Chapter One

Background and overview of the study

1.1 INTRODUCTION

The concept of an organisational life cycle following predictable patterns which is usually characterised by sequential and progressive stages has been identified in the literature as a viable concept (Churchill & Lewis, 1983; Hill, Nancarrow & Wright, 2002:362; Lester, Parnell & Frey, 2002; Poutziouris, Binks & Bruce, 1999: 139). It has also been argued that a valid life cycle model could be of value to those managing growing firms (Beverland & Lockshin, 2001) as well as to those managing firms that have stayed in one stage for a considerable period of time (Scott & Bruce, 1987:45). Organisations vary in size and focus and as a result a distinction has been made in the literature between organisational life cycle models for large business growth (Channon, 1968; Kimberly & Miles, 1980; Miller & Friesen, 1984:1161–1183; Quin & Cameron, 1983:33–41; Salter, 1970:23–27; Wang, 2005), general growth models (Greiner, 1972:37–46; Lester, Parnell & Carraher, 2003:341; Lippit & Schmidt, 1967:103–112) and life cycle models more specifically for small business growth (Churchill & Lewis, 1983; Dodge & Robbins, 1992; Masurel & Van Montfort, 2006; Scott & Bruce, 1987:45–52). A number of authors have also indicated that business owners face different problems as they progress through the life cycle stages of their businesses (Adizes, 1989; Chandler, 1962; Dodge & Robbins, 1992; Kimberly & Miles, 1980; Poutziouris *et al*., 1999:139).

Knowledge of the evolution of small businesses and the obstacles they face in various life cycle phases is imperative in understanding the developmental processes and type of assistance needed for survival and growth of these businesses (Dodge & Robbins, 1992). Evidence has been presented of similarities of problems faced by small businesses (Poutziouris *et al*., 1999:143; Scott & Bruce, 1987:45) and suggestions have been made that a general growth model addressing these problems (Hill *et al*., 2002:363; Scott & Bruce, 1987:45) could be useful to the management of small businesses in planning the future.

Independent financial advisers are individuals or businesses that sell financial products. They would normally operate small businesses and are expected to give "best advice" when recommending products to clients (UK Association of Independent Financial Advisers, 2001; Wright, 2008). These advisers are subject to the Financial Advisory and Intermediary Services Act (37 of 2002) (Botha, Geach, Goodall & Rossini, 2003:127). In terms of this Act financial advisers are required to be licensed and adhere to a specific code of conduct (Anon, 2004:5). As a result, financial advisers have to evaluate current business models and restructure them to comply with the requirements of the Act. This might lead to the demise of many good financial advisers, as they will not be able to cope with these challenges (Kruger, 2004:43).

For them to survive in this competitive and complex business environment, they need to investigate the various factors threatening their survival and growth and then devise strategies to proactively manage problems and anticipate future challenges. A framework addressing problems and proposing strategies could provide a road map to these businesses that can assist with growth or alternatively with survival in an existing business phase (Beverland & Lockshin, 2001). Such a framework needs further investigation.

Chapter one therefore serves as an introductory chapter, offering the conceptualisation and contextualisation for the research. The discussion in Section 1.2 serves as background, leading to the clarification of the research problem. In Section 1.3 the major bodies of theory that form the basis of the in-depth literature review of this study are discussed briefly. Following this discussion, the purpose of the research study is then explained in Section 1.4. Section 1.5 lists the research objectives of this study and Section 1.6 highlights the importance and value of the study. A brief overview of the research methodology followed is given in Section 1.7. In Section 1.8, the key concepts of this study are clarified, Section 1.9 provides an outline of chapters two to seven and Section 1.10 provides more insight into the reference technique and approach to literature sources followed in this study. The main points of this chapter are summarised in Section 1.11.

1.2 BACKGROUND AND PROBLEM STATEMENT

There can be no doubt that the Financial Advisory and Intermediary Services Act is one of the most significant pieces of legislation that was ever instituted in the financial services industry (Swanepoel, 2004: *preface*). The main objective of the Act, which was promulgated in 2002, is to provide the core regulatory vehicle of market conduct, by regulating all the activities of financial advisers when giving financial advice to their clients (Botha *et al.,* 2003:127). The Act is governed by the Financial Services Board (FSB) (Old Mutual, 2005:F74).

The introduction of the Financial Advisory and Intermediary Services Act brought about many changes to the life insurance industry. Financial advisers are required to be licensed before they can operate as advisers. A licence will be granted only if a financial adviser is able to prove that he or she met all the fit and proper requirements (Anon, 2004:5). These requirements include personal character qualities of honesty and integrity, operational ability (for example an account with a registered bank) and financial soundness (University of the Free State, 2004:5–7). In addition to the fit and proper requirements, financial advisers also have to adhere to a code of conduct as stipulated by the Act (Anon, 2004:5). The reason for the regulation is to assist financial advisers to be more advice-focused, rather than product-focused (Kruger, 2004:43). Very strict requirements in terms of the processes to be followed are provided in the code of conduct to ensure that clients are given comprehensive, objective and suitable advice (Kruger, 2004:43).

Kruger (2004:43) points out that as a result of all these requirements, financial advisers have to evaluate their business models and restructure them in such a way that their systems, procedures and staff comply with the requirements specified in the Act. In addition to compliance, financial advisers have to keep record of all the requirements of the Act they complied with. Keeping records alone, however, is not sufficient. In addition, these records have to indicate that proper advice was given to clients as well (Swanepoel, 2004:24).

According to Kruger (2004:43), the Act has a great impact on independent financial advisers, as they do not necessarily have the ability of a large company to take responsibility of compliance related issues. He concludes that many good financial advisers might be forced out of the insurance industry, as they will not be able to cope with all the stringent regulations required by the Act.

Numerous network organisations, such as Moonstone, Compliance Consulting and Oracle Compliance, have been established to assist independent financial advisers in complying with the Act (MoneyMarketing, 2006:34).

Independent financial advisers operating small businesses, though, will not be able to survive and grow their business sales, should they focus predominantly on compliance related activities. Although the Act's compliance requirements form a significant part of the business of a financial adviser and dictate their business's activities to a great extent, Swanepoel (2004:25–26) cautions that focusing too much on compliance related activities might destroy the business.

As businesses progress through the various stages of organisational growth, different problems also have to be solved (Hanks, Watson, Jansen & Chandler, 1993). Dodge and Robbins (1992) reveal that the estimated 55% failure rate for small businesses in the first five years and 81% within ten years indicate that if small businesses do not address these problems, find possible solutions and implement the necessary strategies to address the factors hindering their growth, they will not survive. The importance of addressing business problems in the South African context cannot be ignored either, given that the small business failure rate in South Africa is 78% and the average lifespan of a small business is only 18 months (Unisa, 2007).

The development, growth and continued survival of a small business are reliant on whether the small business owner has the necessary competencies and skills to manage and steer the small business in the right direction (Sha, 2006). Due to the diverse range of problems that are experienced, however, different management skills, priorities and structural configurations are needed in different stages of business development (Hanks *et al*., 1993). Stated differently, the different phases of the business's life cycle require adjustments in the business's goals, strategies, managerial processes, technology, culture and decision-making (Encyclopedia of Small Business, 2008).

A number of authors are of the opinion that small business owners do not have the necessary competencies and skills that are required to manage the business proficiently. Small business owners often discover that they are not prepared to manage growth related transitions effectively (Galbraith, 1982). A lack of management experience and capabilities is one of the major reasons for business failure (Moores & Mula, 1998). Sha (2006) further reveals that within the small business sector there is weak innovation as well as an absence of financial acumen, marketing, entrepreneurial flair, practical knowledge and human resource management. Because of these pitfalls, many small businesses do not reach their full potential and fail to grow.

Consequently, given the background described above it appears that additional guidance is needed to assist independent financial advisers with the survival and growth of their small businesses.

The organisational life cycle concept presents a viable tool that can be of assistance to these advisers. Kiriri (2004) indicates that the organisational life cycle model can be used to analyse the business's current position and to plan what will be required as the business develops from one stage to the next. The model can be used as a tool for long-term planning where management, who understands the issues, challenges (current and future) and problems at each stage, will review the plans and strategies of the business, to prepare for the future. A number of other researchers also laud the use of the organisational life cycle concept. According to Hill *et al*. (2002:363), organisational life cycle models can provide a framework for gaining more insight into the various options available to small business owners at a given time. An understanding of the life cycle of a business and the management imperatives that are associated with the life cycle could help small business owners through the uncharted course of firm growth (Hanks *et al*., 1993). A diagnostic growth model could help small business owners to learn from the survival and growth of other businesses operating in similar industrial climates which have the same business features (Poutziouris *et al*., 1999:139).

Consequently, for independent financial advisers to survive and grow in their competitive and complex business environment, they need a framework that will portray the various factors threatening their survival and growth in their business life cycle. This framework also needs to show the various strategies that can be implemented to proactively manage problems and anticipate future challenges.

To date, only a small amount of research has been conducted in this area and no formal research study in South Africa has proposed such a framework for these advisers.

The following section explores the theory on the organisational life cycle concept, small business problems and small business strategies in more depth. This investigation will aid in formulating the research objectives of this study and will also form the basis of the in-depth literature review that will be reported on in chapters two to four.

1.3 LITERATURE REVIEW

1.3.1 The organisational life cycle concept

The organisational life cycle concept (which has its origins in the literature of economics (McMahon, 1998)) has been an area of interest for organisational theorists for many years (Lester & Parnell, 2008:540). Organisational growth models are based on a biological metaphor – that businesses represent living organisms (Encyclopaedia of Small Business, 2008; Lester & Parnell, 2008:541; McMahon, 1998) which, similar to humans, are also born, grow and eventually die (Lester & Parnell, 2008:541; Lester *et al*., 2002). Academic researchers have never been able to reach consensus on the number of stages present in the business life cycle for smaller or larger businesses and the organisational life cycle models that have been developed collectively range from three to ten stages (Adizes, 1989; Galbraith, 1982; Greiner, 1972:37–46; Hanks *et al*., 1993; Kazanjian, 1988: 257–279; Lester *et al*., 2003:339–354; Miller & Friesen, 1984:1161–1183; Quinn & Cameron, 1983:33–41; Scott & Bruce, 1987:45–52; Smith, Mitchell & Summer, 1985). Furthermore, the number of life cycle stages proposed is normally dependent on the manner in which the researcher defines a life cycle phase (Lester *et al*., 2003:342). Typical factors that have been considered by organisational theorists to determine a life cycle stage include the situation, strategy, structure, decision-making style, how top management perceives the environment, personality-dominated approaches, organisation development approaches, business management approaches and sectoral approaches (Lester *et al*., 2002; Poutziouris *et al*., 1999:140–141).

While many different types of organisational life cycle models have been identified, a number of researchers have argued that there is a great similarity between the business models proposed. The general structuring of the models is the same (Dodge & Robbins, 1992) and despite the broad variance in the number of stages proposed, there is still a relatively consistent pattern of organisation evolution (Hanks *et al.*, 1993). According to Lester and Parnell (2008:541), the main difference between larger and smaller models are that "… larger models tend to break down general stages into much more specific time periods, whereas shorter models tend to consolidate two or more developmental periods in an effort to present a more straightforward depiction of organizational life". *(This matter will be further investigated in chapter two.)*

1.3.2 Small business problems

In Section 1.2, it was noted that as businesses progress through the various stages of organisational growth, different problems also have to be solved.

Poutziouris *et al*. (1999:140) indicate that small business problems can be grouped into four categories, namely general management, operations/production, finance and marketing. *General management problems* that can be experienced include an inability to manage time sufficiently, failure to acknowledge the benefits of specialisation, unwillingness to implement modern management practices, human resource management limitations and poor assembly and analysis of information, as a basis for effective strategic planning. An important consideration in terms of *operations/production problems* is the level of disadvantage experienced, should the small business owner not be able to capitalise on the available economies of scale. Poutziouris *et al*. (1999:140) postulate that in terms of *financial problems* "… the lack of significant collateral or expertise in articulating financial needs or offering credible financial forecasts also disadvantages small firms in their dealings with potential financiers. Such limitations are important in explaining equity gaps, loan gaps and working capital problems and are reinforced by the conflict between realising growth and retaining effective control of the firm". One of the main types of *marketing problems* associated with small business owners is that they focus predominantly on day-to-day survival and tend to neglect longer-term strategic considerations. More particularly, not many small business owners concentrate on market research and forecasting techniques, and there is also a limited awareness and capacity to fund advertising and promotional initiatives to build on market potential.

Dodge and Robbins (1992), in a study of 364 small business institute clients, found that the small business owners experienced mostly marketing related problems (60%), followed by management problems (24%) and finance problems (16%). They also examined the relative frequency of the major problem categories over the business life cycle and discovered that small businesses encounter relatively fewer management and finance problems and more marketing problems as they progress through the stages of the business life cycle. Similar results were found in another study that was conducted by Huang and Brown (1999) of 973 small business owners in the south-west region of Western Australia. Sales and marketing problems were experienced in 40.2% of the small businesses, followed by human resource management problems (15.3%), general management problems (14.3%) and production/operations management problems (8.6%). Simpson and Taylor (2002:370) summarise the situation concerning the problems experienced in small businesses as follows: "… sales and marketing is often the most dominant problem encountered by small business operators and yet has been acknowledged to be the most important of all business activities and essential for the survival and growth of small businesses." *(Chapter two will also further examine the problems that can be experienced in a small business.)*

1.3.3 Small business strategies

Given that the majority of the problems that are experienced in small businesses are marketing problems and that the number of marketing problems also increases through the stages of the business life cycle, it appears that marketing related solutions are needed for small business success.

Many research studies, however, have shown that marketing in small businesses is often underutilised and misunderstood (Fuller, 1994:34; Hogarth-Scott, Watson & Wilson, 1996:6; Mackintosh & Tynan, 1994). Some small business owners, for example, view marketing as expensive and time-consuming, requiring specialised expertise and therefore only relevant for larger businesses (Simpson & Taylor, 2002:379; Simpson, Padmore, Taylor & Frecknall-Hughes, 2006:380). There is also a tendency among small business owners to view advertising as a waste of money and to consider "word of mouth" communications as more effective for their businesses (Hogarth-Scott *et al*., 1996:14).

The importance of the marketing function in a small business, however, cannot be ignored. According to Coviello, Brodie and Munro (2000:525), "… [i]nterest in the marketing/entrepreneurship interface has grown in recent years. Researchers in each discipline have identified common threads between the two fields, with Hisrich (1992) noting that both entrepreneurship and marketing have a customer focus, as well as a behavioral orientation that is involved with making 'the deal' and developing distinctive competencies". The concepts of innovation, creativity, idea generation and opportunity identification form part of the philosophies of both fields. Marketing should therefore be approached as a major domain within the entrepreneurship discipline (Coviello *et al*., 2000:525).

It is further believed by academics that a business that has a marketing orientation normally performs better than another similar business that does not focus on marketing (Simpson & Taylor, 2002:371; Simpson *et al*., 2006:368). In fact, there is evidence that a lack of marketing, or poor marketing practice, including planning and implementation, can lead to small business failure (Hogarth-Scott *et al*., 1996:6; Jocumsen, 2004:659). Hogarth-Scott *et al*. (1996:6, 17) emphasise that marketing is appropriate for small and larger businesses and that knowledge and understanding of the marketplace will limit business risk and help to understand the needs of consumers. As the business progresses through the organisational life cycle, there is more pressure for systematic planning. The business owner must then weigh the added cost of implementing the marketing function against the potential consequences of operating with a higher degree of risk and uncertainty (Hogarth-Scott *et al*., 1996:6). For those business owners who strive to have a prosperous and thriving business, a clear understanding of the basic marketing principles and techniques is imperative. Some small business owners, though, might argue that they do not want to grow. All businesses, however, have to adjust to changing environments and changing client needs. Marketing can help with this process (Hogarth-Scott *et al*., 1996:6).

The marketing mix forms the heart of the marketing plan (Chandler, 2002:75). It can be described as constituting the major areas of decision-making in the marketing process that are intermingled to achieve the desired results for the business (Encyclopaedia of Business Finance, 2006).

Borden (1964), who initially formulated the marketing mix concept (Gronroos, 1997), believed that the marketing mix represents the plan that management has developed to meet the problems with which it is continuously confronted within an ever-changing, ever-demanding market (Borden, 1984:11). Borden (1984:11) argues that "… there are continuous tactical maneuvers: a new product, aggressive promotion, or price change initiated by a competitor must be considered and met; the failure of the trade to provide adequate market coverage or display must be remedied; a faltering sales force must be reorganized and stimulated; a decline in sales share must be diagnosed and remedied; an advertising approach that has lost effectiveness must be replaced; a general business decline must be countered". These types of problems play a major role in the design of the marketing mix and there is a need for management to maintain effective channels of information relative to its own operations as well as to the day-to-day behaviour of clients, competitors and the trade.

Marketing mix strategies can also be implemented to achieve sales growth. McLarty (1998), for example, conducted a case study of a small business selling manufactured products in the United Kingdom, to explore the rationale behind the business's sales growth in an industry characterised by a decline in national demand. The results pointed out that the marketing mix strategies that the small business owner employed (with the resources available to him) were the catalyst for growth in the business's sales. (Authors such as Weinrauch, Mann, Robinson and Pharr (1991), for example, believe that the marketing mix concept is part of the traditional marketing paradigm and cannot really be used in small businesses, due to their limited resources. The results that were obtained by McLarty (1998) show the contrary.) The services industry also focuses on the marketing mix concept to generate sales growth. The financial services business (Nedbank

Limited, 2007:9), for example, indicated in a report to the Competition Commission that the bank's strategy is to use the marketing mix concept to assist it in creating perceived value and generating a positive response from clients.

Given the discussion above, it seems that marketing mix strategies (which are an important element in the marketing of the business) can be used to solve the problems small business owners experience and can also help to produce more sales growth.

Not all academics, however, are in agreement with the use of the marketing mix as a management paradigm – regardless of the background and position of the mix as a key theoretical and practical parameter of contemporary marketing. Over the years a number of authors have raised their doubts and concerns about the value and future of the marketing mix and have proposed new alternatives (Constantinides, 2006:409). Vignalli and Davies (1994:11–16), for example, believe that the marketing mix is restricted to internal and non-strategic matters. According to Yudelson (1999:60) the marketing mix do not form part of the 21st century marketing, where a new flexible platform is needed. The emphasis today is rather on customer orientation (Schultz, 2001:7). The weight of marketing management has shifted towards relationship marketing as the future marketing paradigm (Healy, Hastings, Brown & Gardiner, 2001:182–193). More particularly, relationship marketing supporters believe that new frameworks need to be followed where communication, personalisation and interaction are central (Constantinides, 2006:418). The contemporary notion is to provide good service to the customer and to follow the principles of the 'service dominant logic of marketing' as described by Vargo and Lusch (2004), where "…the focus is shifting away from tangibles and toward intangibles, such as skills, information, and knowledge, and toward interactivity and connectivity and ongoing relationships."

At the other side of the coin, authors such as Zineldin and Philipson (2007:229, 238) have again questioned this approach and have conducted a study among a number of Scandinavian companies to further investigate this matter. The study found that no business exclusively made use of the relationship marketing approach. Some businesses merely followed the traditional marketing concept, while other businesses made use of a blend of the relationship marketing as well as the marketing mix approaches. They concluded that each element of the marketing mix is comprised of a collection of sub-activities and has the potential to stimulate and create relationships with clients and with suppliers. Marketers need to realise that the marketing mix approach is still dominant and that the relationship marketing approach should purely form a supporting role and compliment the marketing mix strategy of the business.

(Given the above empirical findings, *a further investigation will therefore be conducted in chapter three to determine the various marketing mix strategies that can be implemented to solve the problems small business owners can experience in their business life cycle. Attention will also be given to relationship marketing principles to ensure that this study investigates and recommends marketing mix strategies that will allow for the build of good relationships with clients, suppliers and employees to further enhance the potential for business growth.)*

Small business owners, however, can encounter various problems when implementing marketing mix strategies in their businesses. According to Dickinson and Ramaseshan (2004), businesses making decisions about the most favourable strategy to implement are confronted with a set of environmental conditions. Cronje, Du Toit, Mol, Van Reenen and Motlatla (1997:88), in their review of the business environment, indicate that environmental factors can pose a threat to the business's objectives and strategies.

From a financial services perspective, Ennew and Waite (2007:88–99) indicate that the environment within which businesses operate is becoming more complex and turbulent and, as a result, increasingly uncertain. Understanding the nature of this environment and its implications for the business is an important component in any marketing strategy. However, although the elements of the environment constrain the activities of the business, it is important to understand that the business itself, through its marketing activities, can influence the environment to create conditions which are more favourable to the success of its strategies. *(The various problems that can hinder the implementation of the marketing mix strategies as well as their counterstrategies will receive further attention in chapter four.)*

1.4 THE PURPOSE OF THIS STUDY

The literature investigation revealed that independent financial advisers, in addition to having to comply with the requirements specified by the Act, also have to address various problems in each life cycle stage to survive and grow.

A number of academics, however, are of the opinion that small business owners do not have the ability to manage the growth related transitions effectively. It appears therefore that additional guidance is needed to assist independent financial advisers with the survival and growth of their small businesses.

It further became evident from the literature investigation that the organisational life cycle concept can be of assistance to independent financial advisers. The issues, challenges (current and future) and obstacles at each stage can be identified and investigated and marketing mix strategies that can help to address these problems and also generate sales growth can be prepared.

Consequently, in order to assist independent financial advisers to survive and grow in their competitive and complex business environment, this study aims to propose a marketing mix framework that will portray the various factors threatening their survival and growth in their business life cycle. The framework will also indicate the various marketing mix strategies that can be implemented to proactively manage the problems and help generate sales growth.

To accomplish this aim, the researcher has investigated the following aspects:

- A great number of organisational life cycles have been proposed before. A general organisational life cycle model for all businesses is first identified in the literature review. The empirical part of this study then aims to verify if these general life cycle stages are applicable to the businesses of independent financial advisers or if, alternatively, they progress through another set of life cycle stages. A decision is then made about the life cycle stages that form the basis of the study's proposed framework.
- The literature review of this study further focuses on various problems that independent financial advisers can possibly experience in their business life cycle. Various potential marketing mix strategies that can be implemented to solve these problems are also determined. However, since guidance

on sales growth is needed, the researcher focuses on potential marketing mix solutions to the problems that can simultaneously aid in generating sales growth. To provide additional support to independent financial advisers, the various possible problems that can hinder the implementation of the potential marketing mix strategies as well as their possible counterstrategies also receive attention in the literature review. The empirical investigation verifies if these potential problems and strategies proposed do in actual fact occur in the business life cycle of independent financial advisers.

- The results of this investigation are then portrayed in the proposed framework to provide a realistic indication of the various problems confronting independent financial advisers in their business life cycle. The framework also indicates the confirmed strategies that can be implemented to solve these problems.

1.5 RESEARCH OBJECTIVES

The primary objective of this study can be described as follows:

1.5.1 Primary research objective

This research study aims to propose a marketing mix framework for independent financial advisers that will portray the various factors threatening their survival and growth in their organisational life cycle. It will also show the various marketing mix strategies that can be implemented to proactively manage the problems and help generate sales growth.

1.5.2 Secondary research objectives

More specific to this study, the achievement of the following secondary research objectives will assist in achieving the primary research objective:

- To obtain clarity on the **business phases** of independent financial advisers.
- To determine the **problems** actually posing a threat to the business survival of independent financial advisers in their organisational life cycle.
- To gain insight into confirmed **marketing mix solutions** that can assist in overcoming the actual problems posing a threat and hindering sales growth in their organisational life cycle.

- To establish confirmed **marketing mix strategies** in their organisational life cycle that are likely to engender sales growth.
- To investigate the **internal and external environmental factors** that are actually posing a hindrance to the implementation of the confirmed marketing mix strategies in their organisational life cycle.
- To determine confirmed **strategies** that can be employed to **counter** the environmental factors actually posing a hindrance in their organisational life cycle.

1.6 IMPORTANCE AND VALUE OF THE STUDY

In addition to contributing to the literature of small business growth, the results of this study also provide the following benefits:

- The proposed framework resulting from this study provides additional assistance to the small businesses of independent financial advisers for the survival and growth of their businesses in an increasingly complex business environment, of which legislation forms an integral part.
- The research results also make a valuable contribution to the theory on the application of marketing mix principles and the organisational life cycle concept.
- The study provides assistance to other institutions regarding the application and training of small business principles and services marketing.
- Finally, only a small amount of research has been conducted in South Africa in terms of independent financial advisers. The results contribute to and assist with future research on independent financial advisers specifically.

1.7 RESEARCH METHODOLOGY

To achieve the objectives which were stated in Section 1.5, the following research design was followed:

The study first consists of a *literature study* to provide the necessary background in support of the empirical part of this study. In this phase, a comprehensive review of related literature was conducted. Based on the literature findings, various research propositions were then formulated.

The field study was performed in two phases. In *phase one* telephone interviews were conducted with a number of financial advisers in Johannesburg to obtain more information regarding their business phases and to determine if they quailfied as respondents for the study. (Owing to the exploratory nature of this study and limited resources available, the researcher decided to interview independent financial advisers in the Johannesburg area only.) Based on the results obtained, personal interviews were then conducted with a sample of qualified respondents in *phase two.* The researcher investigated the various problems they experienced and strategies they had implemented in their businesses.

The telephone and personal interview questionnaires are based on the literature study and were pretested among a small number of advisers with characteristics similar to the respondents of this study. A convenience sampling method was used to draw the respondents from the FSB's database of registered financial advisers.

The data obtained from the field was coded and captured into a statistical software package. A number of tables as well as descriptive and advanced statistical methods were used to analyse the results. The research design regarding the methods, techniques and measurement instruments implemented in this study are discussed in greater detail in chapter five.

1.8 CLARIFICATION OF KEY CONCEPTS

The key concepts used in this research are explained below.

- **Marketing mix**

  The Encyclopaedia of Business Finance (2006) describes the marketing mix as constituting the major areas of decision-making in the marketing process that are intermingled to achieve the desired results for the business. According to Gronroos (1997), "the marketing mix developed from a notion of the marketer as a 'mixer of ingredients". The marketer plans various means of competition and blends them into a 'marketing mix' so that a profit function is optimised, or rather satisfied". Borden formulated the marketing mix concept in the 1950s. Twelve elements were initially introduced and were later condensed by McCarthy (1960) to four (Gronroos, 1997). Ennew and Waite (2007:172) explain that the tools that make up the marketing mix are frequently labelled the 4P's – referring to the product, price, promotion and place elements.

The *product element* refers to anything tangible or intangible that can be offered to clients to purchase and consume. More specifically, consumers can physically touch a tangible product. An intangible product refers to a service, which cannot be touched such as income tax preparation. The *price element* refers to the amount of money the client would be willing to pay for the tangible or intangible product offering (Encyclopaedia of Business Finance, 2006). Herbst (2001:44) indicates that the *place element* refers to the channel of distribution that is used to deliver the products and services to the market. The *promotional element* involves a communication process that occurs between a business and its various stakeholders (Encyclopaedia of Business Finance, 2006).

Because of the intangibility and inseparability characteristics of services, services marketing started including people, physical evidence and processes as part of its marketing mix (Zeithaml & Bitner, 1996:25–26). The *people element* refers to all the human actors who play a part in the service delivery and as a result have an impact on the buyer's perceptions. These include the business's personnel, the client and other clients in the service environment (Zeithaml & Bitner, 1996:26). The *physical element* represents the environment in which the service is delivered and where the business and client interact, as well as any tangible parts that enable performance or communications of the service (Zeithaml & Bitner, 1996:26). The *process element* refers to the concrete procedures, mechanisms and flow of activities by which the service is provided to clients, that is the service delivery and operating systems (Zeithaml & Bitner, 1996:27).

- **Independent financial advisers**

Independent financial advisers are individuals or businesses that sell financial products. They would normally operate small businesses and are expected to give "best advice" when recommending products to clients (UK Association of Independent Financial Advisers, 2001; Wright, 2008).

- **Small business**

According to Burger (2009), in terms of section 12E(4) of the Income Tax Act

58 of 1962, a small business can be characterised as follows:

- A close corporation (CC), co-operative or a private company.
- The business does not earn a gross income of more than R14 million.
- All the shareholders are natural persons.
- The shareholders do not earn interest in the equity of another company.

- **Small business management versus entrepreneurial organisations**

According to Venter, Urban and Rwigema (2008:8) the term small business management relates to the management activities (limited in scope) of an established business or the launch of a business. Not all small businesses, however, are entrepreneurial as some of them only have limited growth ambitions. Entrepreneurial organisations aim for high growth and can be characterised by innovation, growth potential and strategic objectives (Venter *et al*., 2008:9).

(In Section 1.3.3 it was mentioned that although some small business owners might argue that they do not want to grow, all businesses have to adjust to changing environments and changing client needs and that marketing could help with this process. It was also stated that there are further common threats between the disciplines of marketing and entrepreneurship and the concepts of innovation, creativity, idea generation and opportunity identification form part of the philosophies of both fields. Accordingly, it was highlighted that marketing should therefore be approached as a major domain within the entrepreneurship discipline.

For this reason, although this study does acknowledge the difference between small business management and entrepreneurship, the researcher will investigate entrepreneurial strategies in the literature review and then further test them among independent financial advisers – <u>regardless of whether they have the intention to grow or mainly wish to survive</u>. These strategies that will be found within the common domain of marketing and entrepreneurship will then be included in the proposed framework (for advisers who mainly wish to survive and those who want to grow), should it appear that they do provide assistance with the changing environment and business continuity.)

- **Organisational life cycle**

  Organisational growth models are based on a biological metaphor – that businesses represent living organisms (Encyclopedia of Small Business, 2008; Lester & Parnell, 2008:541; McMahon, 1998) which, similar to humans, are also born, grow and eventually die (Lester & Parnell, 2008:541; Lester *et al*., 2002). The life cycle stages vary per model and are reliant on the manner in which the researcher defines an actual stage. Because the definitions for each model are different, models that range from three to ten stages have been developed (Lester & Parnell, 2008:541).

1.9 CHAPTER OUTLINE OF THE STUDY

The rest of the study has the following chapter outline:

Chapter two is devoted to gain a better understanding of the general life cycle of a business and the potential problems independent financial advisers could experience in this life cycle. The chapter also provides more insight into the context of the financial services industry and the types of marketing practices that are required to be successful in this sector. These findings then provide the needed guidelines for **chapter three** to identify practical marketing mix strategies, which independent financial advisers could possibly implement to address the potential problems identified. However, since guidance on sales growth is needed as well, chapter three focuses on potential marketing mix solutions to the problems that can simultaneously aid in generating sales growth. **Chapter four** is dedicated to determining the various potential internal and external environmental factors that can possibly hinder the implementation of the proposed marketing mix strategies. Potential strategies that can be implemented to counter these environmental factors are also investigated. Based on a comprehensive summary of the study's literature findings, the research propositions for the empirical part of this study are formulated at the end of chapter four.

Chapter five is devoted to the research methodology of this study and focuses on defining the population, sample, measuring instrument and the statistical analyses.

In **chapter six** the results of the empirical investigation are revealed. The purpose of **chapter seven** is to explain and critically evaluate the major findings of this study. Based on these findings the proposed framework is also constructed. The final part of chapter seven covers the limitations of this study as well as the recommendations for future research.

1.10 APPROACH TO LITERATURE SOURCES AND REFERENCE TECHNIQUE

The most recent literature sources available on the research topic were consulted at all times. However, a number of significant organisational life cycle models have been proposed over the past few decades and their contribution to the literature theory are still acknowledged today in more recent studies (Hill *et al*., 2002:362–363; Lester & Parnell, 2008:540–553; Lester *et al*., 2003:339–353). Consequently, to ensure that a substantial review was given of all the major contributions to the organisational life cycle concept, older business life cycle studies were also examined.

Finally, the Harvard referencing technique was used to quote references in this study.

1.11 SUMMARY

Independent financial advisers in South Africa are subject to the Financial Advisory and Intermediary Services Act (37 of 2000). Financial advisers, in terms of the Act, are required to meet certain fit and proper requirements and adhere to a code of conduct. As a result of these requirements, financial advisers have to evaluate their business models and restructure them in such a way that they comply with the requirements specified in the Act. Focusing predominantly on compliance related activities, however, might destroy the business. These advisers also have to address different problems as they progress through the life cycle stages of their businesses.

The development, growth and continued survival of a small business are reliant on whether the small business owner has the necessary competencies and skills to manage and steer the small business in the right direction. Due to the diverse range of problems that are experienced, different management skills, priorities and structural configurations are needed in different stages of business development.

A number of academics, however, are of the opinion that small business owners do not have the ability to manage the growth related transitions effectively. It appears that additional guidance is needed to assist independent financial advisers with the survival and growth of their small businesses.

The organisational life cycle concept can be of assistance to these advisers. The organisational life cycle model can be used as a tool for long-term planning where management, who understands the issues, challenges (current and future) and problems at each stage, will review the plans and strategies of the business, to prepare for the future. It further became evident from the literature review that marketing mix strategies (which are an important element in the marketing of the business) can be used to solve the problems small business owners experience and can also help to produce more sales growth.

Until now, only a small amount of research has been conducted in this area and no formal research study has proposed a marketing mix framework for independent financial advisers, portraying the various factors threatening their survival and growth in their organisational life cycle, as well as the various marketing mix strategies that can be implemented to proactively manage the problems and help generate sales growth.

This study proposes such a framework to offer additional assistance regarding business survival and sales growth to independent financial advisers operating small businesses in an environment governed by strict legislation.

To accomplish the study's objective the researcher investigates the organisational life cycle of independent financial advisers as well as the various problems they experience in their businesses and the marketing mix strategies they implement for business survival and sales growth. The literature review in chapter one provides more insight into these concepts, which will be explored later in this study.

In the remaining part of chapter one, the value of this study was highlighted, a short description of the research methodology was given and the main concepts of this study were clarified. This chapter concluded with a chapter outline of the study as well as the approach to literature sources and reference technique that will be used.

Chapter two is devoted to gaining a better understanding of the general life cycle of a business and the potential problems independent financial advisers could experience in this life cycle. The chapter will also provide more insight into the context of the financial services industry and the types of marketing practices that are required to be successful in this sector.

Chapter Two

The general business life cycle model: problems and solution guidelines

2.1 INTRODUCTION

In chapter one it was decided that in order to assist independent financial advisers to survive and grow in their competitive and complex business environment, this study would aim to propose a marketing mix framework that portrays the various factors threatening their survival and growth in their business life cycle. This framework would also show the various marketing mix strategies that can be implemented to proactively manage the problems and help generate sales growth.

Chapter two has a threefold purpose.

In the first part of this chapter, the work of a number of authors is consulted to gain a better understanding of the general life cycle of a business.

The second part of this chapter investigates potential problems independent financial advisers could experience in the general business life cycle.

The final part of this chapter provides more insight into the context of the financial services industry and the types of marketing practices that are required to be successful in this sector. These findings assist in providing the needed guidelines to identify practical marketing mix strategies in chapter three, which independent financial advisers could possibly implement to address the potential problems as identified in this chapter.

2.2 THE GENERAL BUSINESS LIFE CYCLE MODEL

Section 1.3.1 indicated that the organisational life cycle concept has been an area of interest for organisational theorists for many years. It was further emphasised that organisational growth models are based on a biological metaphor – that businesses represent living organisms which, similar to humans, are also born, grow and eventually die.

According to Lester and Parnell (2005), there is no debate about the validity of applying the biological concept of the life cycle to businesses. The point of dispute is rather about how many stages of growth are appropriate to describe the construct adequately.

A basic assumption in any organisational life cycle model is that there are regularities in business development and that these regularities can be grouped into discrete stages (Dodge & Robbins, 1992; Smith *et al*., 1985). The number of life cycle stages per model, however, varies depending on what the researcher sees as a life cycle stage (Lester & Parnell, 2008:540).

Table 2.1 below provides a brief summary of some of the organisational life cycle models that have been proposed before, as well as the dimensions that were used to define the different life cycle stages.

Table 2.1: Summary of proposed organisational life cycle models and dimensions used to determine the stages

Organisational life cycle model	Number of stages	Stage labels	Research approach followed	Type of life cycle model	Empirically tested	Dimensions used to define the life cycle stages
Miller and Friesen (1984)	5	Birth Growth Maturity Revival Decline	Investigated 54 variables of strategy, structure, environment and decision-making style of businesses that had been in existence for at least 20 years.	Large business model	Yes	Age Number of employees Sales growth Size Ownership Environment Strategic variables
Smith et al. (1985)	3	Inception High growth Maturity	Used a simulation study and a field study to investigate their hypotheses that different stages in the business life cycle engender different priorities among top-level managers.	Small business model	Yes	Age Sales (size) Employees (size) Growth rate Priorities of top management
Lester and Parnell (2008)	5	Existence Survival Success Renewal Decline	Tested a 25-item scale among practising managers.	General life cycle model	Yes	Structure Specialisation/differentiation Information processing Decision-making Participation
Ferreira (2000)	5	Birth Expansion Maturity Diversification Stagnation/decline	Used a cluster analysis to obtain a taxonomy of configurations of development stages.	Small business model	Yes	Age Size Growth rate Vertical differentiation Structural form Formalisation Specialisation Centralisation

Organisational life cycle model	Number of stages	Stage labels	Research approach followed	Type of life cycle model	Empirically tested	Dimensions used to define the life cycle stages
						Total sales Sales growth Total employment Employee growth
Churchill and Lewis (1983)	5	Existence Survival Success - disengagement/ Success - growth Take-off Resource maturity	Managers of successful small businesses were consulted to review the small business life cycle model as proposed by previous researchers.	Small business model	Yes	Age Size Growth rate Major strategies

Source: Bessant, Phelps and Adams (2005); Churchill and Lewis (1983); Ferreira (2000); Hanks et al. (1993); Kiriri (2004); Lester and Parnell (2008:540, 542–546, 548); McMahon (1998); Miller and Friesen (1984:1161, 1165, 1168); Poutziouris et al. (1999:142); Smith et al., (1985) While many different types of organisational life cycle models have been identified, a number of researchers argue that there is a great similarity between the business models proposed.

Hanks *et al*. (1993), for example, after reviewing ten organisational life cycle models, indicated that businesses progress through the following five general life cycle stages:

- **Start-up:** characterised by a young small business whose activities are highly centralised and which aims to identify a niche market.
- **Expansion:** while the business is still centralised it has now become departmentalised and experiences rapid positive growth.
- **Maturity:** the business has grown in size, but the growth rate is slowing down. The business is characterised by bureaucracy.
- **Diversification:** the business is still formal and bureaucratic, but has now become divisionalised and decentralised and focuses on expansion.
- **Decline:** the growth rate of the business is declining and the business is becoming more centralised again.

Quinn and Cameron (1983:35–37) in another study reviewed nine organisational models and proclaimed that businesses evolve through four general life cycle stages: *the entrepreneurial stage* (entrepreneurial activities with little planning and coordination, aims to serve a niche market); *the collectivity stage* (informal structure and high commitment); *the formalisation and control stage* (stable structure, formalisation of rules and conservatism) as well as *the elaboration and structure stage* (decentralisation, business renewal and domain expansion).

However, the general life cycle models proposed by Hanks *et al*. as well as Quinn and Cameron do not provide a clear picture of the general life cycle stages of a business. While there are similarities between the two sets of general life cycle stages proposed, there are also a number of differences.

Subsequently, in search of a justifiable general life cycle model that could be representative of the businesses of independent financial advisers, the researcher decided to focus on the five organisational life cycle models that are listed in

Table 2.1. (In addition to representing small, large and general organisational life cycle models, all the models listed in Table 2.1 have also been empirically tested. Furthermore, the models proposed by Miller and Friesen (1984) as well as Smith *et al*. (1985) are also based on previous organisational life cycle models and the models proposed by Lester and Parnell (2008) and Ferreira (2000) represent more recent research studies.)

A comparison between the stages of the different models was made to determine if common patterns of development could be identified. The results of this investigation are presented in Section 2.2.1 below.

2.2.1 General life cycle stages of a business

Businesses, when they are born, endeavour to create a viable product market strategy (Churchill & Lewis, 1983; Lester & Parnell, 2008:543; Miller & Friesen, 1984:1169). This is accomplished primarily through trial and error as the business searches for innovative products and services that generate distinctive competencies and that can be offered in a niche market (Miller & Friesen, 1984:1169). According to Churchill and Lewis (1983), a key question that is asked at birth is "… can we get enough customers, deliver our products, and provide services well enough to become a viable business?"

A further characteristic at birth is that the business is small (Ferreira, 2000) when measured in absolute terms as well as relative to their competitors (Miller & Friesen, 1984:1170). Ownership is held in the hands of one or a very few individuals (Lester & Parnell, 2008:543; Miller & Friesen, 1984:1170). The business has a simple structure, is centralised and the owner manager delegates very little authority (Churchill & Lewis, 1983; Ferreira, 2000; Lester & Parnell, 2008:543; Miller & Friesen, 1984:1170; Smith *et al*., 1985). The business owner directly supervises his or her employees. There are very limited or no formal planning actions or systems in place (Churchill & Lewis, 1983). An intuitive rather than an analytical mode of decision-making is used and the business is normally more proactive than its older counterparts (Miller & Friesen, 1984:1170). The business shows slow but positive growth (Smith *et al*., 1985) and the objective of the business is simply to stay alive (Churchill & Lewis, 1983). Since the business predominantly deals with a small market, it is undifferentiated (Miller & Friesen, 1984:1170).

If the business succeeds in obtaining enough clients and addressing their needs sufficiently with its products or services, it will be facing a new challenge. According to Churchill and Lewis (1983), one of the key questions that should then be asked is "… can we, at a minimum, generate enough cash flow to stay in business and to finance growth to a size that is sufficiently large, given our industry and market niche, to earn an economic return on our assets and labor?"

The business at this stage still has a simple format, orders are still given by the business owner and very few formal planning actions and systems are in place. The major objective of the business is also still survival (Churchill & Lewis, 1983). Churchill and Lewis label this point in the business's life cycle the "survival stage". However, given that the other characteristics of the business are very similar to the birth phase, it can be argued that the cash flow problem is still a matter that the business has to face at start-up.

At some point after start-up, the business will then enter an era of growth. Businesses are now larger (Ferreira, 2000; Miller & Friesen, 1984:1171) and focus on growth and early diversification (Lester & Parnell, 2008:543; Miller & Friesen, 1984:1171). The diversification strategy of the business can take on two forms. Firstly, product lines are expanded to provide a more complete range of products for a specific market. Secondly, products are also modified to meet the needs of a new market. Market segmentation consequently begins to play an important part in the business, where the niche market strategy is now abandoned to serve broader markets. Because of this approach, though, there is more direct confrontation with competitors (Miller & Friesen, 1984:1170–1171).

The business is also becoming less centralised (Ferreira, 2000; Lester & Parnell, 2008:543; Miller & Friesen, 1984:1171) with more formal procedures (Ferreira, 2000; Smith *et al*., 1985). Different departments like marketing and accounting are established and the business owner is less involved with routine administration (Ferreira, 2000; Lester & Parnell, 2008:543; Miller & Friesen, 1984:1171). The customers rather than the owners influence the decisions to be made. Less risk is taken and the business is not as proactive anymore. However, the business can by no means be described as conservative (Miller & Friesen, 1984:1171).

According to Smith *et al*. (1985), businesses at this point experience a high growth rate. This is not always the case, however. Lester and Parnell (2008:543) postulate that some businesses do prosper and grow larger. Other businesses, though, only earn marginal returns in some years or fail to generate sufficient returns and survive.

Churchill and Lewis (1983) hold a similar view of the growth era of a business. They, for example, also believe that as businesses grow the structure will change from a simple format to a more complex one with managers performing specific roles and that there will be more formal systems in place.

The only difference is that Churchill and Lewis (1983) provide a more detailed explanation of the choices that the business owner will have to make in the growth era as well as the matters that will have to be considered to ensure business success.

More particularly, the business owner, for example, will first have to decide whether he or she wants to expand and exploit the business's successes or whether he or she rather wants to keep the business stable and profitable (Churchill & Lewis, 1983). If the business owner decides not to expand the business, the business can remain at this point indefinitely, provided that environmental changes do not destroy its unique offering to a specific market (Churchill & Lewis, 1983). (This provides more perspective on the statement that was made by Lester and Parnell (2008:543) that some businesses in the growth era only earn marginal returns in some years or fail to generate sufficient return and survive.)

If the business owner decides that he or she wants to expand and exploit the business's success, he or she will have to use all available resources to generate growth (Churchill & Lewis, 1983).

This type of business will then progress to a more advanced part of the growth era, where it will be confronted by a new set of challenges that need to be addressed to generate high growth. The business owner, for example, will have to be able to delegate responsibility to other employees to improve the managerial effectiveness of a fast-growing and more complex business. Sufficient cash flow is then also required (Churchill & Lewis, 1983).

Businesses that experience high growth will, after a period of time, reach maturity and slow down (Ferreira, 2000; Miller & Friesen, 1984:1172; Smith *et al*., 1985).

These types of businesses are more conservative, risk averse and also larger than those in the birth or growth eras (Ferreira, 2000; Miller & Friesen, 1984:1171–1172). They do not engage in major innovation but rather follow the actions of their competitors that focus on the same target market. Since the objective of the businesses is to create more efficient and profitable operations, they avoid any costly changes in product lines and rather focus on economical production and the preservation of their sales volume (Miller & Friesen, 1984:1171–1172).

The business structure is still functional (Ferreira, 2000; Miller & Friesen, 1984: 1172), but ownership is more dispersed and professional managers run the business (Churchill & Lewis, 1983; Miller & Friesen, 1984:1172; Smith *et al*., 1985). Power and control, however, are situated at the top, the business remains fairly centralised and there is less delegation than in the growth era (Miller & Friesen, 1984:1172). The business is concerned with cost control, budgets and performance measures (Churchill & Lewis, 1983; Miller & Friesen, 1984:1172) and makes use of, for example, formal writing reports (Smith *et al*., 1985). According to Lester and Parnell (2008:543), job descriptions, policies and procedures and hierarchical reporting relationships are also more formal than in the previous two eras. This, however, can lead to the problem of "red tape" – "… a condition of wading through layers of organizational structure to get anything accomplished" (Lester & Parnell, 2008:543).

According to Lester and Parnell (2008:543), a business in the maturity stage might after a while have the desire to return to a leaner time, where collaboration and teamwork promote innovation and creativity.

Businesses that seek revival are normally larger than any of the businesses in the other eras and usually engage in major and minor product line and service innovations (more so than in any other period). The business is also becoming more diversified and enters new markets. The stagnation of the maturity phase is subsequently reversed with new products tailored to specific market segments. New markets, though, result in new competitors that the business has to face, which creates higher environmental dynamism than in any of the previous eras (Miller & Friesen, 1984:1173).

Similar to the maturity era, the ownership of the business is also widely dispersed. The business has divisionalised structures (Ferreira, 2000) to deal with the increased market heterogeneity. The strategy-making power may be highly centralised but the operating decisions are made in the different divisions (Miller & Friesen, 1984:1173–1174). The business has highly sophisticated control systems (Miller & Friesen, 1984:1173) and a large number of specialised functions (Ferreira, 2000). While the business is still bureaucratic, the employees are encouraged to perform their duties without adding to the bureaucracy (Lester & Parnell, 2008:543). The overall decision-making style of the business is inventive, proactive and risk embracing. This is, however, different from the birth and growth eras, as the solutions are generated by groups of experts who have analysed the problem in detail (Miller & Friesen, 1984:1173–1174). The business is also becoming more responsive to the needs of the market (Lester & Parnell, 2008:543; Miller & Friesen, 1984:1174). Sales growth is higher than in the maturity era (Ferreira, 2000).

The comparison between the different life cycle models proposed also reveals that businesses that are not able to meet the external demands of a former stage can enter an era of decline, where they experience a weakening in profit and market share (Ferreira, 2000; Lester & Parnell, 2008:543–544).

In reaction to their situation, these types of businesses normally become stagnant. In an attempt to preserve their resources, they do not engage in any new product or service developments. However, this approach can lead to negative consequences. Unattractive product lines result in poor sales. Because of poor sales, there are insufficient funds to develop new offerings. The business is consequently forced to cut prices to maintain sales (Miller & Friesen, 1984:1174–1175).

Additional characteristics of businesses in the decline era are that they are normally centralised and the board of directors and shareholders have more power and control – even in routine decision-making (Ferreira, 2000; Lester & Parnell, 2008:544; Miller & Friesen, 1984:1174). The business is similar in structure to the growth era (Ferreira, 2000) and top management spend most of their time "handling" the crisis, leaving no room for analysis. A conservative approach is followed when making decisions. Communications between the different departments are poor and the business is also not fully aware of competitor activities. There is a lack of well-developed information processing mechanisms and strategic planning. The emphasis is on what the business owners want (for example preservation of capital) rather than what the needs of the clients are (Miller & Friesen, 1984:1174–1175). This explains why the decline era is marked as a period of politics and power (Lester & Parnell, 2008:543).

The market scope of the business is also smaller, making the business more vulnerable. If the business fails in one market, a product line in another market segment cannot support the business. A smaller market also places more competitive pressure on the business (Miller & Friesen, 1984:1174–1175).

Therefore, based on the discussion above, it is evident that all five organisational life cycle models indicate that businesses at some point are born, grow and mature. (Churchill and Lewis (1983) were the only authors that claim that a business progresses through more than two life cycle stages to reach maturity. As pointed out in the above discussion, though, their life cycle model is also built around the themes of birth, growth and maturity.)

There is also sufficient reason to believe that businesses can further experience a revival and decline era, since three of the life cycle models (Ferreira, 2000; Lester & Parnell, 2008; Miller & Friesen, 1984) mention these phases.

In view of the findings reported in this section, it appears that businesses can progress through five general life cycle stages, namely birth, growth, maturity, revival and decline. Table 2.2 below provides a detailed summary of these stages.

Table 2.2: Summary of the general life cycle stages of a business

	Birth	Growth	Maturity	Revival	Decline
Former life cycle stages considered	1) Existence and survival (Churchill & Lewis, 1983) 2) Existence (Lester & Parnell, 2008) 3) Birth (Ferreira, 2000) 4) Inception (Smith *et al*., 1985) 5) Birth (Miller & Friesen, 1984)	1) Success (disengagement /growth) and take-off (Churchill & Lewis, 1983) 2) Survival (Lester & Parnell, 2008) 3) Expansion (Ferreira, 2000) 4) High growth (Smith *et al*., 1985) 5) Growth (Miller & Friesen, 1984)	1) Resource maturity (Churchill & Lewis, 1983) 2) Success (Lester & Parnell, 2008) 3) Maturity (Ferreira, 2000) 4) Maturity (Smith *et al*., 1985) 5) Maturity (Miller & Friesen, 1984)	1) Renewal (Lester & Parnell, 2008) 2) Diversification (Ferreira, 2000) 3) Revival (Miller & Friesen, 1984)	1) Decline (Lester & Parnell, 2008) 2) Decline (Ferreira, 2000) 3) Decline (Miller & Friesen, 1984)
Product market strategy	1) Focus on becoming a viable business 2) Search for innovative products and services that generate distinctive competencies and that can be served in a niche market 3) Undifferentiated	1) Expanded product line for same market 2) Modify products to meet the needs of a new market	1) Do not engage in major innovations 2) Follow actions of competitors who focus on same target market	1) Major and minor product line and service innovations 2) New products tailored to specific market segments	1) To preserve resources, do not engage in any new product or service developments 2) Cut prices to maintain sales 3) Smaller market scope
Structure	1) Simple 2) Owned by one or a very few individuals 3) Business owner directly supervises employees	1) Functional 2) Owner is less involved in routine administration	1) Functional 2) Power and control are situated at the top 3) Professional managers run the business	Divisionalised	Functional
Centralisation	Centralised and owner delegates little authority	Less centralised	Fairly centralised	Strategy-making power is centralised, but the operating decisions are made in the	1) Centralised – board of directors and shareholders have more power and control

	Birth	Growth	Maturity	Revival	Decline
				different divisions	2) Period of politics and power (more emphasis on managers' needs than on the clients' needs)
Planning and systems	Very little or no formal planning or systems in place	Formal procedures	More formal procedures than the previous two stages (red tape)	Highly sophisticated control systems	Lack of well-developed information processing mechanisms and strategic planning
Mode of decision-making	1) Intuitive rather than analytical 2) More proactive than older counterparts	1) The customer rather than the owner influences decisions 2) Business is less proactive and more risk averse, but not conservative	Conservative and risk averse	Inventive, proactive and risk embracing (but unlike birth and growth stages, solutions are generated by experts)	1) Conservative 2) Top management spend most of their time "handling the crises", leaving no room for analysis
Growth	Slow but positive	Marginal to high returns if survive	Slower than the growth stage	Higher than the maturity stage	Weakening profits and poor sales
Business objective	To stay alive	Growth and early diversification	Economical production and preservation of sales volume	Desire to return to a leaner time and revive the business	Preservation of resources

The next question that would now need further investigation is if businesses relentlessly progress in a sequential manner through these five general life cycle stages.

This matter is addressed in the following section.

2.2.2 The sequential nature of organisational life cycle stages

According to Quinn and Cameron (1983:33), organisational life cycle stages are "… sequential in nature, occur as a hierarchical progression that is not easily reversed, and involve a broad range of organizational activities and structures".

While this view is also supported by other academics (Encyclopedia of Small Business, 2008; Dodge & Robbins, 1992), over the years a number of researchers took a stance against this approach. It was believed that the development of businesses from one stage to the next is not a fact and that it was a weakness of earlier models to assume that businesses would progress through all the life cycle stages (Sha, 2006).

The arguments that were used included the following:

The life cycle is more of a collective interpretation of the business's environment and is based on top management's judgement. Most businesses do not progress relentlessly from one stage of development to another in the traditional biological context (Lester & Parnell, 2003:340). The life cycle concept does not exist. A business's life cycle and patterns are the product of its environment (Siu & Kirby, 1998:50). The life cycle of businesses in the real world does not follow the smooth S-shaped curve normally theorised. The curve of most businesses is a line with many ups and downs (Timmons & Spinelli, 2007:260).

Some researchers further argue that the progression of a business from one life cycle stage to another is a matter of strategic choice, expertise and resources. Not all small businesses want to (Hogarth-Scott *et al*., 1996:15; McMahon, 1998; Scott & Bruce, 1987:45; Siu & Kirby, 1998:49–50) or have the resources and expertise to grow their businesses (McMahon, 1998). Churchill and Lewis (1983), for example, note that many businesses never obtain adequate client acceptance or product capability to become viable and have to close the business when the start-up funds are depleted. In other cases the businesses cannot accept the demands that are placed on their time, money and energy and consequently throw in the towel. Businesses can also stay alive, but not progress to another stage. There are many businesses that remain within a particular stage, either by choice or because they experience barriers to further development (Mount, Zinger & Forsyth, 1993:111).

It is, however, in the results of the longitudinal research study that was conducted by Miller and Friesen (1984:1175–1176) on the organisational life cycle concept that more clarity about this matter can be gained.

Miller and Friesen's study reveals that some businesses surveyed did display a long-term evolutionary pattern that was roughly in line with the life cycle literature. These businesses did progress from birth, to growth, to maturity and then to revival in a sequential manner. However, there were also a large number of exceptions. Some of the businesses in the revival stage reverted back to the maturity phase. (An unsuccessful attempt to diversify the business was provided as a possible reason.) There were also businesses in the decline stage that progressed to the maturity and revival stages. Miller and Friesen (1984:1177) concluded that "… while the stages of the life cycle are internally coherent and very different from one another they are by no means connected to each other in any deterministic sequence". The maturity stage could, for example, be followed by the decline, revival or even growth stage; the growth stage could be followed by the maturity or the decline stage; the revival stage may be before or after the decline stage and so on. There is no common corporate life cycle, **but there are indeed life cycle stages common to every business, which are different from one another** (Miller & Friesen, 1984:1177).

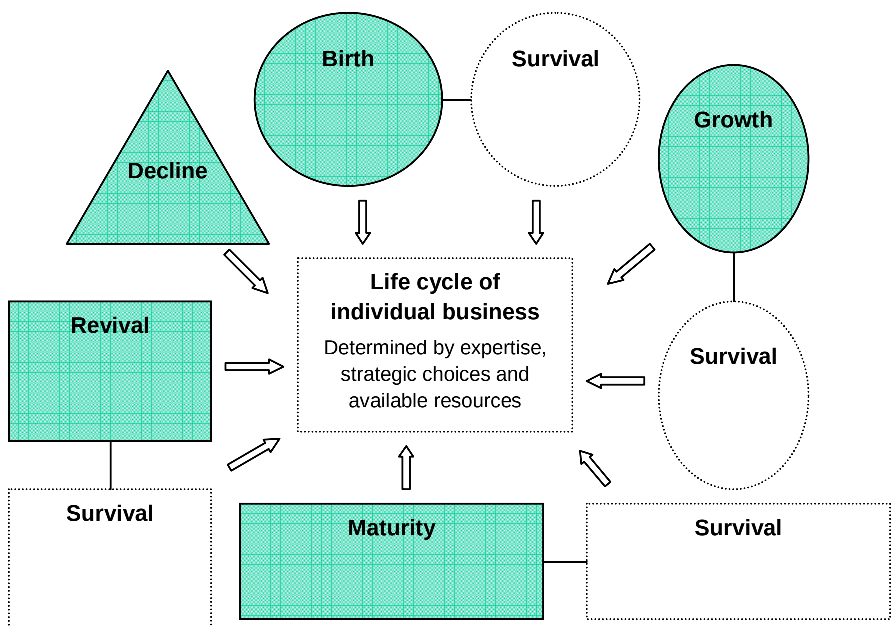
In the light of the discussion above, it appears that while there are general life cycle stages common to businesses, organisations do not progress relentlessly in a sequential manner through them. The development of the business can take on any form. Moreover, based on the contributions that were made by McMahon (1998), Hogarth-Scott *et al*. (1996:15), Siu and Kirby (1998:49–50), Scott and Bruce

(1987:45), Mount *et al*. (1993:111) and Churchill and Lewis (1983), it seems that the business's resources as well as its expertise and strategic choices play an important role to determine, at any point, if it will progress to the next stage, remain at the current stage or deteriorate and perhaps die. (The strategic choice to simply survive in the current stage is therefore not restricted to the growth phase, as might have seemed to be the case in the comparison between the five life cycle models in Section 2.2.1.)

Finally, it also appears that businesses that stop growing in a specific stage seem to keep the structure of that particular stage. According to Miller and Friesen (1984:1177), "… the structures of no-growth firms may become arrested at the life-cycle stage in which strategy and size become fixed. Firms may then be similar to others within their stage but fail to progress to a different phase of the life cycle".

Based on the findings of Section 2.2, it is now possible to provide a graphical illustration of the general business life cycle model:

Figure 2.1: The general business life cycle model



Source: Author's own work (Adapted from the literature review)

The five general life cycle stages (birth, growth, maturity, revival and decline) that have been identified in this section are depicted in green. As each general life cycle stage has its own unique characteristics, different shapes were used to illustrate them. Each shape also has a duplicate form, representing the businesses that have the characteristics of that particular stage, but that stop developing and are simply in a state of survival. (Since the decline stage is representing businesses in demise, a duplicate survival form was not created for this stage.)

Arrows point from each shape to the centre of the diagram, which represents the life cycle of the individual business. At birth the business will start with a "clean sheet". As the business then develops, its sheet will be filled with a "chain" of general life cycle stages. This chain will be unique to the business and will be based on the business's expertise, available resources and the strategic choices it makes. The chain of general life cycle stages will then eventually stop when the business dies.

There is a great possibility that the general life cycle stages of this model, due to their universal appeal, could also be applicable to the businesses of independent financial advisers. Therefore, the literature review of this study focused on problems and strategies that can possibly occur in the general life cycle stages. The empirical part of this study aims to verify if these general life cycle stages are applicable to the businesses of independent financial advisers or if, alternatively, they progress through another set of life cycle stages. A decision is then made about the life cycle stages that form the basis of the study's proposed framework.

The decline stage, depicted in Figure 2.1, will not form part of this investigation. While this stage represents an important phase in the business, the process required to investigate this stage effectively is slightly more complicated.

According to Mellahi and Wilkinson (2004), there are two main approaches when it comes to exploring businesses in decline:

1. **Industrial organisation and organisation ecology schools** believe that where business failure is concerned, the information that can be obtained from the industry is more important than the information that can be provided by

the business. To conduct their research, industrial organisation schools use econometric models or large survey questionnaires, and organisation ecology schools use longitudinal analysis at a population level with complex calculations to explain, measure and predict business failure.

2. **Organisation studies and organisational psychology schools** use a small number of respondents to explain the reasons for business failure. Organisation studies literature suggests that successful businesses are susceptible to failure, because they are, for example, overconfident and arrogant. Organisational psychology schools believe that there are psychological reasons for business failure.

Mellahi and Wilkinson (2004) further indicate that industrial organisations and organisation ecology schools have been criticised because they focus mainly on external factors and cannot explain why some businesses fail and others succeed when facing the same industry-level constraints. Consequently, internal factors that could provide an important explanation of business failure are ignored. The weakness of the organisation studies and organisational psychology schools is that they rely too much on internal factors and the reasons for business failure are restricted to the perception of the managers interviewed.

To obtain a more accurate picture of the managerial cognitions and actions and the external context in which they occur, Mellahi and Wilkinson (2004) recommend that researchers use a combined approach when researching businesses in decline, consisting of survey questionnaires, archival data and interviews.

The purpose of this study, however, is mainly to conduct a small-scale exploratory investigation into the problems independent financial advisers experience and the strategies they implement in their business life cycle. Because a more detailed investigation process is required to obtain an adequate understanding of the decline stage, the researcher decided to exclude this stage from this study.

In the next section the potential problems independent financial advisers could experience in the general business life cycle are explored further.

2.3 BUSINESS OBSTACLES

Over the years a number of studies have been conducted to determine the obstacles confronting businesses.

Longenecker, Simonetti and Sharkey (1999), for example, investigated 359 front-line management personnel to establish why their businesses failed to achieve the desired results. The top 15 reasons that were identified as well as the insight that was gained from their input are summarised in Table 2.3 below.

Table 2.3: Reasons for business failure and insight gained

Reasons	Insight gained
Poor communication	An organisation where critical information does not flow in an effective and efficient fashion affects decision making, planning, problem solving and morale
Lack of focus and direction	Organisational action without clearly defined purpose
Lack of effective planning	Organisational action without the benefit of systematic forethought
Inability to change	An organisation incapable of adapting to the changing needs of the marketplace and environment
Conflicting performance goals	Organisational confusion and compromise about what issues have priority and are truly important at any given time
Lack of teamwork	Activity without the benefit of unified action creates inefficiencies, stress and operational conflicts
Poor customer service or relations	Lack of concern for both internal and external customers represents the ultimate loss of organisational focus and suggests an organisation out of touch with reality
Ineffective managers	Ineffective managers cannot create the environment and operating culture necessary for high performance and can cause untold damage to both customers and employees
Lack of workforce training/development	An undeveloped workforce cannot produce superior results when ability is lacking
Failing to remove performance barriers	Organisational performance barriers can damage overall performance and breed frustration and contempt for an organisation's leadership if not removed
Ineffective management development	Failing to develop managers, at all levels, can lead to complacency and create managers who are unprepared to lead others
Unresolved quality problems	Persistent quality problems signal that an organisation is not serious about customer satisfaction and continuous improvement
Unmotivated workforce	An unmotivated workforce produces inferior results and can stifle nearly any attempt at organisational improvement
Fear/negative organisational culture	A climate of fear and negativity stifles innovation, risk-taking, and proactive behaviour while increasing stress and communication breakdowns
Ineffective or negative feedback practices	Without effective performance feedback, people operate in the dark about how to improve performance and lose opportunities to celebrate success

Source: Longenecker *et al*. (1999)

Different obstacles were identified in other studies.

Watson, Hogarth-Scott and Wilson (1998), in their study of 166 small businesses, found that the most significant reasons for business discontinuance were poor trading conditions, not enough money earned by the business, cash flow problems and personal problems. Arinaitwe (2006) indicates that the small business owners' technological capabilities or lack thereof is one of the main reasons why they still continue facing growth challenges – despite the support provided by the government and other organisations. Without technological capabilities, small business owners find it difficult to compete and grow their businesses. In addition to this, Arinaitwe (2006) also indicates that businesses are challenged by a lack of financial resources, poor infrastructure and competition from larger and foreign businesses. Hill *et al*. (2002:366), in another study conducted among small business owners in Britain and the USA, discovered that the typical problems that can be experienced by these owners include location, changing client needs, lack of finance, rapid early growth, poor general management skills, declining sales, competition, service, price and a changing market environment. Huang and Brown (1999), in their investigation, identified marketing, human resource management and general management as major problems in a small business. Based on a research study of small business owners in Gauteng (South Africa), Brink, Cant and Lightelm (2003) claim that the success of the businesses is influenced by macroenvironmental variables, marketing related issues, management skills, management actions, social problems, human resource problems and financial problems. Zhuplev, Kon'kov and Kiesner (1998:511–512) identified the top business problems for small business owners in Russia and the United States as high taxes, government regulations, red tape, financing and the appointment of skilled employees.

Timmons and Spinelli (2007:260–261, 536–538), identified similar types of business obstacles, but went one step further and associated these problems with the different life cycle stages of a business.

The lack of empirical evidence rendered the model proposed by Timmons and Spinelli (2007:260–261, 536–538) unsuitable to be considered in the investigation of the general business life cycle stages. However, based on the findings of Section 2.2.1 it seems that the business context of four of the life cycle stages proposed by Timmons and Spinelli (2007:260–261, 536–538) correlate with the business context of the birth, growth, maturity and revival general life cycle stages. Table 2.4 below provides a summary of this correlation as well as a list of the problems Timmons and Spinelli (2007:260–261, 536–538) believe can occur in each particular stage:

Table 2.4: Correlation in context of life cycle phases and list of problems per stage

General life cycle stages as identified in Section 2.2.1	Growth phases indicated by Timmons and Spinelli (2007:260–261, 536–538, 618–621)	Area of correlation	Problems
Birth	Start-up and survival	Represent the business at birth Market is established Growth is slow but positive	An inability to meet the time standards required due to a lack of managerial delegation Unknown competitors have emerged in the market The business is struggling to achieve planned channels of distribution on time
Growth	Early growth	High sales growth can occur Less centralised	A lack of strategic thinking among the business owners who focus primarily on the operational side of the business Inadequate cost management that does not keep pace with the business growth Sales to new and existing clients are not achieved on time A lack of external networks to continue business growth Business owners who are not managing for results, as they attempt to perform all the tasks themselves and do not delegate A loss of clients due to poor customer services
Maturity	Maturity	More complex business structure (manager managing employees) Growth is slower than the growth stage	A decline in the sales of products or services offered due to perishability, competitor ignorance and offshore competition A lack of teamwork for a “greater purpose” and conflict over control of the business Partners that are in conflict over business control Inadequate financial resources
Revival	Harvest/stability	Period of renewal and reinvestment	A lack of new product and service developments An eroded opportunity, which facilitates very low profitability and return on investment for the business Business owners who are not prepared to sell equity and rather use bank debt to solve their financial resource requirements

Based on the similarities indicated in the table above, it appears that the problems depicted in Timmons and Spinelli's life cycle stages could also be present in the general life cycle stages: birth, growth, maturity and revival. There is then also a possibility that the independent financial advisers of this study could experience these problems in their life cycle stages.

Timmons and Spinelli (2007:536) further postulate that while there are a great variety of problems, which a business might have to concentrate on, the problems he highlights are particularly critical for the business and, if not overcome, can seriously imperil the business.

In view of this statement, the researcher therefore mainly investigated the problems that were pointed out by Timmons and Spinelli (2007:260–261, 536–538) among the independent financial advisers of this study. If it was found that they did experience these problems, it would be vital to identify appropriate solutions to them.

2.4 SOLUTION GUIDELINES

As stated in Section 1.9 the objective of chapter three is to identify possible marketing mix solutions to the potential problems identified in this chapter, which can then be further investigated among the independent financial advisers.

However, according to Ennew and Waite (2007:3), the "… product and market context exert a significant influence on the nature and practice of marketing. Marketing activities that are effective for fast-moving consumer goods may be wholly inappropriate when marketing fine art. What works in Canada may be ineffective in China. Accordingly, an appreciation of context is essential in order to understand the practice of marketing".

Independent financial advisers operate in the financial services sector. In view of the statement made by Ennew and Waite (2007:3), it is therefore necessary in the final part of this chapter to first conduct an investigation into the context of the financial services industry and the types of marketing practices that are required to be successful in this sector. These findings will then assist in providing the needed guidelines to identify practical marketing mix strategies in chapter three, which independent financial advisers could possibly implement to address the problems listed in Table 2.4.

2.4.1 The financial services environment and required marketing practices

According to Lovelock and Yip (1996:68), there are three broad categories of services that can be provided to clients:

- **People processing services:** these types of services are directed towards individuals and require the presence of the client for the service to be consumed.
- **Possession processing services:** these services attempt to add value to the client's possessions.
- **Information processing services:** these types of services aim to create value through the collection, managing and transmitting of information.

Financial services "are concerned with individuals, organisations and their finances – that is to say, they are services which are directed specifically at people's intangible assets (i.e. their money/wealth)" (Ennew & Waite, 2007:52). Financial services include stock trading, insurance, banking services, asset management, credit cards, foreign exchange, trade finance and venture capital. These services are designed to meet a number of different needs (Ennew & Waite, 2007:52).

Because financial services are directed towards clients' assets, they could partly be viewed as possession processing services. Most financial services, though, have the potential to be classified as information based, since they can be represented as information and delivered remotely (Ennew & Waite, 2007:67)

The financial services industry in South Africa is complicated and multifaceted. There are a wide range of products and services available and new options are added to the range on an almost daily basis. Changes in the external environment also have an impact on the structure of the financial services industry. Furthermore, technology enables innovative service providers to deliver their products and services in new ways (MBendi, 2000).

The following list therefore provides only some indication of the financial services provided in South Africa (MBendi, 2000)*:

- Banking
- Insurance
- Short-term insurance
- Group/employee benefits (pension funds, provident funds, funeral schemes, group life and disability benefits)
- Life assurance
- Health care insurance (medical aids, self-insurance programmes, health insurance)
- Investment services
- Managed funds (unit trusts)
- Other financial services, which include services such as:

    - Accounting
    - Business brokering
    - Property services
    - Emigration advice
    - Estate planning
    - Investment planning
    - Legal advice
    - Retirement planning
    - Stock broking
    - Tax consulting

In the South African context, financial institutions also use financial advisers to distribute their products. There are three main types of financial advisers in South Africa (Old Mutual, 2008)*:

- **Agents:** an agent is <u>employed by a financial institution, such as Old Mutual</u>, and is allowed to sell any financial product he or she is accredited to sell (Old Mutual, 2008).

* Due to a lack of academic literature available on this matter, South African company sources had to be consulted.

- **Independent financial advisers:** these are individuals or businesses that sell financial products. They are not employed by any financial services company and would normally operate a small business. They are expected to give "best advice" when recommending products to clients (Old Mutual, 2008; UK Association of Independent Financial Advisers, 2001; Wright, 2008).
- **Brokers:** these are financial advisers that are in the service of a banking institution and can also offer financial planning advice. They are allowed to sell the financial products that they are accredited to sell (Old Mutual, 2008).

The financial services that are provided by financial institutions and financial advisers, in general, have seven specific characteristics, namely intangibility, inseparability, perishability, heterogeneity, fiduciary responsibility, contingent consumption and duration of consumption (Ennew & Waite, 2007:54–55). Each of these characteristics together with their recommended marketing practices is explored in more detail below.

- **Intangibility**

  Intangibility is the most important (Bebko, 2000), basic and universally quoted difference between products and services (Zeithaml & Bitner, 1996:19).

  There are two forms of service intangibility (Ennew & Waite, 2007:56; Lovelock & Gummesson, 2004:25) that are collectively referred to as "double intangibility" (Edvardsson, Gustafsson & Roos, 2005:114):

  - **Physical intangibility of services:** services do not have a substantive physical form and as such cannot be touched, observed, displayed, felt or tested before they are purchased.
  - **Mental intangibility of services:** services are complicated and difficult to comprehend.

  From a client perspective, these features have significant implications. A client does not really know what type of service will be experienced when the purchase decision is made. The service provided by the financial adviser, for example, can only really be evaluated once the advice is received. Owing to a lack of specialist knowledge, though, many clients are not able to evaluate the quality of the financial advice once the service is provided. Financial services clients are therefore more likely to experience a considerable degree of perceived risk when they make their financial purchase decisions (Ennew & Waite, 2007:56).

The provision of some physical evidence is probably the most frequently used method to deal with service intangibility. Examples of physical evidence include a chequebook cover or a promotional free gift. Sales material can also be used to address the issue of complexity and a trusting relationship with clients or branding can help to reduce perceived risk (Gabbott & Hogg, 1999: 198–199; Matear, Gray, Garrett & Deans, 2000).

- **Inseparability**

The inseparability characteristic of services refers to the fact that services are created and consumed at the same time (Ennew & Waite, 2007:57; Jordaan & Prinsloo, 2001:17; Wolak, Kalafatis & Harris, 1998). Zeithaml and Bitner (1996:20) point out that while most products are created first and then sold and consumed, the majority of services are sold first and then created and consumed at the same time.

The inseparability characteristic of services further suggests that there is an interdependence between the service business and its clients (Sierra & McQuitty, 2005). More specifically, the client is often involved in the entire process and will without a doubt influence the process (Jordaan & Prinsloo, 2001:17). The employees of the business also have an impact on the service encounter and perform the role of "part-time marketers" (Matear *et al*., 2000).

Clients enhance or diminish their own level of satisfaction with the service. The expectations and attitudes they bring to a service encounter can have a positive or negative impact on the service delivery (Sierra & McQuitty, 2005).

Gabbott and Hogg (1999:200) state that many businesses make use of human resource policies, training and internal marketing to build more effective relationships with clients and encourage retention and repurchase. These relationships can help to reduce the level of perceived risk before the purchase is made and also lower the level of dissonance after the purchase is made.

Ennew and Waite (2007:58), in addition, state that the service should be tailored according to the client's needs rather than to suit the business. The employees should have the ability to be responsive and flexible in their interactions with clients.

- **Perishability**

Services cannot be stored and are therefore viewed as perishable (Gilmore, 2003:11; Jordaan & Prinsloo, 2001:22; Wolak *et al*., 1998). Services can only be created when clients wish to purchase them. In periods of little or no demand, the service producer cannot produce surplus services that can be sold when the demand is high. For example, if an investment adviser's time is not taken up on a given day, it cannot be saved to provide extra capacity the following day (Ennew & Waite, 2007:58–59).

The solution to the problem is to match service capacity and the demand for the service provided (Jordaan & Prinsloo, 2001:22–23; Lovelock & Gummesson, 2004:29). Competitions (Peattie & Peattie, 1994:20) or differential pricing can be used to shift some of the demand for the service from very busy periods to more quiet periods (Ennew & Waite, 2007:59). When using differential pricing, tax advisers, for example, might consider offering a discount to clients who make use of their services well in advance before the tax submission deadline (Ennew & Waite, 2007:59). A third strategy is to hire part-time employees to provide support during busy periods (Jordaan & Prinsloo, 2001:23).

If there is a problem with the service provided, a service provider should have a strong recovery strategy in place (Zeithaml & Bitner, 1996:21).

- **Heterogeneity**

There are two explanations for the concept of service heterogeneity: The first interpretation is that services are not standardised – they are tailored to the individual's needs (Ennew & Waite, 2007:59–60). The second interpretation is that different clients can experience the same service differently (even if they have similar needs) (Lovelock & Gummesson, 2004:28), or one client may experience the same service differently from time to time (Ennew & Waite, 2007:59–60).

According to Ennew and Waite (2007:60), the second form of heterogeneity occurs through differences between employees, within individuals and the inability of clients to articulate their needs clearly. A tax consultant, for example, might provide a different service experience to two clients on the same day, depending on their specific needs, personalities and whether they have their meeting with the consultant in the morning or after a long day, when the consultant is tired (Zeithaml & Bitner, 1996:20).

Gabbott and Hogg (1999:201) state that the variability of the service provided hinders the evaluation process for clients. They recommend that financial institutions use internal marketing and training to ensure that there is consistency in the service provided. Careful planning, control, automation and regular assessments of performance improvement and client reaction can also be used to address the issue of service heterogeneity (De Chernatony & Dall'Olmo Riley, 1999:182).

Jordaan and Prinsloo (2001:21), though, warn that even if a business has the best processes in the world, if the employee is not having a good day, it will affect the service provided, and the client's perception will be negative.

- **Fiduciary responsibility**

Fiduciary responsibility refers to the responsibility that financial services providers have in relation to the management of funds and the financial advice they provide to their clients (Batiz-Lazo & Wood, 2001; Ennew & Waite, 2007: 61). Ennew and Waite (2007:61) further postulate that "although any business has a responsibility to its consumers in terms of the quality, reliability and safety of the products it supplies, this responsibility is perhaps much greater in the case of a financial service provider".

There are a number of reasons for this (Ennew & Waite, 2007:61–62; Falconer, 2005:104):

- Many clients are either unable or do not want to try to understand financial services.

- There are a great number of providers who are all in competition for business.
- Clients have little opportunity to evaluate the product before the purchase is made.
- Other clients' funds are used to create financial products. In creating and selling a loan, the bank, for example, has a responsibility toward the individual taking out the loan as well as toward the clients whose deposits made the loan possible.

According to Gabbott and Hogg (1999:202), the fiduciary responsibility of financial service businesses can create problems. The business, for example, will promote products to clients and then will have to turn them away, as they are considered to be poor risk.

In addition, many clients are also vulnerable to high pressure selling and bad advice, as they do not have sufficient product knowledge. This is most likely the problem that has done the most to undermine the image of the financial services sector in recent years. As a solution to the problem, many businesses have decided to change their reward system and do not reward their salespeople purely on a commission basis anymore (Gabbott & Hogg, 1999:202–203).

- **Contingent consumption**

A great number of financial services products do not offer clients a direct consumption benefit. In some instances, the products create consumption opportunities for individuals in the future and in other cases the products may never result in a tangible consumption for the clients who made the purchase (Ennew & Waite, 2007:62–63).

The contingent consumption characteristics of services create a major challenge for marketers, as they seek to market an intangible product that reduces the current consumption of consumer goods and services, for benefits that may never realise (Ennew & Waite, 2007:62–63).

To address this problem, marketers should clearly convey the benefits of the products offered. Marketing strategies for long-term savings plans, for example, could seek to promote the considerable benefits and pleasure associated with future consumption and demonstrate that losses in the current consumption are small (Ennew & Waite, 2007:63).

- **Duration of consumption**

  Services can also be categorised according to their duration of consumption. Restaurant services, for example, that are consumed at the point of delivery are regarded as short-term services (Hedlund, 2003:14). Most financial services provided are long term. There is normally an interval between the purchasing of the financial service and the realisation of the benefits. This creates the opportunity for financial services providers to build a relationship with their clients and use cross-selling (Ennew & Waite, 2007:64).

  When applying this strategy, the following areas require specific attention (Ennew & Waite, 2007:64):

  - Service providers, for example, in their cross-selling attempts, should not overwhelm clients with lots of products. A small number of product offerings should rather be concentrated on.
  - Valued clients should be rewarded for their loyalty.
  - The privacy of the client should be respected.

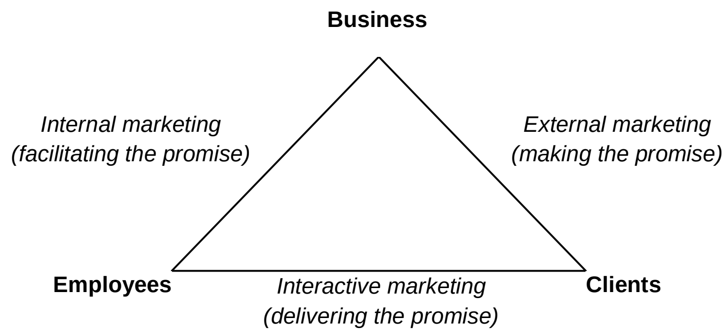
2.4.2 The services marketing triangle

Based on the discussion above it appears that there are primarily three role players in the marketing of financial services, namely the business as well as its clients and employees.

Collectively, these role players form the basis of the services marketing triangle.

- **The philosophy of the services marketing triangle**

Figure 2.2: The services marketing triangle



Source: Zeithaml and Bitner (1996:21)

The philosophy of the services marketing triangle (depicted in Figure 2.2 above) is that the business as well as its clients and employees are interlinked and work together to design, promote and deliver the service. Their associated external, interactive and internal marketing activities are based upon making and keeping promises to clients, which are vital to the success of the business (O'Loughlin & Szmigin, 2005:137–144).

More specifically, the *external marketing* component of the triangle relates to the external marketing efforts, which the business engages in to make promises to clients about the service and which include activities such as advertising, special promotions, sales and public relations. The business's personnel and physical facilities can also be used to make promises about the service delivery. *Interactive marketing* refers to the point where the business's employees interact with the clients. To be successful, the business has to deliver the service that was promised. The *internal marketing* component is required to enable the business's employees to keep the promises that were made to clients. Typical activities that can be associated with internal marketing include employee training, motivation and reward (Gronroos, 1998; Guzzoni, 2005; Zeithaml & Bitner, 1996:22–23).

It is important for a business to focus on all three sides of the services marketing triangle. According to Zeithaml and Bitner (1996:23), "… what the triangle implies is that all three sides are critical to successful services marketing and management, that without one of the sides in place the triangle, or the total marketing effort, cannot be supported". All three components of the services marketing triangle are needed for service quality to be achieved (Thwaites, 1999) and the business to succeed (De Vader & Smith, 2000).

- **Application of the services marketing triangle**

At this point in the investigation, two important observations can now be made:

Firstly, the discipline of the services marketing triangle provides more perspective on the various marketing approaches for the service sector that were highlighted in Section 2.4.1. In essence, all the marketing techniques that were suggested by the different authors can also be grouped into the external marketing, interactive marketing and internal marketing segments of the services marketing triangle.

This finding then provides valuable guidance for the investigation conducted in chapter three. Given the need for practical strategies and the fact that academic researchers have based their recommendations on the services marketing triangle, it appears that chapter three has to explore potential marketing mix solutions to the problems listed in Table 2.4 that are related to the external marketing, interactive marketing and internal marketing components of the services marketing triangle.

2.5 SUMMARY

Chapter two commenced with a brief summary of some of the organisational life cycle models that have been proposed before, as well as the dimensions that were used to define the different life cycle stages.

A comparison between the stages of these models was then made to determine if common patterns of development could be identified. Based on the findings of this investigation, it appears that businesses can progress through five general life cycle stages, namely birth, growth, maturity, revival and decline. (Table 2.2 provides a summary of these stages.)

An investigation was then conducted to determine if businesses progress in a sequential manner through the five general life cycle stages. It was found that while there are general life cycle stages common to businesses, organisations do not progress through them relentlessly in a sequential manner. The development of the business can take on any form. It further seems that the business's resources as well as its expertise and strategic choices play an important role in determining, at any point, if it will progress to the next stage, remain at the current stage or deteriorate and perhaps die. Based on the findings of Section 2.2 a graphical illustration of the general business life cycle model was given in Figure 2.1.

It was then stated that there is a great possibility that the general life cycle stages of this model, due to their universal appeal, could also be applicable to the businesses of independent financial advisers. Consequently, it was decided that the literature review of this study would focus on problems and strategies that can possibly occur in the general life cycle stages. The empirical part of this study then aims to verify if these general life cycle stages are applicable to the businesses of independent financial advisers or if, alternatively, they progress through another set of life cycle stages. Based on these findings a decision will then be made about the life cycle stages that will form the basis of the study's proposed framework.

The decline stage, however, does not form part of this investigation. Because a more detailed investigation process is required to obtain an adequate understanding of the decline stage, the researcher decided to exclude this stage from this study's investigation.

The second part of chapter two then investigated potential problems independent financial advisers could experience in the general business life cycle. While there are a great variety of problems which a business might have to concentrate on, the researcher decided to focus on the problems that were highlighted by Timmons and Spinelli (2007:260–261, 536–538), since they are particularly critical for the business and if not overcome, can seriously imperil the business. (A summary of these potential problems was provided in Table 2.4, relative to the life cycle stages of Timmons and Spinelli (2007:260–261, 536-538) – which appear to have some correlation with the general life cycle stages of businesses.)

In the final part of this chapter an investigation was conducted into the context of the financial services industry and the types of marketing practices that are required to be successful in this sector.

These findings provide the needed guidelines for practical marketing mix strategies to be identified in chapter three, which independent financial advisers could possibly implement to address the problems listed in Table 2.4.