

CHAPTER 5**RESEARCH METHODOLOGY**

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5 RESEARCH METHODOLOGY

5.1 Introduction

Research is the systematic, controlled and critical investigation of events, led by theories and hypotheses about these events. Business research - as was conducted throughout this study - can in turn be defined as a systematic investigation in order to provide information that may or may not be used to solve business problems. A business problem and hypothesis was stated in Chapter 1, which led the study from A (the current situation), through B (the hypothesis statement), to eventually reach C (the tested model). Refer to Figure 1.2 on page 5 for a schematic diagram of the three models as well as to Figure 6.1 which contains a diagram of the outsourced MODEL C.

The five main attributes of a proper business research process were followed throughout this study. These characteristics or attributes, which should follow each other chronologically, are:

(a) Description of the research objective

The objective of the research was documented in Chapter 1 under point 1.1.3, which in short is examining the current supply chain of the South African recording industry (described as MODEL A), stating and researching the hypothesis (MODEL B) and then describing the tested outsourced supply chain management or functional logistics model for this industry (MODEL C).

(b) Explanation of the research procedures

The research procedures are explained later on in this chapter under the research methodology discussion (refer to points 5.4.1 to 5.4.6 below).

(c) Illustration of the planning of the research

Planning took place throughout the entire research process, as well as before and during the writing of the thesis. This planning was performed and executed in

accordance with the elements and thought-processes of proper research methodology principles.

(d) Analyses of all data

All gathered data (*i.e.* both primary and secondary data) was analysed in order to determine its relevance, validity and importance to this study. These sources of knowledge are discussed under point 5.4.3.2 below.

(e) Submission of conclusions and recommendations

Conclusions and recommendations were limited to the parameters of the hypothesis statement, as well as to the data that were gathered during the research process. The information that was incorporated into this study was justified by this research. The conclusions that were consequently reached, as well as the recommendations resulting from the study of the hypothesis statement (MODEL B), are summarised in the last chapter.

5.2 The business strategy framework

While evaluating the current supply chain in the South African recording industry (MODEL A), researching the hypothesis statement (MODEL B) and then documenting the outsourced model (MODEL C), the principles of a sound business strategy and its framework were always kept in sight. According to Mathur and Kenyon (1998: 1), business strategy consists of the following two elements:

- *Competitive* strategy which positions a single competitive offering in relation to customers and competing substitutes
- *Corporate* strategy which manages a company's cluster of offerings, by deciding what offerings to add, retain, divest or outsource

5.2.1 Competitive and corporate strategy

Both a company's competitive and corporate strategies have a financial goal, which in short is making the company more valuable to its owners or shareholders in the long term. This is true of the smallest one-person independent record company as well as of the big international Majors (refer to the discussion on the players in the recording industry in Chapter 2). If the business does not at least earn its cost of capital, it can not survive independently.

Competitive strategy tends to pick profitable or value-building offerings. An offering in turn builds value, *i.e.* earns more than its cost of capital, if it simultaneously exploits:

- A favourable market opportunity, by addressing a set of customers (in this case the dealers and retailers in the trade, as well as the end-users) which are willing to pay prices at which the offering can meet the financial objective
- The company's own distinctive resources which give it an edge over competitors (for example the record company's contracts with their artists)

These two conditions are like the blades of a pair of scissors, which can only cut when used or implemented together. Favourable market opportunities arise from the way an offering (*e.g.* a new album release) is positioned, which is done either:

- By differentiating the offering, *i.e.* distancing it from competing substitutes (for example through extensive marketing campaigns) in order to make customers willing to pay value-building prices
- By competing on price, with a low degree of differentiation and a very competitive unit cost (refer to the *MFP* model of being a loss-leader discussed in Chapter 3 under point 3.4)

While again referring to the two different strategies (competitive and corporate) discussed above, the need for sustained value-building can be met in two different ways:

- In *competitive* strategy, by developing distinctive resources which are specific to the record company
- In *corporate* strategy, by successfully picking winning artists and recording successful albums, and then by employing skill and judgement in timing these additions to the catalogue (*i.e.* deciding when and how to release these albums into the trade)

It is important to remember that only *developing* these value-building strategies are no sure recipes for success. Gathering the correct information, making good decisions and then implementing those decisions are the three basic steps in strategic decision making (McNeilly 2002: 29 – 33). As with any plan, the execution thereof remains one of the most critical aspects of its success. Sterling (2003: 27) claims that the effective implementation of an average strategy beats the mediocre implementation of a great strategy.

5.2.2 Strategic decisions

Business executives have to take decisions and make a multiple of choices every day. Interviews with top management executives at record companies (refer to the list of respondents in point 5.4.3.2), concurred with the findings of Rumelt, Schendel and Teece (1991: 15), who stated that these strategic choices include, amongst others, the following six major aspects:

- The primary goals of the company
- Which products and services to offer to the market (*i.e.* which artists to contract and / or which labels to distribute)
- Policies for positioning the company in different product markets
- The level of scope and diversity (*e.g.* possible backward and forward integration and outsourcing)
- Organisation structure
- Administrative systems used to define and coordinate work (*i.e.* the management information system or MIS as described in Chapter 3 under point 3.2.2)

The research of this study was conducted with these six concepts kept in mind. Whether a company performs all functions in-house, or whether it makes a strategic decision to outsource some of its non-core business activities to a third party supply chain management partner, might be one of the strategic decisions that will eventually determine the success or failure of the business.

5.3 Properties of the research

5.3.1 Rational and empirical thinking

Theoretical as well as empirical research were performed throughout this study. Rational thinking played an important role in the evaluation of information as well as in the conclusions and recommendations that were reached and are discussed at the end of the thesis. Both rational and empirical thinking are defined and discussed below:

(a) **Rational thinking**

Rationalism implies that reason must be the primary source of knowledge. All information must be derived from rules, laws and basic truths. This is also called deductive thinking, which is the deriving of a conclusion by reasoning – in other words the conclusion is reached by logical deduction.

It thus follows that the conclusion must be derived directly from the gathered information and its reasons and explanations. The reasons must implicate this conclusion and represent a proof. There is a very strong relationship (or connection) between this information and reasons, and the ultimate conclusion that is reached. A deduction can only be valid if it is impossible for the conclusion to be untrue if the assumptions are true. For example:

Assumption 1: The Recording Industry of South Africa (RISA) awarded all *Sony Music* artists with a special South African Music Award.

Assumption 2: Robert Smith is a *Sony Music* artist.

Conclusion: Robert Smith has been awarded with a special South African Music Award by RISA.

Another example of rational thinking could be seen in the deductions that were made after studying the sales figures on the RISA website (www.risa.co.za). Refer to Table 2.4 where the sales figures were documented. In the year 2000, 139 137 485 units of local music were sold, in 2001, 156 806 304 units were sold, in 2002, 192 165 934 units were sold and in 2003 a record amount of 225 090 965 were sold. This information leads to the true conclusion that the sales of local music in South Africa has increased over the four year period from 2000 to 2003.

(b) Empirical thinking

On the other hand, empiricism implies that the observations were mainly obtained through experiences in the business environment. Events are described, explained and predicted by means of observation and experience – this process is also called inductive thinking.

With induction, there is not such a strong connection between the information and its reasons, and the conclusions derived from this information. A conclusion is derived from one or more facts or sets of facts. The conclusion then explains this fact or facts while the facts in turn explain the conclusion. It is very important to note that this conclusion is only a hypothesis, in other words only one explanation and there may be many other true hypotheses (*i.e.* assumptions or concessions made for the sake of argument), that can be derived from the same fact or set of facts. Refer to the discussion on the role of a hypothesis in point 5.3.3 below.

Empirical thinking was sometimes used to evaluate the information received as answers to the open-ended questions from the respondents who were interviewed personally or telephonically.

5.3.2 Different thinking styles

No two persons or two companies are alike. Each are governed by its mindset and ingrained paradigms (refer to the discussion on paradigms and their various business influences in Chapter 1 under point 1.3.2). People act differently, work differently, think differently and gather their information in different ways. Some different thinking styles (also known as sources of knowledge) are:

(a) Untested opinions

These are generally believed by most people, even though the opposite may have been proven true. Many record companies in the recording industry continue to believe that outsourcing will ruin their business, because they will lose control of many of their business processes. This paradigm unfortunately remains a strong opinion. By testing MODEL B, the hypothesis statement: “Record companies in the South African Recording Industry should outsource all their non-core business activities to one strategic business partner” – the aim of this thesis is to prove the above-mentioned untested opinion wrong and offer an alternative of remotely managing the supply chain by outsourcing all non-core business activities (MODEL C).

(b) Self-evident truths

These basic truths are derived from the laws of nature, for example ‘The Law of Gravity’.

(c) Method of authority

People with status or in high corporate positions are often automatically believed because of their social standing or business position. Management’s thinking styles filter down to the entire organisation. If the management team is open to change and willing to change their paradigms, this change in the mindset will likely be followed by the company and its employees as a whole. If a sales manager is for instance excited about a new record release, his or her enthusiasm

should filter through to his or her sales team and they should then also sell and promote this title with enthusiasm.

(d) Literary style

This source of knowledge implies information that has been gathered through the work done by others. This information should be interpreted in terms of its scientific goal and perspective, and not in terms of the abstract and general categories of the researcher's own reference scheme. Refer to the Reference list at the end of the thesis as an example of information gathered and documented by others.

(e) Postulational style

In this thinking style formal, mathematical terms and postulates are studied. A postulate is an essential presupposition, condition or premise of reasoning. This thinking and reasoning will lead to logical information such as mathematical models, simulations and business laws. Postulational thinking can be used successfully to determine the composition of the market before a new product is launched. Postulational thinking is also a good example of *deductive rationalism* (refer to the discussion on rational thinking in point 5.3.1 above).

(f) Scientific method

This thinking style is a combination of logic and rationalism, in other words a form of *inductive empiricism*. It is a direct observation of the phenomena in the market. The thinking is done through very clearly defined variables, methods and procedures. Hypotheses are tested empirically. The thinking has the capacity and ability to eliminate contradictory hypotheses - simply stated it can thus be viewed as a self-correcting process.

This last style discussed (*i.e.* scientific thinking), is the source of knowledge that was most widely used throughout the research processes of this study. Although various literary sources (as per the reference list) were consulted (*i.e.* secondary information), the majority of the research concentrated on the information gathered from the

completed questionnaires, personal interviews and market research (*i.e.* primary sources of information used in a logical and rational way, discussed in point 5.4.3.2 below).

5.3.3 Hypotheses

5.3.3.1 The role of a hypothesis

A good hypothesis has three very distinct qualities. In order to be true, a hypothesis must be adequate, testable and better than its rivals.

Furthermore, a hypothesis must also perform the following four functions:

- Lead the direction of the study and its research
- Limit the data that is to be studied (set the parameters)
- Identify the relevant information
- Provide a framework for the conclusions that will be derived from the research

5.3.3.2 The hypothesis statement

The hypothesis statement is referred to throughout this thesis as MODEL B and reads as follows:

“Record Companies in the South African Recording Industry should outsource all their non-core business activities to one strategic business partner.”

This hypothesis statement adheres to all the requirements of a proper hypothesis statement which was stated in point 5.3.3.1 above:

- It is adequate because it summarises the core content of the thesis in one sentence
- It is testable because the hypothesis (MODEL B) will be tested in the South African Recording Industry and related markets

- It is better than its rivals because it contains all the necessary elements of a proper hypothesis statement
- This hypothesis statement will further more lead the direction of the study
- It limits the data, sets the parameters and identifies the relevant information of what was studied (*i.e.* Record Companies in the South African Recording Industry and the outsourcing of their non-core business activities to a strategic business partner)
- It provides a framework for the conclusions that were derived from the research

5.4 The research methodology

The research in this study was conducted by following these seven basic steps, which are discussed in more detail below (points 5.4.1 to 5.4.6):

1. Identify the topic to be researched
2. Exploration and judgement of the situation
3. Design of the research study
4. Sampling and data capturing
5. Evaluation of the researched information
6. Writing of the thesis
7. Constant analysis, interpretation and corrections

5.4.1 Identifying the topic to be researched

The topic of this study (as was also discussed in Chapter 1 under point 1.1) was reached by analysing the current supply chain of the local recording industry (MODEL A). After various problems and shortcomings were identified, a hypothesis statement was formalised (MODEL B) which was then investigated and tested and ultimately led to MODEL C. The title that was chosen for this thesis reads as follows:

A Supply Chain Model for the South African Recording Industry.

This topic can be split successfully into two meaningfully segments or word phrases:

(a) Supply chain management

A 'total logistics supply chain' as a general term was documented in Chapters 1 and 3. All elements from procurement, warehousing and assembly, through sales, marketing and order processing, up to final distribution, debt collection and reporting were discussed. The concept of outsourcing non-core business activities to a third party business partner was researched and its characteristics, implementations and new possibilities were evaluated and documented in MODEL B. The final tested concept is referred to and discussed as MODEL C.

(b) Recording industry

This industry, and especially its players, processes and performance in the South African market was documented in the second and third chapters.

5.4.2 Exploration and judgement of the situation

After the above-mentioned topic (in point 5.4.1) and hypothesis statement (in point 5.3.3.2) were selected for the study, the overall South African situation was firstly explored. Record companies and supply chain management companies, as well as their suppliers and customers were questioned and interviewed very early on in the research process (refer to the questionnaire which is attached as Annexure I at the end of the thesis, as well as to the sources of knowledge in point 5.4.3.2 below). Where the South African market was lacking in sufficient examples, the international scene was also explored and judged in terms of its validity to be implemented in the current South African situation.

5.4.3 Design of the research study

The format of the research study was designed in accordance with the prescribed methodology of a proper research proposal, by following these four steps:

- (a) Describe the goals of the study in broad terms
The study started off in broad terms with Chapter 1 describing supply chain management and its logistical processes in general.
- (b) Identify and limit the research parameters
By documenting the hypothesis statement (in Chapter 1 under point 1.1.1 and also in point 5.3.3.2 above) the parameters of the study were narrowed to include only certain selected aspects of the South African recording industry, namely the different local players, their business processes and competencies (Chapters 2 and 3). Also refer to the schematic diagram of the three models in Figure 1.2.
- (c) Conduct research
Outsourcing as a business function was researched and documented in Chapter 4. The research methodology is explained in this chapter. Recommendations with regards to the outsourced supply chain management of the non-core activities of a record company are documented in Chapter 6.
- (d) Document conclusions and recommendations
Proving the hypothesis statement (MODEL B) correct, led to the proposal of the outsourced supply chain management or logistics model (MODEL C). Various conclusions, new possibilities for the future, advantages and specific recommendations are made and documented in the final chapter (Chapter 6).

5.4.3.1 Information sources

The following four instruments were used to gather information:

- (a) Secondary sources

The literature sources that were consulted are listed in the References section:

- Textbooks by renowned authors provided the base and framework for the academic component of the research
- Academic journals and trade magazines such as *The Weekly Channel*, provided insight into the more practical aspects of the industry
- On-line information derived from internet sites such as the *ITWeb*, as well as from websites such as www.risa.org, provided insight into current practises, new thinking styles and practical implementations of strategy

(b) Questionnaire

The Questionnaire is attached as Annexure I at the end of the thesis. The Questionnaire was sent to members of RISA (The Recording Industry of South Africa). The RISA membership list is attached as Annexure B and contains the names of 189 member companies. The Questionnaire was sent to 75 of these companies via electronic mail and to another 15 companies via fax. Out of the 90 Questionnaires that was sent out, a total of 37 was returned completed.

(c) Telephone interviews

A total of 22 telephone interviews were conducted with RISA members. In addition to covering issues already discussed in the Questionnaire, these telephone interviews also sought to uncover any potential additional useful information.

(d) Personal interviews

Personal interviews were conducted at management level with eight Record Companies on the RISA membership list. These companies are listed in point 5.4.3.2 below.

5.4.3.2 Primary sources of knowledge

Both primary and secondary information were used in the research process. Company websites and brochures were examined in order to obtain background information on the various companies, their suppliers and clients. Primary information was obtained

mostly via phone calls, e-mails, personal visits and interviews with key personnel. Record companies that were interviewed over a period of time are listed below:

Local South African independent record companies:

- *Fantasia Music*
- *Maroela Musiek*
- *Select Music*
- *Rhythm Records*
- *African Cream*

International record companies ('Majors') with offices in South Africa:

- *Gallo Record Company*
- *Sony Music*
- *BMG Africa*

The following clients and / or suppliers of record companies and supply chain management companies were interviewed:

<u>Company:</u>	<u>Type of business:</u>
- <i>Bowline Fulfilment</i>	Supply chain management company
- <i>Qmuzik</i>	Software company (MIS developer)
- <i>SAP</i>	Software company (MIS developer)
- <i>Compact Disc Technologies</i>	Compact disc manufacturer
- <i>Sonopress</i>	Compact disc manufacturer
- <i>Pick 'n Pay</i>	Music retailer
- <i>Reliable Music</i>	Music wholesaler
- <i>Music Moods</i>	Music dealer
- <i>MFP (Music For Pleasure)</i>	Music merchandiser

The questionnaire that was completed by managers and employees of record companies and supply chain management companies is attached as Annexure I. The Questionnaire was split into three meaningful segments and the following information could be derived from each section:

- Section (a)

This introductory section confirmed the personal profile of the person being interviewed, confirming his / her name, job description, functions and responsibilities within the organisation as well years spent with the company and in his / her current position.

- Section (b)

The aim of the second section was to document the company's profile and nature of business and seeked to place the company into a specific type of industry, for instance a record company, a music dealer or a supply chain management company. Points evaluated included the nature of the business operation, company characteristic and internal company strengths and weaknesses.

- Section (c)

The third section investigated the specific industry in which the company operated. It provided insights into the size of the market, competitive rivalry, the market's growth rate, dominant economic characteristics, driving forces, key success factors as well as external opportunities and treats.

- Section (d)

Although the last section was the shortest and only had three questions, the answers to these open-ended questions provided by far the most valuable information. The questions dealt with the outsourcing of business activities, service level agreements with third parties and the management of all / any outsourcing processes. This section was aimed at gathering information directly

related to the hypothesis statement of MODEL B. It provided insights into the formulation of the outsourced MODEL C.

5.4.4 Sampling and data capturing

The fourth step of the research methodology was the sampling of the database (the players discussed in point 5.4.4.1 below) and the capturing of data (discussed under the measurement scales in point 5.4.4.2 below).

5.4.4.1 Major players

The recording industry in South Africa is dominated by a small number of big players (the so-called 'Majors' or 'Big Five' as discussed in Chapter 2 under point 2.5.2.1). Because of this relative small group of major players in the South African recording industry, three out of the five bigger companies (*i.e.* 60%), as well as five of the smaller independent record companies were interviewed. A total of 37 completed questionnaires were returned by other respondents from the RISA membership list (refer to point 5.4.3 above).

5.4.4.2 Measurement scales

The concepts which were used during the research process and which were then incorporated into the thesis, can be classified as either objects or as properties:

- *Objects* include the things of ordinary experience, such as companies and their employees. Objects may also include things that are not as concrete, for example employee attitudes, management cultures and company paradigms
- *Properties*, on the other hand, are the characteristics of these objects. These may include things like an employee or manager's physical and psychological characteristics. It may also include his / her social properties such as leadership ability and class affiliation or status

Both objects and properties derived from the interviews, telephone calls and completed questionnaires, were treated as data which were measured (refer to the measurement scales below) and interpreted (refer to point 5.4.5 below).

Much of the gathered data (whether relating to objects or to their properties) were encoded to make it easier for the information to be analysed and compared. Depending on its nature, the data were grouped into one of the four main scale-types:

(a) Nominal scale

This measurement scale is the least powerful of the four scale types. It has no order, distance or origin and its basic empirical operation is to determine equality. The data set is partitioned into subsets or categories that are mutually exclusive and collectively exhaustive. Even though some purists argue that the use of a nominal scale does not qualify as measurement, it is the scale that is most widely used in business research.

(b) Ordinal scale

This scale has order but no distance or unique origin. It is used in the determination of greater or lesser values. It implies that one statement is 'greater than' or 'lesser than' or even 'equal to' another statement, without stating how much greater or less.

(c) Interval scale

The interval scale has the powers of nominal and ordinal scales (order and distance), plus one additional strength in that it incorporates the concept of equality of interval (in other words the distance between 1 and 2 should equal the distance between 2 and 3). Still, the interval scale has no unique origin and can be used only in the determination of equality of intervals.

(d) Ratio scale

This scale possesses order, distance as well as a unique origin. Its empirical operation is the determination of equality of ratios.

5.4.5 Evaluation and interpretation of the researched information

This was the fifth and final step of the research methodology. The sources of knowledge were documented earlier in point 5.4.3.2, but below is a short summary of the three main groupings of the gathered information.

The data that were used in the writing of this thesis, was obtained in one of the following three ways:

- (a) Primary data were collected for the purpose of evaluating the most relevant information pertaining to the topic of this thesis.
- (b) Secondary data, which is data that already exists, were obtained by consulting various literary sources in order to collaborate the most accurate, current and widely accepted market trends.
- (c) Interviews were conducted with managers and lower-level employees at some of the biggest record companies and supply chain management companies in the country, as well as with their main suppliers and clients. The interviews were designed with the specific purpose of obtaining hands-on information relevant to the current local and global trends in the recording industry (the questionnaire is attached as Annexure I).

All gathered data were scrutinised and then reduced to a manageable quantity. It was then used to develop summaries, look for patterns and apply statistical techniques. None of the data were ignored. It was either categorised as irrelevant, or as relevant, current and topical in which case it was used as information.

5.4.6 Writing the thesis

Finally, by incorporating all primary and secondary research, the thesis was written in a systematic and controlled way. The gathered research and all other relevant market

experiences that were obtained were incorporated into the study. The outsourced MODEL C is discussed together with all findings, conclusions and recommendations in the last chapter.

5.5 Summary

As documented in the introduction to this chapter, research can be defined as the investigation of events as well as the theories and hypotheses relating to these events. When the topic of this thesis was selected, the research of relevant events, market trends and relevant business processes in the South African recording industry were undertaken in a systematic, controlled and critical manner. In order to ensure that all relevant data were given an equal chance to be incorporated into the end-results, different thinking styles were used as sources of knowledge. The research methodology was documented in points 5.4.1 to 5.4.6 above.

In the previous chapter, research conducted into the processes of outsourcing non-core business activities to a third-party business partner, as well as the concept of integrated supply chain management were discussed and evaluated (refer to points 4.2 and 4.3). This information, in combination with the conclusions already reached in earlier chapters, led to the results which are incorporated into the sixth and last chapter as MODEL C (i.e. the Conclusions of the study). Recommendations for the future of supply chain management companies in the recording industry are also evaluated and discussed.