducting all the brand information required, there

will be a marketing mix analysis for both potential brands also taking into consideration factors such as price, promotion, product and place. Recommendations and selection of substitutional brand will take place after thorough research of the beauty industry and current market demands and gaps.

### 4.3. The Method

For this research there will be no formal interviews or questionnaires involved. However, there will be an informal verbal interview with the past YSL counter manager and the Shiseido counter manager.

### 4.4. Ethics

Though ethics approval is not required for this research, all contents such as internal information of the organisation and sales reports and figures will be treated with confidence and will not be disclosed to the public under any circumstance.

## 5. Results

During this research an informal questionnaire was conducted and answered by Counter Managers of Life Pharmacy. Through this questionnaire it was possible to gain a better understanding of the reasons for the fallout of the YSL brand and how new introduced brands will impact Life Pharmacy's overall reputation and sales targets. During the discussions held with counter managers it was possible to confirm and pin point the reasons for the fallout of the brand and also gain a better understanding of which brand would be more suitable for substitution. As shown in the research results both counter managers agreed that the YSL brand faced a downfall in sales due to lack of attention from Managers, no counter manger available, no sufficient marketing campaigns, and also a general downfall of the brand as a whole within the beauty industry.

With the presence of such an experienced Shiseido counter manager, it will become easier to sell and will build back the reputation of Life Pharmacy's beauty brands, with more attention given to the brand. As the Shiseido counter manager declines the offer to take on selling Cailyn Cosmetics, that will become harder to sell as the brand is not available anywhere else in Hamilton, so training someone completely new would be difficult.

While writing up overviews of the current available brands of Life Pharmacy, and also the two potential brands, it became clearer to see that considering there are three other brands aimed

mainly at younger women, the replacement of YSL must cater to slightly older women, as YSL did, so that Chanel does not become the only skin care providing for older women, as that would make demand too high to keep up with orders and stock turnover. Cailyn cosmetics does not have a skin care range, however, whereas Shiseido has an extensive range of skin care for different skin types and different ages.

Substituting YSL with a brand that also offers skin care and targets mature women will mean that Chanel and Shiseido will be the two luxury, high-end brands and Smashbox will be the brand aimed at younger audiences and LOreal and Revlon will be the lower-end brands. This way, Life Pharmacy's beauty counters will have a great mix and cater to different age groups, market segments and will have price ranges suitable for most consumers.

Yves Saint Laurent product performance reports showed a stock turnover of 1 as of October 2016 and all past reports showed a similar stock turnover figure. This shows that the brand was having difficulty selling the stock on hand and stock was becoming old. This was also contributing to the overall reputation of the brand as products were becoming expired. The only range selling from the brand were fragrances. When comparing this report with the Chartwell Shiseido counter sales analysis report it was shown that for the month of October 2016 alone, the latter counter had generated total sales of \$14,606. This figure had a large contribution to the overall profit of Life Pharmacy for the month, and acts as a report card to show the differences and that if the brand was introduced to the Base store it would be successful and build its own clientele. Chartwell Shiseido counter also showed a stock turnover figure of 4 for the month of October 2016 which is favourable and shows inventory was sold at a normal measure.

and keep up with orders and the image of the counter? Do they have years of experience in the brand?		
Are promotions easy enough to implement?	YES	YES
Is the Place factor is the marketing mix feasible for this brand?	YES	YES
What stage of the business life cycle model is this brand at?	Maturity	Growth
Are both brands capable of offering the same tangible and intangible products of YSL from the marketing mix analysis?	YES	NO
Is the Price of both of these brands to some extent affordable? Or too highly priced?	Well Priced	Well priced

The table above shows a comparison between Shiseido and Cailyn cosmetics. It is clear that Shiseido Cosmetics is a more suitable substitution than Cailyn Cosmetics, and is also more feasible.

## 6. Conclusions

In conclusion, the decision to discontinue the Yves Saint Laurent Counter from Life Pharmacy is the right decision to make, due to the downfall the brand can no longer sell. Taking into consideration the different aspects of the two potential brands the decision to replace Yves Saint Laurent with Shiseido is more feasible than substituting it with Cailyn Cosmetics. This became apparent when both marketing mix analysis' were thoroughly analysed and from this it was possible to compare one brand to the other.

In order to replace a brand such as YSL the brand that replaces it must have the same reputation and offer the same products and services. Cailyn Cosmetics do not offer skin care or facials and makeovers which is the main point of differentiation. Not having a second brand that can offer these services, it will leave Chanel as the only brand to offer these kind of services, which would mean higher demand, more pressure on the current counter manager, and even letting customers down due to fully booked schedule.

This may mean that Life Pharmacy would need to hire an Assistant Counter Manager for the Chanel counter to help out, which would mean paying out more wages and even the possibility of conflict between the two counter managers.

However, Shiseido is well-known for their skincare range and services and the availability of these services will provide the customers with more choice and will result in less chaos.

Table 4

### Brand comparison

	Shiseido	Cailyn
Is this brand luxury enough to and YSL's reputation?	YES	NO
Does this brand have a skin care range?	YES	NO
Is this brand as well-known as YSL?	YES	NO
Has this brand been available in the beauty industry for a while?	YES	NO
Will the counter manager of this brand be able to sell the brand	YES	MAYBE

## 7. Recommendations

Taking into consideration the conclusions made above, there have been some recommendations put into place in order to act as a plan on how the substitution will take place and what steps are required to implement this plan.

It is advised that the substitution must take place before the end of the 2016 year and before Christmas. This leaves Life Pharmacy with less than two months to set up the Shiseido counter in store. Most of the remaining YSL stock has been marked down and is almost all sold, however, any remaining stock can be sold on Boxing Day at the clearance tables, which will leave the store with no more YSL stock.

Staff must begin to inform customers of these changes in order for them to have an idea of what to expect and where to go to purchase Shiseido Cosmetics in a few months time.

Preparation of promotions must begin, such as 'Coming Soon' banners in the store and posts on all the Social Media Sites such as the Life Pharmacy page on Facebook and the Te Awa Mall page on Facebook.

Shiseido Customers from the Chartwell Life Pharmacy store must all be informed of the opening of the other counter at The Base store so that anyone who travels a long distance to purchase their products has the convenience of purchasing their products from a closer store.

The catalogue should be set up to include Shiseido Cosmetics anyway, due to it being present at other Life Pharmacy stores. However, a 'Now Available at the Base' sign must be included in the catalogue once it becomes available in store.

Setting up online bookings for Shiseido Makeovers and Facials on the official website.

Sending out free samples of newly launched products in the mail to loyal Shiseido customers through using the database of the loyalty card scheme and informing them that it is now available at The Base.

Offering Participant 2 the Shiseido Counter Manager position and working out set hours of work and preparing the roster for Christmas hours in order to get things underway.

Participant 2 must now contact all loyal customers and inform them of the availability of the brand at The Base store.

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# Applying the Balanced Scorecard to Improve Student Satisfaction, Market Share and Profitability

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## Abstract

Student satisfaction is considered a major focus for educational institutions around the globe. As students are the major stakeholder in this sector their expectations from the institution should be met. This focuses on the balanced scorecard framework developed by Kaplan and Norton. This framework, which is widely used by profit and non-profit organisation is here used to assess student satisfaction, which in turn improves performance and leads to profitability. The focus of this paper is on the implementation of the framework into an educational system. In this study, students were interviewed to collect their views on their level of satisfaction, and a staff member was interviewed to gain understanding of their knowledge of the balanced scorecard framework, and their opinion on student satisfaction. The conclusions derived were that senior level staff lack knowledge of the balanced scorecard and require appropriate training on its use and implementation. A slightly modified balanced scorecard framework is recommended for the centre to practice.

*Keywords:* balanced scorecard; market share; profitability; student satisfaction

*JEL Classifications:*

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## 1. Introduction

Education has become a priority in the current world and high number of students are aiming for qualifications. There has been a rise in both international and domestic students around the world. With changes in technology, increase in the number of universities and students places pressure on education providers. Strategic performance and management is therefore a critical factor for organisations. Competition among various institutes demands that each business have unique facilities and services. Such organisations are largely determined by stakeholder influence and

expectations. They include students, parents, investors, government and the community. The key stakeholders are the students, whose main aim is to obtain an environment that is appropriate for their learning and to ensure that they get the value for what they pay.

Managers therefore have to consider student expectations through strategic planning. The balanced scorecard developed by Kaplan and Norton (1996) is identified as an effective management framework to consider student satisfaction. The framework is based on both financial and non-financial measures rather than traditional measures that focused only on financial



aspects. The framework is built on four perspectives which are linked to each other and based on a cause and effect relationship.

### 1.1. Research Objective

Higher education institutions constantly face the pressure to attract students in the current competitive environment. There is a run for the gathering of as many students as possible. The aim of this project therefore is to analyse trends of students and factors that contribute to student choice of an institute.

One of the values at ITPA is that both students and employers are our customers. The objective of this research is to use the balanced scorecard framework, which possibly leads to profitability and market share, to determine student satisfaction with ITPA.

## 2. Literature Review

Higher education is a service providing organisation. The sector is continually facing pressure from competitors and this poses a risk to the survival of the entity. Stakeholders have a major role to play in an institute's performance. Lau (2014) placed emphasis on the relationship of stakeholder theory and higher education. Stakeholders are those external parties that have an influence on the organisation. They include, customers, suppliers, government, employees and many more. In an educational sector the main stakeholders are the customers, that is the students. This is because the success of the higher education depends upon the students, who have expectations regarding the quality of education. Student satisfaction should therefore be a major concern.

Higher education is available to enhance knowledge and education. Rapid changes in technology and an increase in the number of universities and polytechnics pressures tertiary education providers to have a clear vision for the future, prior planning and respond to issues facing their institutes. They therefore have to adopt a different approach to focus on linking their vision with strategy, (Al-Hosaini & Sofian, 2015). According to Stewart and Hubin (2001), accountability in higher education is a major issue. Increase in the number of institutes and universities demands that higher education provide performance measures. Universities are largely concerned with how they present themselves with

important stakes such as increasing financial resources and encouraging large number of student applicant. Most institutions and colleges have mission and vision set out which direct the daily activities. It is within these goals that an organisation decides what it will benchmark and what performance targets they should set. Al-Hosaini and Sofian (2015) recommended the use of the balanced scorecard and its four perspectives to improve organisational performance.

### 2.1. Applying the Balanced Scorecard Framework in Academia

David Norton and Robert Kaplan from Harvard University presented the balanced scorecard in February 1994. Traditionally organisations measured their performance based on short term performance measures but balanced scorecard stretched its boundaries to customer, internal process and growth perspective (Chavan, 2009). The framework uses both financial and non-financial measures and a key part of this process is feedback and learning steps. The main purpose of the balanced scorecard is to direct, control and challenge the whole organisation towards achieving shared targets and goals. The framework also shows the internal and external aspects of the business and is based on cause and effects assumptions, and that each perspective is linked.

Academies significantly focus their investigation upon business performance evaluation. The performance needs can be measured by integrating the four perspective model developed by Kaplan and Norton (1996). The balanced scorecard is an effective framework to clarify strategies and achieve success. The financial perspective describes monetary terms while the customer perspective focusses on the needs of the customers. To achieve success in both financial and customer perspective competitive priorities should be selected which can have impact on quality of educational services (De leao, Bortolini & Hansen, 2006).

Chang and Chow (1999) claimed that business education has been constantly pressured due to changes in technology. The balance scorecard is based on both current performance indicators and future performance drivers. Aiding managers to understand what is happening inside and outside the organisation. An effective framework includes a mix of outcome measures and performance drivers. Christesen (2008) added that successful implementation examples were needed by higher education in order to become more

productive and efficient. Universities widely use the balanced scorecard to prepare strategic development plans that are directed by the monitoring systems. The framework is used to clarify vision, communicate strategies and align strategic initiatives.

In 1987 many businesses had lost relevance because they placed emphasis on performance derived accounting and reporting systems. There was a need to select specific performance measures from those available. The Kaplan and Norton balanced scorecard framework provided a multidimensional performance evaluation. It stated that students go through a lot of experience as they move from freshman through graduation. Researchers claimed that students were satisfied with academic aspects but are less satisfied with the support services, career counselling and registration (Hart, Rampersad, Lopez & Petroski, 2009).

The four perspectives of the framework are: i) the financial perspective - what results are to be obtained, ii) customer perspective – what are stakeholder expectation, iii) internal business process perspective - what success factors are important to the organisation and learning and iv) growth perspective – what activities are necessary to develop the organisation for the future. Higher education provides intangible services, making financial performance measures inadequate. The balanced scorecard is therefore an appropriate tool for such organisations. Measures of the balanced scorecard are built on factors such as student numbers, pass rates, graduation rates, faculty teaching and the rate of graduates employed after graduation. The framework can be used as a control mechanism, ensuring quality management and accomplishment of the goal of learning and teaching (Christesen, 2008).

Hart, Rampersad, Lopez and Petroski (2006) state that the balanced scorecard is a widely used strategic planning and performance evaluation tool around the United States. Many universities use the balance scorecard to measure student satisfaction, retention, guiding their strategic goals and development efforts. The framework is widely used by profit and not for profit organisations. It was recently implemented by the higher education sector to achieve academic success. Kaplan and Norton (1996) recommended that colleges place importance on customer perspective so as to achieve greater success. In the increasing diversity of universities satisfying students is challenging.

Chavan (2009), however, claimed that implementing the balanced scorecard could be costly, but that the benefits of implementation outweighed its drawbacks. Translating the balanced

scorecard in a complex environment such as academia can be complex due to the uncertainty of whether university's performance can be measured quantitatively (Stewart & Hubin, 2001). According to Atkinson et al (1997) the framework was one of the most important developments in the history of management accounting. Christesen (2008), however, criticized the framework, claiming that it allows institutions to choose specific measures to report upon and that the framework is limited to the four perspectives. Other critics have argued that the framework is too simplistic for usage in large corporations and government agencies. In response to these criticism Kaplan and Norton (1996) claimed that the perspectives can be modified depending on the business needs and requirements.

The vision and mission of higher education is mainly aimed towards customer satisfaction. Implementing the balanced scorecard can utilize other existing tools such as the strategy maps. Organisation can have different perspectives of the balanced scorecard. Some use the traditional four perspectives while others modify these perspectives to suit their organisational needs (Al-Hosaini & Sofian, 2015).

## 2.2. Student Satisfaction

Sahin (2014) described satisfaction as the feeling of happiness when you have attained what you required. Student satisfaction is the degree to which an institute meets the needs of its stakeholders. The main stakeholder for an institute are the students. The higher education managers have to determine student satisfaction in order to improve performance. It is however difficult to have a clear definition of satisfaction since different people have different views towards it. Institutes have to consider the development of learning processes, demographic revolution and the use of information and communication technology in a teaching environment. Business managers have to understand that improving these factors is a must so as to retain students and attract more. A need for a customer oriented approach in the education sector is required (Bacila, Pop, Scridon & Ciornea, 2014).

Shi, Drzymalski and Guo (2014) claimed that student satisfaction has been the main contributor to college reputation. Due to the competitive environment, the education sector has realized that improved performance is guaranteed by adapting to changing student demands. Institutions need revenue to meet the daily operations and the major source of revenue comes from the students, thus the main focus has to be on adopting strategies to retain

as many students as possible. Retention rates are highly based on the services derived from the institute.

According to Ismail, Feridah and Sheriff (2012) the search for an institution can be difficult but it is now made easier as the information is available online. Effective communication should be a priority, in terms of aiding student evaluate and make choices on an institution based on the information provided. Information available is largely responsible for a student's choice of an institute.

Overall student satisfaction should be a major focus for institutes based on features such as teaching quality, enrolment, learning environment, use of technology and learning systems. Asgari and Borzooei(2013) claimed that satisfaction comes with the benefits of impressing, attracting and retaining students. White and Fry (2014) suggest that competition for enrolments is rapidly increasing between institutes and countries, student satisfaction needs to be a priority for education managers. Satisfaction with the institute is a key element in determining the performance of the institute, and performance of staff, and leads to a positive word of mouth recommendations.

The literature is divided into 3 major factors of attraction: teaching, services provided by the institute, and employment opportunities.

### *2.3. Teaching Quality*

There are various definitions of quality. This is because different people have different perceptions to what is quality for them. Quality helps to improve productivity and helps reduce costs in the long run. Several theorists are discussed by Sallis (2002) and Suarez (1992). Crosby defined quality as conformance to requirements and that it is either present or not present, Juran defined quality as fitness for use and product being free from deficiencies and Deming looked at quality from a customer's point of view. The question then of quality measurement in a service industry arises.

Stukalina (2014) notes that quality in higher education is the main motive of promotion in the European higher education system, In the customer driven world today, quality is a crucial element in deriving an effective strategy. The challenges of modernizing higher education are faced by institutes all around the world and the need for re-considering strategies arises. The main motive of institutions is teaching and research, but their scope has broadened towards social inclusion, the knowledge economy, and competition for the best international students. Major transformations in educational

institutes are due to an increased focus on quality, therefore educational managers have to be more flexible in order to sustain the organisation.

Teaching quality is therefore identified as the main factor contributing towards student satisfaction. The European education system today has emphasized more towards creating a learning environment which allows student views and experience to flourish. The research was modelled on the theory of Bush and Glover (Stukalina, 2014).

Diaz-Mendez and Gummeson (2012) focused on assessing teaching quality. Lecturers must understand what students need for the right learning outcomes to take place. One possible way to gain this understanding can be the use of student evaluation forms. Students desire to get for what they pay for, and student–professor relationships are linked to satisfaction. Voss, Gruber and Rupell (2010) state that each student has different needs and experiences, Professors have a crucial role to play in deriving quality, attitudes and behaviour of employees have a direct impact on customers. Three categories of the relationship were examined: professor response to service delivery system failure, professor response to student needs, and requests and unwanted professor action. The study concluded that professors need to build strong personal communication with students and maintain interactions.

Sid Nair, Bennett and Mertova (2010) identified student feedback as an important element in determining quality. Student and stakeholder feedback was identified as an effective form of analysing quality and determining satisfaction rates. It was concluded that student evaluation forms play a significant role in institution change but it much depends on the effectiveness and reliability of the evaluation system.

### *2.4. Services Provided by the Institute*

The services an institution provides to their students is another major factor leading to student satisfaction. Tang (2003) stated that the traditional concept of learning which is the classroom learning is slowly losing value due to advancements in technology and learning processes. Modern learning techniques involve the use of multimedia and the internet in the learning environment. Different students prefer different ways of learning and it is therefore important to analyse the importance of a technology based learning environment as a new component in the learning process. Students in the modern era prefer to work

with technology and it is therefore believed that technology is likely to improve student's learning outcomes and as well lead to satisfaction.

Online education has become a common topic of discussion. Recent use of the internet and student demands for online courses, so as to meet their schedules, has seen a rise. Technology is widely used in classroom environments. Faculty use it by sending emails to students for communication purposes, using WebCT, and using notes on PowerPoint (Roper, 2006).

Gundersen, Ballenger, Crocker, Strander and Scifres (2013) suggest that institutes provide information to large number of potential and current students. This is now done online through web based technology. It provides students access to university information, such as the financial aid, application process, course information, oncoming events and many more. Web based library access is as well seen to be a critical component to student performance and satisfaction. Technology use can be challenging for users at times therefore the web pages need to user friendly.

Roper (2006) as well stressed on the weaknesses of technology and identified that new technology has enabled institutions to deliver information to a wider pool of students. However, difficulty can arise in introducing technology in areas that were previously traditionally based. With the advancements in technology and software updates it is difficult to decide which technology will be most beneficial and can be used overtime. Use of computer technology can be difficult for students as well, especially with those lacking previous experience.

### *2.5. Employment Opportunities*

Students study at an institution with the expectation that it will provide them with the potential experience and skills for employability. As well, they expect that the institute will act as a guide towards their search for appropriate work. A study focused on international students in Australia identified that higher education provides graduates to the workforce. Employers, however, need students who are better at working in teams and who have work experience. McKinsey and Company (2012) stated that there is a disconnect between employer and education providers' perception of student's experience and skills for the workforce. Education providers believed that 72% of graduates were suitable for the market whereas employers believed that only 42% of graduates were prepared for the work place (Lawson, 2014).

There are large amounts of literature on teaching quality and service provided. Many researchers have looked at these factors but little is said about institutions and their aim in providing employment opportunities.

According to Sokaya (2015) The percentage of graduates employed within a few days of graduation, readiness for the workforce, and the non-academic services offered by the institute are important factors considered by students. The authors brought up four perspectives for graduate education which were, student retention, curriculum retention, faculty competencies and graduate satisfaction. The perspective of students with the institute impact on its reputation and has a direct impact on future enrolments. Getting direct feedback from the students is one of the best ways to achieve continuous improvement, as their need change over time.

## **3. Research Methods**

The participants for this research were eight students from ITPA and one of the staff. There were no age restrictions on who could take part in this research and the students and staff were selected on convenience sampling. The staff interview was organized by the supervisor.

The questions for the student interview were divided into four sections. First, the general information about age, and what attracted them to ITPA. Other sections were based on the three factors that lead to student satisfaction which are teaching quality, facilities competencies and employment opportunities.

There were two sets of interview questions for both students and staff. There were 12 interview questions for the students but as they were qualitative interviews the questions were rephrased depending on the responses. The staff interview was as well qualitative. with 8 questions prepared.

The data for this research was collected from October to mid November 2016. An interview checklist was made before conducting the interviews and the questions were thoroughly discussed with the supervisor in order to maintain ethical considerations. The interviews were done at ITPA city campus. Participants were asked if they were willing to participate in the research. Upon their agreement, interview consent forms were provided. The students were found, briefed about the research topic, and the aim was explained. The students had the choice to skip any question they did not wish to answer.

This method of data collection was selected in efforts to get detailed information from

participants. An interview allows for further questions to be asked based on the response of the participant unlike a questionnaire which will only provide limited answers. As the research topic is based on students it was considered more appropriate to have a face to face dialogue with the students so as to get a better understanding of their responses.

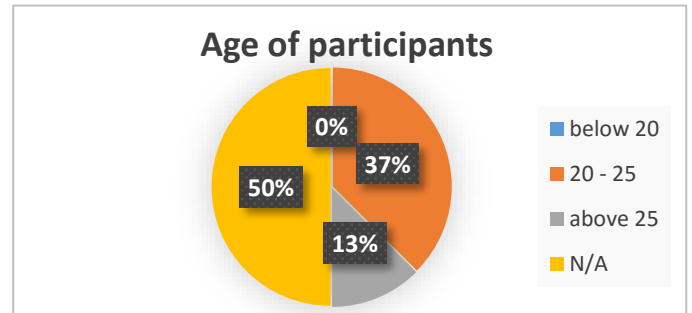
**3.1. Ethical Considerations**

Ethical considerations were kept in mind when preparing the questions for the interview and while interviewing. Efforts were made to ensure none of the questions were biased toward certain groups and that emotions of no participant were hurt. A participant consent form was provided to each and every participant before the interview so that they could be clear of their rights regarding confidentiality. The responses from the interview were confidential and limited to the supervisor and myself. Anonymity of names were maintained by using codes of participants for the interview transcripts and some of the students did not wish to have their names on the interview consent forms and therefore some of the forms are anonymous.

6	3 years	Family and friends
7	2 years	Friend
8	2 years	Friend

There had been varying responses for the amount of time each student had spent at ITPA and most of them heard of the institute through friends.

Figure 1



**4. Results**

The purpose of this study is to improve ITPA student satisfaction and linking it to profitability and with the use of the balanced scorecard. The following data was obtained from the interviews conducted.

**4.1. Results From Student Interviews**

Table 1  
General Question Responses

Participants	How long have you been with ITPA?	How did you hear about ITPA?
1	1 year	Sister
2	6 months	Friend
3	2 years	Agent
4	1 and a half years	Friend
5	1 year	Family

**Table 2**  
**Teaching Quality**

	Positives	Negatives
<b>Online lectures</b>	Can prepare for the class before attending it Can go through the lecture over and over again A convenient technology for students	Leads to lack of physical contact and interruptions with internet can occur. Leads to absenteeism Technology can be confusing
<b>Lectures and tutorials</b>	Both effective for learning If one class is missed can catch up in tutorials Content can further be understood in another class Both theory and practical aspects are good	They both should be combined into one class
<b>Changes with Moodle</b>	Easier means of communication Ease of use More effective as you can design your own page	Confusing

**Table 3**  
**Satisfaction with Facilities**

	Positive	Negative
<b>Library</b>	Good staff	Resources are limited
<b>Computers</b>	Helpful for assignments	Limited and unavailable during busy hours
<b>Student learning services</b>	Helpful in terms of APA referencing	Need more support as to that for nursing students

**Table 4**  
**Employment Opportunities**

Participants	Time frame for job	Availability of skills required
<b>1</b>	6 months	Not really
<b>2</b>	1 – 5 months	Yes, I am confident
<b>3</b>	Couple of months	N/A
<b>4</b>	Some weeks or months	Yes
<b>5</b>	5 – 7 months	Yes
<b>6</b>	Not sure	Not really
<b>7</b>	7 – 8 months	Yes
<b>8</b>	1 year	No

**Table 5**  
**Percentage of Satisfaction and Dissatisfaction with Each Factor**

Teaching quality			Facility competencies		Employment opportunities	
<b>Online lectures</b>			<b>Library</b>		<b>Availability of skills required</b>	
Positive	Negative	Both	Positive	Negative	Positive	Negative
50%	38%	12%	40%	60%	50%	50%
<b>Changes with Moodle</b>			<b>Computers</b>			
Positive	Negative	Positive	Negative			
87%	13%	20%	80%			
			<b>Student learning services</b>			
			Positive	Negative		
			33%	67%		

#### 4.1 Results From Staff Interviews

The interview was conducted with one of the staff at ITPA and the following results were obtained?

*Table 6*  
**Responses for the Questions**

Questions	Participant responses
<b>Opinion on student satisfaction</b>	Overall students are happy with ITPA, we do surveys every year to get their feedback and lecturers are our main source of information since they have close contact with students
<b>Major factor leading to student satisfaction</b>	Feedback and effective communications
<b>Facilities</b>	As we are at growing stage classrooms are not enough
<b>Within what time do gradates find jobs</b>	No idea since we are unable to keep track of them after graduation
<b>Use of the balanced scorecard for the center</b>	No idea on the balanced scorecard framework
<b>Mouth to mouth recommendations</b>	Best marketing strategy to attract students
<b>Advertising expense</b>	Nothing spent on advertising
<b>Reason for increase in expenses from last year</b>	Hiring more staff and the increase in number of students

*Table 7*  
**Revenue and Expenses for 2015**

ITPA	2015	2014
<b>Revenues</b>	14,515,000	12,217,000
<b>Expenses</b>	5,452,000	4,471,000

## 5. Discussion

“Students and employers are our customers, along with colleagues in the organisation. We drive our organisation from their needs, and act with purpose, creativity and energy to exceed their expectations” (ITPA, 2015). The institute conducts satisfaction surveys every year and they claimed student satisfaction to be 91% for 2015. The main focus of ITPA as a whole is to keep students satisfied and retained. This research was done to discover whether the possible factors identified in the literature that lead to student satisfaction were effective, that is teaching quality, facility competencies and employment opportunities. The interview for students was used to determine their satisfaction based on the three factors identified, while the staff interview was to determine their opinion on student satisfaction, use of the balanced scorecard, and possible factors that lead to satisfaction.

Through the student interviews the following themes were identified:

- i) Verbal recommendations attracted students
- ii) 50% in favour of online lectures
- iii) 40% satisfaction with library, 20% with the computer facilities and 33% with student learning services
- iv) Students believed they will get a job within a year after graduation, as they are confident to work.

### 5.1 Verbal Recommendations

When analysing the results of the interviews it was overwhelming to identify that most of the students enrolled for the course because of recommendations from friend and family members. On average 90% of the students joined on the basis of positive verbal recommendations. As identified in the literature recommendations are a major marketing technique in the education industry to attract students from around the globe and to retain the current students so that they re-enrol.

This percentage is quite high and thought has to be given to the reason for such results, as well as to why other marketing techniques are not working effectively to attract students. With reference to Table 6, the root to the issue can be easily identified. The staff member mentioned that they do not spend anything on marketing or advertising. She as well mentioned that most of the people who have been living in Hamilton for a couple of years do not know about ITPA. The big wall on one of the ends of ITPA is making them invisible and hiding their presence. ITPA does have an online website, a Facebook page and Twitter page. More attention needs to be

paid as to why students are not getting information from such marketing techniques.

## 5.2 Favour of Online Lectures

Technology is taking over the work today be it sports or education. Students prefer to learn with technology (Roper, 2006). Half of the student participants were in favour of online lectures. Students claimed that online lectures would be effective and aid them to learn as they can go through them over and over again when content in class is not understood. Others said that when classes are missed such technology helps them be up to date with the weekly material.

There was also criticism for such technology claiming that it would lead to a higher level of absenteeism and failure as students will not come to class. It reduces social interaction with both the tutor and other students as many will prefer to learn from home or work. As identified in Table 5, 38% were against such introduction and 12% were unsure of whether they were in favour or against such technology, as they believed both sides balanced each other in terms of the costs and benefits.

## 5.3 The Library, Computers and Student Learning Services

With reference to Table 5, 40% of the students were satisfied with library services, whereas 60 % were dissatisfied. The positive comments were that the library is a good source of information for students and the availability of online databases makes student life easier and reliable. Others, however, commented that resources in the library were limited, and that they disliked books being recalled. They portrayed their concern that due to limited stock, books were recalled frequently.

The computer facilities available in the hub are very beneficial for students, but as identified in Table 6, the institute and the centre are at the growing stage at present, with high level of student increment. This is therefore a concern as students identified lack of computer availability as a problem. Most of them said that they do not get a computer to use during busy hours as all of them are usually occupied which they found very annoying.

Student Learning Services provide excellent services to students, especially for assignment writing. APA referencing was the major service demanded by students. As students come from around the globe, they might have never worked with APA referencing, and therefore they experience

stress in their first semester. Student Learning Services does provide the help students need with referencing, so what makes the satisfaction rate as low as 33%, as identified in, Table 5? Students commented that their service is very helpful but students need more assistance than what they provide. One compared the referencing aid given to business students with that of the health care students and said that the nursing students have a separate staff available at Student Learning Services to assist them with their assignment and not only with referencing.

## 5.4 Time Frame for Job Graduation and Confidence for the Workplace

100% of the population believed that they would get a job within a year after graduation. However, some said they will get a job within 2 – 3 months. The reason behind their responses can be their confidence level with working and the skills they suppose are necessary for the current workforce. Some students believed that having learnt at ITPA and getting a qualification from there would lead to a higher possibility of getting a job since the qualification is recognised all around New Zealand.

Though it would be problematic to investigate whether the students' assumptions on jobs turn out true because as identified under table 6 the centre is unable to keep track of the student statistics after graduation since the students fail to keep contact once they leave the institute. The staff interviewee expressed her concerns with keeping track of such data and is in need of relevant suggestions.

## 5.5 For Staff Interview

Most of the data obtained through conducting the staff interview are integrated with the student analysis. Some of the aspects left out were the balance scorecard and budgeting. The interviewee had not heard of balanced scorecard and how it works. Through this I can assume that the centre might not be using the balanced scorecard framework for their daily operations.

As identified in Table 7, the revenue for 2015 increased from the previous year. This can be compared back to Table 6, where the interviewee said that expenses increased due to an increase in number of students and therefore it is likely that revenue also increased due to that factor. Expenses for 2015 increased from those of 2014 and linking that to the information in Table 6, the rise was due



to an increase in staffing needs and stationery. As the students increase the demand for printing and equipment rises as well.

## 6. Conclusions

These results show that student satisfaction overall is average. It is identified that students are satisfied with teaching quality, 50% satisfied with employment opportunities, and somewhat dissatisfied with the facilities offered. Improvement is therefore required. The literature has identified the balanced scorecard to be an effective tool for improving performance and it is widely accepted framework in many businesses.

The framework allows to monitor the daily actions and to ensure that each operation is occurring with regard to objectives and values. The headings of the four perspective framework can be modified with the demands of the institute. The framework provides a balance of all the activities of the organisation and this in turn leads to achieving high level performance.

Students are a key stakeholder for the educational sector and therefore their main focus has to be on student satisfaction. Students always tend to balance what they paid with what they receive. An increase in competition among universities to attract and retain more students however pressures the senior managers to come up with strategies that work effectively and that can aid tracking actions. The balanced scorecard framework by Kaplan and Norton is appropriate since it helps to link all the perspectives together and is based on a cause and effect relationship. The reason for performance improvement can be tracked back and the source can be found.

Despite identifying the various benefits of using the balanced scorecard it is not widely used in educational institutes. This is because some of the staff are unaware of this framework and how it can lead to profitability and increase in market share. In this case training and development programmes need to be available to managers to explain the importance of the balanced scorecard and how it works within an organisational framework. It is time consuming but once effectively implemented within the organisation it leads to strategic management and creates a balance between internal and external processes.

## 7. Recommendations

At the end of this research and after a thorough analysis of the literature and the results it is not difficult to provide possible suggestions which might improve the performance of the organisation and market share through student retention and satisfaction.

### 7.1 The Balanced Scorecard

As identified throughout the report this framework can be effective to improve performance. I have developed the following framework available for ITPA to use:

This is a typical four perspective framework with no modification to the main headings. As I previously identified the 3 major factors that lead to student satisfaction from the literature and what other authors had to say, these factors are now integrated into the balanced scorecard framework.

#### **a) Financial Perspective**

The main aim is the introduction of the balance scorecard framework within ITPA which might aid to improve profitability. The financial perspective considers the shareholders and what they expect from the organisation, therefore when decisions are made they have to be kept in mind.

#### **b) Customer Perspective**

Student satisfaction and retention has to be a major focus since students are a key stakeholder.

#### **c) Internal Business Process Perspective**

As the internal process identified in the literature is about excellence for the future, the two factors that best go into this category are teaching quality and facility competencies.

#### **d) Business Process Perspective**

This is focused on creating value and innovation. In the current world where individuals are driven by the need to qualify for an appropriate career, their expectations from the institute to provide learning and education focused towards workplace skills rises. This factor is hence placed into this category.

Figure 2: A balanced scorecard perspective

<b>a) Financial perspective</b> <ul style="list-style-type: none"> <li>• Market share</li> <li>• Profitability</li> </ul>	<b>b) Customer perspective</b> <ul style="list-style-type: none"> <li>• Customer satisfaction</li> <li>• Customer retention</li> </ul>
<b>c) Internal business process perspective</b> <ul style="list-style-type: none"> <li>• Teaching quality</li> <li>• Faculty competencies</li> </ul>	<b>d) Learning and growth perspective</b> <ul style="list-style-type: none"> <li>• Employment opportunities</li> </ul>

Now the question is how can the four perspectives work hand in hand to achieve high performance and profitability levels? This framework is a continuous cycle, if the learning and growth and the business process perspectives satisfy the students that leads to student satisfaction and retention which in turn is likely to improve profits.

After conducting the interviews it has been identified that students were more likely not satisfied with the facilities, the library and computer resources. Their main concerns were the lack of resources compared to student needs. I would therefore recommend ITPA to focus their resources on improving these facilities so that students can be satisfied. Improvements of facilities will come with a cost and that will deter the profits but it is likely to increase profits in the long run.

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# Accounts Payable: Improving a System for Better Efficiency

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## Abstract

The function of accounts payable has seen a great increase of information that the function has to process. This is true even for smaller organisations and research has proven that there is a great cost involved in processing an invoice. This increased cost has lead organisation to look at the accounts payable process and make changes to the processes, systems and technology to help create efficiencies in the accounts payable department to reduce the cost involved with processing invoices as well as become more compliant to recent changes in reporting standards. Changes to improve systems are required in almost any organisation; effective management of this change will ensure the successfulness and longevity that particular change can offer.

*Keywords: Accounts payable; Efficiency*

*JEL Classifications: M4:1*

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## 1. Introduction

Community Living, who is a not for profit organisation that helps people with learning disabilities function within the communities that they live in, this is from the basic everyday living to help with assisted living, education and employment. Community Living has requested a project around the improvement of control and efficiencies in their accounts payable (AP) department.

As the case with most not for profit organisation, Community Living has taken on many additional responsibilities; one of which is holding funds and paying suppliers/vendors on behalf of their beneficiaries. This has led to an enormous increase in a number of accounts and invoices to

process, approve and pay on a monthly cycle, with very few resources being added during that time. Being not for profit, resources are not as freely available or accessible compared to larger corporations. This problem could be solved by adding more staff. Due to the lack of resources and to performance being measured by the costs incurred rather than the money they make, it was not an option to add more labour; instead, an automated system that could increase capacity at a much lower overall cost was considered.

After spending some time with the organisation, casual observations have recognised that they have an informal and sometimes unclear working structure, with what seems to be a high staff turnover in some departments. Lack of

understanding and not following procedures reveals a feeling of reduced efficacy of the company in performing their tasks and reaching their goals. However, there is currently management in place that wants to change all this to ensure that the organisation is running at an efficient and effective capacity even with very limited resources, to ensure the success and longevity of the organisation's existence.

Due to the lack of resources and lack of structure, my research will be looking at ways to increase the productivity and effectiveness of the AP system and department by researching available cost functions, technology and systems that can be easily and effectively implemented while not taking up any more resources than needed and ensuring a sound structure. I will also confirm that the recommendation is in line with the scope of the standards set out by the organisation, legislation and other reporting bodies within New Zealand (NZ).

My research is looking to find if my host organisation's AP system is cost effective, efficient and acceptable and if they are not, then what alterations to the system can be made..

## 2. Literature Review

There has always been this balancing act in accounts payable where you lose accuracy as you increase the speed of processing. This increases the output but increases the number of errors which must be dealt with later in the process. Creating efficiencies will help eliminate these problems while increasing the capacity of the organisation. There are many ways of doing this.

Since the introduction of the Sarbanes-Oxley Act in America, it is noted that there has been an increase in compliance. There has been a small amount of focus on the accounts payable area and what should be done to ensure that there is compliance within the AP department. Kaskinen (2007) has identified some best practices: Policies without any controls will not work

Rules need to be set in place when using technology within the policies

Find ways to reduce cost

Improve the processes

Implement key performance indicators to ensure continuous improvement

Ensure system has flexibility

Make the AP function more strategic and less transactional

Integration into systems and processes are key

Taking advice from this journal the process, Technology and systems are key areas to investigate to help create efficiencies within the accounts payable area.

### 2.1. Process

Lamon (2009) shows that all organisations typically have one thing in common. they need to pay for goods or services. With the growth of the digital age and the increase in invoices from suppliers, now more than ever that companies are trying to find ways to reduce their cost, increase their efficiencies and streamline the process of paying suppliers. This can have an immediate effect on the bottom line of a company, however, there is a cost benefit limit involved as well as other limitations. Lamon has reported that good indications to identify what level of automation will be required are to identify the number of invoices or transactions that the AP department would need to process on a weekly basis and the time spent to process an invoice to completion. The higher the number of invoices processed during a week, the more automation would be required. This measure is linked to capacity made available by the current resources in the company.

Benefits typically expected from introducing an automated AP system include cost saving, increased processing capacity for one person, fewer errors due to less human involvement, better transparency in the accounting process and improved compliance with the ability to track previously untraceable cost items. In a case study by the Aberdeen group, most companies that automated their AP process showed a saving of 40% to 60% in their costs of processing invoices. Improving the processes through automation in general, companies would need to evaluate these three main factors (Furth, 2005).

- i) How information gets into the system, whether it can handle paper and electronic invoices
- ii) How is the process supported and controlled?
- iii) How is information accessed by the person doing the reporting?

The information gathered will help to identify the manual parts of the AP process and how automation can help to eliminate manual data entry. The automated system should have a control function to help get the invoices approved and allow only people who have authority to approve the invoices access to the authorisation system.

Another function that these automated systems should have to support the organisation is to track the invoices through the process and deliver reporting on key performance indicators with the AP process (Furth, 2005).

In AP just in as in other industries, getting a workflow in place to automate a process has benefits to the people or companies that utilise them. The benefits are almost identical throughout; there is less human error, greater capacity and less time to process. Then there is the framework and implementation, which is also almost identical in all industries and departments. In AP, just as in other industries, you cannot utilise a one size fits all solution. Assessing the needs and then building a customised workflow for the automation process is necessary. There should also be some flexibility in the process to assist if there is any shift in needs (Anonymous, Automating the Human Equation, 2007).

Many companies have entered the market like Fuji Xerox in New Zealand, as the third party to your accounting software to help with the automation of AP departments. It might decrease the cost of processing invoices and could be a fantastic system, but there are some hidden factors to consider, as there are costs involved in running this software and additional scanning surcharges that must be taken into account as well. This could actually increase the cost of processing invoices. The correct method to follow is to do a costing of the current system and the costing of the future system and then compare them to ensure that the saving is worth the change (FujiXerox, 2016).

Not-for-profit (NFP) organisations have their origins from the fund theory, where resources are set/pooled to obtain a certain objective or outcome, so it is only natural that in the case of any NFP, the more cost consumed by a certain activity, the fewer resources there are in the pool to satisfy many other needs within the organisation. Cost that can be saved in one process, frees up resources for use where it might be critically needed. With this theory in mind, it seems more of a gain to implement a well-designed automated AP system that will reduce the cost and increase efficiencies and profitability (Strecker, 1971).

Other benefits as noted by Havlik (1996) are the reduction in cost due to less expensive transactions, fewer reconciliations due to the system being automated. Having these processes in place reduces the risk of fraud being able to be committed. With the reduction in time to process invoices, the AP department has more time to become proactive in finding and resolving problems before they have issues that will have a further flow effect. They save

time and money by not having to resolve these problems later in the process. There is also the effect of creating predictable cash flows for the sellers. This assists in the supply chain management as relationships with the seller will be more stable and understandable.

A failure to adopt effective accounts payable processes can hamper a company's ability to process invoices on a timely basis, take advantage of available discounts and set either longer or shorter payment terms with suppliers, depending on which are most favourable. These consequences can arise when businesses:

- iv) Rely too heavily on error-prone manual processes to approve requisitions, scan supplier invoices and issue payments
- v) Fail to issue purchase orders for each new order
- vi) Do not confirm if order deliveries match contractual terms or cannot easily access vendor contracts
- vii) Lose access to early payment discounts by over-extending payment cycles or simply accept discounts without calculating the cost of capital outlay
- viii) Neglect to take advantage of maximum savings through volume rebates or trade spend initiatives
- ix) Incorrectly load supplier and/or contract information into master data files
- x) Lack processes and systems to prevent late payments, under- or overpayments, duplicate payments or missed payments (Deloitte, 2016)

There should be a customised approach to setting up the AP systems and workflows while keeping to best practices to ensure that the company obtains its goals. These best practices also help keep the company on its way to reaching its goals. Best practices include the centralising of the AP function. This will help to complete more tasks in a shorter period so increase efficiency and reduce costs. Moving to a paperless environment will reduce processing and approval time and help track the invoice throughout the system. Other best practices include setting up robust governance practices and setting up workflows to reduce bottlenecks and create greater efficiency. Other best practices will include working with suppliers to create a great functioning relationship and open a portal to help support the organisation in the future (Deloitte, 2016).

In studies done on the impact of automation on cost accounting, it was concluded that automation decreases direct labour cost and has very little increase on overheads and automation, and gives rise to fewer problems around the quantification of cost elements. Being technologically more advanced gives better opportunities to be more automated and functional (Kerremans, Theunisse, & Van Overloop, 1991).

Companies that have a high volume of invoices to process each month are susceptible to payment errors, either intentional or unintentional. The best way to curb errors and fraud is to put in place internal controls that divide task and have one person check another's work for errors and fraud. There are some practical ways of reducing fraud; (Four practical ways, 2002)

- xi) Maintaining lists of balances that assist when authorising payments
- xii) Keeping authorisations separate from creating payments
- xiii) Have monthly reconciliations to check again balances
- xiv) Keeping the bank reconciliation up to date to check for inconsistencies

All these processes are easy to implement with the help of new technology that automates the system and helps to build larger capacities within the system and help eliminate any human error or fraud.

## 2.2. Technology

The use of a full manual paper-based system makes it impossible for an accounts payable department to be compliant to Sarbanes – Oxley, IFRS and demands from many others. Adding more manpower will only increase the number of processes and increase cost and can increase the amount of errors that can occur in the process. The best option will be to implement a piece of technology that can reduce all those factors and help become more compliant (Goodwin, 2006).

Businesses that invest in technology or improve existing electronic processes can further benefit by empowering fewer resources to manage the accounts payable process while simultaneously increasing processing accuracy, accelerating invoice processing and optimising payment timing to take advantage of available discounts (Deloitte, 2016).

The use of electronic document interchange (EDI) was at the forefront of receivables and cash management in the 1990's but was not as

successful as many companies are still paper based and waste valuable resources on inadequate processes. Well-functioning EDI systems cannot only reduce cost around the AP department and can also be utilised in many other departments to improve their efficiencies around the use of documents management. The only drawbacks to the use of EDI are that all parties involved need to work to a consensus on standards and practices that have to be decided upon before the system is set in place to ensure that all parties process information in a manner that is required (Rode, 1990).

When a business is not large enough or cannot facilitate EDI processing, there are other measures to ensure increases in efficiency reduce the cost of accounts payable. As a framework almost agreed upon by Deloitte, CFO and IPS, all invoices should be received in electronic format, this will decrease paper and the need for bulk filling and ultimately the starting point for the rest of the framework, receiving electronic copies of invoices will centralise data and help with filling and recall. This will also help streamline the system from one point instead of getting multiple sources for documents. This will help free up time to streamline and standardise processes to check the workflow, establishing what the actual process is and how it can be corrected. The final step is to review and constantly check for ways to improve your systems. This helps to ensure that documentation is ready for auditors or IRD audits.

Many larger ERP accounting software packages are too complicated and expensive to develop as well as to maintain. It is easier to work with third party applications that are developed for this reason and is a lot less costly if the software company developed the software (SAP, 2011).

Workflow automation refers to software integration and development that is driven by events or processes and allows a business to streamline operations and increase efficiency. In a workflow automation project, the company examines specific events, processes and ways of managing a given activity, and then integrates new technologies developed specifically to support the workflow. As the final step in re-engineering, workflow automation can provide several business benefits: allow for optimum efficiency in delivering information, ensure completion of transactions, track the efficiency of processes, and provide positive returns to the company. Workflow automation usually does not lead to staff reductions because new positions are created to support the new process automation (Love-Sudduth, 1997).

Technology has usually been seen as the solution to the problems of the world. There are

shortcomings to this school of thought. This major shortcoming is due to the fact that technology is only as good as the context in which it is used. “We’ll ship technologies developed for the first world and give it to the natives and have them to use it and it will all be ok. This is what has been seen as technology failure. Where the technology used to solve one problem is applied to another without any context. It ends up being a waste of resources that could have been used more effectively with another technology. A problem should always be taken in context with variables that it affects and by which it gets affected and then taking that context to make positive value added recommendations to solve the problem at hand (Godfrey & Bailey, 2007).

Deciding what software to use can be a complex process that requires a thorough understanding of the organisation’s culture, business processes and its ability to change.

### 2.3. Storage and Legislation

Within New Zealand, the legislation allows documents to be stored in electronic format. Many other countries that require businesses to keep paper-based records for many years. Documents must be stored in accordance with the Electronic Transactions Act 2002 where information integrity can be verified and readily accessible (Inland Revenue Service, 2013). This is also a cost saver as there is no need to pay specialist document warehouses to keep the documents to a certain standard that will not harm them, only to have the documents destroyed a few years later. Now you can have all your documents readily available whenever they are required.

For many companies bringing about changes like EDI, there would be many problems, like these. The Bank of New York faced in 1985 when their automated government securities processing system failed a few months after its inception, costing the bank over \$5 million dollars in interest expenses to keep their cash level in place due to unexpected overdrafts. 30 years on, change management is still a very important part of businesses wanting to automate their process as there are some principals that are very important today that were just as important decades ago. Phillips (1988) advised the best change management framework contains the following structure;

- i) Inventory needs to be held on all software and how they are used and integrated into the system
- ii) You need to keep a change history to identify in the future what was changed

- iii) During the change, there is need to control the source and processes
- iv) There also needs to be constant control during all the stages of the change
- v) Keep some security in the form of the old system active until tests on the new system have been completed and performance verified

Even if creating automated workflows seem to be the solution to all the problems for the organisation, there are quite a few drawbacks to using workflows. There is a disconnect between departments that could lead to the demoralisation of staff due to not getting simple quick answers but rather having to deal with a system that may have delay and trouble dealing with errors. Existing information systems may require extensive modification to ensure the functioning of the workflows. Creating workflows also change the way people work. There is a lot less supervision required and people can direct their own work and make time for managers to focus on their talents (Scheuble & Allen, 1995).

### 2.4. Change Management

There are also other factors to consider when wanting to change, consideration must be made for future needs, special needs of the company must be taken into account to ensure that the change process is smooth as change is inevitable.

Change is not easy for everyone, especially people who are creatures of habit. Change makes their predictable routines not so predictable. It creates uncertainty and a feeling of uneasiness and anxiety. With people who dislike change, there is a process that they can be escorted through and helped to adapt to the change by an agent for the company. The first process is when the change occurs. Once the change has happened, it starts the feeling of resistance. There will be compliance as the employees need to follow the rules and the last process will be the acceptance of the change, once they have accepted the change the process has been successful. To help your staff deal with change, you can employ the following strategies in your acceptance process (Dawson, 2006)

- i) Don’t react, but respond
- ii) Engage your personal power
- iii) Acquire facts and information
- iv) Leverage your skill and abilities



Using these skills can help ease the transition to the new state and help everyone adapt to their new circumstance.

Although many companies outsource their change management to an external agent, there are many like Buono and Subbaih (2014), and Osentoski (2015) believe that there are benefits to using internal agents as a change agent rather than appointing an external agent. It is noted that the agent will have to take a new identity to help encourage change. This can lead to many risks that are not positive to the company, but using the internal agent has many benefits. As they are embedded in the company, they have a full overview of the organizational structure and how it relates to all stakeholders. Using this knowledge can help facilitate change to the advantage of the company, while maintaining its integrity within the company's environment (Buono & Subbiah, 2014).

Most companies that experience the need for change have some problems that need to be addressed and there are actions that can be taken to ensure that the company is a high performing organisation, as recommended by Colletti and Chonko; (Colletti & Chonko, 1997)

- v) Act before it is too late
- vi) Assemble and use factual information
- vii) Invest in tools, processes and programs
- viii) Communicate the change to your customers

Using the above recommendations, it would be easy to identify that in planning to change it will be best not to delay the process. All facts need to be gathered to make the most appropriate decisions and then technology or tools invested in to increase capacity. Most important, is communication with your customers, internal or external, of the changes and how this will affect them.

### 3. Research Methods

Primary research was collected in four (4) forms; the first method was extracting quantitative data, which included invoice counts, days to process, amount of suppliers, total amount paid and invoices per supplier per year. This information was retrieved from the accounting information system, invoices and emails. With the help of my host organisation, we identified the information that was required and then I started to extract the information from the various sources and then displayed it visually in summarised graphs and spreadsheets in excel.

These visual representations helped to identify where there were many shortcomings and lags in the system and offer up some information that could explain what could reduce the efficiency in the accounts payable department.

The second form of data collection was to hold interviews with people from different departments that have daily interaction with the accounts payable department as well as managers and staff within the AP department. The interviews were semi-structured following a pre-set questionnaire (Appendix 5) to help to identify what the staff members knew about the AP process in general and what they found useful in the current system and what they would like to see change in the future. This was very helpful as it could help identify what the staff internally sees as problems and what they would like to see changing within the AP function to improve their working condition. The interviews also help solidify certain recommendations for change.

The third set of data was collected around the systems that could be used for the implementations of efficiencies. This data collected helped create cost analysis (Appendix 4) of what it would be to implement a system and what the cost would be per invoice.

The final data collected, was through observation of the process in action with the AP department. The observation process helped to create the process flows as well as to verify if the process identified in the interviews were followed correctly. Observations were also a great tool to help identify the real time lags within the process and the problems that the AP department face on a daily basis. The observation also helped in setting up improved process flows

All qualitative data collected was from the past three financial years and all the entities of the organisation.

The initial scope of data collection was to be predominantly qualitative data from the interviews and observations. However, working within the organisation it became clear that there was a need for the quantitative data to be gathered and analysed. The quantitative data collected gave a greater depth to the problem and help explore the problems in more detail. Interviews were a great help to get the views of different people in different areas of the organisation and then find out what they feel are the problems processing invoices. Then there was the observation, which was to confirm what was said in the interview, and what problems can be observed while the process is ongoing. Not all these ways of collecting data on their own would have delivered the amount of data and depth of data

that will be required to make a sensible recommendation. The use of all three gave me a better scope and a better understanding of the organisation's needs.

There was also a large amount of secondary data collected to help identify which areas and what processes need to be followed to help resolve the organisation's problems. This data was on best practices, automation, process improvement and other factors relating to change management and some legislation restrictions.

## 4. Results

Completing the process mapping first, setting out the process on Microsoft Visio (Appendix 1), it was extremely easy to identify that the current system was too labour intensive and there was an excessive number of steps that needed to be completed to process an invoice.

Getting an overview of what the accounts payable department has to process in a year was my next step, I found that the AP department with staff for approximately 25 hours' worth of workers a week, has to process an over 18,000 invoices a year, that is almost 350 a week. Drilling down deeper into the information to identify what supplier was the top count in invoices (Appendix 6) and what reason there was for a massive year on year increase on the supplier invoices. It seems that there was a start in using an agency to cover shifts of support workers, due to staff shortages. This is invoiced per hour that was supported every couple of days, which equated to an additional 1550 invoice a year to be processed.

The analysis that was completed (Appendix 3) identified that there was not the same percentage increase in suppliers over the same period and that the invoices processed and paid on behalf of their clients were almost the same in the past two years. The massive increase in invoices WAs within two of the four entities of Community Living. This helped identify which area of the company was spending more money and on what. Knowing what money was spent on can help identify how to reduce the number of invoices.

Interviews were held with three people and the information obtained during the interviews only cemented the view that the process was flawed with many labour intensive processes and that there was a need for change and training. The perspective from all areas of the process were obtained in the interviews to ensure that nothing was left out and although there were other needs, the ease of use, improvement in the process, different software

solutions and the ability to reduce the amount of time that it takes to approve an invoice were a top priority. People want to spend less time to process the invoices.

An analysis to compare the cost of processing an invoice compared to the industry standards was also completed. THIS could not be included in the report for privacy reasons, and it was identified that although the company has a high amount of invoices, their cost of processing was in the mid-tier range (\$3.11) and not in the higher ranges as what was expected. The research that identifies the industry standards was completed by the Aberdeen group, which complete this type of research on an annual basis. This gives an indication as to what the cost is for processing an invoice in the best and worst companies.

There was an analysis completed (Appendix 4) to compare costs involved of the recommended systems to see what cost they would add over ten years to the cost of processing and invoice. This analysis was not used as the organisation indicated that there were currently not enough resources to implement such a system and comparing the cost of processing and invoices was seen as useless currently.

Information gathered in the interviews also indicated that there is a need for change, but not everyone is on the same level wanting change. There is some negativity around what implications a change in systems and technology would have as some people only recently got used to the system and a process change that was implemented seven months prior the completion of this report. The organisation is currently undergoing a lot of change to ensure efficiency and this process will not be unique to the AP department.

## 5. Discussion

With all the information gathered and all the analysis and research completed, there was a clear indication that there were many improvements in efficiency that should be implemented to increase the capacity, control and some cost savings.

Firstly, looking at the cost, the organisation is on a good cost standard with no automation within the process. This has led to a shift of focusing on cost saving and rather focusing on the process as there was more value to be added and this will automatically lead to an improvement in cost. Now the focus has moved to the process, investigating as to what technology and systems can be utilised to improve the process and system. Investigating the interaction with the suppliers, EDI was immediately

scrapped off the list as there is not a deep-rooted long-term relationship between the supplier and the organisation and EDI requires such a relationship to function correctly more actively. Bulk scanning with OCR emerged as the best possible solution for the organisation as it would increase the capacity and integrate with the accounting software and within their database to create a lot of automation in the process.

As the organisation is a not for profit, they got support from Microsoft in the form of 1000 free licences for Office 365, that includes SharePoint Online, which is a document warehouse managing application and also provides automated business processes with alerts and workflows. Doing research on SharePoint, there was found that SharePoint has many useful functions and one of these functions can create automated workflows within SharePoint that can be initiated with a pre-set trigger to initiate the workflow. SharePoint also includes a document approval function that can fit within a workflow. This will help to improve control in getting the invoices approved, ensure there is better management of the documents, no duplications and a way to track the changes with the invoices for auditing purposes and ensure compliance.

Implementing these changes would take the process from emailing and waiting for a reply, to having eased access lists to follow up on outstanding invoices and having a workflow that can automate the approval process and integration software that can move the information with ease from one the email to SharePoint and from SharePoint to Sage 300 ERP. This reduces the amount of human interaction and reduces the amount of error that can happen and increases the data integrity.

Another way to improve the efficiency is to reduce the number of invoices that have to be processed, relationships can be initiated with supplier and ways found to reduce the number of invoices, maybe getting a company to send once invoice a month instead of several invoices a month.

## 6. Conclusion

With the increase in the number of invoices and accounts payable data, all companies can benefit from automating some parts of their accounts payable process and create additional capacity that can lead to cost savings.

There are many technological avenues that companies can follow to automate the AP process. For medium to larger companies that have well-established relationships with their suppliers, the

use of EDI will be a great option to implement as sending documents electronically and lodging claim electronically is quite easy and there is a lot of traceability in the system as well as ease of use if EDI system is integrated with your accounting system.

For smaller companies that have not the well-established relationship in place or a smaller number of invoices, there are many other ways to get invoices into their accounting system. Optical Character Recognition (OCR) software has made many advances in recent years and there are new software packages that can integrate with many different accounting software packages. This software (Eezescan) investigated has the capability to read all the information from a pdf file imported from email or other sources, then compile the information require and then integrate the information with your accounting software of data warehouse. This is an extremely useful not only for the AP department but can be utilised in other areas of the business as well.

Every company needs to keep a digital archive instead of a physical storage space as it is less expensive to maintain and there is very little risk of losing your data if you have a backup procedure in place. Many electronic data warehouses have the ability to put in place workflows to authorise invoices and the ability to track who made changes to the information. These options increase the amount of control within the process that is not always possible with email or paper-based systems.

The move to an electronic warehouse from a paper-based archive is also possible within the New Zealand legislation and there is no need for that the files (invoices) to be stored within the borders of New Zealand. According to the Companies Act, this data only needs to be easily accessible. With cloud storage and the stability of the internet, this all is possible. Easy access, easy search and recall with automatic indexing allows for ease of use that makes a data warehouse an option for any business of any size. For protection, most data warehouse have the capability to set permission levels for each individual to access only the files that they need to access.

Some data warehouses have the ability to create automatic workflows once a trigger is activated. If the process is set up correctly, a workflow can create a task for a selected person to authorise a document or invoice for payment. These workflows can automate a part of the AP process that reduces the time to process invoices which ultimately increases capacity. This increased capacity can reduce the amount of fixed overhead that a company needs to spend on human capital.

Other benefits from having an automated electronic system are having access to information, not access to tracking options not previously available. There is also data available on the amount of invoice that are processed and the number of days that it takes to process an invoice to completion. This information can help identify problems within the system once implemented has happened.

Not all staff members can handle the transition to a new process or new technology that could lead to some people rebelling against the change. This could be due to the people being scared of change or not being able to adapt to new technology. This is when change needs to be managed, being able to facilitate the transition to a new state and all staff accepting that there is going to be change will help the transition with no rebellion. One easy way that this can be accomplished is to have a leader or mentor that can help all staff work through the process of transitioning from the current state to the future state. This leader should be a person of authority and expel power, as this is characteristics that people respond to in leader and are willing to follow this person as they are seen as a leader. Having this one person as an agent for change assist the process and having an in-house person is even more superior as this agent will know the organisation and what values are important to the organisation. Outsourcing this function is also an option, but having it in-house representative could increase the buy-in from staff.

Not all the technology in the world and the best processes will ensure efficiency within the AP department. Managing the change process is part of the system as a whole, without all these components, Nirvana cannot be reached.

## 7. Recommendations

Community Living has a lack of resources that limit the recommendation available to them. This affects the recommendation that I would have given to a for-profit company. With their move to Microsoft SharePoint, they should use it as a document archive along with its many other functions, with the entire required metadata list and have an automated workflow set up what can automate the authorisation process. There is going to be a manual portion to getting the invoices into SharePoint from email or files, if there are resources available, they should implement a bulk scanning OCR program to help automatically imports the invoices into SharePoint. This will reduce the errors that happen when entering invoices. With the correct metadata setup, it will be quite easy to export the data into an CSV

format that will be imported as a bulk batch into their accounting system Sage.

Within SharePoint the process must be setup to ensure zero duplicates and ensure that all invoice that has been authorised will be loaded. I recommend the following process must be followed to ensure that there some checks in place to ensure no invoices are missed in SharePoint;

1. Invoices imported. Once all the metadata tags have been completed a trigger is activated to send a task to the required manager/SOF to approve the invoice
2. The manager/SOF will get a task to approve and code the invoice and once it has been approved it will trigger to move
3. Once invoice has been approved the invoice needs to move to the "Invoices Approved" folder within SharePoint
4. The invoices data must then be exported twice a week and imported into the accounting software sage as a bulk import.
5. Once the export is completed, the invoices must be marked as completed and then another trigger must activate that the completed invoices must be moved to an archive folder for storage.
6. There must also be an automatic process of clearing out invoices after seven years of storage from SharePoint

If all recommendations are taken up, the process will follow the process flow as set out in Appendix 2. Compared to the current process in Appendix 1, there is a fast improvement to the amount of manual actions that need to be taken to process and invoice.

Apart from these automated processes, there are other parts of the system and process that needs a few little tweaks to make the whole process much easier to manage. The organisation needs to ensure that they receive all invoices via email as soon as they have been created. It might mean a few phone calls for one person and it can help create a relationship with the different vendors. It will also help decrease processing time within the accounts payable department. Another area that must be addressed is the reconciling of the vendor statements, there needs to be structure around this process as the function is currently being completed only on statements received. There must more effort be placed on this reconciliation process at there

would be greater amount of relevant information about the vendor and current queries available to everyone in the accounts payable department. There should be a second check by the accountant to check the reconciliations and ensure problems are being resolved in a timely manner

Community Living should appoint a manager that understands all areas of the business especially the accounts payable department and have that person lead the change and training that will be required to ensure that all departments in the organisation understand the changes and how it will affect them. This person should be trained in the system that will be setup and then train the other departments on how to use the system with ease. This will help facilitate change and create a sense of ease and acceptance of the change.

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# Internal Controls in Small and Medium Size Enterprises: A Study of Matamata

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## Abstract

This paper reports key findings from a study of the internal control systems of 27 small to medium enterprises (SMEs) in Matamata, New Zealand. There are several well-known problems experienced by SMEs. Inferior internal control procedures due to their small number of employees ranks high as a major concern. Difficulty in obtaining adequate segregation of duties, and a tendency for owners to be aware only of external threats is problematic. A review of relevant literature reveals that this is a global problem. Several studies also sought to link internal control to organisational culture and to the perceptions of internal control within the SME ownership and their employees. This research seeks to establish if there is a relationship between an entities size/age and their level of implemented internal controls. To achieve this, a 22-question survey, asking SME owners about their internal controls was distributed. Analysis of the survey results revealed that the average SME has about 50% of the most basic internal controls implemented. While the smaller, younger firms were more likely to score lower than average. The results aligned with the literature, but also added to the current body of knowledge. The research discovers that among the surveyed SMEs there was a strong positive relationship between the size of an entity and their internal control. This was not the case with the relationship to age. Therefore, the report recommends that SME owners:

- i) Create internal control policy surrounding the regular changing of passwords.
- ii) Require more than one employee for authorisation.
- iii) Develop and implement a disaster recovery plan.
- iv) Employ the services of a qualified business mentor.
- v) Consider engaging with a qualified auditor.

*Keywords: Small business; Medium-sized business; Internal controls; Risk*

*JEL Classifications: M49*

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## 1. Introduction

This report is targeted towards small to medium enterprises (SME) owners primarily and to a lesser extent to the managers of SME's. The author has found, during the research process, that SME are susceptible to certain risks associated with internal controls. This report will present the findings of primary research and offer precise targeted recommendations for the owners to implement within their businesses.

Small businesses are the backbone of the New Zealand economy (Joyce, 2014). Some 97% of New Zealand businesses are classified as small or medium. These businesses employ over half a million people. That equates to half of the New Zealand workforce and SM's contribute 30% to the New Zealand GDP. They are spread throughout New Zealand. The activities performed by these businesses range from hairdressers to corner dairies and to the production of high-end niche electrical components destined for off shore markets (Ministry of Business, Innovation & Employment, 2014).

This report uses the Ministry of Business, Innovation & Employments definition of a Small and Medium Size Enterprise (SME). This is a business with 19 or fewer staff. Mortality rates for SME's are high. Fewer than 50% of new start-ups will be in operation 10 years after their formation. These smaller businesses operate in a rapidly changing environment and are more susceptible to fluctuations within the market.

There are large global threats effecting SMEs. These threats, such as an unstable middle east and global warming are largely out of the control of SME owners and management. There are also threats which are located within the business itself. An inadequate internal control system and how a business assesses risk are problems which fall within the control of management.

It is these internal problems, specifically related to internal controls that this report seeks to offer recommendations to help rectify. The internal controls this report focuses on are: physical controls, such as safes, padlocks and security cameras, as well as computer based controls: passwords, accounting software and documentation. Segregation of duties is difficult to achieve within certain smaller entities.

As will be shown in the following literature review, many studies are reporting increases in cases of fraud or economic crime. Technology is advancing rapidly and the perpetrators of these crimes are employing different and ever increasingly cunning plans to pull off their schemes.

Keeping one step ahead of the fraudsters is of increasing importance. Auditing and accounting firms will need to offer every bit of their expertise and knowledge to their clients to keep this increasing trend from getting out of control.

The contributions SMEs make to New Zealand through employment and GDP, coupled with their high mortality rates, justifies the creation of this report. Any help that SME's can be given will only be of benefit to New Zealand and its people.

The objective of this report is to identify key internal control components that may be lacking within SMEs. This was achieved through the use of a survey targeted to owners and managers of SMEs. Recommendations were developed from the research findings.

The question that the report answers, is whether the age, in years, of the SME, and/or the number of employees within the SME, have a relationship to the number of internal controls procedures implemented within the SME?

## 2. Literature Review

### 2.1 Defining a Small to Medium Enterprise

There is no universally accepted definition of what constitutes an SME. An SME in New Zealand would be a micro sized entity in the United States of America, while an SME in the USA, any organisation with fewer than 500 employees, would be considered large in New Zealand. Due to the vast differences in the size of entities throughout the world, it is important to narrow down and define what an SME is.

This report adopts the New Zealand Ministry of Business, Innovation & Employments (2014) guidelines. It defines a New Zealand SME as being an entity with 19 or fewer employees. Getting this information out to the owners is important. The people this report is targeting need to be made aware of what kind of enterprise they are, so that they can seek out the correct help if needed.

There are bodies of work which do not agree with trying to define an entity based on its size alone Frank and Rossl (2015) are quoted as saying "it is not possible to derive statements that hold true for all SMEs—and as soon as they claim general validity, they are exposed to the risk of being superficial and platitudes." They go on to state that smaller businesses find it difficult to achieve economies of scale and economies of scope.

This flows on to all as of the business. Including internal control Stepan (2009) follows this up by stating that this problem based on size can lead to situations that are impossible to solve. When an entity has one or two employees, effective segregation of duties is not realistically achievable.

## 2.2 Defining Internal Controls

Internal control is well defined in the literature. However, it is not clear how much knowledge SME owners and managers have in the field of internal controls (Perry, n.d). One of the objectives of this report is to educate the owners in the field of internal controls. The Committee of Sponsoring Organisations (COSO), have done a lot of work in this area and have created an excellent framework for smaller entities to adopt. COSO have defined what internal control is, and this report uses their definition throughout.

COSO defines internal control as a process, effected by an entity's board of directors, management and other personnel. This process is designed to provide reasonable assurance regarding the achievement of objectives in effectiveness and efficiency of operations, reliability of financial reporting, and compliance with applicable laws and regulations (COSO, 2013).

The COSO framework also mentions interrelated components of internal control.

- i) **Control Environment** – This deals with the people and their work environment. It is crucial for this environment to be generated from the top down, managements attitude and behaviour for example.
- ii) **Risk Assessment** – The business needs to be aware of the risks they are exposed to. Identifying potential risk and designing and implementing systems to detect and counter risks is a responsibility for owners and management.
- iii) **Control Activities** – There must be certain levels of control in place to help protect an entities pursuit of achieving its objectives.
- iv) **Information and Communication** – This system ensures that the people within an organisation have access to all necessary information needed in conducting, managing and controlling operations.

- v) **Monitoring** – Internal control processes need to be regularly monitored. In fast paced business environments, risks can evolve rapidly. A well designed system needs to adapt and update as needed.

## 2.3 Known Problems Experienced By SMEs

Smaller companies are more susceptible to internal control weaknesses, due to their size and management structure. Hardesty (2008) identifies two areas of concern. Managers of smaller entities have a more hands on style than managers of larger entities. They are also more likely to have access to more levels of control, due to the fewer levels of management found within SMEs. This is a concern, because with fewer levels of management, an individual manager could access all systems and effectively override any internal control processes that had already been implemented. Ju (2014) agrees with this, and goes on to add that there is a possibility managers of SMEs are not adequately educated to hold the position of manager. This is often the case because the SME are family businesses and it is convenient to have a close relation employed within the entity. Even though this is done out of convenience, there appears to be little thought given to any wide- reaching business implications.

As entities grow, so too do the risks they encounter. Studies show that the faster an entity grows, then the more control problems they will face. Management need to constantly up-skill so they can be aware of potential risks and know how to reduce the likelihood of any risks damaging the business. Often this comes down to a lack of training and it is known that owners of smaller enterprises are not always willing to pay for their staff to receive extra education (Soobaroyen & Sannasse, 2007). Some SMEs do establish a board of directors. The majority do not. Even if they do form a board, it is usual for the members to be non-professionals.

Fraud is a major concern among SMEs. A study of American small businesses by Synder, Broome, and Zimmerman (1998) found that \$40 billion is stolen annually. This amount is ten times the amount stolen in street crimes. It is also predicted that this amount will rise. A later report by (Wells, 2003) confirms this. The researchers report findings from the 2002 *Report to the Nation on Occupational Fraud and Abuse*, published by The Association of Certified Fraud Examiners. It states that SME owners have very real reasons to be concerned about fraud within their business.

Losses per employee in a small business are 100 times greater than the losses per employee reported within larger businesses. It was recommended that the SME have their accountant perform certain fraud prevention services. It is recognised that having a full audit performed is not economically viable in the majority of cases.

However, as most fraud occurs in the presence of cash, it was advised to have an accountant review cash receipts and disbursements for any anomalies. At the same time, the accountants can undertake training of the SME employees, specifically in the areas of fraud detection and the use of computer monitoring. Moody (2004) reports a similar situation within United Kingdom SMEs. It is stated that 82% of fraud is committed by employees., with the most common forms of reported fraud being the theft of cash or stock.

The fraud scheme is often well organised and can be perpetrated in a variety of ways. A well-used method is to place an order but have it delivered to your home instead. If it was a company requirement that a second member of staff had to check all purchase orders before authorisation, then these types of fraud could potentially be averted. Normally, having adequate segregation of duties will stop most schemes.

This statistic puts fraud and internal control issues into perspective. Smaller entities do not have the size and scope to sustain such losses. Therefore, it is imperative that SMEs implement appropriate internal control measures. Owners and managers need to be aware of who is likely to commit fraud and how they might try. Any implemented internal controls must be applied consistently to all levels of staff, from trainees up to the owners.

A report by Campbell and Hartcher (2009) states that all fraud starts with the owner. This is linked to the organisational culture within the entity. Culture needs to come from the top down and lays the foundation for the entities ideals and beliefs. If this is one of truthfulness and respect, then the risk of fraud decreases. Owners need to set an example for their employees to follow. Procedures and systems need to be implemented that encompass the entire organisation; no one can operate outside of the boundaries of the internal control system. When staff witness their employer helping themselves to the cash register, it can be too tempting to follow their lead. It is not best practice.

There is a theory that employee satisfaction can be linked to an organisation's success. There is another chain of thought seeking to link employee engagement with internal controls. Mutnuru (2016)

found that this is the case. His study found that there was a significant positive relationship existing between the degree of implementation of internal controls and employee engagement in small organizations.

Having the right culture, the right level of employee engagement and then adding this to an effective internal control system will pay dividends to an entities bottom line. An article by Montgomery (2003) adds a few interesting facts to the discussion. It states that the most common way of uncovering fraud is either by a tip off by an employee, vendors, customers or an anonymous source, or by uncovering the fraud by accident.

It was also found that the average fraud lasts for 18 months before discovery. The average cost to a small business from a fraud scheme is \$127,500 while the cost to a large business per fraud is \$97,000. This is mainly down to the fact that smaller firms often have weaker internal control, while the increased time to discover the fraud results in a more substantial loss. There is some research out there which has begun to label fraud as economic crime (Tolhurst, 2013).

This encompasses the more traditional types of fraud, such as asset misappropriation, but has also an expanded scope to cover off the ever-increasing forms of cyber-crime. PWC recognise asset misappropriation as being: asset disposal; fraudulent invoicing and employee expense fraud. Of businesses affected by economic crime, a full third report the crime to be cyber-crime. This figure is sure to rise as businesses rely more heavily on technology than they previously have. More transactions are taking place electronically and this reduced the traditional auditing paper trail. With the rise of e-commerce, different risks have appeared.

SMEs who have begun conducting business online will experience exposure to viruses, potential theft of databases and personal information, bank accounts and client information. Price Waterhouse Cooper's (PWC) 2011 study also revealed that 54% of all economic crime was committed by someone inside of the entity. This figure is also higher than the 33% that was reported in their previous study from 2009.

Segregation or separation of duties is one area of concern when dealing with SMEs. Because of the small nature of SMEs, there are not enough staff to adequately separate duties. Separation of duties is fundamental to reducing risk around areas of fraud and employee related theft. It is not uncommon in smaller businesses to have one member of staff having the responsibility for both ordering and paying for purchases. This problem can be further compounded if that same member of

staff has the added responsibility of processing returns. In a worst case scenario, one person could potentially place an order to a fictitious supplier, pay themselves for the order and then return the order whilst keeping the money for themselves. This type of problem is very difficult to uncover without having internal control procedures in place (Hardesty, 2008). Having specific checks and balances in place is desired as they reduce the risk. While having even the most basic of processes in place may be enough to deter an employee from committing a fraudulent act.

There is evidence to suggest that if an entity has an effective audit committee, then they are more likely to have suitable internal controls systems in place (Zhang, Zhou, & Zhou, 2007). For an audit committee to be effective, it is recommended that the committee contain at least one member who has a financial and/or accounting background. This is preferred as it can be assumed that this member will have had sufficient experience within the field of internal controls and audit processes. Having this knowledge is beneficial to the entities success.

Studies have identified a trend among SMEs regarding their decision to employ the services of one of the big four accounting firms. It links the decision to the entities levels of internal control. Entities which are small and less profitable are more likely to have internal control problems. At the same time, it is these firms which are less likely to see any real benefit in using a big four company. Two reasons for this have been identified. The smaller entities could not afford the cost of a big four, or, the big four companies had no desire to audit these smaller companies due to the increased risks in doing so.

It is all well and good to have identified several potential threats. Getting the SME owners to do anything about can be a challenge of its own. A report by Wilkins and Haun (2014) seeks to offer up a new method of communication between the firm and their accountant. While the accountant discusses possible recommendations to fix internal control issues, it is easy for the owner to dismiss the solutions as too expensive or troublesome to implement. Therefore, the report proposes that instead of jumping straight into the discussion, it may be more beneficial to reframe the discussion they have on internal control to be more in line with the recently updated COSO framework. This has the effect of removing the non-personal aspect of security issues only and brings the discussion down to a human level.

It should be stressed to the owners that the core of any business is its people. How they operate

is of key importance to how the entity is perceived and respected. The discussion should also include such topics as integrity, key ethical values, responsibility and the general tone from the top down. This theme of communication between entity and accountant is continued with an article by Dodsworth (2006). It is also expanded upon with the introduction of an idea that the trusted advisor take on some of the financial responsibility of the entity. Some of these activities could be having access to the accounts so they can look over them periodically and investigate any anomalies. Having the ability to pay certain accounts and to oversee the payroll function. This links into the entities organisational culture and is the back bone which can dictate how an entity manages its affairs, or how it responds to threats.

## 2.4 Prevention Better Than a Cure

A study done by Chan (2006) which linked with the COSO framework of internal controls for smaller entities, found that while the five key components of internal controls are important, there was also an emphasis placed on early detection of potential problems and risks. It is recommended that rather than waiting for a problem to manifest before taking action, it is financially beneficial to have a plan in place before any crisis occurs.

To aid this, management need to be more proactive when it comes to risk management. As smaller firms and not-for-profits are realising the financial gains to be had, they are starting to build the costs associated with internal controls and risk management into their operating budgets. As this is happening, and the managers are associating costs with internal controls, then it is becoming more important to make these implementations as cost effective as possible.

Within smaller businesses, which may have less money to spend, it is crucial to endeavour to not implement a new system that will cost more than it saves. According to Lewis (2015) and other independent studies, it has been found that SMEs do not devote enough time to the planning process.

Planning is beneficial to the long term success of businesses. It was found, if planning wasn't done, that the top three aspects that are neglected are: fraud and internal control systems; disaster and business recovery planning; and succession and manpower planning.

The researchers discovered that implementing a form of risk management software can be a relatively quick and cost effective solution. Software can automate and streamline an organisation's processes of identifying and

neutralising threats. Once implemented it is necessary to monitor the system to ensure it is still meeting the entities needs.

The idea of cost effectiveness and the planning process is further reinforced by Rittenberg, Martens, and Landes (2007). They reiterate the point that many SMEs cannot see any benefit to the costs incurred in establishing an effective internal control process. It can be a fine line between spending too much on new systems and not realising any noticeable gains. The ideas were also expanded on to include that firms need to make their systems integrated as the business environment is ever changing.

Due to the changing environment, the firms control and risk assessment protocols will need to evolve with any fluctuations. If a firm can have a relationship with an auditor that is built on mutual trust and respect, then this can be of great benefit when dealing with the issue of internal control (Aschauer, Moro, & Massaro, 2015). This relationship can involve knowledge sharing. Which is mutually beneficial. The study found that it was not necessary for the auditor to express trust in their client, but it was essential for the client to trust the auditor. This phenomenon was put down to the fact that an auditor will generally not engage with a new client if they perceive the relationship to be too risky.

Having an effective well maintained and tested disaster recovery plan links in with planning. An article by Goodwin (2005) reports on the findings from a survey on contingency planning within SMEs. It was found that two thirds of those surveyed have no facilities to allow their staff to access work networks remotely. Furthermore, one third of SMEs do not store backups offsite. It was noted that most SMEs are not making contingency plans to allow their staff to work from home, or some other site if the need should arise. Even though a third of SME owners were aware of the need to back-up data, they were not storing these back-ups outside of their offices. So, should a disaster occur that destroys the office, or makes the offices inaccessible to the employees, then the backed-up data loses its value. Jim Norton, a senior policy adviser at the Institute of Directors, is quoted as saying "We are calling for businesses to take business continuity planning in all its aspects - technology, people and processes - very seriously, that means backing up data off-site, having access to alternative facilities and giving employees technology to work from home."

## 2.5 Perceptions of Internal Control

Some employees do not like the idea of control. They might feel as if their rights are being encroached upon. They do not want someone or something peering over their shoulder and checking everything they do. Dietz and Snyder (2011) conducted research to investigate how owners and management perception of internal control, aligned with the perception of employees. It had previously been thought that perceptions would be similar. Further, it was theorised that if perceptions do match, then they could be a good indicator of an entities internal control health. Another good tool for analysing internal control is Control Self-Assessment or CSA. CSA has emerged as a key tool when evaluating internal controls.

An entity is encouraged to think about, and evaluate their business practices. This gives the owners more awareness of potential problems if they just take a moment to truthfully critique how they actually operate. Previous research had concluded that management and staff were in agreement about control issues. However, Dietz and Snyder's (2011) research found that there were strong levels of disagreement. Most notably "Lack of communication has been discussed so many times with no changes made that trust has been lost." When trust and communication has been lost, it can be difficult to work together on potentially complex internal control systems.

A study done on the perceptions of internal control among CEOs and CAEs (Chief Audit Executive) by Wong (2000) was interested in the opinions of COs and CAEs if they were faced with a decision on how to manage internal control. Option one was to have the very best internal control systems implemented, but let no one except the hired auditors take responsibility for the system.. Or, option two. Have no internal audit function. However, everyone in the organisation takes responsibility for managing business risks and internal controls. It was found that CEOs and CAEs are on opposing sides. The auditors are all for having a strong internal audit presence, while the CEOs would much rather that everyone take individual responsibility. The researcher concluded that most CEOs would rather have a strong control environment or a strong internal control function.

This theme of perceptions is related to the organisational culture and is driven by the top of an organisation. The strongest form of control is self-control. In its simplest form, a strong control environment is nothing more than the perception and reality of consistently appropriate behaviour by

those who lead. A good leader will inspire others to follow their example.

## 2.6 The post Sarbanes – Oxley Act environment

The Sarbanes – Oxley Act of 2002 came into effect after some high profile cases in America, notably those of Enron, WorldCom and Tyco. There were serious breaches in the company's accounting policies and the way in which they were governed. External auditors were too familiar with companies' board of directors and were often doing other, non-audit work for the companies on the side. This produced conflict of interest. An environment of fear was established, this manifested from the top down. It became part of the organisational culture and this made it very difficult for anyone to speak out about any wrong doings at the upper levels of management. Communication broke down and it was impossible to trace any breakdowns back to the source.

The Act has toughened up the laws surrounding internal control and the audit process. A study by Doyle, Ge, and McVay (2007), post Sarbanes - Oxley was interested in investigating any links between the size and age of a firm to their internal controls. They had a similar train of thought to this report, and anticipated that these two factors would in fact have an impact on control. What they found was that that firms reporting weaknesses in their internal controls tend to be: smaller; younger; financially weaker; more complex; growing rapidly; or undergoing restructuring. It was also noted that weaknesses can vary dramatically, depending upon the organisations unique control issues.

## 3. Research Methods

The population of interest for this study is all SME owners and managers.

### 3.1 Participants

27 SME owners from Broadway and Arawa Street in Matamata completed a 22 question survey (see appendix) on their internal control awareness and procedures. 80 surveys were hand delivered to the businesses on the two main streets of Matamata. The survey and cover letter were collected 2 hours later and a total of 22 completed surveys were delivered back to the researcher.

Three of these were discarded due to being incomplete.

After a period of one week, the researcher completed another round of collecting surveys and nine more were delivered back, with one of these being discarded due to it being incomplete. The sample population of Matamata was chosen, partly because of convenience and partly because it can represent the population as a whole. It was convenient due to its location and close proximity to the researcher. It is a cluster sample, based on a geographical location. The researcher sees the town of Matamata as being representative of the many other rural towns located throughout New Zealand. Therefore, the businesses that are located within Matamata should represent the SMEs of New Zealand.

To stick to the SME definition of 19 or fewer staff, certain businesses were not suitable for surveying. These includes businesses such as supermarkets and banks. Due to the survey only being delivered to the two main streets, this meant that industrial/service type SME, such as builders, electricians and plumbers could not take part in this research.

Due to the nature of some of the questions, E4specially those dealing with security, the survey was hand delivered. This served as a two-pronged strategy. Firstly, the SME owners could put a face to the researcher and secondly, it enabled the researcher and owner to communicate together and have any concerns or queries clarified. The researcher was able to reassure the owners of the legitimacy of the research. While at the same time, inform them that every effort was being made to ensure confidentiality and anonymity throughout the research lifespan and beyond. It was conveyed to the potential respondents, that at no stage would any names, addresses or business type be used to identify individual businesses. This was further reinforced, that during the delivering back stage, the owners placed the completed survey into a pile of paper where it was not known who had delivered back which survey.

A survey was the preferred method of data collection because of time constraints affecting the researcher. The survey was able to be completed quickly. The choice to give the respondents only the option of yes/no answers was to get exact data. The researcher is aware that this might not be the most precise data, as the business world contains many variables that cannot be accounted for with a simple yes or no answer.

As the completed surveys came in to the researcher, the raw data was entered into an excel spreadsheet. The data being dealt with in this

research is quantitative. The age of the business and the number of employees gave a numerical value. The yes no answers are then converted into a 1 for a yes and a 0 for a no. The values for the 20 yes no questions are summed up, with a maximum score of 20 being possible. This value is the internal control score for each individual SME. Regression analysis was performed on the data to generate an equation to describe the statistical relationship between the independent and dependent variables. This research uses a P value of <0.05 as the benchmark for deciding if the variable would be a useful addition to the equation. A value greater than this will show that it is not statistically significant.

### 3.2 Materials and Equipment

A survey containing 20 simple yes or no questions was constructed and used. The questions asked SME owners about their internal control procedures (see appendix). The survey also contained two preliminary questions about the SMEs age in years and the number of employees currently employed. These two questions were used to give the internal control score some context and as a way to measure the score against a base unit.

A vehicle was used to transport the researcher and the surveys into Matamata.

A HP laptop was used in all stages of the report generation. An HP Officejet printer was used to print the survey. The laptop was equipped with an office 365 subscription enabling the researcher to use Word for text based functions and Excel for the statistical analysis. Paper, pens, folders, staplers, hole punches and other general office supplies were also used as required. An internet connection was required. The internet was used for the majority of the secondary research process and also for emailing queries to the supervisor. It was also needed for submitting completed assessments into turnitin. Online search engines were used throughout the research process. The Wintec library databases and ProQuest were used extensively to search for relevant reports and articles. These articles were collated into the literature review.

### 3.3 Justification

The researcher collected back a total of 27 usable surveys with a 34% response rate. From these completed surveys the researcher believes that useful information was generated from the raw data. The conclusions and recommendations are of

a high quality. Because this research was asking of the SME owners some very sensitive and personal questions, the researcher believes that the research methods are justified. Using other methods may have resulted in insufficient data collection. It was important to not scare off the owners and to give them time and space with which to complete the survey. A deadline of one week was imposed however. But the researcher believes that an interview on their premise would have been too invasive. This may have caused the respondents to give the researcher answers that they thought expected of them. This data would then have been unreliable and inaccurate.

The researcher understands and recognises that there are several limitations to the methods that were used during this research. Using a survey with only yes no questions does not give very accurate data. If a respondent was located at the mid-point between a yes or no, then this survey forced them to make a decision between one extreme (yes) or another extreme (no). Using a five or seven point Likert Scale could have potentially yielded more accurate data. However, the researcher did not want to discourage participation by possibly making the survey too confusing or troublesome to complete. The research methods and survey employed for this research project were developed from scratch for the sole purpose of completing this report. The researcher did not find any other studies done that carried out its research in this way and with these questions.

### 3.3 Ethical Considerations

During this research process, there have been several ethical considerations required. Due to the nature of the research and the fact that the researchers host organisation did not require a copy of this report. Has meant that full ethical approval from Wintec was not required. This research t was a student project.. Never-the-less, careful consideration was given to the ethical ramifications of conducting primary research with human participants. Firstly, the researcher did not want the participants to feel threatened in any way. It was important to present the survey to the SME owners in their place of business where they would feel comfortable in their environment. The researcher was aware of not putting the participants in any position of harm, be it physically or psychologically. The idea behind the survey's cover letter and the hand delivering was to give the researcher ample opportunities to reassure the participants and to give the participants every chance to have their fears alleviated. The owners

could see that the researcher was a real person. Secondly was the idea of voluntary participation. It was vital that participants not feel coerced into completing the survey. Tying into this is the notion of informed consent. The researcher took great care in informing the participants of any potential risks to them and that if they chose to complete the survey, then that would be deemed that consent was given. Thirdly it was made known to the participants that all data was to be held in the strictest confidentiality and that no identifying information would be released to anyone who was not directly involved with the research. Anonymity is another important factor that was taken into consideration. Care has been taken to have no mention, by name, of any of the entities surveyed published. The researcher explained to the participants that all names would be changed to XYZ or suitable equivalents if any names were going to be used. The research data collection happened in such a way that the researcher was not aware which SME completed each form. The researcher also gave the participants information about how their data would be analysed and used. This was an important step as this gave the research validity and served the purpose of putting the participants at ease, as they felt they were part of a larger plan and part of a potential solution.

#### 4. Research Results

At the end of the primary research stage, the researcher had at his disposal 27 surveys that were of use. A total of 80 surveys were distributed. Therefore, the response rate ended up being 34%.

Question one, how old is your business? Had a range in answers from a minimum of one year up to a maximum of 44 years old. The average age of the SMEs is 20.26 years. The median age of the SMEs is 9 years old.

Question two, how many employees do you have? Had a range in answers from a minimum of one staff (this is an owner operator) up to a maximum of 18 employees. The average number of staff employed by the SME in the study is 5.84 people, rounded up to six. The median number of employees in the SMEs is 3 employees.

The next 20 questions dealt with internal controls, and when summed together gave the entity its internal control score. They resulted in a range in answers from a minimum of 4/20 up to a maximum score of 19/20. with the average score across all 27 respondents being 11.53/20. The two individual questions that scored the most yes answers were question numbers 11 and 18.

Question 11, do you have comprehensive insurance policies and question 18, do you keep all receipts for seven years? All 27 responses for both of these questions was yes, giving these two questions a 100% yes rate.

The question that individually scored lowest was 17. Do you change your password every 60 days? Three of the responses given were yes, the other 24 responses were no. Therefore, only 11% of the surveyed SMEs change their password every 60 days.

The next lowest scoring was question number 21. Do you require more than one signature for authorisation? Seven respondents answered with a yes. Therefore, 20 of the 27 respondents or 74% do not require more than one signature.

The third question with the fewest yes answers was question number 22. Do you have a disaster recovery plan? There were 10 yes answers for this question, meaning that 63% of the SMEs are not prepared should a disaster strike.

This type of data is quantitative enabling the researcher to perform statistical analysis on the data. The researcher chose to perform regression analysis on the data to see what, if any relationships exist between the independent variable and the dependent variable.

In this research, the independent variables are the SMEs age and their number of employees. They are independent because they cannot be changed. The dependent variables are all the individual internal control questions and their combined internal control score.

It was found that a positive relationship did exist between the internal control score and the SMEs number of staff employed. From the regression summary below, we can express the function of this relationship with the formula:

Internal Control Score = 10.5534 + 0.38789 x Number of Staff

The above formula helps predict an entities internal control score within a given range. As long as the number of employees is known then it is possible to calculate an expected internal control score.

It is important to note that this formula will only work within a certain range. As this research was concerned about SMEs with the maximum number of employees allowed being 19. The formula will not be useful when staffing levels increase above this maximum number. From the table above, we can see a significance level of 0.0359 this value is less than the common alpha level of 0.05. It can be said that the relationship is statistically significant and that it could be a useful predictor in assessing an SMEs potential internal control score. The number



of observations is a concern. 27 is too few and is a limitation when trying to ascertain the validity of this research.

Table 1.1: summary output of age of sme and internal control score

<b>Regression Statistics</b>			
<b>Multiple R</b>	0.4052		
<b>R Square</b>	0.1642		
<b>Observations</b>	27		
<b>ANOVA</b>			
	<b>df</b>	<b>MS</b>	<b>F</b>
<b>Regression</b>	1	56.07238	4.912855
<b>Residual</b>	25	11.41340	
<b>Total</b>	26		
	<b>Coeff</b>	<b>t Stat</b>	<b>P-value</b>
<b>Intercept</b>	10.55	10.8830	5.6582E-
<b>No of Staff</b>	0.388	2.21649	0.03598

## 5. Discussion

From meeting with the SME owners during the survey stage and talking to them about the project. It was clear to see that most of the entities surveyed were more worried about external threats than from any of the questions posed in the questionnaire. This was interesting as they were not thinking so much about internal threats, which was what the questionnaire was trying to help them with. They were concerned that the researcher was invading their privacy. This is understandable as some of the questions were quite direct about what types of security and controls they already had in place.

From the literature, it was discovered that there are certain problems in SMEs. Particularly in their internal controls, or lack thereof. What was discovered in this research was that while there are some SME who have already implemented a lot of internal control measures. There are still many SMEs who do not have adequate protection from internal threats. The researcher thinks that this may be linked to a way of thinking. They are tuned to and are aware of threats and dangers that might attack them from outside of the entity. The researcher believes there needs to be a shift in this mentality and that they need to potentially be warier of threats

that may be lurking within the organisation itself. With an increased awareness of what could be happening within their business, owners and managers could make it harder for employees to get away with committing fraud. The literature mentioned that employee related theft is a bigger problem than general street crime and that more money is stolen annually by employees than petty criminals. It is hoped that if a few changes are made to an SMEs internal control policies, then this could have the effect of making the idea of stealing from a workplace less appealing. The secondary research uncovered a theory that linked SMEs difficulty in achieving economies of scale. And then linked this to a concept of it being impossible for some SMEs to rectify certain problems due to their small number of employees. This research found this to true as well. If an entity has only a few members of staff, then certain procedures, such as segregation of duties and authorisation can be all but impossible to accomplish. The smaller SMEs which completed the survey did not score well on the segregation of duties and authorisation questions. This makes sense, as they just do not have the staffing levels to overcome these certain internal control weaknesses.

Physical controls, safes, padlocks and deadbolts, etc., were well utilised by the participants in this study. These types of controls are not effected by an entities size and age. Regardless of how many staff are employed, it is always possible to deadbolt your windows and doors shut each night. Having these controls in the survey may have screwed the results up and not been quite so relevant. However, even these most simple forms of control add up to give the entity the best chance possible at safe guarding their assets from misappropriation.

One of the purposes of this report was to answer a research question. The question, is there a relationship between a SMEs age/size and their internal control has been answered. There is a significant relationship between an entities number of employees and their internal control score. However, there was no significant relationship discovered between the SMEs age and their level of internal control implementation.

## 6. Conclusion

There are areas of concerns around some of an SMEs internal controls. Most notably, the

changing of passwords, requiring more than one signature for authorisation and the lack of any disaster recovery plan. Overall, the surveyed SMEs did achieve the average of a better than 50% internal control score. This is the sort of score the researcher had expected they would get, but is too low in the researchers' opinion. To overcome threats and stay viable into the future the SMEs have some improving to do. One theme from the literature was that an SME is more likely to be targeted for theft by an employee than it is from an external party. The researcher thinks that if SME owners created policy around the changing of passwords and requiring more steps when authorising transactions, then this employee related theft could be reduced. The results also agree with the literature in that segregation of duties is difficult to achieve. The fewer employees an entity has then the more challenging it is to reach an ideal level of segregation of duties, this ties in with the needing multiple people for authorisation. From the survey, one question that performed well was, do you employ an accountant? 24 of the 27 participants answered yes to this question. If the SME owner can approach meetings with their accountants with a little bit of knowledge into internal controls, then they can ask some very direct questions and hopefully get some specific advice on how to improve their level of control.

To more adequately answer the research questions and to make the recommendations more useful for the nation, the research needs to be tried in a different smaller town to see if the results are replicated. It would be advised to try and increase the number of respondents if possible. This would serve the purpose of making the results more accurate and at the same time increase the validity of the research. The research methods are sound, it is just a case of increasing the total number of surveys delivered and possibly giving the participants more time in which to respond. If this research is successful, then it is recommended to attempt this research project in a larger metropolitan area. It would be useful and interesting to compare the results between town and city. Some of the questions could be changed too. Instead of just asking, do you use computer based accounting. It could be expanded upon and require the respondents to state which software they use, how long have they used it and what type of package do they subscribe to, entry level or comprehensive for example.

## 7. Recommendations

Based upon the results, analysis and conclusions. The researcher is confident in proposing the following recommendations.

- i) Create internal control policy surrounding the regular changing of passwords.
- ii) Require more than one employee for authorisation.
- iii) Develop and implement a disaster recovery plan.
- iv) Employ the services of a qualified business mentor.
- v) Consider engaging with a qualified auditor.

It is hoped that if the SME owners adopt some or all of these recommendations, then their businesses will be more able to survive if an internal threat appears. At the same time though, it is important to understand how much resources an individual business can allocate to funding these recommendations. As mentioned in the report, it is pointless to spend more on controls than can be saved by preventing any potential fraud or control breaches. It is up to each individual owner to assess their levels of risk and to establish how much they are willing to contribute towards safe guarding their assets. Through effective communication with the entities accountant and ensuring that the right kind of organisational culture is established from the top down. Employees will have less desire to commit economic crimes against their employer.

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# Work Life Balance in the Accounting Industry

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## Abstract

Research has revealed the boundaries between work and private lives are becoming increasingly blurred. This is largely due to the continuing evolution of technology, which has been confirmed by this research. The purpose of this research is to investigate what a healthy work life balance is and why conflicts can arise, along with strategies that both the employer and employee can implement to assist in creating a healthy work life balance. It also investigates changes over time, such as technology, that have had effects on work life balance.

Research was conducted with senior employees at a Waikato based accounting practice to explore their work life balance satisfaction, strategies used to overcome issues which specifically include technology, and whether they believe changes over time have affected their work life balance.

The findings are consistent with prior research and reveal that although the majority of participants are satisfied with their work life balance, concerns exist. A variety of strategies are used to prevent work life balance issues, with the most prevalent being making time for exercising and hobbies and organising work in such a way that extra hours were not needed to be worked. Technology had both positive and negative effects and it was found that mobile phones caused the most stress.

Recommendations include assisting those who are not satisfied with their work life balance by distributing the workload evenly, educating all staff on the effects of poor work life balance and strategies for assistance, along with monitoring employees to ensure issues are dealt with proactively before any escalation.

*Keywords: Work life balance; Accounting; Risk*

*JEL Classifications:*

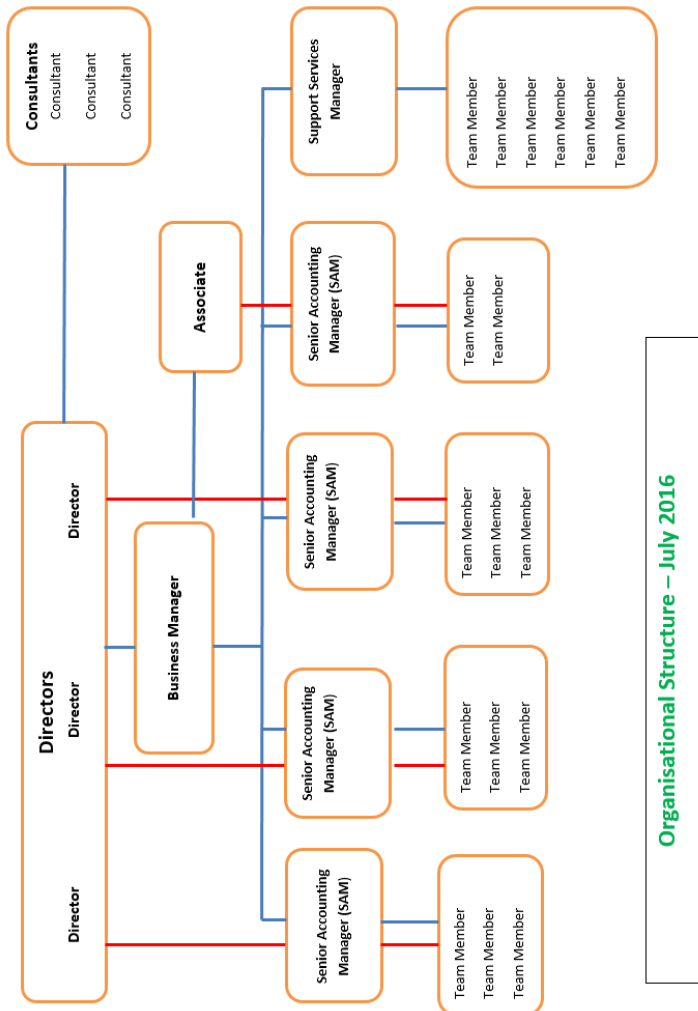
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## 1. Introduction

ABC Ltd was formed over 50 years ago in a rural Waikato town. A recent rebrand took place to refresh and revitalise the business name along with offering more modern services. The practice currently employs 30 staff members, both part time and full time. There are presently three Directors, and three

retired Directors in gradual retirement, working as Consultants. One Associate is employed, and the Business Manager is the link between the team and the Directors. The accounting team is made up of four sub-teams each led by a Senior Accounting Manager. Alongside the accounting team is the Support Services team which is supervised by their manager as per the organisational structure below.

Figure 1:



A wide variety of clients are supported, including commercial, investment and rural businesses. The clients are not only locally based, but are situated all over New Zealand as well as overseas.

The mission is to deliver timely, quality, innovative and professional accounting services within a culture of pride, integrity teamwork and fun. The culture of this business is to put their people first, as they are just as important to the business as its clients. Team members are encouraged to be themselves and be the best they can be.

The computer system is hosted by a business which provides a cloud based server. Each user has a unique login and can access their profile from any computer, in the office or at home, via the cloud login through an internet browser. There is also the option to have work emails and calendars loaded onto employee’s personal mobile phones.

A variety of software is used by the business. Some is specific to practice management and client databases, whereas other software is used specifically for preparation of annual accounts, GST

returns and payroll calculations. Some programs are online and can be accessed via an internet browser, for example, Xero.

The aim of this research is to understand what work life balance is and how it relates to ABC Ltd and more generally, the accounting industry. This research will assist employees in recognising issues that can be present with busy work and personal lives. It investigates what a healthy work life balance is and why conflicts can arise between work and personal life.

It appears there is pressure on employees to complete their workload, provide prompt communication responses, keep up to date with changes and always be available with the use of technology. This research will provide strategies to assist employees in creating a healthy balance and also find any reasons for changes over time, within the business, that have had effects on work life balance.

This research examines the symptoms of a poor work life balance, along with any outcomes on the employee and employer. Any legal requirements the business must comply with have been investigated.

The research looks at whether employees see technology as an ‘invader’ on their private lives. It looks at time being spent ‘connected’ to work within the employee’s private time in regard to tasks such as, checking emails and communicating with clients and other organisations. It also gauges whether employees see this connectedness as having positive or negative effects on their lives.

## 2. Literature Review

### 2.1. Work Life Balance and Conflicts That Can Occur

Work and family life have always been interwoven (Rudman, 2010). From the employees point of view work life balance is the ability to prioritise effectively between work and other areas of life, such as, home, family, health, social activities and other private interests. Balance is achieved when “work does not substitute home or family life and vice versa” (Polkowska, 2015). O’Reilly (2016) agrees and states that work life balance is about the interaction between paid work and other activities, which include unpaid work in families and the community, leisure, and personal development.

Conflicts can occur between the two domains of work and life and the boundaries between these can be blurred. Although ‘work’ and ‘home’ can be separated in terms of time and space at the office,

“behaviour, emotions, attitudes and values can blur the boundaries and have positive or negative consequences on people” (Den-Nagy, 2014). Tension can be present when balancing home and work and it has been suggested that we never “leave one sphere and enter another” we are immersed in both worlds simultaneously (Currie & Eveline, 2010).

Rudman (2010) states that the traditional ideas of work and life, and their relationship, have changed, bringing new pressures on people, and individuals are now looking for a better balance. He believes the traditional family model (an income earner and a homemaker) is outdated, along with the idea of working a five day, 40-hour week. One factor that has changed is the increasing participation of woman in the workforce with higher levels of responsibility. Another factor is the increasing number of hours worked by all household members. These put stress and pressure on peoples work and personal lives and, at the same time, people are looking for more leisure time to pursue their non-work interests. Leger-Hornby & Bleed (2006) believe commitments outside of work such as family and community groups, make our lives feel rich and rewarding and we feel a pressure to perform well in both our work and other commitments.

“A commitment to better work life balance isn’t the solution” (Friedman, 2014). We must make trade-offs among the four main aspects of our lives, which include, work, home/family, community and self (mind, body, spirit). A better way to achieve a healthy work life balance is better integration between work and the rest of our.

Employment NZ (n.d) suggest things employees might want that will positively affect their work life balance. These include, a good quality of life, enjoyable work life with career progression, good health, time to travel, time with friends and family, time for sports and hobbies and time to do volunteer work.

You are not alone if you have found yourself asking the question, “can I really do this job well and have a life?”. People feel they have too much to do and not enough time, there is pressure to put in long hours, to work from home and constantly be available. People often express the feeling they have not achieved an acceptable balance between work and personal interests. Working long hours, on the weekends and taking work home have been noted as “the major disrupters on work life balance” (Leger-Hornby & Bleed, 2006)

Phil O’Reilly (2016), CEO of Business NZ, said the following can be used to assess whether your work life balance is right: working long hours

and in your own time; taking your laptop home just in case you have a spare minute; taking your laptop or mobile phone to bed or on holiday. Someone with a good work life balance will have a sense of control in their life, a strong sense of achievement from work and life and gain enjoyment from everyday life.

It is more likely that work will interrupt the home space with new technologies if boundaries are not established to keep these separate. Taking work home to manage the workload and having to be on call or available has meant ‘nonstandard’ and ‘unsocial’ work hours have evolved and are increasingly becoming the norm. This can leave little time for family or leisure (Currie & Eveline, 2010). Court (2016) says the word ‘overwhelm’ is used more than anything else when talking about work life balance. “We need to assign the same importance to our bodies as we do our phone battery, we tend to ignore our own ‘battery monitor’ when it says we are going flat, when we would never disrespect our phone”.

## 2.2. New Zealand Statistics

*The Social Report 2016* shows a comparison between Statistics New Zealand 2008 and 2012 surveys of working life. The results show that in 2012, 78% of employed people were satisfied with their work life balance, compared to 76.2% in 2008. Fewer than 8.4% were dissatisfied with their work life balance. Those in full time work (over 30 hours per week) were less likely, than those working part time, to be satisfied with their work life balance. As the number of working hours increased, the satisfaction with work life balance decreased. The age group of 35-44 years were least likely to be satisfied with their work life balance. The lowest proportion to be satisfied were managers, at 73.1%, and professionals, at 75.7% (Ministry of Social Development, 2016).

The survey could not be compared directly to other countries, but it provided a measure based on hours worked. In 2013, 13.9% of New Zealand employees worked over 50 hours per week, ranking New Zealand 25th out of 30 OECD countries. This was compared with Australia, with 14.0%, Great Britain, with 12.7%, and USA, with 11.3%, the median for OECD countries was 6.1% (Ministry of Social Development, 2016).

### *2.3. New Zealand Legislation and Policy Requirements*

The Health and Safety at Work Act 2015 came into force on 4 April 2016. This applies to all persons conducting a business or undertaking PCBU, and sets out the duty of care they have for their workers. This Act covers 'workers' who can be employees, contractors or subcontractors. The Act also does not allow any 'contracting out'. Section 36. 3a states, so far as reasonably practicable the work environment must be maintained so there are no risks to health and safety. Section 36. 3g states the health of workers and workplace condition must be monitored to ensure prevention of injury or illness (Health and Safety at Work Act 2015).

The work environment contains the psychological work environment which includes deadlines, work arrangements and impairments that affect a person's behaviour such as work related stress (Worksafe, 2016). It is noted that Accident Compensation Corporation (ACC) do not cover injuries caused by stress (ACC, 2016).

The Employment Relations Act 2000 outlines the obligations in regard to employment. Part 6, 60A (1) states the employee and employer are to deal with each other in good faith. Section 67C states the individual employment agreement must include hours of work, days of the week on which work is to be performed, start and finish times of work and any flexibility in relation to the days of the week and start/finish times of work.

Part 6, section 6D outlines the employee's entitlements to rest breaks and meal breaks. An employer must provide the employee with rest and meal breaks that provide the employee with a reasonable opportunity for rest, refreshment, and attention to personal matters (Employment Relations Act 2000).

The Human Rights Act 1993 is also relevant as it can provide remedies for employment issues. Part 2 sections 21 to 35 set out the law in regard to discrimination in employment matters. Section 79A allows the employee a choice of procedures in regard to personal grievances, they may be entitled to pursue the matter under the Employment Relations Act 2000 and the Human Rights Act 1993, but the employee must choose one, not both (Human Rights Act 1993).

### *2.4. Benefits of a Healthy Work Life Balance*

Employment NZ (n.d) suggests flexible working hours will provide benefits to employees, as they will be able to manage responsibilities at home,

work and in the community without guilt or regret, therefore earning an income and managing other commitments becomes easier. Benefits to the business include finding and keeping good staff, having a competitive edge by gaining access to a wider recruitment pool, and increased retention of staff. Nibusinessinfo.co.uk (n.d) agrees and suggests the following benefits from a healthy work life balance: increased productivity; lower absenteeism; a happier and less stressed team; improvements in health and wellbeing of employees; a more positive perception of the business as an employer; greater employee motivation, loyalty and commitment; a reduction in recruitment costs due to lower staff turnover.

By achieving a healthy work life balance productivity will increase. When people are overwhelmed or burnt-out, their brains look like ones that are sound asleep (Rampton, 2016). This was also mentioned by Robinson (2011), who said MRI scans of fatigued brains looked exactly like brains that were asleep.

### *2.5. Outcomes of a Poor Work Life Balance*

Poor work life balance not only affects the employee but their employer as well. Without a proper work life balance people are prone to burnout, which results in a disconnect between work and home life with a lack of energy for either, due to a state of continual physical and mental exhaustion (Nappo-Dattoma, 2015). Leger-Hornby & Bleed (2006) agree and state burnout is not simply excessive stress but a reaction to ongoing stress. It creates a negative attitude towards work and sometimes life as well.

A person who is overwhelmed, overworked or burnt out will be ineffective in their job but also have a negative impact on colleagues and be at risk of serious depression (Leger-Hornby & Bleed, 2006). People who cannot disconnect from work are at risk of burnout, being 'always on' might seem like a good idea to start with because it increases productivity, but it can be dangerous in the long run (L&D, 2016). Similar outcomes are mentioned by Robinson (n.d), who state that someone in a state of chronic fatigue or overwhelm lack the capacity or intention to 'go the extra mile'. The toll on the employee includes poor morale, guilt, overwhelm and frustration. A feeling of effectiveness or competency is a core psychological need, being a lose-lose situation for the business and the employee, which results in costly dysfunctions such as plummeting performance and turnover, absenteeism and burnout.

## 2.6. Benefits of a Healthy Work Life Balance

### Technological Advancement

Technology has changed the structure of work and new demands have impacted on work life balance. Mobile phones, computers, tablets and other technology are important tools to run a successful business, but technology can “seep into every moment of your life and take over” (Durrett, 2015). The evolution of laptops, mobile phones and other communication devices allow workers to work from just about anywhere at any time. It is now a 24/7 work era and an increasing culture of longer hours being worked (Currie & Eveline, 2011).

Rose (2014) explains that communication used to be restricted to landlines and facsimiles and now workers can interact with emails, instant messaging, text messaging, facetime, skype and other applications. These changes have been important to organisations and had positive effects on work intensification. Jones (2013) says the changes in technology relate to productivity and communication, 30 years ago business was about face to face relationships, now these are facilitated faster on mobile phones, tablets, web conferencing and social networks. This communication is instantaneous, simple and cheap and you can never be out of reach. Court (2016) says that with increasing connectedness and everything getting faster there is a perception that everything is urgent which is pushing peoples’ stress responses all the time.

Heerwagen (2010) believes the structure, content and process of work has changed. It is now more complex, dependant on social skills, dependant on technological competence, more time pressured, and more mobile (less dependent on where you are). This is due to competitive pressures and technological breakthroughs. Businesses are more competitive, agile and customer focused, and technology has enabled mobility of work and easy access to information.

Currie and Eveline (2011) state that with any new technology there is a lag in understanding all the social consequences. Mobile phone and internet connections allow people to be accessible at any hour and negative effects have been reported from this on family life and leisure interests (Rudman, 2010). Interviews by Groyberg and Abrahams (2014) concluded that nearly all interviewees spoke about the importance of keeping on top of emails, text messages and voicemails but deciding when, where and how long to be accessible for was an ongoing challenge. They also noted that more than a third viewed technology as an invader. When their phones ‘buzzed’ they felt they had to check them

rather than continuing on with their non-work activities.

Replying to work emails out of office hours can cause stress to employees. “There is a link between afterhours email expectations and emotional exhaustion” (HRM NZ, 2016), which can lead to burnout and reduce work life balance. Sending ‘just one last email’ can be the stressor, but it is the organisational expectations of replying that causes anxiety.

We must be able to detach physically and mentally from work (L&D 2016). Gillespie and Temple (2010) agree that people need to find ways to disconnect “for the sake of productivity and sanity”. A complete technology break is probably unrealistic but we must establish boundaries.

### Striving to be the Ideal Worker

People who are totally dedicated to their jobs and always on call have been called ‘ideal workers’. They will satisfy the demands of employers, arrive early, stay late, work weekends and remain connected to their devices 24/7. Ideal workers will choose to prioritise their work ahead of the other areas of their lives and personal needs. The pressure to be an ideal worker is well established and some businesses find it beneficial to “weave ideal worker expectations into a company culture” (Reid & Ramarajan, 2016).

Rudman (2010) believes workplaces continue to be structured around an idea worker image, being a person who starts work as a young adult and continues uninterrupted for forty years, without taking any time off for child bearing or raising, as they are supported by a spouse or family member who takes care of the home life. Over the last 50 years we have moved from a structure of generally men as the primary workers and woman as family caregivers to a structure where men and woman work equally. This has taken place without redesigning work and without making provisions for family care.

### Organisational Culture

Eyl (2015) states that if people cannot get the balance right and feel like the employer does not care, workers only option is to quit. Employers must ensure they empower and enable employees to feel like their work life balance is valued. Some employers put out well-meaning programs such as flexible work arrangements, but these fall short due to organisational culture which prevents the business from delivering the promised benefits. It is the culture than can create an environment where employees “can do their work and then get the heck out of there!” (Eyl, 2015). The traits of these cultures



include: ensuring employees have adequate tools and resources; training and development to ensure employees have the skills, knowledge and abilities they need; implementing policies to distribute the workload evenly; providing clear organisational direction that allows employees to prioritise their work.

He mentions a 2008 study that had been recognised as being very supportive of balancing work, community, family and self-development needs. This study found the following traits in the organisational culture:

- i) Fun
- ii) Ambitious
- iii) Flexibility
- iv) Openness
- v) Cooperation
- vi) Informality
- vii) Flat organisational structure
- viii) Trust
- ix) Responsibility
- x) Support
- xi) Pride

The following were noted as things the managers had done to create this culture:

- i) Understanding employees concerns and needs
- ii) Made themselves available to employees
- iii) Supportive of employees when they encountered challenges
- iv) Demonstrated trust in the employees
- v) Gave feedback to employees on their work

This culture allowed the business to attract and retain employees who led meaningful, enjoyable and fulfilling lives which enabled them to feel much better about balancing the demands of work and personal life (Eyl, 2015).

## *2.7. Business Strategies to Achieve a Healthy Work Life Balance for Employees*

### **Social Support**

Rudman (2010) states that “personal problems can be aggravated if people have demanding jobs and work in an unsupportive environment”. People need jobs with flexibility, learning opportunities and supervisory support as these will have positive effects on worker’s personal lives and lead to job satisfaction, commitment, loyalty and performance.

Sharma and Parmar (2015) agree social support has been identified as a coping mechanism for job stress through supportive relationships. Psychologists have conducted research and found that an increase in social support can help alleviate many of the harmful effects on employees and can be beneficial in reducing job burnout.

### **Flexibility**

There is a desire for employees to have greater flexibility in hours or time in the office to help with work life balance (Eil, 2016). Rudman (2010) agrees, saying there are increasing time pressures which make it difficult for people, especially solo parents and dual income earners, to provide the daily attention to themselves and their family that is needed for wellbeing. Flexible hours and additional leave is a major help in assisting with balancing work and family responsibilities.

Vanderkam (2015) states that 91% of polled Millennials said they were interested in promotions but they identified their biggest reservation as being a concern about work life balance. The assumption is that management positions have long and unpredictable hours associated with them, but it is also mentioned that promotions often mean you can gain control of your time. Suggestions to overcome working long hours include: delegating; arranging meetings at times that are convenient to you; when hiring people, looking at the skills and competencies required in the next twelve months and purposefully hiring people that have these skills to make life easier; ensuring that you don’t have to cover the ‘gaps’ for skills these people don’t possess.

### **Work Life Balance, Family Friendly Policies and Annual Leave**

Work life balance policies can be implemented as a tool for human resources management to motivate workers. The outcome is to “improve the alignment between professional and non-professional areas of the worker’s life” (Sanchez, Gonzalez-Cruz & Martinez-Fueres, 2016). The culture is an element that can influence work life balance implementation along with the attitudes of managers.) Rudman (2010) agrees that there is a strong business case for encouraging work life balance policies. Australian businesses which have implemented these have reported reduced labour turnover, lower rates of absenteeism, positive productivity results and improved customer service.

Family friendly policies can be implemented to provide flexibility for employees who look after dependants, whatever and whoever they might be.

They are not only to benefit woman, as often men have care responsibilities too, such as ageing parents (Rudman 2010). Bolotnikov (2016) says it is important that employees use annual leave and take time off from work as it can help productivity. This is agreed on by Steiniger (2014) who states “we drastically underestimate how much we need breaks”. There can be a worry about leaving a mountain of work on your desk when you take a break but a break can help improve mental clarity.

### **Monitoring Employees**

Bayt.com (2016) advise that support from management for work life balance is crucial and management must set good examples. They should train middle managers to recognise signs of overwork as supervisors can see increasing error rates, absenteeism and signs of stress more easily than anyone else in the business. The University of St Andrews (2010) has suggested managers treat any over stressed employees the same as those with a physical health problem. Review and modify the work tasks and responsibilities, allow sick leave and be aware of the impact that stressed employees can have on the members of staff around them. Any agreed actions should be documented and followed up until the stress level has reduced.

Bayt.com (2016) also mentioned that surveying employees can help the business understand the workers needs and design policies to meet them.

### *2.8. Employee Strategies to Achieve a Healthy Work Life Balance for Employees*

The employee can initiate strategies for a healthy work life balance including building down time into their schedule and including family time as well as work in the weekly schedule. Eliminate activities that use up a lot of time and energy and prioritise valued activities as conflict can cause stress and not enhance the career or personal life. A little relaxation can go a long way, prioritise an enjoyable activity such as a hobby or family time as this can help to ‘recharge the batteries’ (Nappo-Dattoma, 2015).

Learning to say ‘no’ will eliminate things done out of guilt or false sense of obligation, and free up time for meaningful tasks. Leave work at work and create boundaries to ensure the never ending connectedness of technology doesn’t invade private time. Build a support system with co-workers who can help out when family conflicts arise (Dattoma, 2015).

Durrett (2015) states that managing technology is important, as it can ‘seep’ into every moment of your life. “Breaks from technology are good for your body”. Turning off alerts for text messages and emails can help people stay focused and stop them from being constantly interrupted.

## **3. Research Methods**

### *3.1. Initial Research*

To identify relevant literature, one major database was searched, EBSCOHost. Other databases included Google Scholar, Google, and CCH Intelliconnect. Key words were used in searches to narrow down the data, such as: work life balance, changes in technology, accounting industry, stress and business communication. The searchselected data only between 2006 and 2016, to ensure it was current. Articles found to be relevant were listed and numbered for easy identification of information. The Wintec Library was also used for researching within books, including text books.

These databases were chosen as they provide academic, reliable and relevant information. CCH Intelliconnect allows for resources to be accessed via the Chartered Accountants Institute library, which is industry specific. Searches using Google allowed a variety of data to be found which stemmed from a range of sources. This gave a good insight into worldwide philosophies on work life balance. As the database search results gave rise to a large number of articles, selections were made based on reading abstracts and in some cases full texts to find the relevant literature required. Articles that were not specific and did not include comprehensive information for work life balance were omitted. The literature review maintains a narrow focus on work life balance, changes in technology and its effects on business and employees along with strategies to assist in creating a healthy work life balance.

After the literature was selected a list was created and each article was numbered. Each theme to be researched was also given a number. Articles were listed vertically and the themes were itemised on the horizontal heading, which created a table. A tick was placed under the theme alongside the article which contained data. This method was chosen as it was a useful visual aid when evaluating articles that contained information on the same theme. After identifying the data that included similar themes the findings were structured accordingly.

### 3.2. Questionnaire

Primary data was collected through participants completing a paper questionnaire which was subject to approval by the Ethics Committee. The accounting practice has a total staff number of 30 and a sample size of 12 was chosen. The sample included the three Directors, three Consultants, one Associate, the Business Manager, Support Services Manager, and three Senior Accounting Managers. These people were selected as they are senior staff and have more responsibility and deeper client relationships, therefore they have access to the computer system remotely and also the opportunity to have work emails on their personal mobile phones.

The data gathered was to be qualitative in nature to gain an understanding of the underlying feelings in regard to work life balance, it investigated the trends or changes believed to have occurred over the last fifteen years in regard to the work type, structure and workload, and whether these have had an effect on the participants work life balance. It also investigated any strategies the participants have used to maintain a healthy work life balance and gathered information in regard to people taking work home with them to work on in their own private time, staying later in the office and working weekends.

The questionnaire researched the employee's views on technology and any effects it has had on their work life balance. This included checking work emails on mobile phones in private time and the frequency for checking and responding to these emails. Data was collected on three and five point Likert scales (strongly disagree, disagree, neutral, agree and strongly agree) and questions asking for further information had an area for the participant to add their comments. A time frame of ten days was given to the participants to complete and return the questionnaire which was distributed on 13 September 2016.

On the 22 September 2016 eleven questionnaires from a possible twelve participants had been returned. The data was analysed by creating an Excel spreadsheet where each question was listed and data from the paper questionnaires transferred. The responses were categorised and totalled based on the answer given. Answers to questions where the participants were asked to provide reasoning for their answers were listed so that all individual details could be collated and any common trends established.

### 3.3. Work Emails on My Personal Mobile Phone

As part of this research I loaded my work emails and calendar onto my personal mobile phone. This was to be done for a minimum time frame of four weeks starting 19 August 2016. During this time, I recorded the effect on my work life balance and any interruptions it had on my private life. I assessed the frequency with which I was checking emails, and recorded my feelings as to whether this had a positive or negative effect on my personal life, and also my workload. This was done to give an insight into the potential disruptions being 'connected' to work all the time can have on a person's private life, along with any benefits it could have.

### 3.4. Ethical Considerations

Ethical considerations regarding my research methods arose from participants answering a questionnaire from a work colleague. I am not independent and they may not have wanted to reveal certain information and these answers might bias results. They might have felt their questionnaire would not be confidential as I could identify certain comments, although confidentiality was assured with the participant. All participants were made aware that data will be generalised in the findings, participants would not be named and no data that could identify a participant would be used.

### 3.5. Security

Security was a consideration I had to be aware of. Information was kept secure, with the completed questionnaires kept in a locked cabinet at home, not at the workplace.

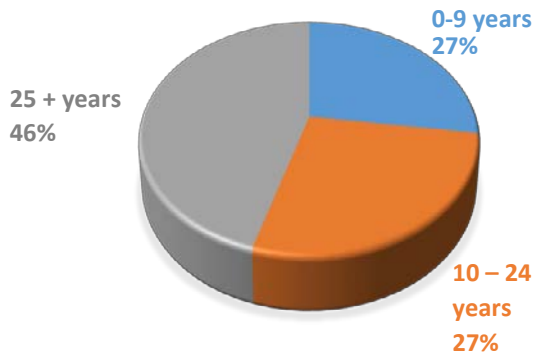
## 4. Research Results

### 4.1. Questionnaire

Results reveal the awareness and perceptions from an employees point of view in regard to their work life balance and how satisfied they are with it. Changes over time were exposed, and those employees who have work emails on their mobile phones were surveyed based on the frequency emails are checked and replies are sent within private time.

Participants were 64% male and 36% female. The length of time the participants have been working in the accounting industry was diverse, as shown in figure 2.

**Figure 2:**  
**Length of Time Employed in the Accounting Industry:**



#### 4.2. Work Life Balance Awareness and Satisfaction

Results found differing views on work life balance and the perception of being satisfied with it. 64% agreed they had a good work life balance, 18% were neutral and 18% disagreed or strongly disagreed, as shown in figure 3.

Those who disagreed or strongly disagreed to having a good work life balance were 50% male and 50% female, those who agreed were 57% male and 43% female.

**Figure 3:**  
**I Have a Good Work Life Balance:**

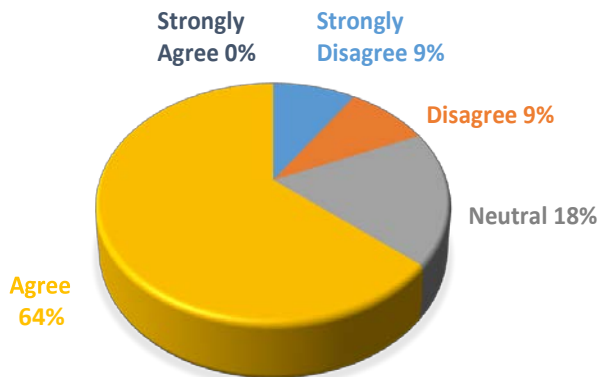
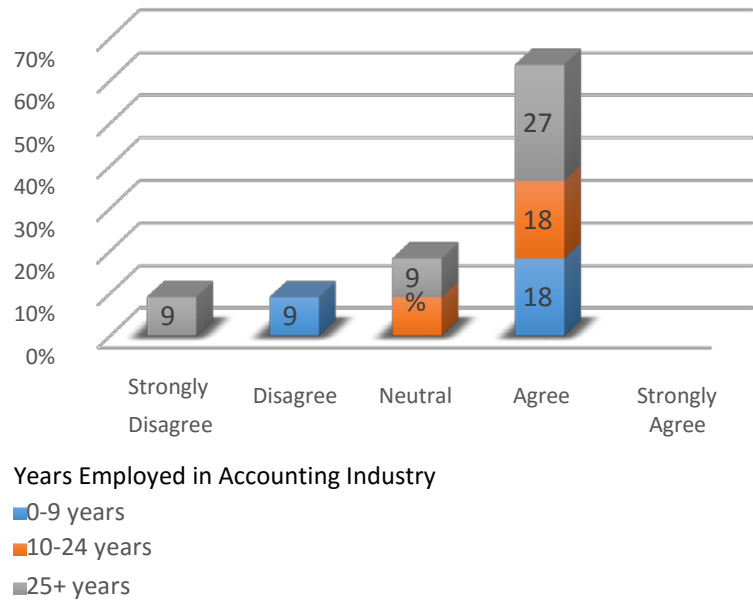
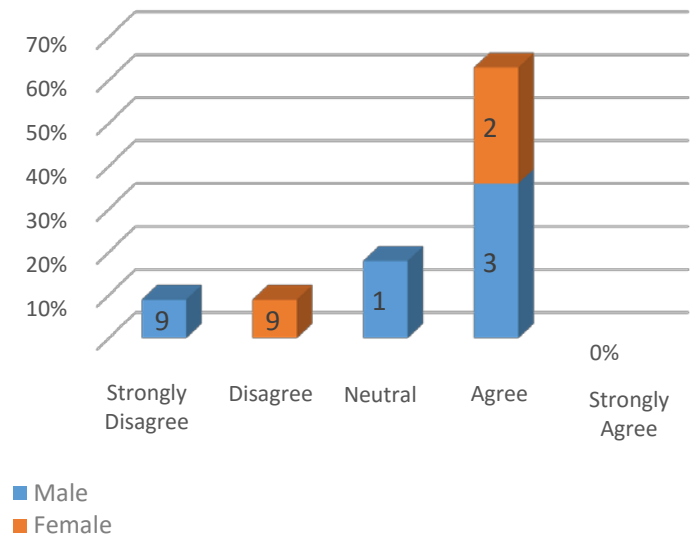


Figure 4 shows the breakdown of participants who were satisfied with their work life balance based on the length of time employed in the accounting industry and figure 5 shows the results based on gender.

**Figure 4:**  
**I Have a Good Work Life Balance Based on Years Employed:**



**Figure 5:**  
**I Have a Good Work Life Balance Based on Gender:**



A relationship arose regarding those who are satisfied with their work life balance not having concerns that their personal life responsibilities were being neglected. 64% did not have concerns, 18% were neutral and 18% had concerns that their personal life responsibilities were being neglected.

### 4.3. Work Life Balance Worries

Data was gathered concerning the worries participants had in regard to their work life balance. These comments made it clear there is pressure to complete work in the available hours, and it can be hard to separate the boundaries between work and personal time. Comments included, “it is hard to escape work and it can dominate your thoughts even if you are not actually at work,” and “work can encroach on personal time and it is hard to switch off”. Some participants worried that they spend too much time at work, and feel there are not enough hours in the day to complete the workload so work longer and in some cases they are not home early enough to be with their families. Concerns also included that even though there were set work hours, the increasing workload forces people to do some work in private time, whether this be at the office or at home, on weekdays or weekends. Another worry that troubled participants was they feel too accessible as clients will call at nights and weekends. There was a comment made that the current level of annual leave (four weeks) is too low and if this was increased to five weeks it would help with work life balance and increase overall productivity.

#### Taking Work Home

The results show 45% take work home with them to work on in their private time, 27% were neutral, and 27% did not. From the 45% who take work home. 60% did this a few days per week and 40% only once a week.

#### Staying Later in the Office

64% do not stay later in the evenings to continue working (out of office hours), 9% were neutral and 27% do stay later. From this 27%, 20% did this every day, 60% did this a few days per week and 20% just once a week.

The research also gathered data on whether participants came into the office during weekends to work. 18% regularly did this, 27% came in sometimes if there was an urgent matter and 55% never came into the office during weekends to work.

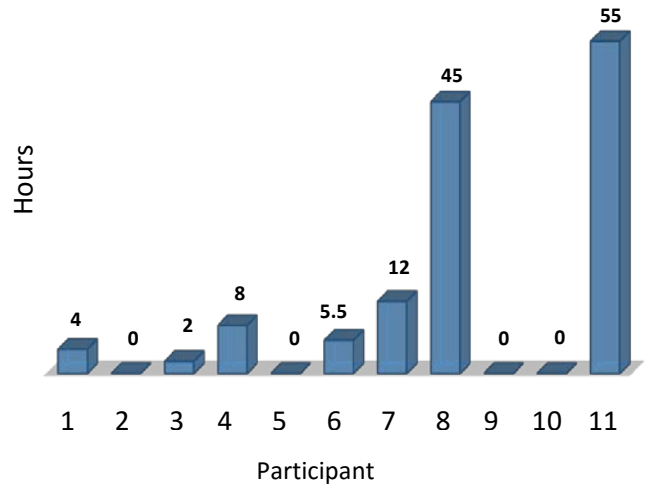
#### Additional hours Worked

The average number of extra hours (over and above the required working hours) spent working in private time over the last month was investigated. There was a great range between participants which is shown in Figure 6. It ranges from zero to 55 additional hours. Both participants who worked over 40 additional hours agreed that they had concerns

that their personal life responsibilities were being neglected.

Figure 6

Average Additional Hours Worked Over the Last Month



### 4.4. Strategies to Prevent Work Life Balance Issues

Strategies used to prevent issues with work life balance were wide ranged., Some included activities in personal time and some were strategies within work to ease the workload. Personal activities included exercising regularly, being active and interested in hobbies and ensuring there is time to do these, along with asking family members to take over more responsibilities at home. A comment was made which was thought would help to keep work and personal lives separate on social media, entailing not having work colleagues as friends on Facebook and other social media programs. In regard to strategies used at work, delegation was mentioned, along with organising work so that extra hours in private time are not required. This included having a few hours in the working day that the employee was ‘not available’ to ensure no interruptions; learning to say ‘no’; limiting the hours worked in the evenings and weekends; not taking work home. Another strategy was trying to switch off and not thinking about work once you have left the office, and not logging into the computer system on days off. In regard to those who have emails on their mobile phones they have turned off push notifications so they are not alerted to new emails in their private time.

Figure 7

Strategies Used to Prevent Work Life Balance Issues	Participant										
	1	2	3	4	5	6	7	8	9	10	11
Make time for exercise and hobbies			■			■	■				■
Keep work and personal life separate on social media							■				
Ask family to take on more home responsibilities			■								
Delegation of tasks		■	■								
Organise work so don't need to work extra hours		■			■		■				■
Switch off from work after leaving the office				■							
Don't log into work system on days off				■							
Reduce notifications of work emails on mobile phone	■										
Review tasks and employ another team member			■								

### 4.5 Changes Over Time

Participants who had been working for 15 years or more were asked if they had answered the previous questions 15 years ago, would they have answered the same. This was to gauge if they have seen any changes over these years. 27% said they would not have answered the same, therefore changes must have occurred over this time. 55% would have answered the same and for 18% this question was not applicable as they had not been working for 15 years or more.

The reasons given for any changes included there being fewer emails, no social media and no mobile phones 15 years ago. Other changes have occurred because of changes in roles, for example, some participants are close to retirement now, so have a lesser workload, and others have taken on advanced roles and increased client bases and so have an increased workload.

### Demand for Communication with a Quicker Response Time

Participants were questioned as to whether they agreed the demand for communication with a quicker response time had increased over the last 15 years. The results show 100% in agreement, with 70% strongly agreeing and 30% agreeing.

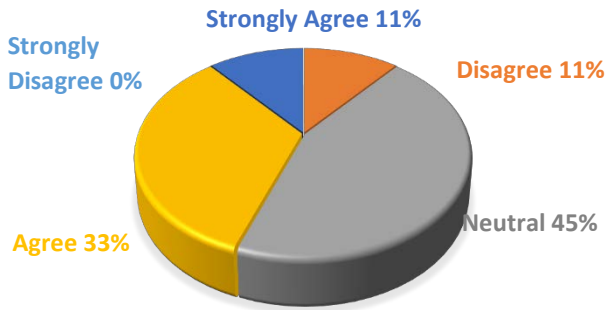
Technology was the dominant answer for changes. This included technology making everything, such as emails and communication, move at a faster pace and that people want instant answers to their communication. "In some cases, they think you have read an email as soon as it has been sent, and therefore expect a fast response". "The fact that people are now more accessible means it is easier to communicate with text message and emails and there is an expectation to always be 'connected' and available in case someone tries to contact you". Comments also included that businesses are now dealing with a younger generation, who have grown up with new technology and don't know any different, therefore they want everything done quickly. The use of certain accounting software applications has also been increased by technology as they are run on a cloud-based system, which allows clients to upskill in these systems and technology.

### Workload

In regard to the volume of work and workload, participants were asked if this had increased over the last 15 years. There was no clear reaction to agree or disagree. As shown in Figure 8, 11% disagreed that the workload had increased, 44% were neutral, 33% agreed and 11% strongly agreed.

Reasons for agreeing included, roles that have changed within the business and more responsibility has been taken on, such as a larger workload and more clients to service. It was noted by one participant that the higher you progress in an organisation, the busier you are and more responsibilities you take on". Other comments included changes in technology that are now allowing faster turn around of work, and that demands and expectations have increased. "There is now more pressure on fees, therefore more work has been taken on to compensate this". It was mentioned that there are more compliance related issues now which has increased workload in some areas.

**Figure 8**  
**The Workload has Increased over the Last 15 Years**



**Technological Influence on Work Life Balance**

73% agreed that technology had put stress on their work life balance and 27% were neutral. 82% agreed that the number of emails and instant messages could be overwhelming, and 18% were neutral.

Participants were asked what forms of technology had put stress on their work life balance and mobile phones had the highest response along with the volume of emails. Participants mentioned mobile phones allowed people to contact each other 24/7, which includes clients being able to contact you outside work hours. They allow access to emails; people are expected to always be ‘connected’ and available which means you can’t ‘turn off’ work. In some situations, personal mobile phones had been used to text clients, as this was the clients preferred manner of communication. This came with the expectation that if the client sent a text they wanted an instant reply. Participants believed the volume of emails has increased and that there is an expectation of instant answers. It was mentioned that emails are an easy way for information to be shared, but this has meant an increase in emails. In regard to the internet, it now means your competition is only a ‘click’ away. Stress can be caused by social media too.

**Work Emails on Mobile Phones**

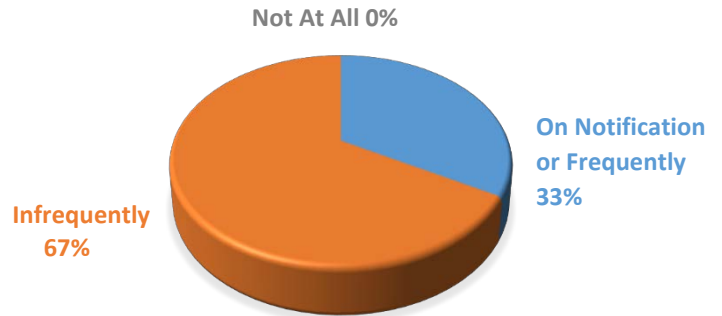
55% have their work emails loaded onto their personal mobile phones. The frequency of checking emails showed 33% checked emails on notification, and 67% checked emails infrequently.

Emails can be checked on mobile phones in personal time but not necessarily dealt with and replies sent in personal time. Results showed that 16% replied most of the time if an email was opened in personal time, 67% replied only if urgent and 17% did not reply in personal time. A reply was sent when

they were back at the office. These results are shown in Figs 9 and 10.

67% believed that having access to work emails on mobile phones relieved their workload when they got back to the office. The reasons given include, being able to delete irrelevant emails, not having a backlog of emails to clear first thing in the morning, being able to respond to simple emails and being able to organise appointments for the next day after hours. One participant who did not believe having emails on a mobile phone relieved the workload commented that they gave a ‘heads up’ for what is to be dealt with the following day.

**Figure 9**  
**Frequency of Checking Work Emails on Mobile Phone in Private Time**



**Figure 10**  
**Frequency of Replying to Work Emails in Private Time**

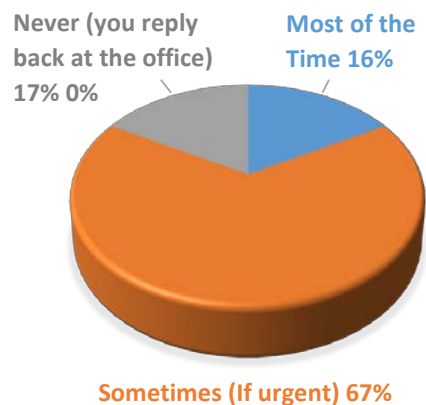
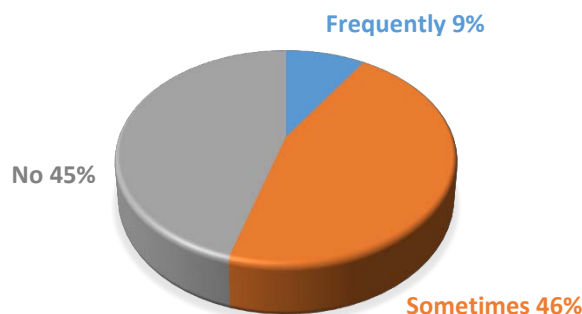


Figure 11

**Do Clients Call You Out of Office Hours?****Recording of Having Work Emails On My Personal Mobile Phone**

The participants were also asked if clients ring them outside office hours, either on their mobile phone or home landline. 55% said clients frequently or sometimes rang them out of office hours and 45% did not receive phone calls. This is depicted in Figure 11.

I loaded my work emails and calendar onto my personal mobile phone to gather information about how this affected my work life balance and whether I felt it had positive or negative effects on my personal time.

This was initiated on 19 August 2016, I ran two inboxes rather than combining my work emails with my private email address, which was already on my phone. I like to open emails as they arrive and leaving unopened work emails made me curious as to who they were from and what they related to. Initially I only checked who had sent work emails to me. Within the second week, I checked more regularly and opened some but did not reply. To ensure these emails could be dealt with when I was back in the office I selected 'mark as unread' so they would appear unopened on my work computer.

The evenings and weekends were the time I would check work emails in my own time. I was not expected to check and respond to emails as it was my choice to have this set up. I felt it helped me clear 'unnecessary' or 'unimportant' emails as they arrived rather than having a number to look at when I was next in the office. This gave me some relief in regard to workload and meant I could get quickly onto other tasks when I was back in the office. The time taken to check emails was in my own time and not recorded in my timesheet.

I did find on more than one occasion that reading an email in my private time meant I was thinking about work when I should have been

'disconnected'. If I hadn't read the email my mind would have been free and not thinking about work and the matter the email related to.

**Individual Employment Agreement**

The wording of the individual employment agreement was examined to check compliance with current New Zealand laws and regulations. It can be noted that the policies in the agreement specify details on hours of work, overtime, leave, entitlements to rest and meal breaks and that the parties are both subject to deal with each other in good faith.

**5. Discussion****5.1. Work Life Balance Awareness and Satisfaction**

Findings show variations in the satisfaction of work life balance with 64% agreeing they had a good work life balance, 18% neutral and 18% disagreeing. These results show a consistency with the figures mentioned in the literature review from the 2012 *Social Report* published by the Ministry of Social Development, which showed 78% of employed people being satisfied with their work life balance and 8.4% unsatisfied. It should be noted my research found a higher result were unsatisfied in comparison to the 2012 *Social Report*. My research covers a small sample from one business where the Social Report covered many types of employment. Additional research could be carried out for further investigation with a larger sample size of at least 100 participants. This would also allow further research into any differences between genders in regard to work life balance.

Those who disagreed to having a good work life balance were 50% male and 50% female and those who agreed were 57% male and 43% female. These results vary to *The Social Report*, which showed females were slightly more likely than males to be satisfied with their work life balance.

**5.2. Work Life Balance Worries**

The comments made by participants concerning their work life balance worries were consistent with issues mentioned in the literature review, such as, people asking themselves "can I really do this job and have a life?". The literature



review states people feel they don't have enough time and there is pressure to put in longer hours. It was also noted working longer hours, working weekends and taking work home are the major disrupters on work life balance (Leger-Hornby & Bleed, 2006). Some participants were worried they spent too much time at work as they felt there weren't enough hours in the day to complete the workload. This then meant they were home later than they would have liked for spending time with their families.

Comments from participants included it being difficult to escape work, as thoughts involving work can dominate your mind even if you are not actually at work. This shows people find it hard to 'switch off' their thoughts from work and this was noted as having a risk of burnout by L&D (2016).

In regard to working longer hours, the results showed two participants working a greater number of hours than the others. This is likely to be dependent on the positions held in the business and as noted view by Vanderkam (2015) there is an assumption that management positions have long and unpredictable hours associated with them. In prior research by The Ministry of Social Development (2016) it was noted 13.9% of New Zealanders worked more than 50 hours per week, this was compared to Australia at 14%, Great Britain at 12.7% and USA at 11.3%. The median for OECD countries was 6.1%. We need to bear in mind that the data gathered is additional hours over and above the standard 37.5 hours written into the individual employment agreements, therefore someone working 55 additional hours per month is averaging 51.25 hours per week. *The Social Report 2016* also states that as the number of hours worked increases the satisfaction with work life balance decreases.

A comment was made that the current level of annual leave is too low and if this was increased to five weeks it would help with work life balance and increase overall productivity. This comment is consistent with prior literature. Bolotnikov (2016) agrees that annual leave can help productivity and Steiniger (2014) makes us aware that the need for breaks from work can be underestimated.

All participants were full time employees in senior roles within the accounting firm. No part time employees were included. *The Social Report 2016* states that full time workers (over 30 hours per week) were less likely to be satisfied with their work life balance in comparison to those working part time.

### 5.3. Strategies to Prevent Work Life Balance Issues

There was a wide range of strategies used to prevent issues with work life balance. Not all participants used each strategy. Participants engaged in personal activities to reduce stress levels such as regular exercise including walking and yoga, along with being active in hobbies and interests. These activities were mentioned by Nappo-Dattoma (2015) as a way to 'recharge the batteries' and relieve stress. It has been suggested that time should be prioritised for an enjoyable activity such as a hobby or family time, as 'a little relaxation can go a long way'.

Having work colleagues as 'friends' on social media removes a boundary between work life and private life. Nappo -Dattomma's (2015) suggests leaving work at work and creating boundaries to ensure work doesn't invade private time as a way to create a healthy work life balance.

Delegation is a strategy implemented in the workplace to prevent work life balance issues. Delegation is suggested by Vanderkam (2015) as a way of overcoming working long hours and gaining control of your time. Vanderkam also stated that another way of overcoming long hours was to hire another person, but ensure they have the skills and competencies required within the next twelve months. One participant mentioned the strategy of employing another team member after all tasks and responsibilities of the team were reviewed.

When organising the workload, learning to say 'no' was a comment made. Dattoma (2015) says this will eliminate things done out of guilt or false sense of obligation, therefore, freeing up time for meaningful tasks. Eliminating the risk that technology can seep into private time by turning off alerts is an approach also mentioned by Durett (2015). This can reduce the risk of having employees having their life dictated by other people, instead, seeing to their needs in their own time.

### 5.4. Changes over Time

Comparisons were made in regard to today's work life balance compared to 15 years ago. There was a limitation when gathering data as some participants had not been working for this length of time (18%). Less data was collected due to the sample size now being smaller. This risk that significant relationships will not be found within the data. 27% said they would not have answered the same due to changes over the last 15 years.

Heerwagen (2010) suggests the structure, content and process of work has changed, it is now more complex, dependant on social skills, technological competence and more time pressure. This is due to competitive pressures and technological breakthroughs. Businesses are more competitive, agile and customer focused and technology has enabled mobility of work and easy access to information. The reasons participants gave for any changes were technology, such as emails, mobile phones and social media, along with changes in their personal roles within the business.

100% of participants agreed that communication demanded a quicker response time compared to 15 years ago. Rose (2014) explains that communication used to be restricted to landlines and facsimiles whereas now workers can interact with emails, instant messages, text messaging, facetime, skype and other applications. These changes have been important and have had positive effects on work intensification. Comments were made by participants that people want instant answers to their communication and this was agreed by Court (2016) who states everything is getting faster and there is a perception that everything is urgent, which is also pushing peoples stress responses all the time.

### 5.5. *Technological Influence on Work Like Balance*

The research shows 55% of the participants have their work emails loaded onto their personal mobile phones. There was a limitation with this area of the research, as not all participants had work emails on their mobile phones, therefore data could only be gathered from 55% of the total sample.

The frequency of checking emails showed that 33% checked emails on notification and 67% checked infrequently. Groyberg & Abrahams (2014) state their interviewees believed it was important to keep on top of emails, text messages and voice mails but deciding when, where and how long to be accessible was an ongoing challenge. Some felt technology was an 'invader' and they felt they had to check their phone every time it notified them of a message. My research shows 67% believe having access to work emails on their mobile phones relieved their workload when they got back to the office, therefore having positive attributes. It is also noted by HRM NZ (2016) that checking work emails in private time might seem like a good idea but can be dangerous in the long run as it can lead to exhaustion and reduce work life balance.

## 6. Conclusion

### 6.1. *What is Work Life Balance*

Work life balance is achieving a healthy relationship between work life and private life, which have always been interwoven. A healthy balance is the result of being able to effectively prioritise between work and other areas of life. Balance is achieved when work does not substitute other areas of life and vice versa. The accounting industry like many other industries, has experienced increased work intensity as a result of technological advancements and growing competitive pressures. It was noted pressure on fees has increased therefore more accounting work has been taken on to compensate this. This can leave employees feeling there aren't enough hours in the day to complete their workload.

### 6.2. *Satisfaction*

The findings show that the majority of participants were satisfied with their work life balance. This was a slightly lower percentage than that of the New Zealand 2012 *Social Report*. We must bear in mind that participants were from one business, in one industry and the *Social Report* covered a vast array of employment types..

### 6.3. *Healthy Work Life Balance*

A healthy work life balance will result in a sense of control within life, a sense of achievement from work and personal life and gaining enjoyment from everyday life. Trade-offs must be made to better integrate and combine the four main aspects of our lives which include, work, home/family, community and self. Areas that employees consider important to positively affect their work life balance include, an enjoyable work life with career progression, good health, time to travel, time with friends and family, time for sports and hobbies and time to do volunteer work. Employees with a healthy work life balance will be satisfied they can manage responsibilities in all aspects of their lives. This has advantages for the business as it can increase productivity and have a lower staff turnover rate due to retention of good employees. It has been stated that having a good work life balance has been a major reason for employees staying with their current employer and it has also been a reason employees have changed jobs.

#### 6.4. Conflicts

Conflicts can arise between work and private life and the boundaries between these two 'lives' can become blurred, even though they can be separated in terms of time and space at the office. Tension can be present when attempting to balance work and private lives as we are immersed simultaneously within these two lives. This is apparent when people comment they can't 'switch off' from work.

#### 6.5. Impacts of Technology

The evolution of technology such as laptops, mobile phones and other communication devices has allowed workers to be 'connected' to work 24/7, whereas communication used to be restricted to face to face methods, landlines and facsimiles. These changes have been important to business as they have increased the speed of communication and efficiency. On the flip side, the increased speed has created a perception that everything is urgent.

#### 6.6. Changes to Work Structure

In regard to changes to the work itself, which impacts on work life balance, it is believed structure, content and process has changed. Work is now more complex, dependant on social skills, technological competence, more time pressured and more mobile, meaning less dependent on where you are, as technology allows access of data without being at the workplace itself. These changes to work can relate to positions held within the business and career advancements taken by the employee.

#### 6.7. Poor Work Life Balance

The traits of a poor work life balance include people feeling overwhelmed, like they don't have enough time to complete tasks, perceived pressure to work longer hours and constantly be available and 'connected'. The outcomes of a poor work life balance not only affect the employee but also the employer. Poor work life balance can create a negative attitude towards work and sometimes life as well, which can impact on work colleagues and family. It can cause people to make mistakes, overlook things and reduce productivity for the business. The greatest risk is burnout which is not simply excessive stress but a reaction to ongoing stress. This results in a disconnect between work

and private life and the person lacks energy for both due to a state of continual physical and mental exhaustion.

#### 6.8. Employee Strategies

Strategies can be implemented by both the employer and employee to achieve a healthy work life balance, these will create benefits for both parties. The employee can initiate strategies such as building down time into their weekly schedule and including family time, interests, hobbies and exercise. The relaxation that comes from these activities can help to 'recharge the batteries' and take the mind off work. Not including work colleagues as 'friends' on social media is a way to keep work and private time separate and asking family members to help out with home responsibilities will relieve some pressure from the home life. Delegation is a strategy that can be used at work to overcome working long hours and gain control of time. Eliminating activities that use up a lot of time and energy, along with prioritising valued activities can help to reduce conflict and stress which do not enhance the career or personal life. This can include learning to say 'no' to tasks that are done out of guilt or a false sense of obligation and will free up time for more meaningful activities. Lastly, managing technology is an important strategy, turning off alerts can be beneficial to ensure focus and concentration can be achieved.

#### 6.9. Employer Strategies

Employers can implement strategies to assist employees create a healthy work life balance. The organisational culture will have a significant bearing on whether work life balance programs will be effective and there must be support from management to enable employees to benefit from these. This can include flexible hours, which are desired by employees to help with work life balance. Time pressures are different for each employee and there are increasing pressures on balancing time for responsibilities in all areas of life.

Social support is a strategy to ensure there is not an unsupportive working environment for employees. Social support has been identified as a coping mechanism for job stress through supportive relationships. Prior research by psychologists found an increase in social support can ease many of the damaging effects on employees and can be beneficial in reducing burnout. Along with this, supervisory support can have positive effects on

employees and lead to job satisfaction, commitment, loyalty and performance. Implementing policies to distribute the workload evenly and monitoring this, along with providing clear organisational direction that allows employees to prioritise their work, will help to create a culture that values employees work life balance.

Family friendly policies can be implemented to provide flexibility for employees who look after dependants, these do not only provide benefits to women, as often men have care responsibilities too, such as aging parents. Ensuring employees are taking annual leave can assist with a healthy work life balance as we tend to underestimate how much we need breaks.

Employers should monitor via middle managers if any employees are showing signs of overwork and stress through increasing error rates and absenteeism. Any cases can be referred to management to assist the employee.

There are certain legal requirements the business must comply with including the New Zealand the Health and Safety at Work Act 2015, Employment Relations Act 2000 and Human Rights Act 1993.

## **7. Recommendations**

### *7.1 Assist Unsatisfied Employees*

Within the business those who are not satisfied with their work life balance may need some assistance, which should help to ease some stress/pressure and increase satisfaction. It is recommended that the employer implements a plan to assist these people. This will entail distributing the workload evenly and providing clear organisational direction, with goals. This should be monitored on a regular basis to ensure progress is being made. The objective is to improve the proportion of satisfied employees and support those who are not satisfied with their current work life balance situation. This will benefit both the employee and employer by increasing satisfaction, wellbeing, performance and loyalty.

### *7.2 Work Life Balance Survey*

If the business would like to gain more information regarding the employees' feelings in relation to their work life balance, preparing a survey for analysis would be recommended. This can be carried out using an anonymous online tool such as Survey Monkey. Employees may answer more openly if their answers are anonymous. This will

help the business understand the employees needs and design policies to meet them. Follow up surveys can be carried out for comparison of results and progress.

### *7.3 Educate Employees*

It is recommended the employer educate all employees on the effects a poor life balance can have on the individual as well as the business and work colleagues. It is also recommended that positive work life balance effects be mentioned. This can be implemented in the next staff meeting and recorded in the minutes for those who did not attend. The benefits of educating employees include creating an awareness for the individuals and those around them so they can monitor themselves, colleagues and even family members. This can help issues to be dealt with in a proactive manner before an issue escalates. The employer should, in the same meeting, also educate on strategies to assist a healthy work life balance. Employees may be aware of certain strategies but others could be beneficial in their lives.

### *7.4 Offer Support, Review Work Tasks and Responsibilities*

If the employer has concerns an employee is struggling due to a poor work life balance, it is recommended they offer support and assistance immediately. This entails reviewing and modifying work tasks and responsibilities to a manageable level. Any agreed actions should be documented and followed up until the stress level has reduced. The employee will be aware that their work life balance is valued by the employer to ensure the matter does not escalate further.

### *7.5 Comply with Legal Requirements*

It is recommended the employer continues to comply with all legal requirements in regard to work life balance within The Health and Safety at Work Act 2015, Employment Relations Act 2000 and Human Rights Act 1993. This reduces the possibility of any legal action against the business.

## 7.6 Clear Expectations for Emails on Mobile Phones

In regard to expectations of the business for those who have work emails on their personal mobile phones, it is recommended the employer makes these clear to ensure employees understand any expectations in regard to checking, reading and replying to emails in their private time. This can be mentioned directly to these employees or to the whole team in the next staff meeting.

## 7.7 Monitor Annual Leave, Offer Flexible Hours and Support Employee's Work Life Balance

It is recommended the employer monitor all employees and ensure annual leave is taken when needed. This will ensure breaks from work are taken to help 'recharge the batteries'. Flexible working hours should be discussed with individual employees who are struggling to achieve a healthy work life balance for certain reasons. The culture of the business should be monitored and ensured that management support their employees work life balance and also set good examples themselves. These recommendations will have benefits for both employee and employer and show that the business is compassionate towards employees lives and wellbeing.

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# An Investigation of Supply Chain Management

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## Abstract

Supply chain exists in any business. An efficient supply chain management can help the organization to gain a competitive advantage by improving efficiency, reducing cost, minimizing risk and maximizing customer's satisfactory. Supplier base is vital to an overseas studying consultant industry, only when it owns abundant provider resources and stay in a healthy relationship with its suppliers. It can provide more options as it can to its customers and gain the competitive advantage in the market. This report reviewed relevant theory on supply chain and supply chain management, focusing on supplier selection, supplier relationship management, and supplier evaluation. It emphasizes on vendor selection criteria, contracting strategy and supplier relationship management. Supplier evaluation is also taken into consideration on the importance and the metrics of performance measurement. A case study was conducted to investigate and analysis the supply chain management in an overseas studying consultancy, AL Consultant Ltd. The research was completed using primary and secondary methods of information collection of AL's background and supply chain management, as well the relevant theory in this area. With the data and analysis gathered, several recommendations are given to enhance the supply chain management in AL Consultant Ltd.

*Keywords: Supply Chain Management*

*JEL Classifications: M10*

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## 1. Introduction

### 1.1. Company Background

AL Consultant Ltd (AL) is an overseas studying consultant agency, set up in 1998. It is located in Hamilton, New Zealand. AL focuses on the Chinese international education market, offering international education consultancy to Chinese students, helping them to find and apply for appropriate tertiary institution, as well as language schools, primary and secondary schools to study in New Zealand. AL also provides backup services to their customers when they

arrive in the country, such as picking up from the airports, arranging accommodation, helping them to enrol in schools, opening a bank account, showing them around the city, having a welcome dinner, ensuring a smooth transition for the student at this stage, so as to increase its service value.AL.

After having been in this field for more than 18 years, AL has established good relationship with different levels of education providers in New Zealand, ranging from primary and secondary schools, universities, technological institutes, and private training establishments who provide various degrees and courses to international students. Rich supplier



resources enable AL to provide different options to its customers in China who require different courses in different location, which makes them more competitive in the market.

Due to the location in Hamilton, AL has chosen to mostly cooperate with local suppliers in Hamilton, such as the University of Waikato, Waikato Institute of Technology (Wintec), Waikato Institute of Language (WIE), Hamilton Boys' High, Hamilton Girls' High, Marian primary school, etc. This helps AL easily manage the relationship with their supplier, as well as offer a fast service to its customers studying in Hamilton.

In the past 10 years, New Zealand education providers have seen a gradual increase in the number of international students coming to study in the country. In 2015, more than 120,000 students were recorded to have studied in New Zealand, of which 30% come from China, overpassing India by more than 30,000 (Education New Zealand, 2016). In China, the number of students who go to study abroad increases yearly, reaching 5.2 million in 2015 (China Ministry of Education, 2016). The big opportunity in the international education industry attracts many overseas studying consultant agencies, AL being one.

In the past 18 years, AL has successfully helped thousands of Chinese students to study and work in New Zealand. With the increasing demand of studying abroad from the China market, AL is facing a good opportunity to expand its business in the near future.

AL has a structure of one manager overlooking the overall business, one advisor offering consult to the potential customers (students and their parents), and one office administrator taking care of the daily backup service for the students when they arrive, as well as staying in regular touch with the New Zealand schools. Now they are planning to set a new position of marketing officer to develop new business such as short-term travel and study program for Chinese pupils and middle school students during their winter and summer holiday. It is a new and emerging area for consultant agent, which require them to develop more suppliers in this area.

### 1.2. SWOT Analysis

SWOT analysis is a study undertaken by an organization to identify its internal strengths and weaknesses, as well as its external opportunities and threats (Oxford online dictionary, n.d.). In an organisation, knowing these factors greatly aids understanding the internal and external factors that affect their business. The table below is a summary of the SWOT analysis for AL Consultant Ltd.

*Strengths:* High-level knowledge and skill in New Zealand education market; good reputation

among the customers; wide variety of services to support students.

*Weaknesses:* Website is very simple and not regularly updated; lack of marketing material; poor supplier and client database; weak relationship with New Zealand providers; single market source.

*Opportunities:* Improving the website can expand the market; new market in other countries such as the Philippines, South Korea, and Japan; increasing demand from China; increasing demand for studying in primary and secondary school in New Zealand.

*Threats:* Possible increase in tuition fees; New Zealand Government may change the immigration policy without any notice; increasing crimes against Chinese in New Zealand; increasing living cost due to stronger New Zealand dollar; increasing price in real estate properties.

### 1.3. Research Purpose

In the international education consultant business, one of the competitive advantages comes from supplier resources. The more suppliers in its list, the more competitive an agent will be in the market. A successful consultant agent cooperates with various suppliers. However, how to manage its supply chain is becoming crucial to a consultant agency. In this research, the aim is to investigate the supply chain (SC) and the supply chain management (SCM) in AL to address the following questions.

What is AL's supply chain (SC)?

How does it look like?

What is AL's supply chain management (SCM), mainly focused on?

How does AL select its supplier, what is the criteria, what is its contracting strategy?

How does AL maintain its relationship with suppliers?

How does AL evaluate the performance of its suppliers?

The questions noted above will provide a better view and understanding of how AL Consultant Ltd manages their supply chain and thus the reason for the introduction of this research project.

## 2. Literature Review

With the growth of the overseas education industry, overseas study consultant agencies play a more important role in this business. It is the bridge to link New Zealand providers and international students. Supply chain management is a crucial factor for an overseas studying consultant agent to gain competitive advantage.

**Supply Chain:** “Competition is no longer between companies; it is between supply chains” (Heizer & Render, 2014). Supply chain exists in any business. Reid & Sander (2010) defined supply chain as “a network of activities that delivers a finished product or service to the customer”. Heizer and Render (2014) also claim that a supply chain is the system of organizations, people, activities, information and resources involved in moving a product or service from supplier to customer. It is a flow of raw materials or products or service or information move from supplier to manufacturer/distributor to retailer, and finally get to end customer, involving many parties such as supplier, manufacturer, distributor and retailer (Heizer & Render, 2014).

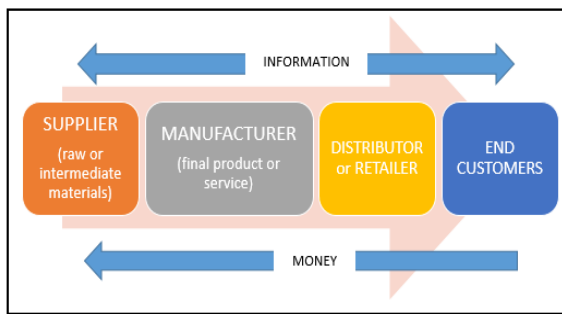


Figure 1

### Supply Chain

Figure 1 depicts how the material, product, service as well as money and information flow within the supply chain.

**Supply Chain Management (SCM):** Supply chain involves a series of activities and many different parties. How to effectively manage activities is a key issue to an organization. “SCM is the management of material and information flow in a supply chain to provide the highest degree of customer satisfaction at the lowest possible cost” (Reid & Sanders, 2010, p. 256). It is connected with the movement and storage of materials, inventory and completed products from original supply to consumers. (Davidson, Simon, Woods, & Griffin, 2009). It includes all the activities related to the supply chain, ranging from procurement, production, transportation, inventory, etc. In each area, it has its specific management method. The objective of SCM is to coordinate activities within the supply chain to gain the competitive advantage with lowest cost and maximize customer satisfaction. (Heizer & Render, 2014). SCM emphasizes integrating internal activities and decisions with external enterprise partners to promote competitive capability (Li & Wang, 2007). According to the functions, there are different kinds of management of supply chain, such as raw material procurement management, production

management, inventory management, plan management, transportation management, supplier base management, etc. They require effective management to achieve the objective of SCM. Different organizations emphasize different areas, e.g., manufacture industry focuses on raw material procurement management, production management, for supermarkets, inventory management will be important, for consultant agents, supplier base management means a lot. An effective supply chain management can help organizations to gain the competitive advantage by increasing efficiency, reducing cost, minimizing risk, fastening response to the customer, and finally maximizing the customer's satisfaction. It also helps to increases the negotiating power with partner business. (Davidson, Simon, Woods, & Griffin, 2009).

**Supplier Base Management:** “A strong supplier base is essential to the success of many organisations. It includes supplier selection and supplier relationship management.” (Reid & Sanders, 2010).

**Supplier Selection:** Supplier selection and relationship management are important aspects in a successful supply chain management. (Gharakhani, 2012). A suitable SCM system and appropriate suppliers decide the success or failure of supply chain management. (Gharakhani, 2012). “Suppliers sit at the heart of almost every organization's activities and processes” (Smith, 2014). Smith believes that supplier play a key role in an organization's management, which can be reflected by quality, price, delivery time, etc. The right supplier means a successful start and will help the organization to achieve its goal (Gharakhani, 2012).

Supplier selection is the process that how firms identify, evaluate, and contract with suppliers (Beil, 2009). Beil claims that an organization must first identify what it wants from a supplier. Only when it makes it clear can the organization can set up its selection criteria and then evaluate and contract the supplier.

The supplier criteria can be used to evaluate whether the supplier fits its supply and technology strategy such as supplier competence, delivery and quality performance (Pal, Gupta, & Garg, 2013). Their research reveals that these considerations are largely independent of the product or service sought and needed to be used when selecting suppliers. The main objective of supplier selection process is to reduce purchase risk, maximize overall value to the purchaser, and develop closeness and long-term relationships between buyers and suppliers (Pal, Gupta, & Garg, 2013). In traditional theory, the selection criteria is mainly concerned with three areas:

price, quality, delivery (Eldridge, 2012). With the evolution of the practice, some more factors are taken into consideration, such as social responsibility, environment conservation, etc. (Eldridge, 2012). They then contract with the right suppliers. Eldridge believed that selecting the right supplier can help the organization to meet the consumer demand for higher-quality ingredients. (Eldridge, 2012). Below are some of the steps to be followed when selecting a supplier.

Evaluate your needs (Deming, 2016) – Find out what the organization wants.

Set the criteria (Poulsen, n.d.) – The criteria should meet the organization's goal.

Define the process (Poulsen, n.d.) – Identify the methods to be used in selecting the supplier.

Develop a relationship (Deming, 2016) – Negotiate and contract with the supplier.

Monitor the supplier performance (Poulsen, n.d.) – Track and evaluate supplier's performance.

This gives some guidance on the selecting process for the organization to follow. These guides cover the common consideration on supplier selection and are clear for the organization to understand how to find and contract with right supplier.

When contracting with suppliers, there are different contract strategies involved and mainly it includes the following.

Strategy for most suppliers: cost-focus strategy: the organization seeks for low price from the supplier.

Strategy for fewer suppliers: long-term relationship. The organization pursues stable quality and price for long-term cooperation with the supplier.

Partnership: strategical cooperation in some areas, closer relationship between organization and supplier (Heizer & Render, 2009).

The organization can adopt the right contracting strategy subject to its own developing objective and strategy. However, to survive in the intensely competitive global economy, to discover new suppliers is just as the same important as to develop existing suppliers (Beil, 2009).

*Supplier Relationship Management (SRM):* The Tasmanian Government (2013) claimed that "A good relationship with suppliers is a vital part of business success.". An effective relationship with suppliers can help an organization to succeed in business. Rosca (2015) stated that a vigorous supplier relationship management strategy can assist organizations to maximize partnership value, minimize risk, and manage costs through the entire supplier relationship lifecycle. Relationship management affects all areas of the supply chain and has a dramatic impact on performance. Organizations may concentrate on supply chain members who are willing to contribute the time and effort required to create a strong relationship

(Handfield, 2002). Handfield recommends that the organization should cooperate with those suppliers who also emphasize relationship management to increase cooperation and efficiency.. Relationships with suppliers can make or break business. Successful SRM yields a faster time to market, transactional efficiency, competitiveness, risk management, and large financial gain (Rizza, 2015). In another words, strategic alliances with suppliers can help organizations to achieve operational benefits. These strategic alliances allow firms to improve efficiency and effectiveness by eliminating waste and duplication in the supply chain (Handfield, 2002). To maintain strategic relationship with supplier, there are some steps can be followed:

Create channels for consistent communication (Paul, n.d.). Talk to your suppliers regularly, regular communication can build close relationship with supplier and get timely information and feedback.

Pay your suppliers' accounts promptly (Roggio, 2013). Paying bills on time is the best way to earn trust from suppliers.

Build good relations with your current suppliers' representatives (Tasmanian Government, 2013). Strengthened personal relationships can solidify relationships with suppliers.

Address any issues of concern in relationships with your suppliers as they arise (Tasmanian Government, 2013). Solve any dispute before it become serious enough to ruin the relationship.

Share information with good supplier (Tasmanian Government, 2013). Keep good suppliers aware of what's going on in the company. Understand what suppliers need. Sometimes the good suppliers can recommend new customers to the organization.

Relationship maintenance requires communication skills. Communication is the key to any healthy relationship. It can create transparency on both sides of the channel and prevent hiccups or missteps (Roggio, 2013).

*Supplier Evaluation:* Supplier evaluation is the process by which the buyer rank orders the suppliers. (Beil, 2009). Beil proclaimed that the organization can use this rank ordering, along with other business considerations, to determine the contract with suppliers. He also recommended that the organization can identify the dimensions which it wishes to use for evaluation to start the supplier evaluation process (Beil, 2009). Gallego (2011) explained supplier evaluation as a term used in business and refers to the process of evaluating and approving potential suppliers by quantitative assessment. Završnik (1998) asserted that measuring the performance of suppliers is vital to ensuring a well-functioning supply chain. Supplier evaluation is also a process applied to current

suppliers to measure and monitor their performance for reducing costs, mitigating risk and driving continuous improvement. (NTIData, 2015). Through the research, Gordon (2006) found out that companies pursuing supplier assessment commonly see over a 20% improvement in supplier performance metrics. Therefore, evaluating suppliers' performance can be a very useful tool that leads to a better working relationship, fewer defects and problems with regard to the supply chain, as well as overall efficiency savings and cost reductions (Završnik, 1998). To get the most from suppliers and hold them to account, Gallego (2011) deemed that it's important to track and measure the supplier's performance.

The metric varies for different business. Here is a most popular checklist of evaluation criteria developed by Ray Carter, director of DPSS Consultants, in 1995.

- Competency
- Capacity
- Commitment
- Control
- Cash
- Cost
- Consistency
- Culture
- Clean
- Communication

This checklist of 10 Cs covers almost all the areas that a firm must consider to evaluate the performance of supplier. A supplier plays a key role in a firm's success and the criteria in the checklist can be used for any company.

*New Zealand Policy:* In July 2016, Education New Zealand released the statistics showing that international students brought over 1 billion New Zealand dollars tuition fee to the country's revenue, and created over 30,000 jobs with value over 3 billion New Zealand dollars in 2015, of which 30% were contributed by Chinese students. (Education New Zealand, 2016).

The international education industry has become the third big industry in New Zealand, ranking after agriculture and tourism. In New Zealand, there are many high qualified education providers for the international students to choose from, including eight public universities which offer academic programs, 16 public Institutes of Technology, offering professional and vocational education and training ranging from introductory studies through to full degree programs. Moreover, there is a choice of 600 registered Private Training Establishments (PTEs), whose courses are generally specific to English language learning or niche occupations such as travel and tourism, design and ICT, from which overseas students may choose.

(Where & What to study, n.d., para. 5). Also, numbers of high quality primary schools and intermedia schools are attracting more and more Chinese students to begin their early education in New Zealand. That means there are enough suppliers that can be selected by a consultant agent. Furthermore, the New Zealand government encourages their educators to cooperate with consultancy agent for enrolling more international students to the country by allowing the providers to pay commission to the agents so as to reduce the operating cost for agents to compete with the education providers from other countries. This policy will encourage the agencies to promote New Zealand international education to the international students.

*Chinese Situation:* In China, with the globalization and fast growth of economic, more and more Chinese parents make up their minds to send their children to study abroad. According to statistics from the China Ministry of Education (2016), more than 5.2 million Chinese students go studying abroad in 2015,, among them, 30,000 came to New Zealand (Education New Zealand, 2016). Furthermore, a trend of younger students studying abroad is emerging because their parents are worrying about air pollution and the grid education system in China (HuRun, 2016). When apply for studying abroad, most Chinese students seek for help from overseas studying consultant agents who can provide professional guide in schools and course selection, as well as documents preparation (XDF Version Overseas, 2016). With a rich education provider base, experienced overseas consultancy can provide guidance and overall information related to studying abroad so as to help students save time and money when applying for studying abroad (Jubeerich Consultancy, 2016).

The information above shows that overseas studying consultancy has become the bridge to link international students with New Zealand educational providers. To be more competitive in the market, the agents need to own rich supplier resources so as to provide various options and service to their customers whose demand varies from one student to another one.

### 3. Research Method

In this project, the researcher used both primary and secondary methods to conduct the research.

#### 3.1. Primary Method

Both semi-structured interviews and observation were used as primary methods to conduct this research.

**Semi-structured Interview:** The researcher interviewed AL's manager and staff to collect first-hand information on AL's background and supply chain management. The interviews were held in AL's office in September, 2016, lasting for around two hours. The face-to-face talk resulted in a deep discussion on the topic of what AL supply chain looks like and how it manages its supply chain. It was an on-going interview in which the researcher could widen and deepen the topic by asking additional questions. The semi-structured interview asked the interviewee to answer questions with more information in detail, to avoid simple answers like yes or no which make it difficult for the researcher to acquire adequate information.

The interview was conducted in Mandarin as both the manager and the staff are Chinese, and to avoid confusion when communicating. The content of the interview was translated into English later on.

The advantage of this method was that the researcher can collect information related to the research. Limitations were in two areas:

- Time constraint. Both the manager and the staff did not have enough time when the researcher wanted to make further inquiries about the research topic, such as why AL did not have an evaluation process.

- From the perspective of the employee, the answer might not be complete and accurate.

**Observation:** Observation was another method the researcher used to conduct the research. During placement from August to October in 2016, the researcher had a chance to closely observe how AL runs its supply chain, such as how to develop supplier, how to maintain relationship with supplier, etc. This helped the researcher easily judge the actual operation of supply chain in AL and gain first hand material which could supplement information collected through the interview.

The advantage of this method was that the researcher could be involved in the daily operation and acquire first hand material in person. The limitation was that due to the limited working time, say 4-5 hours a day, for two months, the researcher could not experience all the process of management, which would affect her ability to observe overall processes and gain accurate information.

### 3.2. Ethical Considerations

Ethical considerations for this research includes the following steps:

- Before conducting the interviews, the participants, who are the manager and the staff of AL, were informed of the purpose and aims of this project and signed consent forms.

- The information gathered will be treated with confidentiality and no names of individuals will be used in the research report, except where participant consent to waive that confidentiality is given..

- Access to the final report and recommendations will only be available to AL and the associated Wintec Academic Supervisor.

### 3.3. Secondary Method

Secondary method for this project includes the use of Wintec library facilities such as books, databases ScienceDirect and Proquest, Google website, Google Scholar. Through these facilities, the researcher looked into the relevant theories and literature so as to guide the investigation on supply chain in AL. It also helped the researcher to clarify the research question prior to primary research. Existing and historic data from AL brochure and website was also reviewed to understand AL's background.

## 4. Results and Discussions

### 4.1. AL's Supply Chain

Supply chain exists in any business, including the international education industry. In a consultancy business, the suppliers refer to various educational providers (supplier) who provide various programs (products or information) to the consultant agents (distributor), who offer the program to international students (end customer). The programs include degree, major, course, tuition fee, etc.

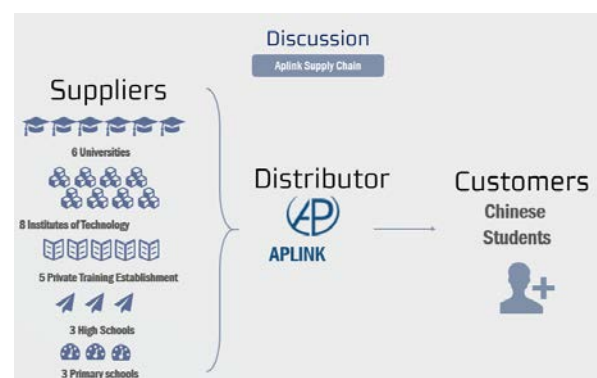


Figure 2

#### AL's Supply Chain

Figure 2 shows that AL has a number of suppliers ranging from University to Primary School, its end customers are Chinese students. The providers offer their own specific courses, majors, degrees to AL. AL then recommends this programs to its customers in China, who have different requirement on the service, and customises the service to each individual customer.

## 4.2. Supply Chain Management (SCM) – Supplier Selection

Supplier selection begins with identification of an organization's need. To select an appropriate supplier, the organization must know what he wants from a supplier. AL is offering consultant services of international education to Chinese students how to meet the demand from Chinese students is what AL needs from its supplier. 18 years-experience helps AL understand what kind of service and information meet its customers' requirements. On the basis of this understanding, AL summed up its main criteria in five areas below:

*Academic ranking.* Some students are keen to study in a university with good academic reputation or ranking like Auckland University, ranking No.1 in NZ, or Waikato University, famous for its business and IT courses. Therefore, ranking is one of the factors that Chinese students will consider when they choose their school abroad.

*Majors or courses available.* This is the number one factor that Chinese students will use for studying abroad. The future area design decides what courses, which schools that Chinese students will take. Generally speaking, business, IT, engineering, practical program such as chief, beauty, tourism, are the most popular subjects for Chinese students. Therefore, when AL selects its supplier, it always emphasizes the providers who provide appropriate courses.

*Location.* Though location is nothing to do with the quality or courses, many Chinese students take it as one of their consideration. They usually prefer a big city, or a beautiful coastal city. Of course, some will like a small and quiet city with only a few Chinese students. This is crucial for those students who start with English study before studying their course.

*Enrolment requirement.* IELTS scores are the key qualification for the NZ tertiary schools to enrol international students. Being a second language, English is a difficult hurdle for Chinese students. Usually, the IELTS scores decide which school they can apply for. Therefore, AL needs to have different level partner with different enrolment requirement to meet its customers' qualification.

*Tuition fee.* For most Chinese students, tuition fees are not what they will consider when selecting schools. But for similar offers, they will like to take the lower tuition fee, especially for the students who come from middle-class families.

The criteria above are the main factors that AL took into consideration when it began to select suppliers. It covers most of the conditions and requirement that Chinese students will consider when studying abroad. With these criteria, as well as some

others such as safety, living expense level, etc. AL has contracted with some education providers in NZ.

When contracting with its suppliers, AL implements two strategies: many supplier strategies with wide options and few supplier strategies with a close relationship.

*Many supplier strategies.* Strategically, the more suppliers, the more competitive AL can be in the market because it can offer all the courses in NZ to its customers, thus beat competitors who could not cover all the courses. The fact is, this is impossible. One reason is that some schools do not authorize consultant agent to take international students for them, the other one is that AL does not have enough time and energy to manage too many suppliers. Keeping a reasonable number of suppliers is the best choice for AL at present. Currently, AL has established cooperative relationship with more than 10 suppliers, with programs that cover most of the courses that attract its customers.

On the other hand, there are more and more inquiries for primary and secondary schools since 2015. Chinese parents are thinking to send their children to start education abroad at younger age now. That creates a new business which require new suppliers. Though AL has contracted with several primary and secondary schools, all of them are located in Hamilton, while some inquiries request other location such as Auckland and Wellington. This is one issue AL needs to take into consideration at present.

*Few supplier strategies.* This strategy requires a close and long-term relationship with suppliers. Located in Hamilton, AL are inclined to cooperate with schools located in Hamilton, such as Waikato University, Waikato Institute of Technology, Hamilton Boys' High, It is easier for AL to keep contact with them and provide good backup service to its customers when they arrive. Therefore, AL emphasizes on these few suppliers and recommends most of its customers to come and study in Hamilton schools. This also strengthen its relationship with them and get better support from them.

## 4.3. Supplier Relationship Management (SRM)

Supplier relationship management can help an organization to gain competitive advantage by getting the latest information, good support from suppliers for marketing promotion, and fast response to customers. There are some common steps to follow when managing the relationship with supplier such as visiting suppliers regularly, keeping close relationship with supplier's representatives, etc. In AL, supplier relationship is an important issue, it pays more attention to communication with providers. The staff

member who is responsible for relationship management in AL said that they have formal and informal processes in maintaining supplier relationships. Informally, they periodically visit the local providers in Hamilton, make phone calls to say hello, especially during festivals. Formally, they use email to exchange opinion on latest policies, or discuss any dispute. Attending the seminars held by the providers is another way to acquire the latest information and stay in close contact with providers. Furthermore, AL invites some key providers to China to introduce their school to Chinese students. For example, in 2015, AL invited international department staff from Wintec and Hamilton Boys' High to visit Hainan Province, China, to give seminar to Chinese customers. This close contact let more Chinese customers turn their eyes to NZ and Hamilton, especially Wintec and Hamilton Boys' High. Such activities help AL to strengthen the relationship with its supplier.

Communication skills play a vital role in maintaining relationships with suppliers, it is the lubricant in relationship management. Although AL has schedules for maintaining supplier relationships, the staff member in charge lacks English communication skills, as well as the knowledge of suppliers, which affects management effectiveness.

#### 4.4. Supplier Evaluation

To manage effective supplier relationship, the organization needs to assess the performance of the supplier regularly. This assessment can help the organization understand the supplier's performance so as to adjust its relationship with the supplier. In the overseas consultancy field, the assessment usually covers supplier's academic ranking, cost level, tutor quality, service, international student support, facilities, environment, etc. The evaluation can give the agent a benchmark to recommend good schools to students and earn good reputation in the market, which can increase their competitive advantage in the market. AL does not pay more attention on this section. There is no formal evaluation process or metric in AL to measure the supplier's performance.

### 5. Conclusion

This research focuses at the supply chain (SC) and supply chain management (SCM), taking AL as a case study. Based on the literature review, after analyzing relevant domains such as supply chain management, supplier evaluation and external environment, I reach the conclusion that due to the differences between Chinese and New Zealand's situation, information and communication

management is a critical area to maintain AL's prosperity. Meanwhile it is an urgent task to work out an effective assessment process to evaluate overall performance, and to improve its capability to cope with the variability of suppliers as well as to contract with new suppliers to meet the new emerged trend in Chinese overseas studying market most crucial for AL's further development.

### 6. Recommendations

At the basis of the conclusion, I would like to recommend the following to AL Consultant Ltd.

- *Seek for more new suppliers.* With the increasing number of Chinese students choosing New Zealand as a destination for studying abroad, the requirement for more course and institute options will increase. That suggests that AL should negotiate and contract with t providers who are not in its current list. In addition, the new trend of younger overseas students creates new opportunities in primary and secondary schools, to which AL must look for more providers, mainly outside Hamilton.

- *Establish an evaluation metric and process.* Lack of a formal evaluation metric and process makes AL unaware of supplier performance. AL should set up its metric and evaluate its suppliers once a year.

- *Develop training program on supplier knowledge and communication skill.* Effective supplier relationship management requires good communication skills; knowledge of suppliers will help staff achieve effective communication with suppliers. AL needs to emphasize on this area and set up a regular training schedule for its staff, say once a month, so as to help is staff to improve their ability in their work.

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